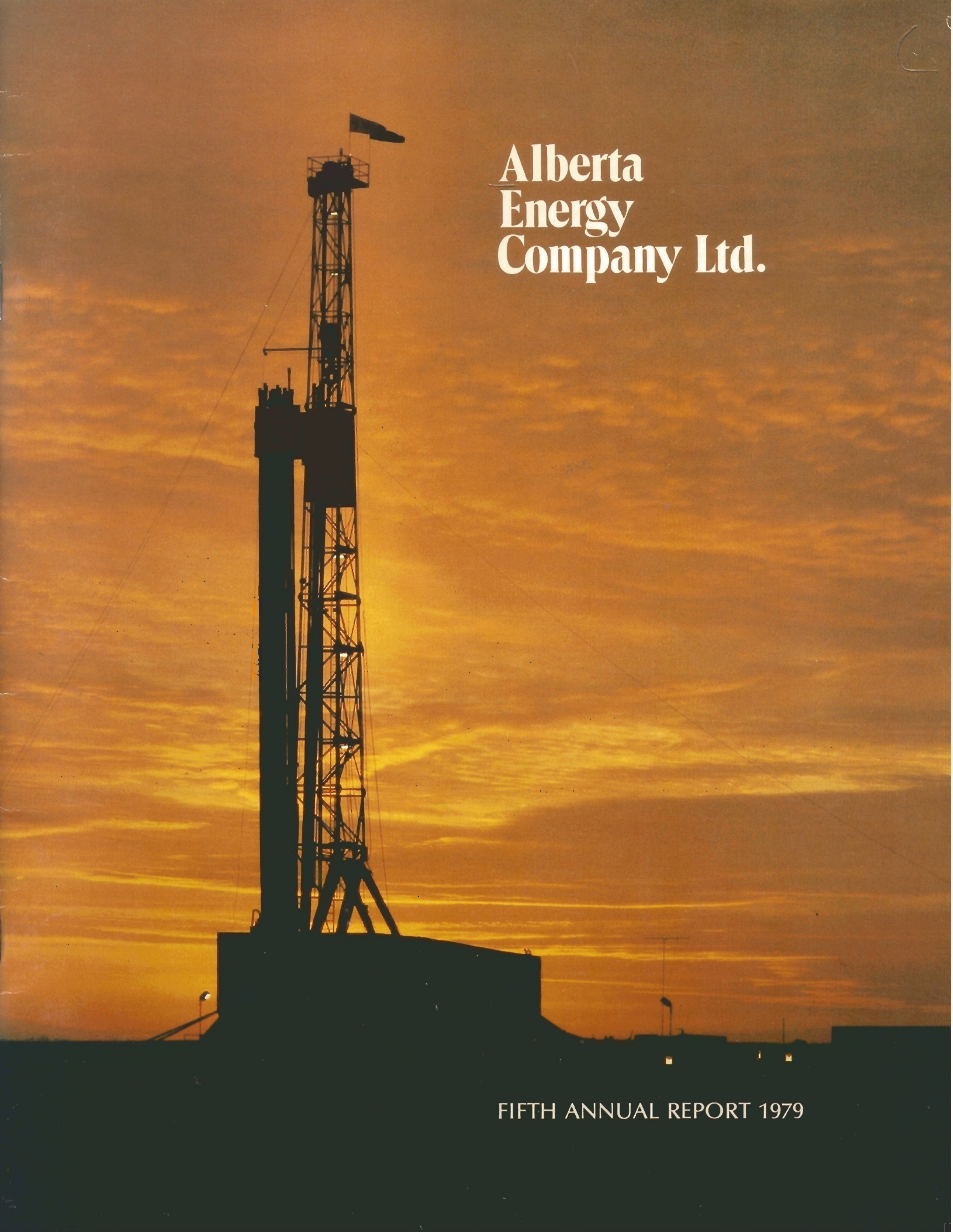
Alberta Energy Company Ltd.



FIFTH ANNUAL REPORT 1979

HIGHLIGHTS

FINANCIAL (all dollar amounts, except per share amounts, are in millions)	1979	1978	% Change
Net Earnings	**$ 27.4**	$ 18.8	+ 46
Per Share	**1.81**	1.24	
Cash Flow	**60.8**	32.5	+ 87
Per Share	**4.02**	2.15	
Long-Term Debt	**309.6**	209.2	+ 48
Working Capital	**44.3**	141.0	− 69
Total Assets	**651.0**	504.1	+ 29
PRODUCTION			
Gas, billions of cubic metres	**1.1**	0.76	+ 45
cubic feet	**38.3**	27.0	
Oil*, thousands of cubic metres	**20.9**	24.3	− 14
barrels	**131.3**	153.0	
Coal, thousands of tonnes	**488.0**	157.0	+211
tons	**538.0**	173.0	
Lumber, million board feet	**45.7**	44.1	+ 4

* excluding Syncrude production

- First dividend declared at the rate of 30 cents per share, per annum.
- AEC acquired an interest in the Syncrude Project. The Company now owns 10% of the plant and has a 7% royalty on the gross production proceeds from another 10%, at a total net cost of $205 million.
- Gas and heavy oil discovered at Primrose, in the northern portion of the Block.
- 1,298 successful wells drilled to year-end at Suffield and Primrose.

CONTENTS

COVER PHOTO
Drilling on the Suffield Block.

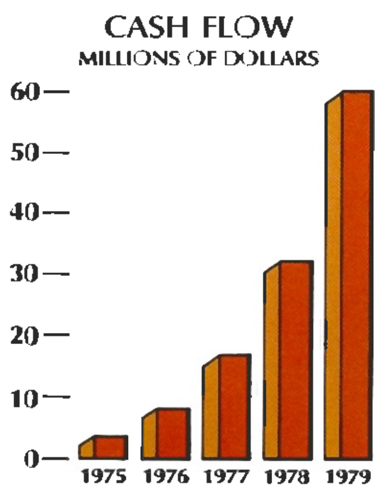
PRESIDENT'S REPORT

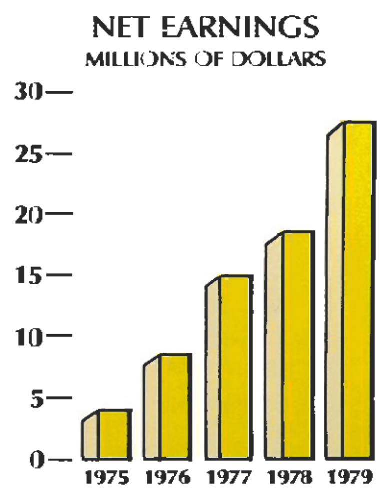
Five years ago, in January, 1975, an AEC staff of four and a recently-elected Board of Directors commenced activities to build a new Alberta-based energy and natural resource company. Shares were sold to the public in November, 1975. By the end of 1979, a number of significant investments had been made and the Company was well-established with substantial assets and a strong financial base for the future.

