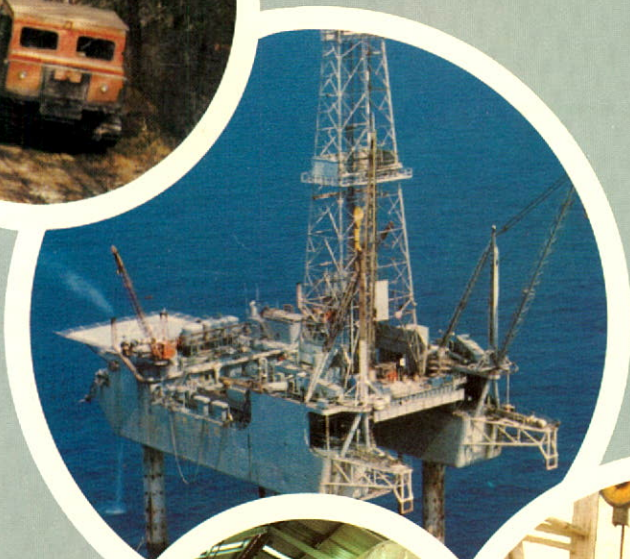


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PEMBINA
PIPE LINE LTD.

HOWARD ROSS
OF MANAGEMENT
APR 1
MCGILL UNIVERSITY

ANNUAL
REPORT
1979



PEMBINA PIPE LINE LTD. 1979 ANNUAL REPORT

Corporate Information

HEAD OFFICE

900 - 320 - 7th Avenue S.W.
Calgary, Alberta, T2P 0X4

19th Floor, *

639 - 5th Avenue, S.W.
Calgary, Alberta, T2P 0M9

Telephone: (403) 267-5411

Telex: 03821696

* Effective May 1, 1980

FIELD OFFICES

Post Office Box 330,
Drayton Valley, Alberta
T0E 0M0

Post Office Box 579,
Redcliff, Alberta,
T0J 2P0

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company,
Calgary, Alberta

BANKERS

The Royal Bank of Canada
Calgary, Alberta

SOLICITORS

MacKimmie, Matthews
Calgary, Alberta

AUDITORS

Clarkson Gordon
Calgary, Alberta

Directors

A.R. CUMMINGS
Calgary, Alberta

T.S. DOBSON,
Calgary, Alberta

L.B. GORDON,
Calgary, Alberta

D.W. McCLEMENT
Calgary, Alberta

R.N. MANNIX,
Calgary, Alberta

Officers and Key Personnel

L.B. GORDON
Chairman of the Board

A.R. CUMMINGS
President

W.B. RICHARDS
Executive Vice President
and General Manager

D.V. BOEHLER,
Vice President Production

L.G. ELHATTON,
Vice President

L.A. GUST
Vice President
U.S. Operations

H.K. JONES,
Vice President
Corporate Development

W. PETERS
Vice President Finance
and Administration

G.B. THOMPSON,
Vice President Land

J.T. WOOD,
Treasurer

FRANCES FERGUSON
Secretary

REPORTING IN METRIC

On January 1, 1979, the Canadian petroleum industry adopted the International System of Units (SI) commonly called the metric system. Pembina has been using some metric units in its 1979 quarterly reports to shareholders. Reporting of company operations in 1980, including this 1979 Annual Report, will use the metric system; however we will include selected operating data in the old Imperial system and will continue to provide a table of appropriate conversion factors.

The most common conversions relating to volumes of oil and gas will be from barrels and cubic feet to cubic metres; one cubic metre is equal to approximately 6.3 barrels or 35.3 cubic feet. In reporting land areas the conversion will be from acres to hectares; one hectare is roughly equivalent to 2.5 acres.

SI CONVERSION TABLE

To convert from	To	Multiply by
Cubic metre (m ³)	barrel (bbl)	6.293
Thousands of cubic metres (10 ³ m ³)	thousand cubic feet (mcf)	35.494
Tonne (t)	long ton (t)	0.984
Metre (m)	foot (ft)	3.281
Kilometre (km)	mile (mi)	0.621
Hectare (ha)	acre (ac)	2.471

Examples:

10³m³ = one thousand cubic metres

10⁶m³ = one million cubic metres

10⁹m³ = one billion cubic metres

SUMMARY OF THE YEAR 1979

	1979	1978	% Increase (Decrease)
FINANCIAL			
(thousands of dollars, except per share amounts)			
Revenue from operations	\$ 30,039	\$ 23,355	28.6
Operating and interest expense	8,979	7,318	22.7
Exploration and dry hole costs	4,274	3,157	35.4
Income taxes	6,560	4,425	48.2
Net income	6,830	4,505	51.6
per share - \$	0.82	0.54	
Cash flow net of			
current income taxes	16,140	12,737	26.7
per share - \$	1.94	1.53	
Capital expenditures	\$ 15,122	\$ 12,985	16.5
OPERATING METRIC (SI) SYSTEM			
Pipeline deliveries (cubic metres per day)	19 074	16 419	16.2
Gross Production			
Crude oil and natural gas liquids - m ³ per day	345	301	14.6
Natural gas sales - 10 ³ m ³ per day	852	729	16.9
Land holdings at year end (thousands of hectares)			
Gross	886	1 018	(13.0)
Net	280	317	(11.7)
Wells drilled			
Gross	46	29	58.6
Net	12	8	50.0
OPERATING IMPERIAL SYSTEM			
Pipeline deliveries (barrels per day)	120,033	103,323	16.2
Gross production			
Crude oil and natural gas liquids (barrels per day)	2,171	1,894	14.6
Natural gas (thousands of cubic feet per day)	30,241	25,876	16.9
Land holdings at year end (thousands of acres)			
Gross	2,189	2,515	(13.0)
Net	692	786	(11.9)
Wells drilled			
Gross	46	29	58.6
Net	12	8	50.0



REPORT TO THE SHAREHOLDERS

For Pembina, 1979 was a year of growth. Significant improvements were recorded in revenue, cash flow and net earnings.

