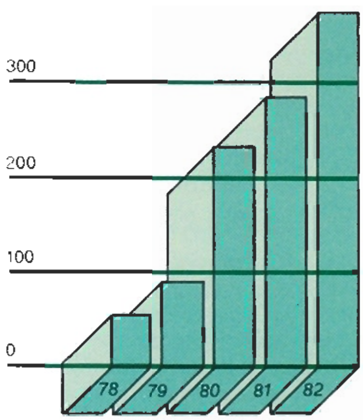
Alberta Energy Company Ltd.

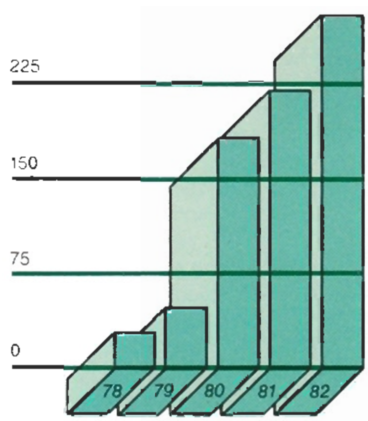
Annual Report 1982

Front Cover:
An exploratory well in the
Alberta foothills.

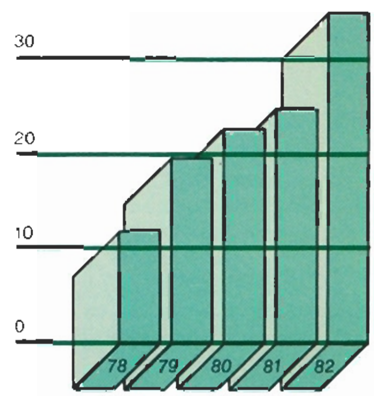
Highlights



Total Revenue
Net of Royalties (in $ millions)



Gas and Oil Revenues
Net of Royalties (in $ millions)



Pipeline Revenue
(in $ millions)

- Cash flow from operations for the year increased to **$131.0** million (**$2.67** per common share) from $90.6 million ($1.99 per common share) in 1981.
- 1982 net earnings after an extraordinary item were **$54.6** million (**$1.03** per common share), up from $29.7 million ($0.65 per common share) in 1981.
- Total assets increased to **$1.54** billion in 1982, up from $1.04 billion in 1981.
- The Company raised **$155** million in equity capital. $70 million came from preferred share issues and $85 million from a common share sale.
- **$69** million was received from take-or-pay obligations for gas sales.
- **$24** million was received from an oil sands development agreement.
- An offer to purchase seven million common shares of Chieftain Development Co. Ltd. was successfully completed.
- The Suffield gas development program was more than doubled, with a record **504** gas wells being drilled by AEC during 1982.
- The $65 million Cold Lake Bitumen Blend Pipeline System started up in May and has operated at capacity since that time.
- Site work has begun on a heavy oil pilot project on the Primrose Range.
- Alberta Oil Sands Pipeline transported Syncrude's 100 millionth barrel of synthetic crude oil.

Industry Comment

Overview

Worldwide, 1982 was not a good year, and the Canadian situation was no exception. There was some good news along with the bad, but during the past year many individuals and corporations have had to reduce their expectations. The most serious effects were on people who lost their livelihood and on both individuals and corporations whose debt load exceeded their ability to pay.

It is not easy to breed optimism during this period of financial restructuring. While not intending to gloss over real, continuing problems, it is useful to note that there are positive signals indicating a gradual return to better times. Prime interest rates were 16½ percent at the start of 1982, 12½ percent at the end of the year, and 11½ percent as this report goes to press. Inflation went from 11.4 percent to 9.3 percent and is currently 8.3 percent. Economic growth, which actually was negative in 1982, is expected to become positive in 1983. These and other economic indicators imply we are coming off bottom, albeit slowly.

Gas and Conventional Oil

In the Canadian oil and gas business, attitudes were gradually improving toward the end of 1982. The demise of some government incentive programs will be noticed; however, the most significant negative factors at the moment are uncertainties about international oil prices and markets for Canadian gas.

The oil price scenario is sufficiently fluid that a remark one day is quite apt to be out of date by the next, so it is best to comment only on a few fundamentals. Lower prices by OPEC will not sell any appreciable, additional amount of oil, but will only serve to reduce revenues for the OPEC group. The adverse effect of lower crude prices on poor oil-exporting nations is quite evident, while most oil-importing countries benefit; less obvious is that Canada may find lower prices a mixed blessing, and not only because of the effect on tax revenues. Lower and less certain international prices deter even more those who might consider investing in high-cost, unconventional oil production, such as Canada's oil sands, and throw doubt on the profitability of high-cost frontier oil.

Oil Sands Development

Canada should try to offset the risk of insecure foreign oil supplies and lessen the drain on its currency that results from foreign oil purchases. Surely there should be serious consideration of encouragement to further develop the oil sands at Syncrude and Cold Lake, which are known to exist and to be producible. Royalty reductions and tax considerations help, but it is the enormous downside risk, if crude prices plunge, that requires special attention.

Perhaps one answer, to foster these job-creating, energy-security investments, would be a maximum and minimum return on investment with enough return on the upside to encourage real efficiencies. Or, if that quasi-utility approach is unattractive, there could, instead, be a guaranteed crude price during payout of investment.

Syncrude, incidentally, produced about 7 percent of Canada's domestic oil in 1982; and Syncrude's payments to governments for PGRT and royalties are estimated to be about $450 million in 1983. In addition, this oil sands plant creates jobs and saves billions of dollars of foreign oil purchases.

Sale of Gas to the United States

Substantive growth in Canada's gas sales is dependent upon exports to the United States, where the reserve-life index is now less than 9 years. Currently, Canadian gas is being blamed for higher consumer prices in the United States when, in fact, our gas accounts for less than 5 percent of U.S. consumption. This focus on Canadian prices is largely a convenient political inspiration, since U.S. wellhead gas prices have increased about 23 percent in the past year and intra-U.S. transportation charges are also climbing.

Having noted the cause, however, it is only fair to observe that gas prices in the United States are tending to overshoot those of competing fuels, particularly residual fuel oil in some areas, as oil prices soften. Also, a standard Canadian border price lacks adequate flexibility for several different marketing areas that are thousands of miles apart.

The Year Ahead

Canada is heading into an interesting, unpredictable year with public attention unfortunately, but somewhat inevitably, tending to be on the negative aspects. A reduction of the United States government deficit could at any time cause fairly rapid economic improvement, but more likely there will be a gradual, upward trend instead of the instant relief that everyone would like. There still are companies and individuals whose financial difficulties have to be worked through the financial system.

The pessimists will not be disappointed since there certainly is no possibility of running out of problems. But the economy does seem to be gradually headed upward, and there will be opportunities available.

Report to Shareholders

Financial

The Company received very substantial cash inflow during 1982. Cash flow from operations increased 45 percent to $131 million; preferred share issues totalled $70 million; an oil sands transaction yielded $24 million; special gas take-or-pay obligations totalled $69 million; and there was an $85 million common share issue.

At year-end, the Company's average interest rate on long-term debt was 9.9 percent. The Company is in a good financial position, with strong and growing cash flow.

1982 revenues, net of royalties, reached a record of $374 million.

Payments to the federal government for the Petroleum and Gas Revenue Tax, initiated in 1981, nearly doubled to $29.5 million in 1982. This tax, on net production proceeds, has a particularly severe impact on net earnings.

Net earnings before extraordinary items were $33.6 million, as compared to $42.4 million in 1981. Net earnings after extraordinary items increased 84 percent, from $29.7 million to $54.6 million.

Common Share Issue

$85 million was subscribed in AEC's second common share issue since the Company became active in 1975. This was one of the biggest common share issues in recent times for a corporation that did not have a parent company subscribing for a large portion of its shares. As a result of the issue, AEC has more than 55,000 shareholders, and ownership by the general public has been increased to 56 percent. More than one-half of AEC's shareholders own 100 shares or less.