The Company is owned wholly by Canadians. There are more than 50,000 AEC shareholders, 85% owning 100 or fewer shares. During 1979, there were 2,843,584 shares of the Company traded on the Alberta, Montreal, Toronto and Vancouver Stock Exchanges, with a total trading value of more than $87 million.

The Company employs 264 people, who are located at Medicine Hat/Redcliff, Calgary and Edmonton. During five years of operation, staff members have developed enthusiasm, industry and willingness to identify their own efforts with the objectives of the Company. More than 92% of the staff are AEC shareholders.

At year-end 1979, market value of the shares outstanding was more than $600 million; balance sheet assets were over $650 million; and working capital was $44 million.





PRESENT ASSETS

The Company's principal investments are as follows:

- Petroleum and natural gas rights for two large military ranges in Alberta. The first area, near Suffield, is a block of 248,700 hectares (614,600 acres) on which more than 1,173 gas wells have been drilled. The second area, at Primrose in northern Alberta, is a block of 516,000 hectares (1,275,200 acres) which is in the early stages of development.

- Proved gas reserves at Suffield of 45.6 billion cubic metres (1.6 trillion cubic feet) and very large oil reserves in the oil sands. In accordance with current accounting practice, no value is shown on the balance sheet for these gas or oil reserves, except the investment in them to date.

- A 10% interest in the $2.3 billion Syncrude Project, plus a royalty averaging 7% on gross revenue from another 10% of Syncrude production.

- 67% of the $262 million Syncrude Utilities Plant.

- 100% of the 434-kilometre (270-mile) Alberta Oil Sands Pipeline, which transports Syncrude oil production through a 56-centimetre (22-inch) pipeline to Edmonton.

- 25% of a coal mine at Coal Valley, which has long-term sales contracts for 2,000,000 tonnes (2,200,000 tons) per year of high-grade thermal coal.

- 40% of a lumber manufacturing mill at Whitecourt and 567,000 hectares (1,400,000 acres) of timber rights.

- 33% of an 885-kilometre (550-mile) pipeline which collects ethane at various sources in south and central Alberta for transport to an ethylene manufacturing facility.

- Investments in uranium claims, coal and iron-ore deposits, a petrochemical project, a pipe manufacturing company, a gas marketing company, and other interests.

PRINCIPAL 1979 ACTIVITIES

The principal development in 1979 was AEC's acquisition of an interest in the Syncrude Project. The Company now owns 10% of the Project and a 7% royalty on a further 10% of gross plant revenue, at a net cost of $205 million. This provides the Company with a strong position in large-scale synthetic oil production, an energy source of growing importance for Canadians. Start-up problems, which should be expected in a large, unique project such as Syncrude, are gradually being resolved, and production in 1980 is expected to exceed that of 1979.

The year 1979 also marked the initiation of a cash dividend to shareholders. The directors believe that the Company's shareholders, many of whom are investing in the stock market for the first time, welcome some cash revenue in addition to the increase in value of the shares.

It was a year of continued growth. The 46% increase in net income and 87% increase in cash flow reflected a high level of activity in developing and marketing the Company's gas production.

The news has not been all good. It was disappointing not to receive the award of the Berland River Forestry Management Area. Other steps are under consideration to generate alternative investments in the forestry section of the Company's endeavors. And, consideration is being given to a significant decrease in our electronics activity, as there has been inadequate development of markets for the products that could be manufactured.

OUTLOOK

Other investment possibilities are in various stages of development, including a benzene plant, other Alberta pipelines, uranium exploration, another utilities plant in a heavy oil project, and a large oil sands development project.

The Company is interested in acquisition investments whenever opportunities arise to complement our principal areas of endeavor.

The Company has developed a capable and dedicated team of people. Cash flow and net income are escalating rapidly and there is correspondingly higher capacity for corporate borrowing. These will turn the competitive challenges of the eighties into opportunities for further progress for our shareholders.

INDUSTRY COMMENT

Now that the federal election has been held, it is to be hoped that there will be full concentration on the early need for Canadians to develop much greater indigenous supplies of energy. At the present rate of importation, Canadians are paying other countries over $5 billion per year for imported oil and the outlook is for this amount to exceed more than $10 billion by the year 1985. The combined cooperative effort of governments at all levels and the oil industry could achieve material reduction of this oil import cost as the decade progresses. Canadians are beginning now to realize that the era of inexpensive energy has passed; next, the decision-makers need to realize that not only must the energy hunger of the nation be lessened by conservation, but there must also be an increase in Canada's own supplies.

In our energy supply endeavors, there has to be recognition of the lead-time to build the country's production closer to the position of self-sufficiency. One only has to look at the Arctic Islands, where exploration started in 1960; the Beaufort Sea, where activities have been underway since 1968; and the East Coast, where the first wells were drilled in 1966, to realize just how much time passes between the start of exploring and developing an area and the actual appearance of energy supplies at the nation's oil furnaces and gasoline pumps.

This country has the potential to do a much better job of energy development, and it is inexcusable to rely so heavily on uncertain and costly foreign sources when we have the ability to become much more energy self-reliant.

David E. Mitchell
President

GAS & OIL

Construction of gas gathering system

SUFFIELD

Record production of 1.1 billion cubic metres (38.3 billion cubic feet) of natural gas was achieved in 1979 from the Suffield Military Block near Medicine Hat.

Since acquiring the petroleum and natural gas rights in 1975, AEC has invested $118.8 million in gas and oil wells and production facilities at Suffield.

1979 was again an active drilling year on the Block. 254 successful gas and oil wells were drilled, bringing the total well count to 1,245. Continued development is planned with another 400 wells scheduled for drilling in 1980.

Shallow gas development is carried out by AEC, and the deep drilling programs are being conducted by a number of companies working under farmout agreements. During 1979, there were 247 shallow gas wells drilled. 938 wells now are integrated into a gas production system that includes 1,535 kilometres (954 miles) of gathering pipelines.

The deep drilling programs are continuing and, to date, 101 successful wells have been drilled. About two-thirds of the total 248,700 hectares (614,600 acres) in the Block have been farmed out for deep drilling.

This year seismic exploration and drilling commenced in the southwest portion of the Block, an area of approximately 35,600 hectares (88,000 acres). The deep drilling program underway is evaluating potential reservoirs at depths below 700 metres (2,200 feet). The companies are committed to carry out 320 kilometres (200 miles) of seismic work and drill 67 exploration wells by July 1, 1980, to earn a 50% interest in the deep rights.