Activity throughout the industry continued at high levels in an operating environment which, on balance, was considered by most to be favorable. However, by year end, industry conditions were becoming reminiscent of those existing in the years 1974 and 1975. Confrontations between the Canadian federal and provincial governments as to sharing of resource revenues were again jeopardizing that degree of certainty essential to exploration and development investment.

Financial

Pembina's net earnings for 1979 amounted to \$6.8 million, up \$2.3 million or 51.6% over 1978. Gross revenues rose by 28.6% to a new high level of \$30.0 million. Earnings per share were \$0.82 compared to \$0.54 last year. Cash flow, net of current income tax, moved upwards by 26.7% to \$16.1 million or \$1.94 per share compared to \$12.7 million and \$1.53 per share in 1978. These improvements resulted primarily from higher product prices, larger production volumes of petroleum liquids and natural gas and higher pipeline throughput, partially offset by increased exploration and operating costs. Funds used in the search for new supplies of oil and gas totalled \$15.1 million in 1979 compared with \$13.0 million in 1978.

Production, Transportation, Reserves

Gross production of crude oil and natural gas liquids averaged 345 cubic metres (2,171 barrels) per day, up 14.6%. Gross natural gas sales rose 16.9% to 852 thousand cubic metres (30.2 million cubic feet) per day as deliveries from new properties exceeded buyers' cut backs caused by Alberta's surplus gas supply.

Pipeline throughputs increased by 16.2% to 19 074 cubic metres (120,033 barrels) per day mainly due to higher production levels in the recently developed West Pembina (Nisku) area of Alberta.

Gross proven reserves of crude oil and natural gas liquids at the year end totalled 1.5 million cubic metres (9.6 million barrels), while natural gas reserves were estimated at 5.7 billion cubic metres (203 billion cubic feet).

Additional production, prices, pipeline and reserve information is available in the Review of Operations and Statistical sections of this Report.



Exploration and Development

Pembina has continued concentrating most of its exploration and development in Canada, particularly in Alberta and British Columbia. Recently, however, it has participated in the exploration and development of six Blocks in the highly potential area offshore Gulf of Mexico.

During 1979, the Company spent \$15.1 million on acquiring lands, seismic surveys, drilling, secondary recovery projects and the installation of production facilities, including gas plants.

In 1979, Pembina participated in the drilling of 46 development and exploratory wells (29 in 1978) with an average participating interest of 25.6% versus 29.0% last year. Details of the results of this drilling are presented on page 7.

At the year end, Pembina held varying interests in 886 thousand hectares (2.2 million acres) equivalent to 280 thousand net or wholly-owned hectares (0.7 million acres). Significant changes during the year included a reduction of permit holdings to leases in the Northwest Territories and the Yukon and the acquisition of exploratory properties in Alberta. A tabulation of the Company's acreage by major geographical areas is shown on page 7.

Industry Conditions

As indicated in our Report last year, an over supply of natural gas exists in Canada; buyers are unable to take delivery of their current contracted volumes. Exploratory drilling, particularly in the Deep Basin and Foothills of Alberta, is adding to the over supply position and the date when gas sales contracts are again available, becomes more indefinite. Following hearings in mid-1979, the National Energy Board at year end approved the export of 3.75 trillion cubic feet to the United States. The new export volumes however, were allocated to the applicant exporters on a basis which was not considered adequate to finance the construction of the required transportation facilities. Until this problem is resolved, construction and gas exports continue to be delayed.

Unlike the availability of natural gas, the supplies of crude oil in Canada are falling short of demand; the short-fall is made up by oil imports. Continued reliance on foreign sources exposes Canada not only to high supply risk but also to onerous deficits in the balance of trade in fuels. Higher prices for crude oil and natural gas will provide the cash flow necessary for the search and the development of new reserves, providing that such incremental funds are directed to the search for and the development of new reserves, rather than into additional royalties and taxation.

To our employees in Canada and the United States, the Board wishes to extend its sincere thanks for their contribution to the success of the Company and for the whole-hearted co-operation of these employees in carrying out management's plans for the continuing improvement and expansion of the Company's operations.