Purchase of Chieftain Shares

Another significant event was the purchase of additional shares of Chieftain Development Co. Ltd., increasing AEC's interest to 57 percent. Chieftain is a well-managed, financially strong, successful oil and gas exploration company. It has good exploratory acreage and growing cash flow. At the time of acquisition of Chieftain shares, Chieftain had working capital of $45 million. In 1982, Chieftain's cash flow increased 33 percent to $40 million.

Chieftain, like AEC, decided several years ago to contract for sale of its gas and not hold back in expectation of better terms later. Today, such gas sale contracts are a very welcome asset.

The Chieftain investment was completed in July, and AEC's consolidated financial accounts reflect the effect from August onward.

The following report, on AEC Operations, discusses AEC results exclusive of Chieftain.

AEC Operations

Gas production increased to an average rate of 5.1 million cubic metres (182 million cubic feet) per day, up 14 percent, and gas revenue further increased due to lower royalties. The Company's development drilling program was more than doubled in response to royalty reductions and other incentives.

During 1982, AEC established a top-flight team of oil and gas explorationists which is currently concentrating its efforts on the Western Canadian Sedimentary Basin. Some encouragement has already occurred from this exploration program. In 1982, AEC participated in the drilling of 29 exploratory wells, of which 9 would be classed as successful using customary industry reporting procedures. Three of the nine wells are marginal, and six are located in areas where follow-up exploration is warranted. One of the six already appears to be a profitable discovery.

Syncrude produced at its highest rate to date, AEC's 10 percent share being 1 364 cubic metres (8,580 barrels) per day. Plans are under way for a $180 million expansion to Syncrude, to increase project capacity by 1 600 cubic metres (10,000 barrels) per day by 1986.

It was not a good year for forest products, as economic conditions kept sales low and prices at unprofitable levels. The Blue Ridge mill sold a total of 90.2 million board feet of lumber and operated at a loss. Improvement is expected in 1983.

Coal production totalled 672 thousand tonnes (740 thousand tons), a 2 percent decrease from 1981. About 57 percent of the Company's coal production is sold under take-or-pay contracts, and sale of the balance varies with market conditions.

Petrochemical investments continue to be of interest to the Company. There are recent signs of somewhat greater interest on the part of the experienced partners that AEC feels it should have in order to invest significant capital in this business.

Approximately one-third of the Primrose Block has been explored to date, and enormous quantities of heavy oil sands deposits have been found. AEC owns approximately 2.3 billion cubic metres (14 billion barrels) of heavy oil in place in this Block. During 1982, site work commenced on a pilot program to evaluate the commercial potential of the heavy oil deposits in the Ipiatik East portion of the Primrose Block.

AEC has $166 million invested in pipelines. The pipeline division, which operates two wholly-owned lines and has a one-third interest in another, generated about $23 million of operating income.

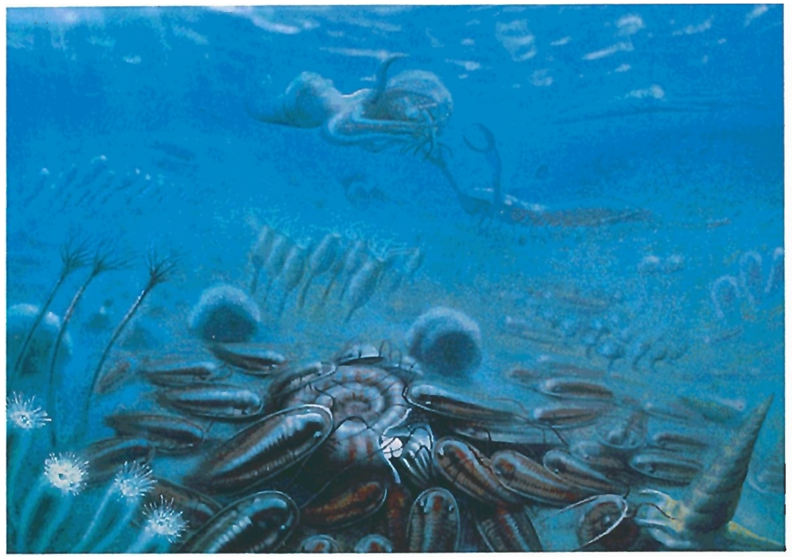
In 1982, AEC invested $286 million, and decreased its net debt by $25 million.

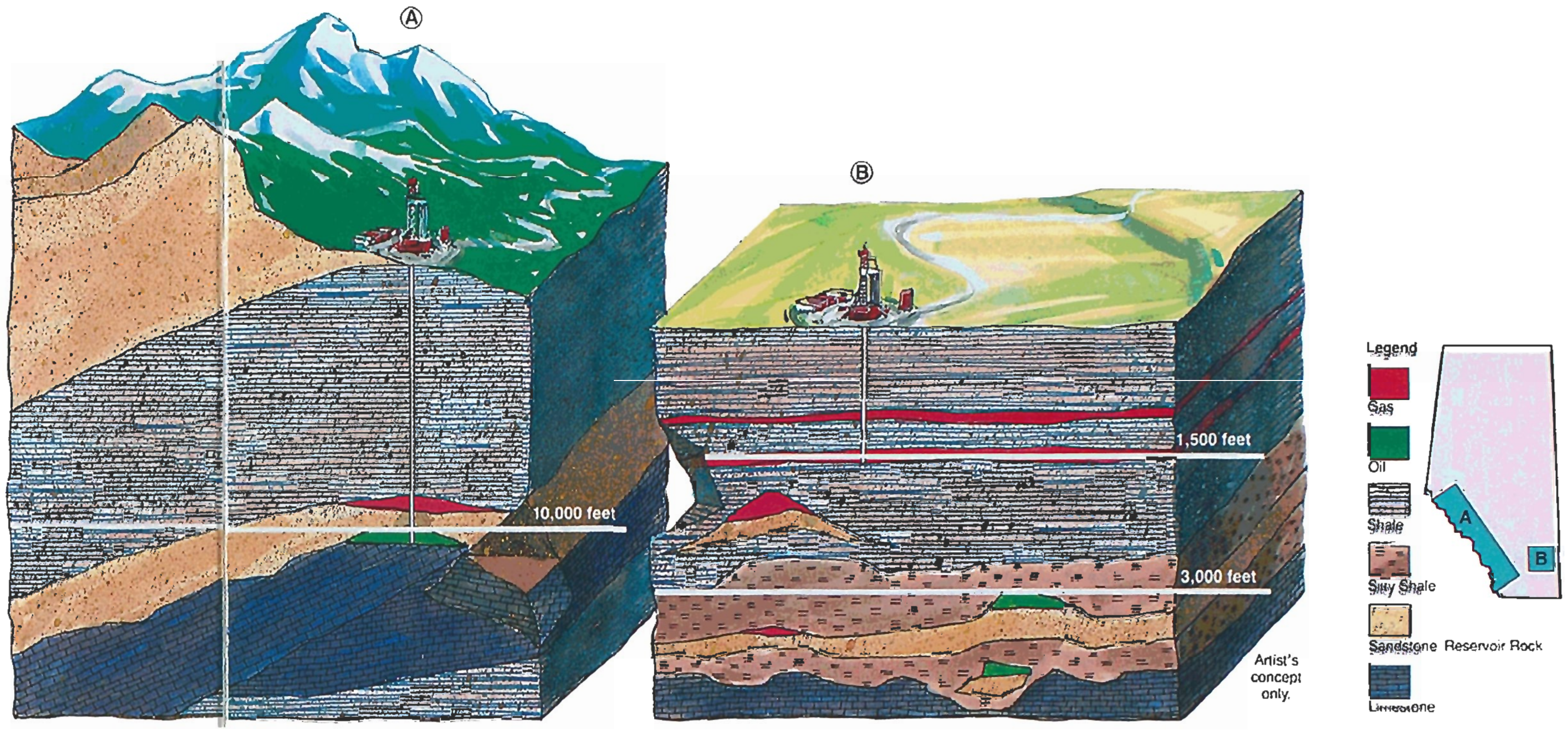
Outlook

Alberta Energy Company anticipates higher cash flow and net income in 1983.