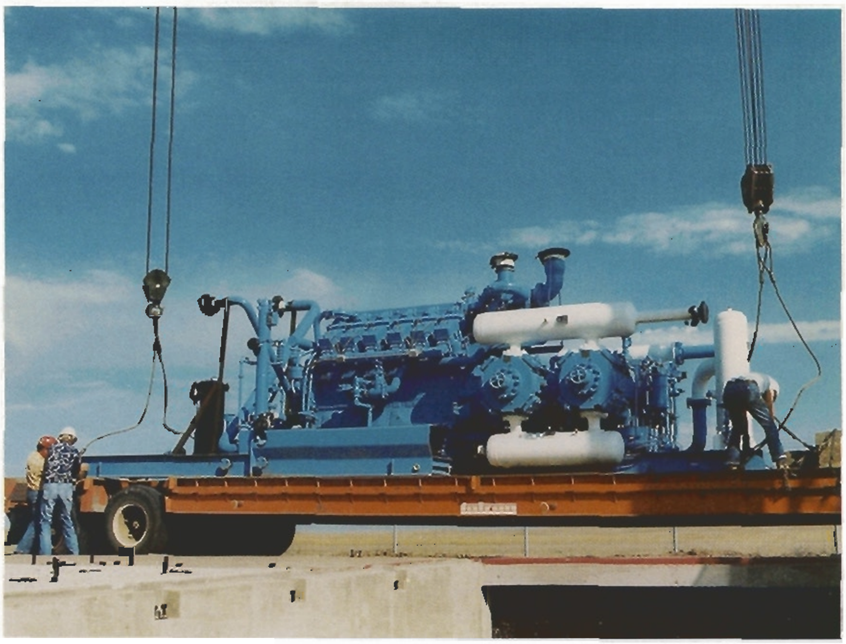
Left: Interior of recessed wellhead

Liaison with military authorities

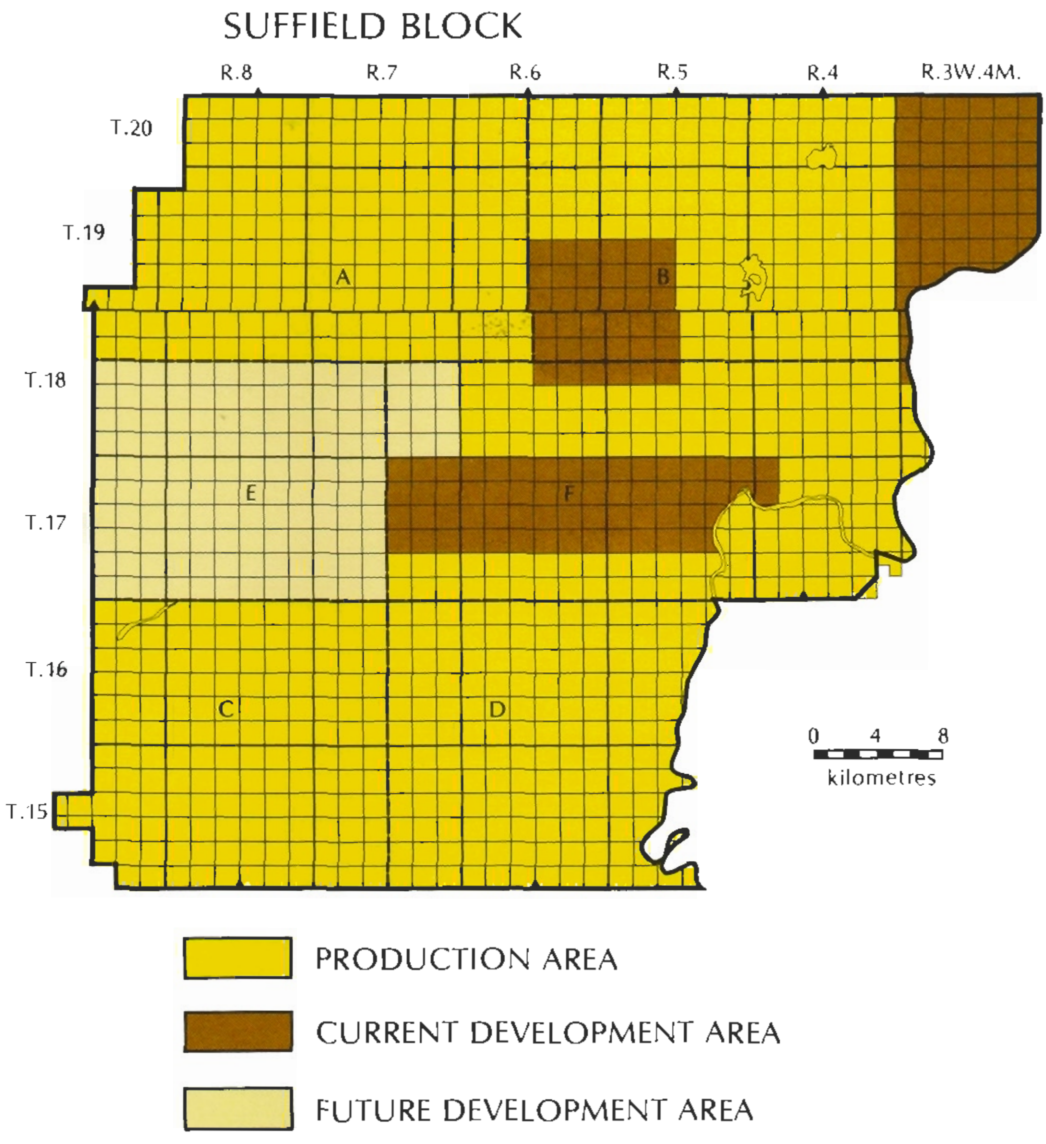
The total remaining marketable proved and probable gas reserves of Suffield at year-end are estimated by consultants to be 45.6 billion cubic metres (1,620 billion cubic feet).

Production of heavy oil from Suffield averaged 57 cubic metres (360 barrels) per day. Heavy oil volumes in place are estimated to be 50 million cubic metres (313 million barrels), of which 0.8 million cubic metres (4.8 million barrels) are recoverable by conventional methods. The Suffield Heavy Oil Pilot Project, which will evaluate the fireflooding process for the recovery of additional Suffield heavy oil, is in the final planning stages. Construction of the facilities will commence in the summer of 1980.

The excellent working relationship between AEC and the Canadian Military enabled the development of the Suffield Block to be further accelerated during 1979. Negotiations concluded during the year will allow rapid development to continue. The entire Block should therefore be in production by the end of 1982, some five years ahead of the target date set in the original access agreement with the military. Infill drilling will continue for many years thereafter, as only one-half of the total wells needed will have been drilled by the end of 1982.