On behalf of the Board,



Chairman



President

Calgary, Alberta
March 14, 1980

REVIEW OF OPERATIONS

PIPELINE

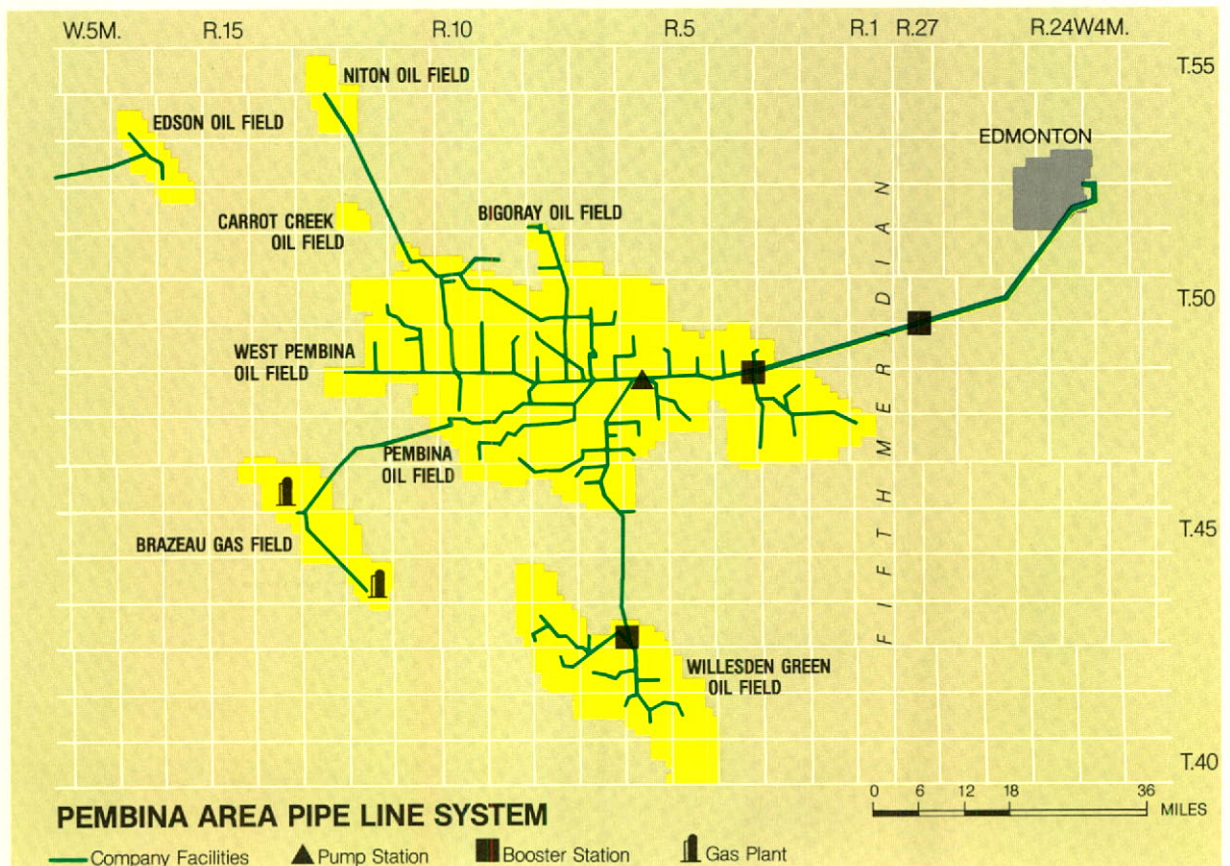
During 1979, Pembina's pipeline division gathered and transported 6 962 10³m³ (43.8 million barrels) of crude oil and condensate at an average daily volume of 19 074 m³ (120,033 barrels).

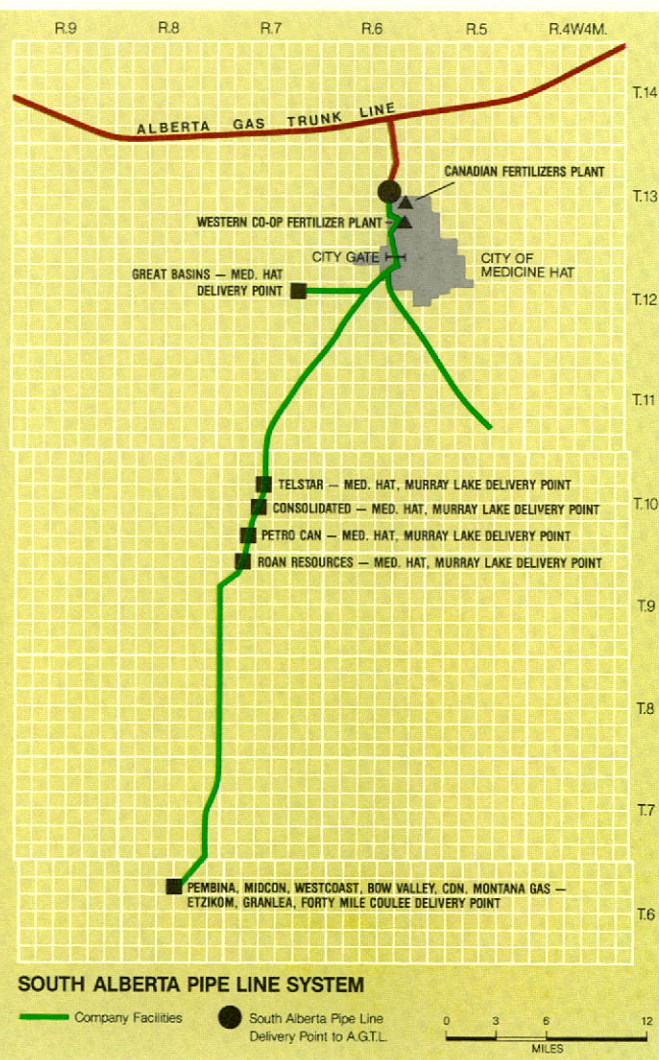
PIPELINE THROUGHPUT (Daily Average)	Change from 1978	
	1979	Amount %
Metric (SI) System (m ³ per day)		
Crude oil and condensate		
Pembina	11 777	(618) (5.0)
West Pembina (Nisku)	4 320	2 882 200.4
Willesden Green	1 882	121 6.9
Other	1 095	270 32.7
Total	19 074	2 655 16.2
Imperial System (Barrels per day)		
Total	120,033	16,710 16.2

The 16.2% throughput gain in 1979 was chiefly attributable to larger volumes gathered from the West Pembina area. During the fourth quarter 1979, volumes from this source were stabilizing at approximately 5 400 m³ (34,000 barrels) per day. Normal production decline expected in the older fields was partially offset by in-fill drilling programs and additional production related to secondary recovery projects.