David E. Mitchell
President and Chief Executive Officer

Millions of years ago the world's oceans were filled with various simple plant and animal organisms like the trilobite. As these organisms died, they drifted to the ocean floor to become buried in layers of silt, mud, and sand. Over time, these sediments were compressed and eventually formed sedimentary rock. With time the accumulated organic matter was buried deeper and deeper beneath the layers. Through bacterial action, heat and pressure, natural gas and oil were formed from the remains of the sea creatures.





Gas and Oil

AEC participates in the exploration, development and production of conventional oil and gas, and in the development of heavy oil. The Company's two principal properties are the Suffield and Primrose military ranges, but exploratory activities in other parts of the Western Canadian Sedimentary Basin grew substantially over the year. During 1982, oil and gas operations continued to be the Company's major source of revenue.

Exploration

Exploration efforts continue to gain momentum. Acreage acquisitions presently are concentrated on the Alberta portion of the Western Canadian Sedimentary Basin. The Company's exploration team has grown from 4 to 22 employees during the year. Exploration investment during 1982 was approximately $34 million, with an increase planned for 1983.

Since September 1981, AEC and a major Canadian resource company have jointly engaged in a $133 million exploration program. AEC will contribute $100 million, before $40 million of incentives and grants, during the multi-year program to earn a 30 percent interest in 364 500 net hectares (0.9 million net acres) of land in Alberta and British Columbia.

At year-end, 29 exploratory wells had been drilled of which 5 were completed as potential oil wells and 4 as potential gas wells. Further evaluation of some of these 9 wells is needed to establish their commercial potential, but results to date have been encouraging. The level of exploratory drilling is expected to increase in 1983.

During July 1982, AEC purchased 7 million common shares of Chieftain Development Co. Ltd. This increased the Company's investment in Chieftain to approximately 57 percent.

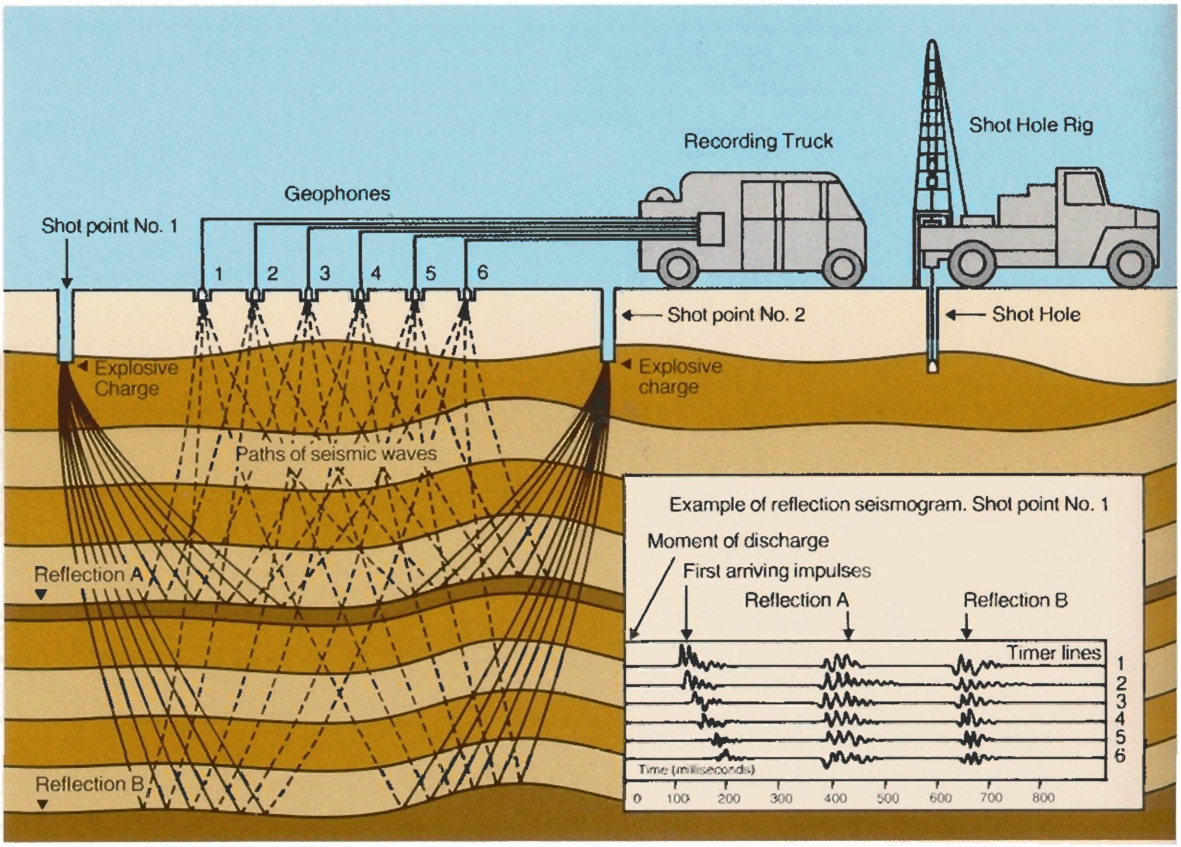
Chieftain is engaged principally in the exploration for and development and production of natural gas and oil in Canada and internationally; in the acquisition of petroleum and natural gas lands; and in the contract drilling business. Chieftain's proven and probable reserves of natural gas are 19.1 billion cubic metres (677 billion cubic feet); proven and probable reserves of oil are 791 thousand cubic metres (5 million barrels).

During 1982, Chieftain participated in 82 wells, resulting in 42 successful or cased for evaluation and 9 wells drilling at year-end. Natural gas production during the year averaged 865 thousand cubic metres (30.7 million cubic feet) per day, as compared to 439 thousand cubic metres (15.6 million cubic feet) per day in 1981. Approximately 84 percent of Chieftain's proven gas reserves in Alberta are committed to sale under gas purchase contracts.

After the oil and natural gas formed, movements of the earth's crust compressed and buckled the layers. An upward arching of the rock strata is called an anticline. Oil and gas can collect in the porous rock beneath arched non-porous rock.

Illustrated above are the various strata encountered in drilling Ⓐ one of AEC's deep exploratory wells in the Alberta foothills and; Ⓑ an AEC shallow natural gas development well at Suffield.

Geophysics is one of the many sciences which provides helpful data for explorationists. Seismic surveys indicate characteristics and trends of rock formations beneath the earth's surface, which are used in conjunction with existing well information.