Compressor arriving on site



- 248,700 HECTARES
  (approx. 1,000 square miles)
- 1,245 WELLS DRILLED
- 8 COMPRESSOR STATIONS
- 1,535 KILOMETRES OF GATHERING PIPELINES
  (954 miles)

Helicopter "rig move"

Drillsite at Primrose

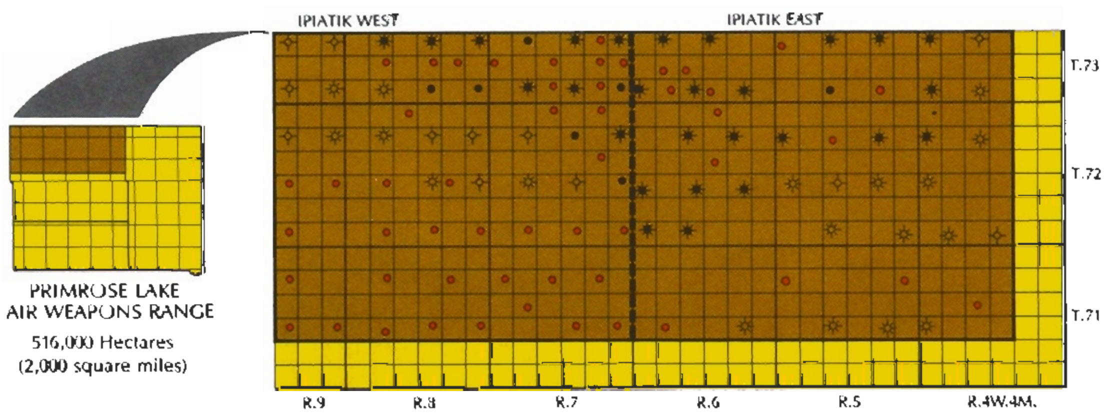
Encouraging finds of both gas and heavy oil are being encountered in the initial evaluation and development programs on the Alberta portion of the Primrose Lake Air Weapons Range.

The Range is located on the Alberta/Saskatchewan border north of Cold Lake, and is used as a military base for training airforce pilots in supersonic jets.

Evaluation and development are being conducted in the northwest portion of the Range in a 103,600-hectare (256,000-acre) area known as the Ipiatik Lake region. Of 64 wells drilled in 1979, 18 encountered gas, 8 heavy oil sands, and 27 both gas and heavy oil sands.

Heavy oil volumes in place are estimated by consultants to be 1.9 billion cubic metres (12 billion barrels). AEC's interest in these deposits is 50% or higher, depending on the allocation of development costs. The economic potential of these deposits will require considerably more evaluation, but from the results to date there is encouragement to proceed with a pilot operation. These deposits require long-term assessment and planning, as has been the case for the similar thicker deposits at Cold Lake, immediately south of Primrose.

At the time of this report, six rigs were at work, following up on the gas found on the block. Evaluation and development drilling will continue in 1980, with 52 additional evaluation wells planned by the farmees in the Ipiatik Lake region. Although the program is in the early stages, AEC is encouraged by the results, and is very pleased with the excellent co-operation from the airforce authorities.



PRIMROSE LAKE WELL STATUS

GAS · GAS AND OIL · OIL · DRY AND ABANDONED · PROPOSED LOCATIONS FOR 1980 PROGRAMS

SYNCRUDE

Syncrude Coker Unit

AEC is now a 10% owner of the $2.3 billion Syncrude Project, which produces synthetic crude oil from the Athabasca oil sands near Fort McMurray.

After acquiring a 20% ownership, the Company sold one-half. The sale was in two parts: 5% to one company, and 5% to another, for a total cash consideration of $365 million. In addition, the two purchasers will pay AEC an average of 7% of their share of the future gross revenue from the Project. AEC also agreed to give one of the companies the right to purchase AEC's share of production from the Project, which is expected to produce 20,570 cubic metres (129,400 barrels) per day at full capacity.

As a result of the sale in September, 1979, AEC's net cost to retain a 10% interest and a 7% share of gross revenue from another 10%, was $205 million.

During 1979, Syncrude shipped 2.86 million cubic metres (18.0 million barrels) of synthetic crude oil and 77 thousand tonnes (85 thousand tons) of sulphur. The plant operated at about 40% of capacity for its first full year of operation. It is interesting to note that one of the two primary upgrading units had an initial run of 321 days, just 69 days short of the world record for fluid cokers.

Start-up problems, which were to be expected in such a large, unique operation, are being resolved gradually. Production is expected to be substantially higher in 1980.

AEC POWER LTD.

AEC Power's Utilities Plant supplies Syncrude's electric power, processed water and steam requirements.

Built at a cost of $262 million and owned two-thirds by AEC, the Utilities Plant is operating well, and should provide continuing revenue to AEC for many years.

The plant is capable of supplying enough electrical energy to a city of over one-quarter of a million people. In November, AEC Power did supply electrical energy to both the town of Fort McMurray and the Syncrude Project, while the town was disconnected from the provincial power grid.

AEC anticipates providing similar utility services to other heavy oil projects currently in the planning stages.

Left: AEC Power's Utilities Plant

PIPELINES

ALBERTA OIL SANDS PIPELINE LTD.

Interior of pipeline control unit

Wholly-owned by AEC, the 434-kilometre (270-mile) Alberta Oil Sands Pipeline transports synthetic crude production for the Syncrude Project at Fort McMurray to Edmonton. Throughput for 1979 was 2.86 million cubic metres (18.0 million barrels) compared with .46 million cubic metres (2.9 million barrels), representing five months of production in 1978.

From the terminus in Edmonton there are four outlets. Two deliver crude to refineries in Edmonton, one delivers to the West Coast, and the other to Eastern Canada.

This $80 million pipeline system continues to operate efficiently and is a regular contributor to AEC's cash flow. Further pipeline investments are being actively pursued.

ETHANE GATHERING SYSTEM

AEC is a one-third owner of the 885-kilometre (550-mile) Ethane Gathering System which is a vital link in the development of today's growing petrochemical industry in Alberta.

This $48 million system is currently transporting ethane from four sites in Alberta at Waterton, Empress, Cochrane and Edmonton into the now-operational ethylene manufacturing facility in central Alberta. The system also carries ethane for use in an enhanced crude oil recovery scheme. The remaining ethane is transported to Fort Saskatchewan and stored in underground salt caverns for shipment to out-of-province markets through the Cochin Pipe Line.

With recent installation of two additional pump stations, the designed daily capacity has been increased by approximately 15%, from 12,000 cubic metres (76,000 barrels) to 14,000 cubic metres (87,000 barrels).

Pipeline Alley in Edmonton

Left: Pipeline construction

COAL

Helicopter transportation of mine employees

At year-end, Coal Valley had successfully completed its first full calendar year of operation.

Located west of Edson in Northwestern Alberta, the mine maintained a high level of activity during 1979, with 218 unit trains or 1.95 million tonnes (2.15 million tons) of coal produced and shipped to customers. Production for the year was approximately 84% of the rated production capacity of the plant.

Coal Valley is one of the very few operational coal mines in Canada that are devoted entirely to producing thermal coal with sufficient energy content to be attractive internationally. Numerous requests from international firms have been received for test shipments and conditions of sale. The potential for increasing the current sales volume is promising.

Aerial view of Coal Valley plant

Left: Coal unit train

OTHER ACTIVITIES

Seedlings for Whitecourt reforestation

Forestry — Over 114 million board feet of finished lumber were produced at the lumber manufacturing facilities near Whitecourt in 1979. Production from the Blue Ridge Mill exceeded its planned design capacity by approximately 10% during the year. AEC has a 40% joint venture participation in this $34 million forestry operation.

Lumber prices were strong for most of 1979, but weakened markedly in the last quarter, reflecting a lower demand in the housing market caused by high interest rates. These lower prices are expected to continue for at least the first half of 1980.