The pipeline division extended the system by completing an additional 12.2 kilometres (7.6 miles) of four inch line with six fully automated battery pumping facilities to connect new wells in West Pembina to the system.

Pembina also owns a 50% equity interest in South Alberta Pipe Lines Ltd. with operations in the Medicine Hat area of Alberta. Gas fields serviced include, Etzikom, Murray Lake, Forty Mile Coulee, Granlea and portions of the Medicine Hat gas fields. Natural gas transported through this system averaged 1 366 10³m³ (48 million cubic feet) per day during 1979.





PETROLEUM PRODUCTION

Crude Oil and Natural Gas Liquids

Pembina's 1979 production of petroleum liquids averaged 345 m³ (2,171 barrels) per day; an increase of 14.6% from 301 m³ (1,894 barrels) per day in 1978.

PRODUCTION INCLUDING ROYALTY VOLUMES (Daily Average)	Change from 1978	
	1979	Amount %

Metric (SI) System

Crude oil
(m³ per day)

Alberta	225	33	17.2
British Columbia	35	8	29.6
Saskatchewan	55	(3)	(5.2)
California, U.S.A.	11	11	100.0
Sub-total	326	49	17.7

Natural gas liquids	19	(5)	(20.8)
Total	345	44	14.6

Imperial System

(Barrels per day)

Crude oil	2,051	308	17.7
Natural gas liquids	120	(31)	(20.8)
Total	2,171	277	14.6

Production volumes of crude oil increased by 17.7% to 326 m³ (2,051 barrels) per day in 1979. In Alberta, the gain was attributable to production from newly developed properties and from in-fill drilling programs in secondary recovery projects. The increase in production in British Columbia reflects the occurrence, in 1978, of a four-month strike by employees of Pacific Northern Gas and a pipeline break. Contributing to the over-all increase was the acquisition in late 1978 of varying interests in U.S. oil producing properties. Natural gas liquids recovered from natural gas deliveries averaged 19 m³ (120 barrels) daily in 1979, compared with 24 m³ (151 barrels) in the prior year; the decrease was primarily due to the declining liquid content in natural gas production.

Annual production statistics for crude oil and natural gas liquids are tabulated on page 10.

Natural Gas

In 1979 natural gas deliveries before deducting royalty volumes, increased by 16.9% to 852 10³m³ (30,241 mcf) per day.

PRODUCTION INCLUDING ROYALTY VOLUMES (Daily Average)	Increase over 1978		
	1979	Amount	%
Metric (SI) System (10 ³ m ³ per day)			
Natural gas			
Alberta	655	52	8.6
British Columbia	197	71	56.3
Total	852	123	16.9
Imperial System (mcf per day)			
Total	30,241	4,365	16.9

During 1979, gas purchasers continued to be faced with supply in excess of demand; as a result producers were forced to reduce deliveries below minimum contract levels, particularly in Alberta. Under the "take or pay" clauses in various gas sales contracts, Pembina received funds during 1979 for gas which will be taken by the purchaser in future years. Production from new fields in Alberta more than offset the above-noted cut-backs and the natural decline in mature fields. The increase in gas deliverabilities from properties in British Columbia reflected, as previously stated, Pacific Northern's four-month labour strike during 1978, and the development of new gas properties during 1978 and 1979.

PRICES

Prices for Pembina's petroleum products improved during 1979:

AVERAGE PRICES RECEIVED	Increase over 1978		
	1979	Amount	%
Metric (SI) System			
Crude oil - per m ³	\$82.95	\$ 7.72	10.3
Natural gas liquids per m ³	64.90	15.77	32.1
Natural gas - per 10 ³ m ³	43.17	9.45	28.4
Imperial System			
Crude oil - per bbl	13.19	1.23	10.3
Natural gas liquids - per bbl	10.32	2.51	32.1
Natural gas - per mcf	1.22	.27	28.4

The price of Canadian crude oil was increased \$6.29 per m³ (\$1 per barrel) on July 1, 1979, to \$86.53 per m³ (\$13.75 per barrel). Effective January 1, 1980, a similar price increase was instituted, raising the current price level to \$92.82 per m³ (\$14.75 per barrel).

The price for domestic natural gas increased by \$5.32 10³m³ (15¢ per mcf) on August 1, 1979, and a similar increase became effective on February 1, 1980. The export price of natural gas rose from \$2.30 (U.S.) per mcf at May 1, 1979, to \$2.80 on August 11; to \$3.45 on November 3, 1979, and to \$4.47 (U.S.) per mcf effective February 17, 1980. The export rebate received by all producers in Alberta, which varies from month to month, amounted to \$25.20 per m³ (\$0.71 per mcf) in December 1979.

RESERVES

Pembina's proven reserves of petroleum liquids, natural gas and sulphur, (before deducting royalties), as calculated by independent consulting engineers are summarized below:

RESERVES Gross Proven (January 1, 1980)	Canada	United States	Total
Metric (SI) System			
Crude oil - 10 ³ m ³	1 261	62	1 323
Natural gas liquids - 10 ³ m ³	203	—	203
Natural gas - 10 ⁶ m ³	5 648	79	5 727
Sulphur - 10 ³ t	110	—	110
Imperial System			
Crude oil - (thousands of barrels) ...	7,935	388	8,323
Natural gas liquids (thousands of barrels) ...	1,280	—	1,280
Natural gas - (billion cubic feet)	200	3	203
Sulphur - (thousands of long tons) ...	108	—	108