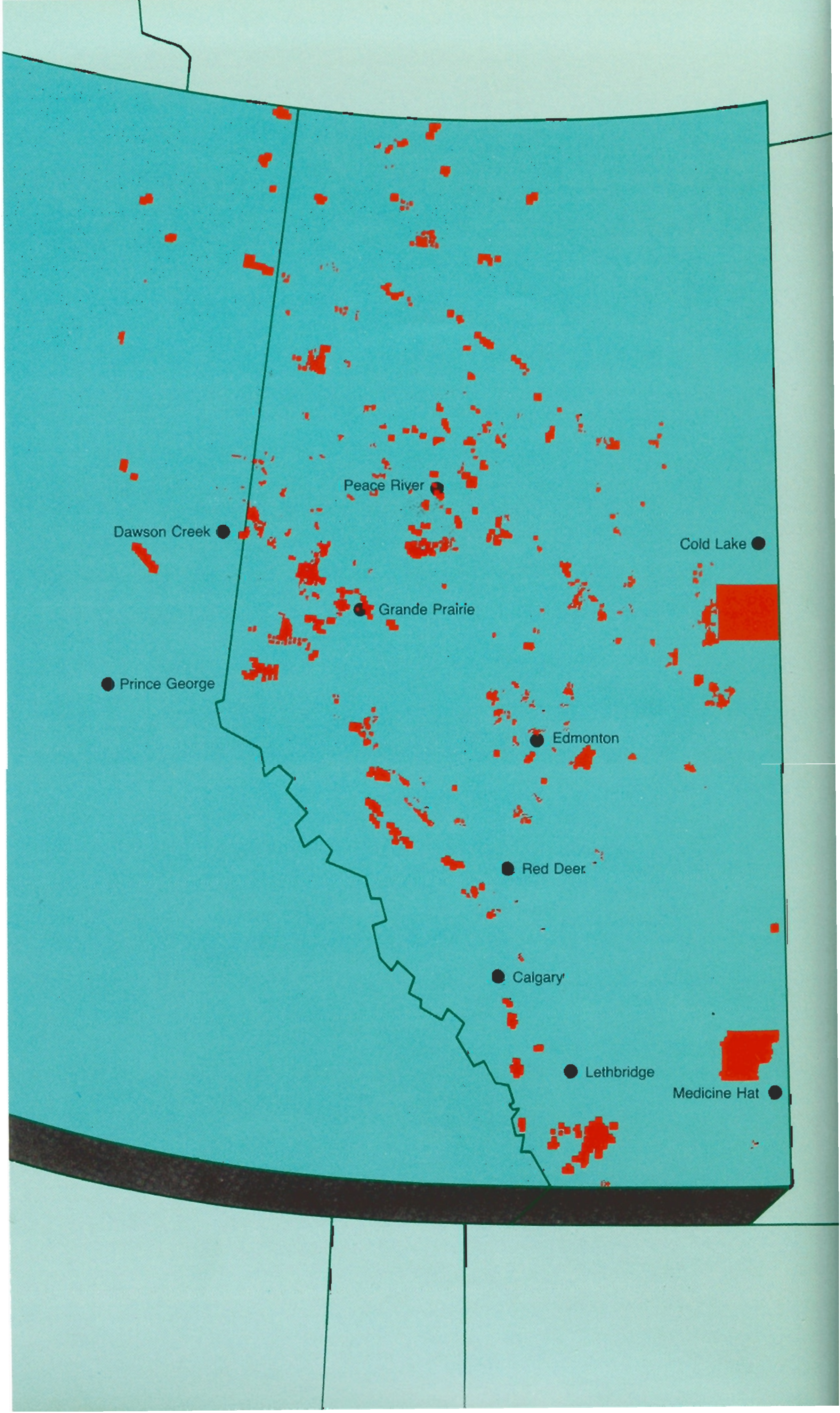


Seismic shock waves created by an explosion at shot points are reflected by the subsurface formations. This causes vibrations on the geophones, which are recorded in the truck.

A different method of survey uses three trucks with synchronized vibrations to create the seismic waves.

Land Holdings

AEC holds rights directly or indirectly in 2.2 million gross hectares (5.5 million gross acres) and 1.1 million net hectares (2.8 million net acres) in Alberta and British Columbia.

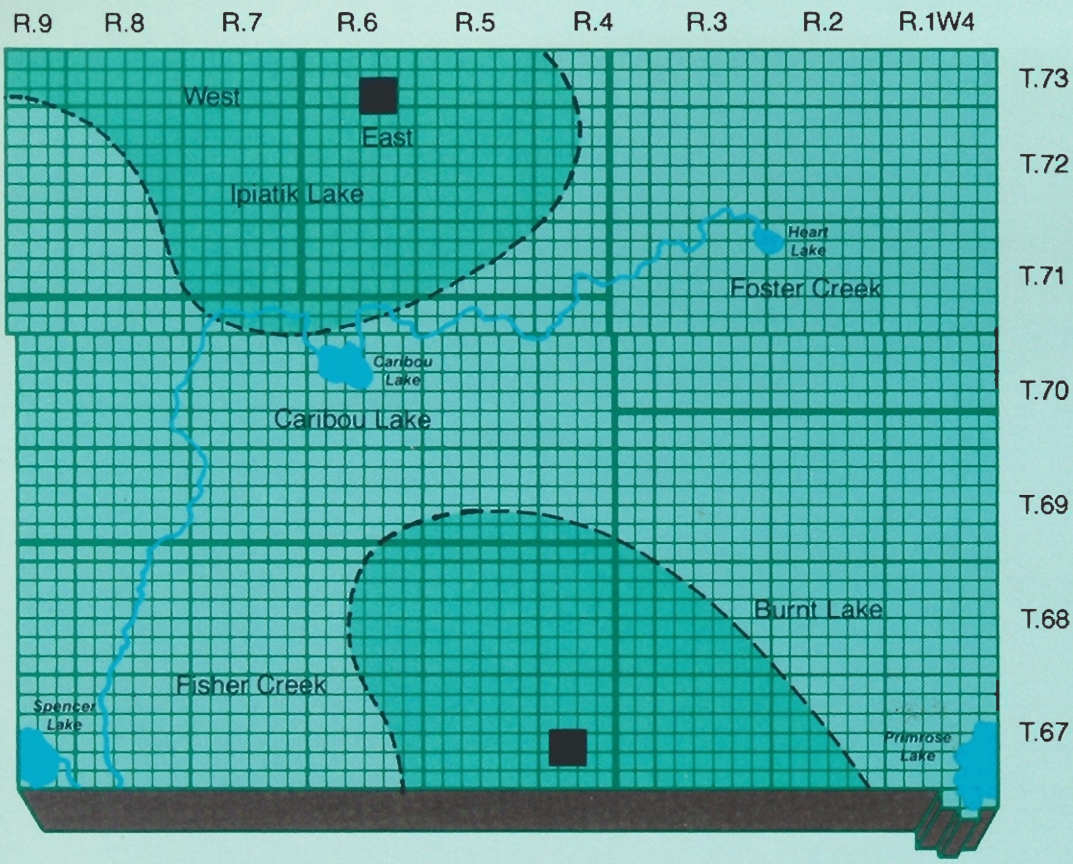


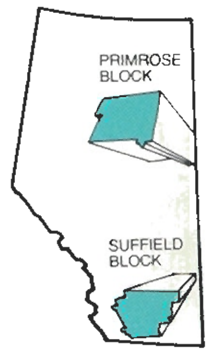
Primrose Block

Exploration programs on the Primrose Block have discovered to date 2.3 billion cubic metres (14 billion barrels) of heavy oil in place net to AEC.

Legend

- Heavy Oil Pilot Projects
- Approximate Heavy Oil Sands Delineated to Date
- Represents 1 Square Mile