Steel Alberta Ltd. — AEC holds a 50% interest in this Company which is primarily engaged in evaluating potential investments in the steel industry.

Extensive market surveys of the steel industry have been conducted, and proposals evaluated for projects such as iron ore mining, basic steelmaking and rolling facilities, major product fabrication and manufacturing.

Pan-Alberta Gas Ltd. — AEC holds a 50% interest in this Company which is actively involved in the marketing of natural gas from Alberta.

Pan-Alberta has received authorization from the Energy Resources Conservation Board to remove 95 billion cubic metres (3,370 billion cubic feet) of gas from Alberta, and also has received a conditional export permit from the National Energy Board for the removal of 51 billion cubic metres (1,800 billion cubic feet) of gas from Canada.

The Company is actively pursuing new gas markets in Canada and intends to supply a substantial portion of the gas moving east of Montreal in the proposed Quebec and Maritimes pipeline.

Petrochemicals Alberta Project (PETALTA) — In July, a large integrated company with extensive experience in the petrochemicals industry joined AEC as a 50% joint venture partner in the PETALTA project.

Joint studies are well underway on the feasibility of building a 416 million litres per year (110 million U.S. gallons) benzene plant in Alberta. Depending on the outcome of current joint studies and the obtaining of satisfactory regulatory and governmental approvals, final design is expected to commence in the latter half of the year.

Benzene derivatives are used in the manufacture of synthetic resins, paints, varnishes, adhesives and other products. The plant's output would serve the Canadian petrochemicals industry as well as export markets.

1979 FINANCIAL REVIEW

Net earnings were $27.4 million or $1.81 per share, an increase of 46% over 1978 earnings of $18.8 million or $1.24 per share. Cash flow was $60.8 million or $4.02 per share, up 87% from 1978 cash flow of $32.5 million or $2.15 per share. Cash flow for 1978 has been restated to include the $2 million dividend received from AEC Power Ltd.

Income from operations has grown significantly and in many instances represents a full year of operations versus 1978 which saw many activities operational for only a portion of the year. Gas production revenue from the Suffield Block continues to be the largest contributor to income and earnings. After payment of royalties to the Province of Alberta totalling $18.3 million, revenue from gas and oil was $48.8 million. After deducting operating expenses, depreciation and depletion, the operating income from gas and oil was $34.9 million. Alberta Oil Sands Pipeline, which was operational for the full year and the Ethane Gathering System, whose final phase was completed during 1979, together contributed $13.6 million to operating income, a substantial improvement over 1978. Although prices for forestry products dropped sharply in the latter part of 1979, income from operations of $0.7 million was reported, an improvement of 38% over 1978. Coal operations, which commenced mid-year 1978, contributed an income from operations of $1.8 million. Additional segmented information is supplied in the financial statements and notes.

As in 1978, certain of the Company's gas purchasers were unable to take some portion of the minimum quantities stipulated under their respective gas contracts for 1979. The $6.3 million deferred to date will be taken into income as the purchasers take the deferred quantities of gas or when it is known that the purchasers cannot take such gas, whichever occurs first.

During 1979 a 20% interest in the Syncrude Project was acquired at a cost of $570 million. Following this acquisition, a 10% interest in the Project, or one-half of the interest acquired, was sold for a total cash consideration of $365 million, plus a share of the future revenue from the Project. The Company is capitalizing interest and operating costs, net of revenue, until the Project meets specific accounting criteria for commercial production.

Exclusive of its investment in Syncrude, more than $42.6 million has been invested in property, plant and equipment during 1979. Capital expenditures on the Suffield Block totalled $30.8 million. The exploration and development of the Primrose Range is being done under farm-out agreements with the Company's capital investment being $0.6 million for 1979. Investment in capital expenditures for AOSPL, Ethane Gathering, Coal and Forestry totalled $9.0 million.

Working Capital decreased from $141.0 million at the end of 1978 to $44.3 million at year-end 1979, primarily as a result of substantial investment in the Syncrude Project. Additional Income Debentures and/or Term Loans aggregating $100 million were issued, bringing the total outstanding to $250 million at the end of 1979.

During the year the Company paid its first dividend of 30 cents per share.

ALBERTA ENERGY COMPANY LTD.

CONSOLIDATED BALANCE SHEET ($000's)

	December 31 1979	December 31 1978
ASSETS		
CURRENT ASSETS		
Cash and short term investments at cost which approximates market	$ 39,526	$152,239
Accounts receivable and accrued revenue	23,159	15,011
Inventories (Note 2)	9,715	2,627
Prepaid expenses	1,069	570
	73,469	170,447
INVESTMENT IN AFFILIATED COMPANIES (Note 3)	35,079	32,864
PROPERTY, PLANT AND EQUIPMENT (Notes 4 and 6)	531,893	290,765
OTHER ASSETS AND DEFERRED CHARGES (Note 5)	10,578	10,063
	$651,019	$504,139
LIABILITIES		
CURRENT LIABILITIES		
Bank Loan	$ —	$ 14,350
Accounts payable and accrued liabilities	27,799	12,027
Current portion of long-term debt (Note 7)	1,418	3,037
	29,217	29,414
DEFERRED REVENUE	6,481	3,000
LONG-TERM DEBT (Note 7)	309,599	209,216
DEFERRED LIABILITIES (Note 8)	50,442	50,442
DEFERRED INCOME TAXES	37,740	18,556
	433,479	310,628
SHAREHOLDERS' EQUITY		
Share Capital (Note 9)		
Authorized - 100,000,000 shares without par value		
Issued and fully paid — 15,148,835 (1978 — 15,111,851)	148,811	147,669
Retained earnings	68,729	45,842
	217,540	193,511
	$651,019	$504,139

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENT OF EARNINGS ($000's)

	Year Ended December 31 1979	Year Ended December 31 1978
INCOME FROM OPERATIONS (Note 10)		
Gas and Oil	$ 34,870	$ 19,354
Pipelines	13,556	8,448
Forestry	684	495
Coal	1,780	(108)
Other	(2,676)	(1,260)
	48,214	26,929
INTEREST EXPENSE — net (Note 10)	3,037	2,170
GENERAL AND ADMINISTRATIVE EXPENSES	5,519	3,652
INCOME BEFORE INCOME TAXES AND EQUITY EARNINGS	39,658	21,107
PROVISION FOR INCOME TAXES — Deferred	19,439	9,706
— Current	(1,000)	(1,000)
	18,439	8,706
EQUITY IN EARNINGS OF AFFILIATES (Note 3)		
AEC Power Ltd.	3,818	3,066
Steel Alberta Ltd.	1,851	1,795
Pan-Alberta Gas Ltd.	337	352
	6,006	5,213
ALLOWANCE ON EQUITY FUNDS EMPLOYED DURING CONSTRUCTION	197	1,172
NET EARNINGS	$ 27,422	$ 18,786
EARNINGS PER SHARE	$ 1.81	$ 1.24