LAND

At year end 1979, Pembina held varying interests in 886 thousand gross hectares (2.2 million acres) equivalent to 280 thousand net or wholly-owned hectares (0.7 million net acres) in the areas and countries shown in the tabulation below:

PEMBINA LAND HOLDINGS	Gross Hectares		Net Hectares	
	Year- end 1979	Change vs. 1978	Year- end 1979	Change vs. 1978
Metric (SI) System (Thousands of hectares)				
Alberta	438	45	140	6
British Columbia	333	(5)	114	(4)
Saskatchewan	15	2	7	3
N.W.T. and Yukon	12	(174)	12	(42)
Arctic Islands	75	—	6	—
U.S.A.	13	—	1	—
Total	886	(132)	280	(37)
Imperial System (Thousands of acres)				
Total	2,189	(328)	692	(94)

During 1979 land acquisitions were made in the Rainbow, Westlock, Strachan, Gold Creek, Leddy Lake, Wabasca, Sakwatamau, Watelet, Karr, Cadotte, House Mountain, Musreau, Boundary Lake and Clyden areas of Alberta and in the Parkland, Bigfoot and Rigel areas of British Columbia.

Northwest Territories and Yukon acreage was reduced due to the cancellation and lease selection of permits at Bell River in the Yukon. Minor changes in British Columbia holdings include the selection of leases from permits at Tsea, Jonvan and Muskwa. Leases expired in the Blackfoot, Hay Lake, Cherhill, Livock, Iroquois and Buffalo Lake areas of Alberta.

DRILLING ACTIVITY

Pembina participated in the drilling of 46 gross wells in Canada and the United States during 1979 or the equivalent of 11.8 net or wholly-owned wells. Of the 46 gross wells, 27 were drilled in Alberta, 9 in British Columbia and 10 in the United States.



In the United States, 9 wells were drilled in the Gulf of Mexico and the other in Grimes County, Texas.

Of the total 46 wells in which Pembina participated, 15 were drilled through farmout agreements with other companies whereby Pembina contributed land rather than cash to the ventures. Significant areas of exploratory drilling activity are reviewed in the Exploration section of this report.

Pembina's 1979 development and exploratory well completions are compared with the prior year below:

DRILLING ACTIVITY	Development		Exploratory	
	1979	1978	1979	1978
Gross wells	17.0	8.0	29.0	21.0
Oil	8.0	3.0	4.0	1.0
Gas	8.0	5.0	20.0	11.0
Dry	1.0	—	5.0	9.0
Net wells	4.2	2.6	7.6	5.8
Oil	2.9	1.4	0.3	0.2
Gas	1.2	1.2	5.8	2.8
Dry	0.1	—	1.5	2.8

EXPLORATION AND DEVELOPMENT

CANADA

Alberta

In the Elmworth, Deep Basin area of northwestern Alberta, the Company participated in drilling four gas wells. In addition, as shown on the map, a number of gas wells have been drilled in close proximity to 16 250 gross hectares (40,150 gross acres) in which the Company owns varying interests.

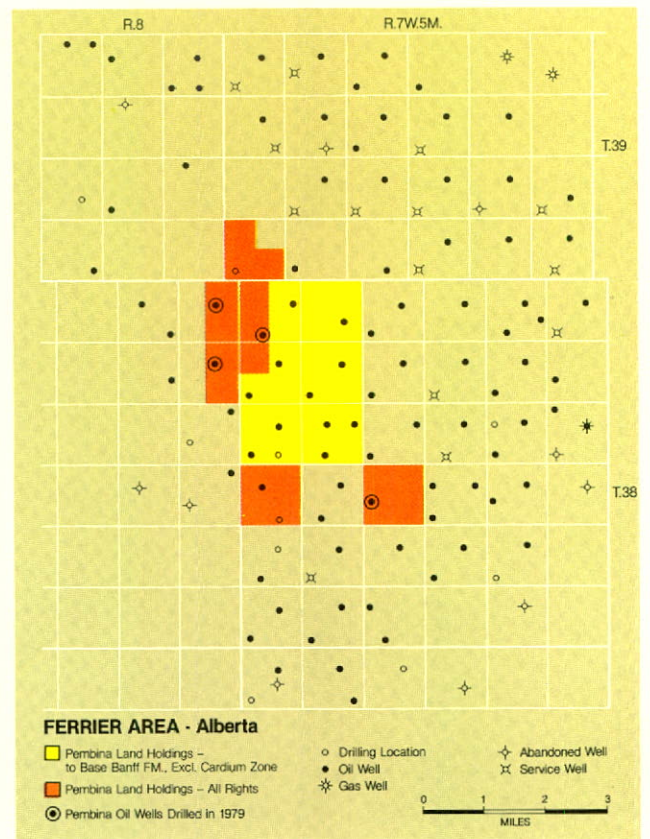
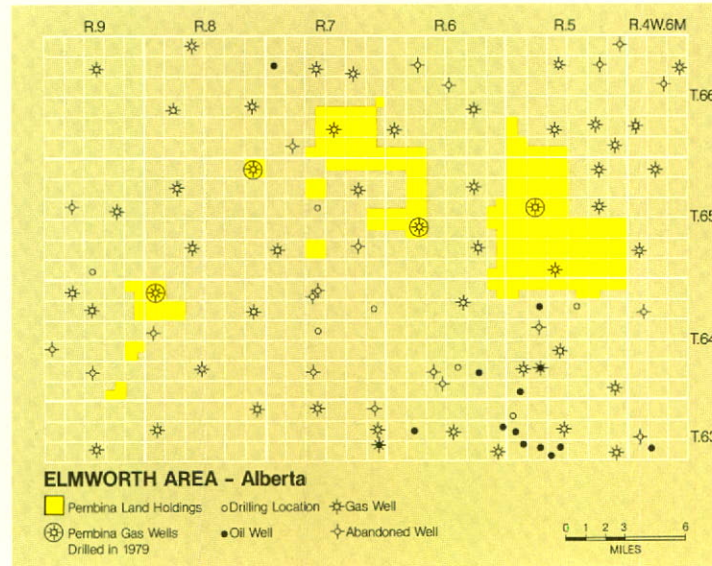
In the Sunchild area of southwestern Alberta, the Company participated in drilling and completing a gas well. This success resulted in the acquisition of 2 240 gross hectares (5,530 gross acres) through the purchase of a Petroleum Natural Gas License and two Petroleum Natural Gas Leases at an Alberta Petroleum & Petroleum Natural Gas rights sale. Exploration and development drilling on these lands is anticipated for 1980-81.