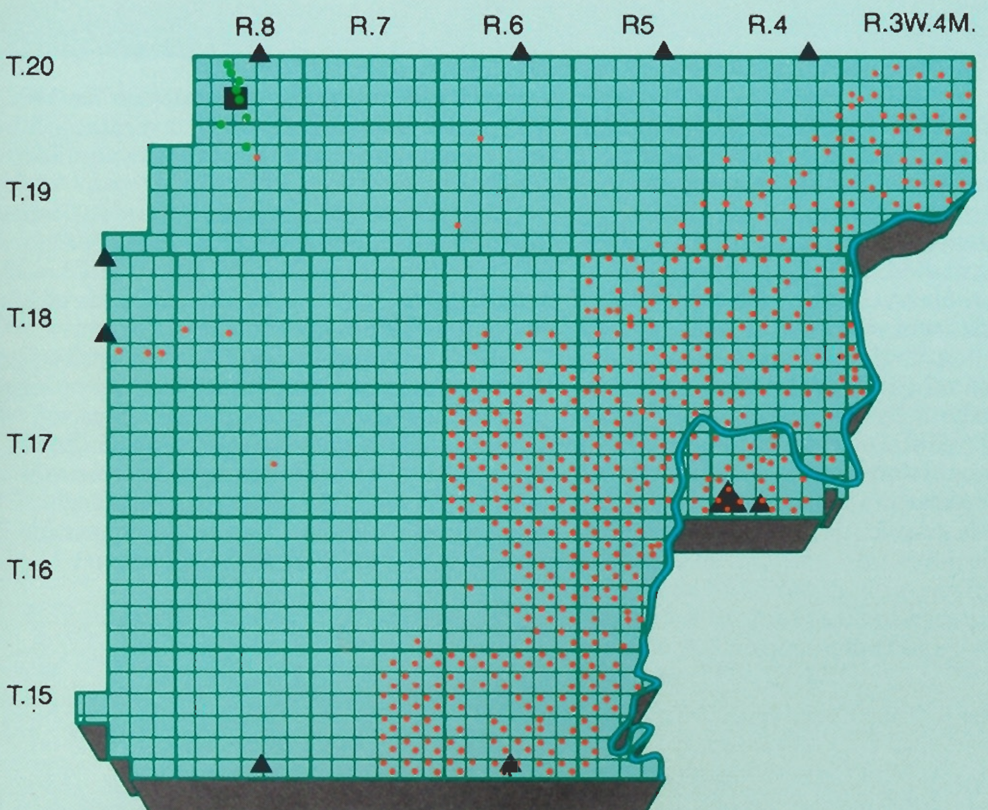


Suffield Block

AEC has drilled 2,331 natural gas wells to date at Suffield. In 1982 natural gas production averaged 5.1 million cubic metres (182 million cubic feet) per day.

Legend

- Gas Wells Drilled in 1982
- Oil Wells Drilled in 1982
- Compressor Stations
- Represents 1 Square Mile
- Heavy Oil Pilot Project



The geologist studies core samples of rocks from potential oil-and-gas bearing reservoirs. This sample dramatically illustrates the high porosity similar to those oil-bearing formations for which AEC's exploration team is searching.

Laboratory examination and tests of the core samples reveal specific detailed information about the reservoir rock and the petroleum or natural gas it contains. These samples are from an exploratory well in which AEC participated during 1982.

Suffield

During the last half of the year, AEC more than doubled its originally-planned 1982 Suffield natural gas development drilling program in response to royalty reductions and other incentives. A total of 515 successful oil and gas wells were drilled at Suffield during the year, 504 gas wells by AEC and 3 gas and 8 oil wells by AEC and partners. A major gas compression plant was constructed, and 203 kilometres (126 miles) of gas gathering pipelines were laid. By the end of 1982 approximately 1,900 wells were integrated into the gas production system that included over 2 500 kilometres (1,560 miles) of gathering pipelines and 10 gas compression plants.

Suffield natural gas production for 1982 was up 14 percent from 1981, averaging 5.1 million cubic metres (182 million cubic feet) per day.

AEC's Suffield gas reserves are estimated by an independent consultant to be 40.2 billion cubic metres (1,425 billion cubic feet) with a producing reserve life in excess of 20 years at 1982 production rates.

AEC holds gas sales contracts with three purchasers covering all of the Suffield gas reserves. During 1982, AEC exercised its rights under one of these agreements to significantly increase its gas sales contract volume. As well, the Company received approximately $65 million in payments for purchase shortfalls under this contract.

In addition to natural gas, substantial quantities of heavy oil have been discovered and delineated on the 249 000 hectare (615,000 acre) Suffield Block. Heavy oil in place is estimated to be 48 million cubic metres (303 million barrels) net to AEC. The Suffield Heavy Oil Pilot Project, a pilot program being conducted jointly with three other organizations, is evaluating the fireflooding method of heavy oil recovery to supplement the amount of oil recoverable by conventional techniques. Fireflooding began in March 1982, and results will be monitored over the next several years to evaluate the effectiveness and viability of this technique.

Primrose

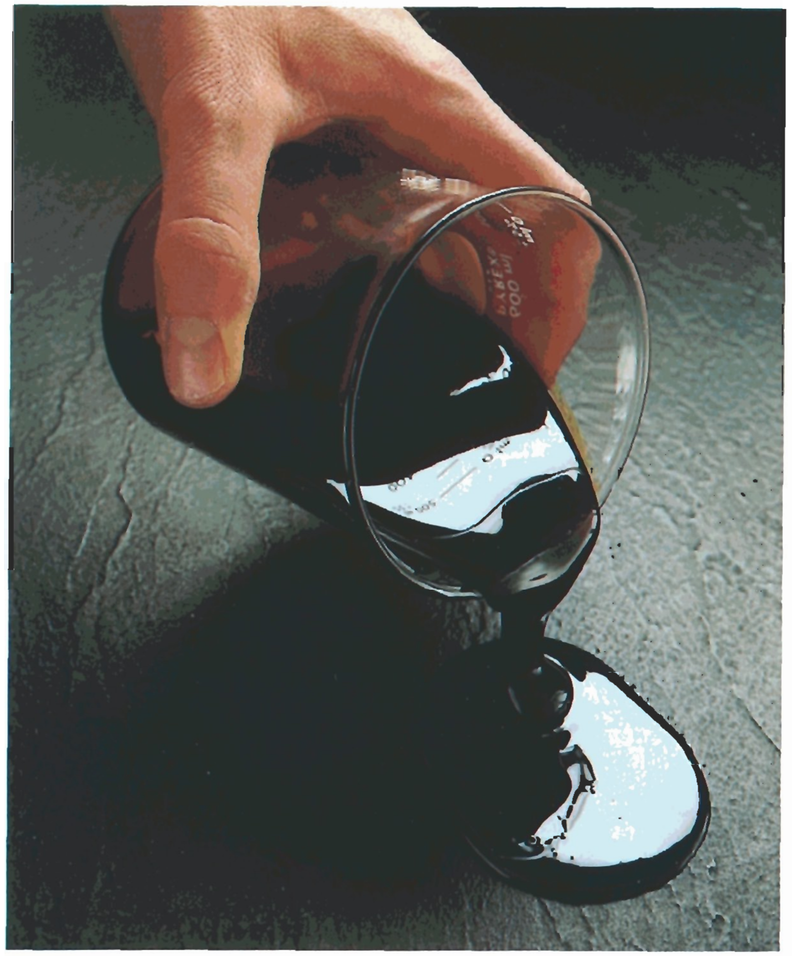
Exploration programs on the 525 000 hectare (1.3 million acre) Primrose Block have identified major deposits of heavy oil sands.

For exploration and development purposes, the northwest portion of the Block — the Ipiatik Lake region — was divided into two equal areas of 51 800 hectares (128 thousand acres) known as Ipiatik Lake West and Ipiatik Lake East. Ipiatik East is estimated to contain 2.0 billion cubic metres (13 billion barrels) of heavy oil in place. Total heavy oil discovered to date on the entire Primrose Block is estimated to be 5.0 billion cubic metres (32 billion barrels), of which AEC owns 2.3 billion cubic metres (14 billion barrels). In addition, the Primrose drilling programs have resulted in gas discoveries estimated by independent consultants to contain 2.7 billion cubic metres (95 billion cubic feet) net to AEC.

Oil and gas wells are generally one of two types. An exploration well or "wildcat" is drilled mainly to determine whether or not oil or gas exists in subsurface formations.

A development well is one that is drilled after an exploration well has confirmed the presence of hydrocarbons. On the Suffield Block approximately 1,900 development wells now have been integrated into a system to efficiently produce the large quantities of natural gas that exist in the reservoirs. Connection of additional wells is under way.

For heavy oil sands deposits such as those on the Primrose Block, recovery must be by "in-situ" techniques. These techniques heat the underground oil sands, making the bitumen fluid enough to be pumped to the surface for further processing.



Site work on a pilot program to assess the commercial potential of the Ipiatik East heavy oil sands deposits has commenced, and the first phase is expected to be operational by 1984. The investment in capital and operating costs over the five-year life of the pilot, which will evaluate the cyclic steam stimulation process, is anticipated to be about $40 million. Two other major oil companies are participating in the pilot, in which AEC has a 60 percent working interest. One of these oil companies made an initial cash payment to AEC of $24 million. It also committed another $24 million towards pilot activities in order to earn a 10 percent interest in the Ipiatik East oil sands deposits.