CONSOLIDATED STATEMENT OF RETAINED EARNINGS ($000's)

	Year Ended December 31 1979	Year Ended December 31 1978
BALANCE — BEGINNING OF YEAR	$ 45,842	$ 27,056
NET EARNINGS	27,422	18,786
	73,264	45,842
DIVIDEND	4,535	—
BALANCE — END OF YEAR	$ 68,729	$ 45,842

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION ($000's)

	Year Ended December 31	
	1979	1978
SOURCE OF FUNDS		
Income before income taxes and equity earnings	$ 39,658	$ 21,107
Income tax	1,000	1,000
Non-cash items, principally depletion and depreciation	15,500	8,386
Dividend — AEC Power Ltd.	4,662	2,011
Cash flow	60,820	32,504 *
Deferred revenue	3,481	2,238
Issue of share capital	1,142	325
Issue of long-term debt	104,985	167,961
Deferred liability	—	20,442
Advances (to) from affiliated companies — net	(653)	653
	169,775	224,123
USE OF FUNDS		
Investment in property, plant and equipment		
Gas and oil	31,426	62,935
Pipelines	3,560	21,811
Oil Sands	212,610	—
Forestry	1,954	542
Coal	3,483	4,369
Other	2,194	977
	255,227	90,634
Repayment of long-term debt	4,602	3,303
Other assets and deferred charges	2,192	4,648
Dividend	4,535	—
	266,556	98,585
INCREASE (DECREASE) IN WORKING CAPITAL	(96,781)	125,538
WORKING CAPITAL — BEGINNING OF YEAR	141,033	15,495
WORKING CAPITAL — END OF YEAR	$ 44,252	$141,033

* Restated to include dividend from AEC Power Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1979

1. Summary of significant accounting policies

(a) Investments in other entities

Subsidiaries —
The consolidated financial statements include the accounts of Alberta Energy Company Ltd. (the Company) and its wholly-owned subsidiaries Alberta Oil Sands Pipeline Ltd. (AOSPL) and Willowglen Company Limited (Willowglen). The results of subsidiaries are included from the acquisition dates.

Affiliates —
Where the Company owns 50% or less of the voting shares of another corporation and is in a position of exerting significant influence in the decisions made by such investees, the equity method of accounting for such investments has been adopted. Under this method the Company's proportionate share of the affiliates' earnings is included in income and the investment is carried at cost plus equity in undistributed earnings since acquisition.

Joint Ventures —

Where the Company participates in unincorporated joint ventures, it follows the proportionate consolidation method of accounting wherein the proportionate share of each of the assets, liabilities, revenues and expenses associated with a joint venture is combined with similar categories within the Company's accounts. The Company participates in unincorporated joint ventures as follows:

- — Forestry — 40%
- — Ethane Gathering System (Ethane) — Pipeline — 33⅓%
- — Coal — 25%
- — Oil Sands — Syncrude — 10%

Summarized information relating to these operations is included in Note 10.

(b) Property, plant and equipment

Gas and Oil —

The Company employs the full cost method of accounting for gas and oil properties and capitalizes all costs related thereto. Petroleum and natural gas leases are situated in the Suffield Block and the Primrose Range and are being developed on an area basis. Costs associated with producing areas are amortized using the unit of production method based on estimated proven reserves. Costs associated with non-producing areas are accumulated until commencement of production.

Pipelines —

Allowances for return on equity and borrowed funds employed during construction are included in the capitalized costs of the pipelines.

Property, plant and equipment is carried at cost with depreciation provided on a straight-line basis over a period of 20 years commencing April 1, 1978 for Ethane and a period of 25 years commencing May 1, 1978 for AOSPL.

Forestry —

Property, plant and equipment is carried at cost with depreciation provided on a straight-line basis over the useful lives of the respective assets to a maximum of 19 years.

The cost of acquiring timber harvesting rights is depleted on the basis of timber cut and removed as it relates to the volume of timber estimated to be recoverable over the term of the Forest Management Agreement.

Coal —

The major portion of plant and equipment is being depreciated on the unit of production method based on total contracted sales.

Preproduction costs and costs of stripping related to producing areas of the mine are being amortized over 5 years on the basis of estimated production. Other assets, primarily mining vehicles are being depreciated over their expected useful lives.

Oil Sands —

The Company's share of all costs net of funds received from the Syncrude Project to December 31, 1979, including all proceeds received pursuant to the sale of the 10% portion, have been capitalized and included as property, plant and equipment (Notes 4 and 6). The capitalized preproduction costs will be amortized on a unit-of-production basis applicable to the Company's share of production compared to the estimated recoverable reserves available at the time of commencement of commercial production.

(c) Deferred charges

Costs incurred in investigating projects are deferred pending investment decisions. Costs of project investigations which result in investments are included in the cost of such investments. When it is determined that investments will not result, costs related to these investigations are charged against income.

Unamortized product development costs incurred and capitalized in prior years have been written off in 1979.

Financing costs are amortized over the life of the related debt.

2. Inventories

Inventories are valued at the lower of cost or estimated net realizable value. They consist of:

($000's)	1979	1978
Raw materials	**$6,323**	$ 789
Work-in-process	**1,212**	1,076
Finished goods	**2,180**	762
	$9,715	$2,627

3. Investments in affiliated companies, at equity

($000's)	AEC Power Ltd.	Steel Alberta Ltd.	Pan-Alberta Gas Ltd.	1979 Total	1978 Total
Common shares	$16,032	$ 10	$ 1,000	**$17,042**	$17,042
Advances — unsecured	—	5,659	—	**5,659**	5,007
Equity in undistributed earnings since acquisition	4,717	5,707	1,954	**12,378**	10,815
	$20,749	$ 11,376	$ 2,954	**$35,079**	$32,864

(a) AEC Power Ltd. (AECP) (66⅔% equity interest; 50% voting interest)

The return on equity invested in AECP was established by arbitration at 16% retroactive to April, 1976.

(b) Steel Alberta Ltd. (50% equity interest; 50% voting interest)

Steel Alberta Ltd. owns 20.2% of Interprovincial Steel and Pipe Corporation Ltd. and accounts for this investment on the equity method.