Development drilling in the Ferrier area resulted in the completion of four Cardium oil wells. The development program in Ferrier is located on 2 500 hectares (6,180 acres) of land in which Pembina owns interests ranging from 25-50%. While the current program at Ferrier involves development wells on half section spacing, it is expected that a secondary recovery program to maximize oil recovery will require quarter section well spacing. Development drilling in the Medicine River, Twining and Bassano areas of Alberta also resulted in successful oil well completions. In the Medicine River area of central Alberta a successful dual zone oil well was drilled; follow up development drilling will occur in 1980.

British Columbia

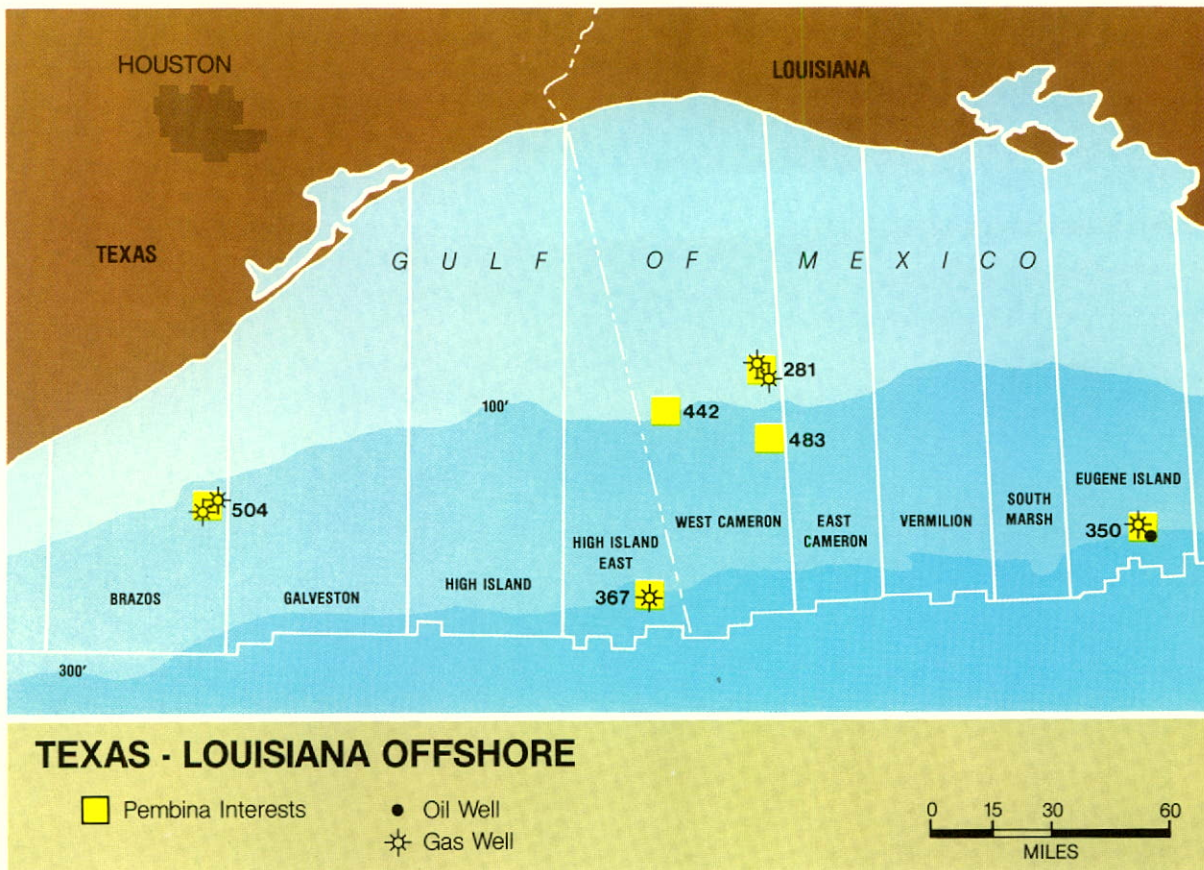
The Company participated with partners in drilling four exploration wells and two development wells in British Columbia. The program resulted in an oil well at Stoddart and three gas wells; the gas wells were located in the Silver, Bivouac and Rigel areas.

A number of seismic programs were carried out on the Company's large land blocks in northeastern British Columbia.