Syncrude

The Syncrude Project near Fort McMurray, Alberta produces synthetic crude oil by mining oil sands and extracting and upgrading bitumen. AEC owns 10 percent of this $2.3 billion operation. The Company also retains an average 7 percent overriding royalty on an additional 10 percent of Syncrude production.

The Company owns two-thirds of AEC Power Ltd., which owns the utilities plant that provides electrical energy and steam to the Syncrude Project.

Between January and June, a six-month Syncrude production record was set by shipping 2.4 million cubic metres (15.4 million barrels) of crude. This record was achieved despite the fact that production was adversely affected by temporary operating problems during the first quarter. A major utilities outage during August resulted in a further significant reduction in production.

1982 overall was a record year, as Syncrude shipped 5.0 million cubic metres (31.3 million barrels) of oil. This equates to average daily production of 13 638 cubic metres (85,821 barrels).

During the third quarter, the Syncrude owners approved a $180 million capital program to increase the existing capacity by approximately 1 600 cubic metres (10,000 barrels) per day by 1986. Design capacity currently is 17 320 cubic metres (109,000 barrels) per day.

A massive bucketwheel is utilized in the 24-hour-per-day Syncrude operation, where oil sands deposits are near enough to the surface to be mined.

Pipelines are the most economical means of moving oil and natural gas in large volumes non-stop 24 hours a day. With modern remote control, operators can monitor pumps, regulators and valves along an entire system. The Cold Lake Bitumen line is monitored from the Company's sophisticated remote control station near Edmonton.

Pipelines

Oil and natural gas are transported throughout the province by hundreds of kilometres of unseen, underground pipeline systems. Alberta Energy's pipelines division currently has investments in three major pipelines, which contribute significantly to the Company's total revenues.

Alberta Oil Sands Pipeline Ltd. (AOSPL)

AOSPL, a wholly-owned subsidiary of AEC, owns and operates the 430-kilometre (270-mile) pipeline which transports synthetic crude oil from Syncrude to Edmonton.

This pipeline is 56 centimetres (22 inches) in diameter and has a daily throughput capacity of 25 980 cubic metres (163,500 barrels). Capacity could be increased to 39 570 cubic metres (249,000 barrels) with the installation of additional pumping stations.

During the third quarter of 1982, the AOSPL pipeline transported the 100 millionth barrel of crude oil from Syncrude. Total throughput for 1982 was 5.0 million cubic metres (31.3 million barrels), a daily average of 13 638 cubic metres (85,821 barrels).

The Company has signed a letter of intent with a major oil refiner to construct a 12.9-kilometre (8-mile) pipeline lateral to the AOSPL line. This lateral would terminate at a synthetic crude oil refinery near Scotford, Alberta. If approved by the Energy Resources Conservation Board, the $5 million lateral is anticipated to start up in mid-1984.

Cold Lake Bitumen Pipeline

AEC owns 100 percent of the 235-kilometre (145-mile) dual-line bitumen blend pipeline system. The line transports diluent to Cold Lake, where it is blended with bitumen from an operational in-situ heavy oil sands recovery plant. The blend then is transported into Edmonton.

The $65 million system started up in May 1982 and has been operating at initial daily design capacity of 2 860 cubic metres (18,000 barrels) per day since that time.

The Company has signed a letter of intent with a major oil company regarding construction of a 26-kilometre (16-mile) lateral addition to the system. The lateral, which is subject to Energy Resources Conservation Board approval, will cost approximately $8 million, and will terminate at a heavy oil recovery plant near Fort Kent, Alberta.

Ethane Gathering System

Since 1977, AEC has had a one-third joint venture ownership in the $58 million, 885-kilometre (550-mile) Ethane Gathering System.

This pipeline collects ethane from five natural gas plants at Waterton, Empress, Cochrane and Edmonton and transports it to Alberta ethylene manufacturing plants. Ethane not used in Alberta is transported via the System to Fort Saskatchewan where it is stored in underground salt caverns prior to shipment out of province.

During 1982, average daily throughput of the pipeline system was 11 634 cubic metres (73,210 barrels), as compared to 12 738 cubic metres (80,163 barrels) in 1981.

A proposed $8 million expansion program, which would increase the gathering system's capacity by approximately 4 767 cubic metres (30,000 barrels) per day, currently is being considered by the owners of the Ethane Gathering System.

The Cold Lake Bitumen Blend Pipeline system transports a bitumen blend from an operational in-situ heavy oil sands plant near Cold Lake. The metering facilities are in the foreground, with the plant in the background.

Coal, like oil, is a fossil fuel. The vast forests and swamps that flourished millions of years ago decayed, settled and compacted over a period of time. The vegetation was subsequently flooded by the ancient oceans which laid down top layers of shale and sandstone. The increased heat and pressure of the overlying rocks eventually compressed the vegetation into deposits of coal.

The quality of the various coal deposits mined today is dependent upon the length of time over which the described metamorphosis occurred. At Coal Valley, the deposits are of a high-quality, relatively hard bituminous type of coal.

Other Activities

Coal

Coal is another energy source in which AEC has a significant investment. The Company owns a 25 percent joint venture interest in the Coal Valley Project located on 7 400 hectares (18,300 acres) near Edson, Alberta.

Operational since 1978, the plant's current capacity is approximately 2.7 million tonnes (3.0 million tons) of high-grade, thermal coal per year. This production is sold under contract to purchasers in Canada, Japan and Europe. The Canadian sales, which currently constitute approximately 57 percent of the total, are on a long-term, take-or-pay basis; export sales are dependent upon prevailing market conditions.

AEC's share of 1982 production was 671.8 thousand tonnes (740.6 thousand tons).

Total proven surface mineable reserves at Coal Valley are estimated to be 32 million clean tonnes (35 million clean tons). It is estimated there are an additional 31 million clean tonnes (34 million clean tons) of possible underground mineable reserves. During 1982, Coal Valley began testing the feasibility of mining some of its deposits by underground techniques.

The forests, unlike gas, oil and coal, are a renewable resource. Through responsible forest management and reforestation programs, the existence of this valuable resource can be ensured for the future.

The Blue Ridge Mill ships dimensional lumber and studs under the brand name "Ranger".

Forest Products

AEC owns 100 percent of Blue Ridge Lumber (1981) Ltd., which operates a forest products complex near Whitecourt, Alberta, as well as AEC's 566 000 hectares (1.4 million acres) of Alberta forestry rights. Due to the depressed lumber markets, work-sharing and cost reduction programs were implemented at the mill for part of 1982. On January 3, 1983, the mill resumed operating on a full two-shift, five-day work week. The plant shipped 90.2 million board feet of lumber during 1982.

AEC owns 18 percent of British Columbia Forest Products Limited (BCFP), a large Canadian integrated forest products firm. BCFP had net sales in 1982 of $799.2 million, and a net loss of $61.0 million.

High interest rates and inflation have adversely affected profitability in the forest products industry. The recent decline in interest rates and the improvement in U.S. housing starts and lumber prices are, however, positive developments. As economic recovery occurs, the Company is well-positioned to take advantage of renewed growth.

Steel Alberta Ltd.

This company, owned 50 percent by AEC, holds 20.2% of the shares of Interprovincial Steel and Pipe Corporation Ltd. IPSCO manufactures various steel products such as pipe, casing and structural tubing. IPSCO's net earnings in 1982 totalled $10.7 million.

The natural gas liquids extraction plant will process large volumes of natural gas to remove the liquifiable constituents (principally ethane, propane and butanes). These products will be used as feedstock for Alberta's petrochemical industry, with surplus volumes being exported to other markets.

Pan-Alberta

AEC owns one-half of Pan-Alberta Gas Ltd., which contracts for the purchase of natural gas from producers in Alberta and for the sale of gas to purchasers primarily outside of Alberta. During 1982, Pan-Alberta's natural gas sales totalled 4.4 billion cubic metres (155.5 billion cubic feet). Pan-Alberta is now the largest Canadian exporter of natural gas.