(c) Pan-Alberta Gas Ltd. (50% equity interest; 40% voting interest)

4. Property, plant and equipment

($000's)	1979 Cost	1979 Accumulated depreciation, depletion and amortization	1979 Net	1978 Net
Producing properties				
Gas and oil (Suffield Block)				
Lease rights	**$ 37,382**	**$ 3,692**	**$ 33,690**	$ 33,269
Intangible development	**56,958**	**5,624**	**51,334**	44,089
Equipment	**49,129**	**6,362**	**42,767**	35,379
	143,469	**15,678**	**127,791**	112,737
Pipelines				
AOSPL	**79,938**	**4,680**	**75,258**	76,729
Ethane	**18,569**	**1,268**	**17,301**	9,933
	98,507	**5,948**	**92,559**	86,662
Forestry				
Plant and equipment	**13,120**	**2,785**	**10,335**	9,360
Timber harvesting rights	**1,017**	**66**	**951**	976
	14,137	**2,851**	**11,286**	10,336
Coal — Plant and equipment	**30,650**	**2,054**	**28,596**	26,681
Properties under development				
Gas and oil — Suffield	**29,285**	—	**29,285**	21,368
— Primrose	**26,445**	—	**26,445**	25,834
Pipelines — Ethane	—	—	—	5,508
Oil Sands — Syncrude	**212,499**	—	**212,499**	—
	268,229	—	**268,229**	52,710
Other property, plant and equipment	**4,201**	769	**3,432**	1,639
	$559,193	**$ 27,300**	**$531,893**	$290,765

5. Other assets and deferred charges

($000's)	1979	1978
Deposits and amounts receivable	$ 853	$ 676
Loans under Share Purchase Plans	2,127	1,167
Project investigation costs	4,849	4,515
Undivided 50% interest in iron ore properties	1,370	1,323
Unamortized financing costs	1,379	956
Unamortized product development costs	—	1,426
	$ 10,578	$ 10,063

6. Syncrude

On August 30, 1979, the Company exercised its option and acquired a 20% interest in the Syncrude Project at a cost of $570 million. Effective September 1, 1979 the Company sold a 10% interest, or one half of its interest, in the Project for $365 million plus an overriding royalty averaging 7% of the gross revenue attributable to the portion sold. In accounting for this investment, the Company has reduced the initial cost of exercising the option by the total proceeds derived from the sale of the 10% portion.

Until such time as the Syncrude Project meets specific accounting criteria for commercial production, the Company is capitalizing interest on cash invested in the Project as well as operating costs net of revenues.

7. Long-term debt

($000's)	1979	1978
Income debentures	$250,000	$150,000
AOSPL First Mortgage Sinking Fund Bonds:		
Series A — $9\frac{5}{8}$%, due June 15, 1997	25,938	28,650
Series B — $9\frac{3}{4}$%, due June 15, 1997	30,082	31,500
	56,020	60,150
Other	4,997	2,103
	311,017	212,253
Current portion of long-term debt	1,418	3,037
	$309,599	$209,216

Income Debentures

In 1978 the Company arranged a credit facility with two chartered banks providing for up to $300 million to be drawn down in the form of term loans or income debentures. Income debentures totalling $150 million issued November 15, 1978 were converted to term loans on September 12, 1979 and further term loans of $85 million were drawn down on September 27, 1979. The Company issued new income debentures totalling $250 million on December 27, 1979 and retired in full the $235 million of term loans then outstanding. The total outstanding income debentures are secured by a portion of the reserves of the Suffield Block; a fixed charge on the related production equipment and an assignment of the related gas sales contracts. The debt is repayable in full over a period of ten years commencing not later than December 31, 1988. The interest rate on income debentures is approximately one half of the sum of the lenders' prime commercial lending rate and a factor which varies over the term of the debentures from $\frac{3}{8}$% to $1\frac{3}{8}$%. The interest rate on term loans would be the lenders' prime commercial lending rate plus a factor varying over the term of the loans of up to 1%.

AOSPL First Mortgage Sinking Fund Bonds

The Series A and B bonds are secured by a first and fixed charge upon AOSPL's fixed assets and a floating charge on all its other assets. Outstanding debt related to the AOSPL pipeline is guaranteed by the Syncrude participants in the event of abandonment of the Syncrude Project. As a participant in the Syncrude Project, the Company is responsible for 10% of the guarantee. Fixed sinking fund payments commenced on June 15, 1978 for Series A Bonds and commenced on June 15, 1979 for Series B Bonds at a rate sufficient to retire in each year 4½% (being $2.8 million annually) of the total bond issue of $61.5 million. To date AOSPL has made early purchases of Series A Bonds totalling $1.4 million which will be applied against future years sinking fund requirements.

8. Deferred liabilities

(a) Suffield

Rights to the Suffield Block were acquired for $54 million of which $24 million has been paid and the balance is payable in three annual installments of $10 million commencing one year after recovery of certain expenditures.

(b) Primrose

The Company acquired rights to the Primrose Range for $57.6 million including $32 million in work obligations. In 1978 the Company paid $5.2 million for leases to approximately one fifth of the Range and the balance of $20.4 million is payable when leases to the remaining portions of the Range are requested. Certain work obligations with respect to that part of the Range currently leased have been farmed out.

9. Share capital

(a) Changes in outstanding shares during the year were as follows:

	1979		1978	
($000's)	**Number of Shares**	**Net Proceeds**	Number of Shares	Net Proceeds
Issued for cash	**41,500**	**$ 1,212**	23,500	$ 353
Redeemed for cancellation	**4,516**	**70**	2,625	28
Net increase in the year	**36,984**	**1,142**	20,875	325
Share capital — beginning of year	**15,111,851**	**147,669**	15,090,976	147,344
Share capital — end of year	**15,148,835**	**$148,811**	15,111,851	$147,669

(b) At December 31, 1979, 50,536 shares (1978 — 27,036) are reserved for issuance under the Share Purchase Plan.

(c) Pursuant to The Alberta Energy Company Act only citizens or residents of Canada are eligible to purchase, own or hold shares in the Company. In addition, the maximum ownership of any one shareholder, excluding the Province of Alberta, is limited to 1% of the total number of issued and outstanding shares of the Company.

10. Supplementary information to statement of earnings

(a) Revenues and depletion, depreciation and amortization

	Gross operating revenue (net of royalties)		Depletion, depreciation and amortization	
($000's)	**1979**	1978	**1979**	1978
Gas and oil	**$48,811**	$28,177	**$ 7,824**	$4,920
Pipelines	**19,911**	11,891	**3,697**	2,309
Forestry	**9,881**	9,004	**991**	919
Coal	**13,290**	4,256	**1,516**	531
Other	**858**	1,452	**1,750**	580
	$92,751	$54,780	**$15,778**	$9,259

(b) Interest expense — net

This includes interest on long-term debt of $22.1 million (1978 — $6.5 million) of which $7.2 million (1978 — $1.6 million) representing interest incurred during construction has been capitalized as property, plant and equipment.

(c) Joint ventures

The Company is a participant in certain joint ventures as outlined in Note 1(a). Joint ventures are accounted for by the proportionate consolidation method and accordingly the Company has included in its accounts the following aggregate amounts in respect of such investments.

($000's)	1979	1978
Assets	**$289,445**	$57,937
Liabilities	**24,298**	2,819
Gross operating revenue	**26,841**	14,833
Expenses	**21,667**	13,263

11. Remuneration of directors and senior officers

The aggregate direct remuneration paid by the Company and its subsidiaries to its directors as directors was $98,800 (1978 — $63,000) and to its senior officers as officers $646,000 (1978 — $483,000).

12. Contingent liabilities

The Company is one of four defendants in a legal action claiming general and special damages totalling $7.7 million, arising from the awarding of contracts for the construction of two pipelines to serve the Syncrude Project.