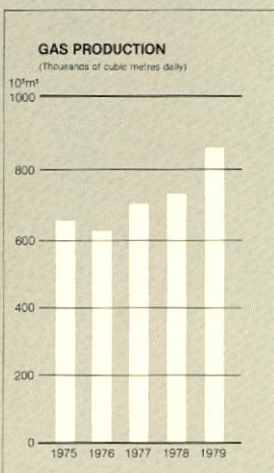
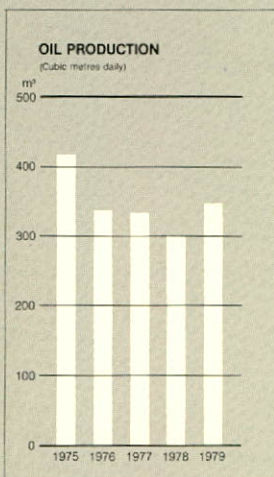
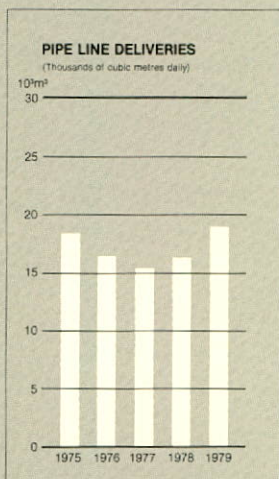
UNITED STATES

Exploration drilling in the Gulf of Mexico, offshore Texas and Louisiana discovered sufficient reserves to justify the construction of production platforms on Block 281 (Pembina 8%), 504 (Pembina 11.4 %) and 350 (Pembina 5.8%). Platform 281 has six gas wells which will go on stream in mid-1980. Platform 504 is under construction and expected to be complete by mid-year 1980. In 1979 an oil discovery was made on Block 350. The well tested oil at a rate of 765 barrels of oil per day. A platform for this block is currently being planned to allow follow up drilling to the oil discovery. Exploration and development drilling will be conducted on Blocks 483 (Pembina 6.4%), 442 (Pembina 4.8%) and 367 (Pembina 8%) in 1980.





CONSOLIDATED FIVE YEAR REVIEW



	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>
Financial (thousands of dollars except per share amounts)					
Gross revenue	\$30,039	23,355	20,267	17,953	16,2678
Cash flow net of current income taxes	16,140	12,737	11,879	9,724	7,298
per share - \$	1.94	1.53	1.43	1.17	0.88
Income before extraordinary item	6,830	4,505	2,244	3,350	3,344
per share - \$	0.82	0.54	0.44	0.40	0.40
Net income	6,830	4,505	3,682	3,350	3,344
per share - \$	0.82	0.54	0.27	0.40	0.40
Capital expenditures	15,122	12,985	10,727	8,637	7,493
Investment in property, plant and equipment at year end - at cost	113,845	103,402	94,211	87,438	80,719
Long term debt less current maturities at year end	792	1,792	2,792	3,792	4,792

Operations - Metric (SI)

Pipeline					
Deliveries - m ³ per day	19 074	16 419	15 600	16 497	18 427
Line built in year - kilometres	12	22	16	—	12
Line at year end - kilometres	1 757	1 745	1 723	1 707	1 707
Gross production for year -					
Crude oil and natural gas					
Liquids - 10 ⁹ m ³	126	110	123	124	151
Natural gas - 10 ⁶ m ³	311	266	258	228	239
Land holdings at year end					
Gross - thousands of hectares	886	1 018	1 302	1 363	1 713
Net - thousands of hectares	280	317	392	454	527
Wells drilled - gross					
	46	29	44	59	26
Wells drilled at year end					
Oil	77	74	72	71	70
Gas	114	107	103	97	78

Operations - Imperial

Pipeline deliveries -					
thousands of barrels per day	120	103	98	104	116
Gross production for the year -					
Crude oil and natural gas liquids -					
thousands of barrels	792	693	774	779	949
Natural gas - millions of cubic feet	11,038	9,433	9,172	8,085	8,482
Land holdings at year end					
Gross - thousands of acres	2,189	2,515	3,217	3,367	4,234
Net - thousands of acres	692	786	968	1,121	1,302



Consolidated Statement of Income and Retained Earnings

Year Ended December 31, 1979

(with comparative figures for the year ended December 31, 1978)

	<u>1979</u>	<u>1978</u>
INCOME		
Revenue from operations	\$29,809,000	\$22,941,000
Interest and other income	230,000	414,000
	<u>30,039,000</u>	<u>23,355,000</u>
EXPENSES		
Operating	8,195,000	6,818,000
Exploration and non-productive drilling	4,274,000	3,157,000
Surrendered leases	328,000	441,000
Depreciation	1,486,000	1,995,000
Depletion	1,574,000	1,490,000
Amortization of goodwill	8,000	24,000
Interest - long term debt	310,000	332,000
- other	474,000	168,000
	<u>16,649,000</u>	<u>14,425,000</u>
Income before income taxes	<u>13,390,000</u>	<u>8,930,000</u>
Income taxes - current	4,920,000	3,300,000
- deferred	1,640,000	1,125,000
	<u>6,560,000</u>	<u>4,425,000</u>
Net income for the year	<u>6,830,000</u>	<u>4,505,000</u>
Retained earnings at beginning of year	<u>20,444,000</u>	15,939,000
Retained earnings at end of year	<u>\$27,274,000</u>	<u>\$20,444,000</u>
Earnings per share	82c	54c

See accompanying notes



Consolidated Balance Sheet

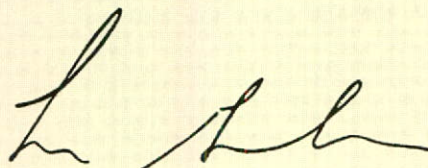
December 31, 1979

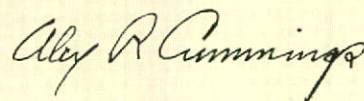
(with comparative figures at December 31, 1978)