AEC also owns one-half of a Pan-Alberta affiliate which is making a major investment in a natural gas liquids extraction plant being constructed at Empress, Alberta. The facility, estimated to cost approximately $200 million, will be 50 percent owned by the Pan-Alberta affiliate. Startup of the facility is anticipated in mid-1984.

Petrochemicals

AEC and a major polyethylene producer are continuing negotiations regarding a $350 million linear polyethylene plant. Regulatory approvals for this plant have been obtained, and a plant site has been purchased near Redwater, Alberta. The Company would own at least a 50 percent joint venture interest in the plant.

AEC believes that the secure hydrocarbon resource base available in Alberta will enable the province's petrochemical industry to continue to develop. The Company, therefore, is interested in other petrochemical investments and is currently evaluating several prospects.

The Company's Information Centre assists employees in accessing data on various topics through means such as *on-line computer* searches.

Developing Human Resources

Alberta Energy Company's accomplishments since beginning active operations eight years ago in 1975 have been, in large measure, due to the Company's enthusiastic, hardworking and dedicated employees.

Today, the Company's staff has grown to approximately 400 people, situated in offices in Calgary, Edmonton and Redcliff, as well as at various field locations. Approximately fifty percent of the staff work in the field or on field-related activities. About one-half of the employees have less than two years of service with the Company, due to the rapid growth that occurred.

Employees have adapted well to the Company's growth and changes, drawing to a great extent on their own energies, talents and enthusiasm. The Company supplements these natural abilities with inhouse training opportunities, as well as to some extent the use of outside teaching resources.

AEC holds an ongoing series of orientation meetings (see photograph above) for all new employees. During these sessions, personnel are introduced to the Company's activities, corporate structure, benefits programs and policies through discussions, slide presentations and the corporate film. New employees are able to familiarize themselves with aspects of AEC's operations in which they are not directly involved, and to develop an appreciation of the overall direction of the Company.

Alberta Energy Company employees have always welcomed new and exciting challenges — such as those arising during the Company's second public common share offering in late 1982. Staff in all offices and departments contributed in their own special ways to the success of this sizeable undertaking.

AEC appreciates the dedication of its people and thanks them all for their personal contributions to the success of the Company.

Second Public Common Share Offering

Size of Issue

- $85 million
- 5,312,500 shares

Orders for Shares

- Total orders received 13,000
- Orders for 100 shares or less 60 percent of total

Net Effect of Issue

- Total common shareholders 56,894
- Common shares outstanding 50,800,755

1982 Financial Review

The year 1982 saw continued growth in the Company's revenues, to a new high of $374.1 million net of royalties. This growth in revenue, after deducting $63.2 million in royalties, represents an increase of 31 percent over 1981.

The most significant revenue increases occurred in the gas and oil segment. These increases resulted from higher natural gas production, higher price and a lower royalty rate, as well as increased production at Syncrude. Pipeline revenues continued to grow with the start-up in May 1982 of the Cold Lake Bitumen Pipeline. A deterioration in the contribution to earnings from affiliates, primarily British Columbia Forest Products Ltd. ("BCFP"), was experienced as a result of poor market conditions in forest products. Increases occurred in all other areas of the Company's operations.

Cash flow from operations grew to $131.0 million or $2.67 per common share from $90.6 million or $1.99 per common share, restated for 1981. In addition to the 1982 cash flow from operations, the Company received $68.9 million in respect of take-or-pay obligations, $24.0 million as extraordinary income, $67.7 million net from the issue of preferred shares and $79.7 million net from the issue of common shares. These other sources of cash represent $240.3 million of additional funds over those generated from operations.

Net earnings, after extraordinary items, were $54.6 million or $1.03 per common share compared to 1981 net earnings of $29.7 million or $0.65 per common share. The extraordinary income of $21.0 million results primarily from an agreement which granted another company the right to participate in the advancement of heavy oil production technology on a portion of the Company's Primrose Block.

Costs and expenses continued to grow with operating, general and administrative, depreciation, depletion and amortization expense categories all reflecting a higher level of activity as well as the impact of inflation. Net interest expense increased $15.6 million over 1981 due to higher average long-term debt, partially offset by a lower average effective interest rate.

The provision for income taxes at $22.1 million compares with $15.4 million for 1981.

The Petroleum and Gas Revenue Tax totalled $29.5 million, which is almost twice the 1981 total and results from a higher rate being applied on increased net production proceeds from both natural gas and synthetic crude oil. This increased expense is not deductible in computing income taxes and has a direct negative impact on net earnings.

During July, the Company completed the purchase of a 57 percent interest in the issued common shares of Chieftain Development Co. Ltd. ("Chieftain") at a cost of $183.7 million. The financial statements for the year 1982 include Chieftain results of operations from August 1, 1982. The investment in BCFP was accounted for using the equity method until early December 1982, at which time the cost method was adopted.

Additional investment in property, plant and equipment was $122.7 million compared to $132.6 million in 1981. The major 1982 expenditures were $42.3 million for the continuing development of the Suffield Block, $30.5 million for exploration and development of conventional gas and oil in Alberta and $24.2 million on the completion of the Cold Lake Bitumen Pipeline. The gas and oil related expenditures are net of $32.9 million in recoveries resulting from the various exploration, drilling, geophysical and well service incentive programs established by the Province of Alberta.

In 1982, the Company paid $9.1 million in common share dividends ($0.20 per common share) and $6.9 million in preferred share dividends.

Working capital at December 31, 1982, was $62.5 million and when combined with the availability of existing unutilized revolving credit facilities and growing cash flow places the Company in a strong financial position.

Alberta Energy Company Ltd.

Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Alberta Energy Company Ltd. (the "Company") and its subsidiary companies.

The Company's proportionate share of revenues, expenses, assets and liabilities in unincorporated joint ventures are consolidated in the Company's accounts.

A listing of subsidiaries, affiliates and unincorporated joint ventures is shown on the inside back cover.

Investments

The Company has adopted the equity method of accounting for investments in those companies for which significant influence is deemed to exist. For other companies the cost method is employed. Details are shown in Note 6.

Property, Plant and Equipment

Gas and oil

Conventional

The Company employs the full cost method of accounting for oil and gas properties whereby all costs of acquisition, exploration and development of oil and gas reserves are capitalized. Separate cost centres have been established for Western Canada, Canadian Frontier Lands, and each foreign country in which the Company or its subsidiaries have properties. Costs accumulated within each cost centre are amortized on a composite unit-of-production method based upon estimated proven developed reserves. In those cost centres which have no proven developed reserves and where accumulated costs exceed the present value of the properties, such excess costs are amortized on a 20% declining balance method. In the event of the abandonment of a cost centre, the unamortized costs will be charged against earnings at the time of abandonment.

Oil sands

Property, plant and equipment, including preproduction costs, associated with the Syncrude Project are accumulated in a separate cost centre and amortized using the unit-of-production method based on estimated recoverable reserves. Anticipated major maintenance expenditures of an ongoing nature are provided for on the unit-of-production basis.

Pipelines

Property, plant and equipment is carried at cost with depreciation calculated using the straight-line method based on the estimated service life of the asset.

Other

Property, plant and equipment is carried at cost and is depreciated or amortized over the useful life of the assets using either the straight-line method or unit-of-production method, whichever is deemed appropriate.

Other Assets and Deferred Charges

Deferred stripping costs

Costs of stripping related to producing areas of the coal mine are amortized on the basis of estimated production.

Project investigation costs

All project investigation costs on new business opportunities are charged to earnings as incurred until such time as the commercial viability of the project or business is indicated. All subsequent expenditures will be capitalized and charged against earnings using the method deemed appropriate for that particular business or project.

Mineral exploration and development

Acquisition costs of undeveloped mineral resource properties are capitalized and amortized over the exploration period or until sufficient reserves are established, at which time the unamortized costs will be charged against earnings using the unit-of-production method.