According to counsel no estimates of the outcome or the liabilities, if any, can be given and accordingly no provision has been made in the financial statements for the liabilities, if any, of the Company in connection with this action.

AUDITORS' REPORT

To the Shareholders of
Alberta Energy Company Ltd.

We have examined the consolidated balance sheet of Alberta Energy Company Ltd. as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Alberta Energy Company Ltd., its subsidiaries and the affiliate of which we are auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of other auditors who have examined the financial statements of the other affiliates and the joint ventures.

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.

Price Waterhouse & Co.

Chartered Accountants
Edmonton, Alberta
January 29, 1980

FIVE-YEAR REVIEW

(all dollar amounts, except per share amounts, are in millions)

	1979	1978	1977	1976	1975
FINANCIAL					
Gross operating revenue (net of royalties)	**$ 92.8**	$ 54.8	$ 20.3	$ 1.3	$ —
Equity in earnings of affiliates	**6.0**	5.2	4.7	2.8	0.3
Net earnings	**27.4**	18.8	14.9	8.5	4.0
Cash flow	**60.8**	32.5*	17.1	8.2	3.7
Working capital	**44.3**	141.0	15.5	68.4	123.1
Investments in property, plant and equipment	**255.2**	90.6	109.0	38.0	59.7
Long-term debt	**309.6**	209.2	44.6	—	—
Total assets	**651.0**	504.1	273.3	216.4	196.0
PER SHARE DATA					
Net earnings	**$ 1.81**	$ 1.24	$ 0.98	$ 0.56	$ 0.52
Cash flow	**4.02**	2.15*	1.13	0.55	0.49
Shareholders' equity	**14.39**	12.80	11.56	10.57	10.00
Dividend	**0.30**	—	—	—	—
SHARE DATA					
Number of shareholders	**51,725**	53,292	54,169	56,394	62,385
Common shares outstanding	**15,148,835**	15,111,851	15,090,976	15,068,976	15,062,064
Volume of shares traded	**2,843,584**	1,847,690	1,795,341	2,556,006	35,576
Share price range — High	**$43.25**	$19.75	$19.25	$12.25	$10.25
— Low	**18.63**	14.63	11.75	8.50	9.75
— Close	**40.50**	18.88	17.63	12.00	9.75
GAS AND OIL					
Successful wells drilled	**307**	397	301	216	—
Petroleum and Natural Gas Leases, thousands of					
— hectares	**764.7**	764.7	248.7	248.7	248.7
— acres	**1,889.8**	1,889.8	614.6	614.6	614.6
Revenue from gas and oil (net of royalties)	**$48.8**	$28.2	$15.0	$0.6	$ —
Gas and oil royalties paid	**18.3**	13.6	7.6	0.3	—

* Restated to include $2 million dividend from AEC Power Ltd.

BOARD OF DIRECTORS

MATHEW M. BALDWIN
Company Director
Edmonton, Alberta

EDWARD A. GALVIN
President
Poco Petroleums Ltd.
Calgary, Alberta

M. EARL LOMAS, Q.C.
Partner, Macleod Dixon
Barristers and Solicitors
Calgary, Alberta

PETER L. P. MACDONNELL, Q.C.
Partner, Milner & Steer
Barristers and Solicitors
Edmonton, Alberta

JOHN E. MAYBIN
Chairman of the Board
Canadian Utilities Limited
Toronto, Ontario

STANLEY A. MILNER
President
Chieftain Development Co. Ltd.
Edmonton, Alberta

DAVID E. MITCHELL
President & Chief Executive Officer
Alberta Energy Company Ltd.
Calgary, Alberta

RAYMOND J. NELSON
President
Nelson Lumber Company Ltd.
Lloydminster, Alberta

GORDON H. SISSONS
President
I-XL Industries Ltd.
Medicine Hat, Alberta

J. HARRY TIMS
President & General Manager
McTavish McKay & Co. Limited
Calgary, Alberta

OFFICERS AND SENIOR PERSONNEL

DAVID E. MITCHELL
President and
Chief Executive Officer

NICHOLAS J. LASHUK
Executive Vice-President

JACK G. ARMSTRONG
Senior Vice-President, Finance

KENNETH R. KING
Senior Vice-President

FLOYD D. AARING
Vice-President

ROGER D. DUNN
Vice-President, AEC Coal

GWYN MORGAN
Vice-President, Gas and Oil

FRANK W. PROTO
Vice-President

WAYNE G. HOLT
General Counsel

EDWARD J. MARTIN
Comptroller

ARLENE J. MOORE
Corporate Secretary

JOHN D. WATSON
Treasurer

EDWARD R. ALEXANDER — Manager, Business Development
JOHN F. BOESSENKOOL — Manager, Accounting
DEREK S. BWINT — Director, Financial Evaluations
JACK E. ELLEFSON — Manager, Alberta Oil Sands Pipeline Ltd.
KEITH O. FOWLER — Director of Corporate Taxation
RAYMOND J. GESSLER — Manager, Computer Services
BARRY D. GILCHRIST — Manager, Legal Services
HECTOR J. McFADYEN — Manager, Economics
ROBERT A. TOWLER — Manager, Petrochemicals
WALTER C. YEATES — Manager, Treasury






CORPORATE INFORMATION

Head Office	Calgary Office
#1200	#2400
10707 - 100 Avenue	639 - Fifth Avenue S.W.
Edmonton, Alberta	Calgary, Alberta
T5J 3M1	T2P 0M9

REGISTRAR

National Trust Company, Limited
Edmonton, Alberta

TRANSFER AGENTS

National Trust Company, Limited
Edmonton, Calgary, Vancouver, Winnipeg, Toronto, Montreal; and its agent,
Canada Permanent Trust Company in Regina

STOCK EXCHANGE LISTINGS

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

AUDITORS

Price Waterhouse & Co.
Chartered Accountants
Edmonton, Alberta

WHOLLY-OWNED SUBSIDIARIES

Alberta Oil Sands Pipeline Ltd.
AEC Heavy Oil Ltd.
Alberta Industrial Gas Suppliers, Ltd.
AEC Coal Company Ltd.
Willowglen Company Limited

AFFILIATES

AEC Power Ltd. — 66⅔%
Pan-Alberta Gas Ltd. — 50%
Steel Alberta Ltd. — 50%

JOINT VENTURES

Syncrude Project — 10%
Coal Valley Project — 25%
Whitecourt Forestry Complex — 40%
Ethane Gathering System — 33⅓%

ANNUAL MEETING

The annual general meeting of shareholders of Alberta Energy Company Ltd. will be held in the Conference Room of the Alberta Energy Company office, 10 - 20th Street S.E. in Redcliff, Alberta at 3:00 p.m. local time on Wednesday, April 9, 1980.

Copies of the Company's 1979 Annual Report may be obtained by contacting the office of the Secretary of the Company at Alberta Energy Company Ltd. #2400, 639 Fifth Avenue S.W., Calgary, Alberta T2P 0M9

Alberta Energy Company Ltd.

FIFTH ANNUAL REPORT 1979

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