Assets

	<u>1979</u>	<u>1978</u>
CURRENT		
Cash and short term deposits	\$ 1,212,000	\$ 3,132,000
Accounts receivable	8,771,000	4,488,000
Deposits and prepaid expenses	271,000	250,000
	<u>10,254,000</u>	<u>7,870,000</u>
 INVESTMENTS, AT COST		
Debentures and shares of other companies	<u>523,000</u>	<u>573,000</u>
 PROPERTY, PLANT AND EQUIPMENT, AT COST		
Less accumulated depreciation, depletion and amortization (1979 - \$44,754,000; 1978 - \$41,771,000)	69,091,000	61,631,000
Operating oil supply	577,000	577,000
	<u>69,668,000</u>	<u>62,208,000</u>
 OTHER ASSETS	<u>229,000</u>	<u>241,000</u>
	 <u>\$80,674,000</u>	 <u>\$70,892,000</u>

On Behalf of the Board:

 Director

 Director

Liabilities

	<u>1979</u>	<u>1978</u>
CURRENT		
Bank loan (\$3,500,000 U.S.; 1978 - \$2,000,000 U.S.)	\$ 4,085,000	\$ 2,325,000
Accounts payable	3,689,000	4,368,000
Income taxes payable	1,592,000	984,000
Current maturities of long term debt	1,000,000	1,000,000
	<u>10,366,000</u>	<u>8,677,000</u>
 PREPAYMENTS ON FUTURE GAS DELIVERIES	 <u>1,114,000</u>	 <u>491,000</u>
 LONG TERM DEBT (Note 2)	 <u>792,000</u>	 <u>1,792,000</u>
 DEFERRED INCOME TAXES	 <u>6,578,000</u>	 <u>4,938,000</u>
 SHAREHOLDERS' EQUITY		
Capital -		
Authorized:		
16,000,000 common shares having a nominal or par value of \$4.15 each		
Issued:		
8,325,160 shares	34,550,000	34,550,000
Retained earnings	<u>27,274,000</u>	<u>20,444,000</u>
	<u>61,824,000</u>	<u>54,994,000</u>
	<u>\$80,674,000</u>	<u>\$70,892,000</u>

See accompanying notes



Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1979

(with comparative figures for the year ended December 31, 1978)

	<u>1979</u>	<u>1978</u>
SOURCES OF FUNDS		
From operations		
Net income for the year	\$ 6,830,000	\$ 4,505,000
Add items not affecting working capital		
Depreciation	1,486,000	1,995,000
Depletion	1,574,000	1,490,000
Deferred income taxes	1,640,000	1,125,000
Surrendered leases	328,000	441,000
Amortization	8,000	24,000
	11,866,000	9,580,000
Exploration and non-productive drilling	4,274,000	3,157,000
Funds from operations before exploration expense	16,140,000	12,737,000
Prepayments on future gas deliveries	623,000	491,000
Other	54,000	142,000
	16,817,000	13,370,000
Application of funds		
Capital expenditures including exploration and non-productive drilling	15,122,000	12,985,000
Production loan payments	1,000,000	1,000,000
Purchase of debenture of affiliated company	—	500,000
	16,122,000	14,485,000
Increase (decrease) in working capital	695,000	(1,115,000)
Working capital (deficiency) at beginning of year	(807,000)	308,000
Working capital (deficiency) at end of year	\$ (112,000)	\$ (807,000)

See accompanying notes



Notes to Consolidated Financial Statements

December 31, 1979

1. SUMMARY OF ACCOUNTING POLICIES

a) Consolidation

Included in the consolidated statements are the accounts of all subsidiary companies, each of which is wholly owned.

b) Property, plant and equipment

In accounting for its oil and gas operations, the Company follows a form of the successful efforts method whereby all exploration and non-productive drilling costs and carrying charges relative to unproven acreage are written off currently and lease acquisition costs, production equipment and drilling costs applicable to productive wells are capitalized. Lease acquisition costs are charged against income upon surrender and capitalized leasehold and drilling costs associated with producing properties are depleted on the unit of production method based on estimated proven reserves. Depreciation of production equipment is computed on a straight line basis at a rate of 7% per annum.

Depreciation of the pipe line system assets is calculated on the unit of production method based on estimated proven reserves of the fields served at a rate which approximates 4% straight line.

c) Prepayments on future gas deliveries

Payments received for gas not delivered until required in the future are deferred and will be recorded as income when the equivalent amount in gas is delivered.

d) Foreign currency translation

Accounts of the foreign subsidiary are translated into Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange at the balance sheet date; fixed assets and other non-current assets at historic rates of exchange; and revenues and expenses, except depreciation and depletion, at average rates of exchange during the year. Depreciation and depletion are recorded at historic rates of exchange. Exchange gains or losses are included in income.

2. PRODUCTION LOANS

Production loans consist of bank loans in the amount of \$1,792,000 which mature in 1981 and which bear interest at prevailing current rates being in the range of 12% to 15½% during 1979 and 8¾% to 12% during 1978.

The required payments are \$1,000,000 in the next year and the balance due in the second year. These loans are secured by certain of the Company's interests in petroleum and natural gas properties and an assignment of the interest in the related gas purchase contracts.

3. REMUNERATION OF DIRECTORS AND OFFICERS

The remuneration paid to Directors and Senior Officers of the Companies during 1979 and 1978 was \$801,000 and \$420,000 respectively.

Auditors' Report to the Shareholders of Pembina Pipe Line Ltd.

We have examined the consolidated balance sheet of Pembina Pipe Line Ltd. as at December 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The consolidated financial statements for 1978 were examined by other Chartered Accountants.

Clarkson Gordon
CHARTERED ACCOUNTANTS

Calgary, Canada
March 6, 1980