Mineral exploration expenditures are charged to earnings as incurred until such time as the presence of economically recoverable reserves are established. Subsequent expenditures are capitalized on a project basis and amortized using the unit-of-production method once commercial production commences.

Financing costs

Financing costs relating to long-term debt are amortized over the life of the related debt.

Foreign Currency Translation

Long-term debt payable in foreign currencies is stated at the rate of exchange prevailing at the end of the accounting period with the resulting adjustment being amortized over the remaining life of the debt.

The accounts of foreign subsidiaries, whose economic activities are substantially self-sustaining, are translated at current exchange rates. The adjustments arising on translation of the foreign subsidiaries' balance sheets are deferred and included as a separate component of shareholders' equity.

Prior to August, 1982, the Company followed the current / non-current method of accounting for foreign exchange on long-term debt. The effect of this change on the reported earnings of prior years is not material.

Comparative Figures

Certain 1981 figures have been reclassified and restated for comparative purposes.

Alberta Energy Company Ltd.

Consolidated Statement of Earnings

($ millions)

	Note Reference	Year Ended December 31 1982	1981
Revenues, Net of Royalties		$374.1	$285.1
Equity in Losses of Affiliates		(18.7)	(.8)
		355.4	284.3
Costs and Expenses			
Operating		146.4	126.1
Interest — net	2(a)	60.7	45.1
General and administrative		14.9	10.9
Depreciation, depletion and amortization		45.4	28.8
		267.4	210.9
Earnings before Income and Revenue Taxes and Minority Interest		88.0	73.4
Income taxes	3	22.1	15.4
Petroleum and gas revenue tax		29.5	15.6
		51.6	31.0
Earnings before Minority Interest		36.4	42.4
Minority Interest		2.8	—
Net Earnings before Extraordinary Items		33.6	42.4
Extraordinary Income (Expense), after Income Taxes	4	21.0	(12.7)
Net Earnings		$ 54.6	$ 29.7
Basic and Fully Diluted Earnings per Common Share			
Before extraordinary items		$ 0.57	$ 0.93
After extraordinary items		$ 1.03	$ 0.65

Consolidated Statement of Retained Earnings

($ millions)

	Year Ended December 31 1982	1981
Balance — Beginning of Year	$140.0	$119.4
Net Earnings	54.6	29.7
	194.6	149.1
Dividends — Preferred Shares	6.9	—
— Common Shares	9.1	9.1
Financing Costs —		
Preferred shares, net of income tax	1.3	—
Balance — End of Year	$177.3	$140.0

The summary of accounting policies and notes to the financial statements are part of this statement.

Alberta Energy Company Ltd.

Consolidated Balance Sheet

($ millions)

ASSETS

	Note Reference	December 31 1982	1981
Current Assets			
Cash and short-term investments at cost which approximates market		$ 87.3	$ 32.0
Accounts receivable and accrued revenue		87.8	34.9
Inventories	5	19.0	16.0
Prepaid expenses		1.5	3.7
		195.6	86.6
Investments	6	225.8	247.3
Property, Plant and Equipment	7, 8	1,108.2	694.0
Other Assets and Deferred Charges	9	9.3	9.0
		$1,538.9	$1,036.9

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note Reference	1982	1981
Current Liabilities			
Bank indebtedness		$ 20.8	$ —
Accounts payable and accrued liabilities		81.4	68.8
Dividends payable		.4	—
Income and revenue taxes payable		20.3	10.3
Current portion of long-term debt		10.2	6.0
		133.1	85.1
Deferred Revenue	10	89.3	18.7
Long-Term Debt	11	564.0	518.1
Deferred Liabilities	12	45.9	45.9
Deferred Income Taxes		148.2	79.4
Interests of Minority Shareholders	13	79.0	—
		1,059.5	747.2
Shareholders' Equity			
Share capital	14	302.3	149.7
Retained earnings		177.3	140.0
Unrealized foreign exchange loss		(.2)	—
		479.4	289.7
		$1,538.9	$1,036.9

Approved by the Board:

Director

Director

The summary of accounting policies and notes to the financial statements are part of this statement.

Alberta Energy Company Ltd.

Consolidated Statement of Changes in Financial Position

($ millions)

	Note Reference	Year Ended December 31 1982	1981*
Source of Funds			
Net earnings before extraordinary items		$ 33.6	$ 42.4
Depreciation, depletion and amortization		45.8	29.0
Deferred income taxes		24.8	14.2
Equity in losses of affiliates		18.7	.8
Minority interest		2.8	—
Other		5.3	4.2
Cash flow from operations		131.0	90.6
Extraordinary income	4(a)	24.0	—
Deferred revenue		68.9	3.4
Issue of preferred shares — net proceeds	14	67.7	—
Issue of common shares — net proceeds	14	79.7	.6
Issue of long-term debt		206.0	290.8
Other		4.7	1.7
		582.0	387.1
Use of Funds			
Investment in property, plant and equipment		122.7	132.6
Acquisition of subsidiary, net of working capital acquired of $44.7	7	139.0	—
Investment in affiliates		—	213.9
Reduction of long-term debt		239.2	24.5
Extraordinary expense		—	14.7
Other assets and deferred charges		2.5	.9
Dividends —			
Preferred and common shareholders		16.0	9.1
Minority shareholders of a subsidiary		1.6	—
		521.0	395.7
Increase (Decrease) in Working Capital		61.0	(8.6)
Working Capital — Beginning of Year		1.5	10.1
Working Capital — End of Year		$ 62.5	$ 1.5

*Restated

The summary of accounting policies and notes to the financial statements are part of this statement.

Alberta Energy Company Ltd.

Notes to Consolidated Financial Statements

1. Segmented information

($ millions)	Gas and Oil 1982	Gas and Oil 1981	Pipelines 1982	Pipelines 1981	Other 1982	Other 1981	Total 1982	Total 1981
Gross revenue	$344.5	$277.3	$ 34.8	$ 24.7	$ 58.0	$39.1	$ 437.3	$ 341.1
Royalties	62.0	55.1	—	—	1.2	.9	63.2	56.0
Revenues, net of royalties	282.5	222.2	34.8	24.7	56.8	38.2	374.1	285.1
Operating expenses	85.2	82.2	6.4	5.8	49.2	34.7	140.8	122.7
Depreciation, depletion and amortization	30.3	19.8	5.8	4.0	8.0	4.2	44.1	28.0
Petroleum and gas revenue tax	29.5	15.6	—	—	—	—	29.5	15.6
	145.0	117.6	12.2	9.8	57.2	38.9	214.4	166.3
Segmented operating income (loss)	$137.5	$104.6	$ 22.6	$ 14.9	$ (.4)	$ (.7)	159.7	118.8
Equity in losses of affiliates							(18.7)	(.8)
Corporate expenses							(21.8)	(15.1)
Interest — net							(60.7)	(45.1)
Income taxes							(22.1)	(15.4)
Minority interest							(2.8)	—
Net earnings before extraordinary items							$ 33.6	$ 42.4
Identifiable assets	$930.6	$524.2	$165.5	$102.0	$117.3	$76.6	$1,213.4	$ 702.8
Projects under development							—	39.5
Corporate assets							99.7	47.3
Investments							225.8	247.3
Total assets							$1,538.9	$1,036.9
Capital expenditures	$ 91.2	$ 54.1	$ 25.1	$ 1.8	$ 5.7	$26.1	$ 122.0	$ 82.0

2. Supplementary information

(a) Interest — net

($ millions)	1982	1981
Interest expense	$ 73.7	$ 53.8
Interest income	(9.8)	(7.4)
Capitalized interest	(3.2)	(1.3)
	$ 60.7	$ 45.1

(b) Joint ventures

The Company has included in its accounts the following aggregate amounts in respect of those unincorporated joint ventures outlined on the inside back cover.

($ millions)	1982	1981
Assets	$309.3	$299.6
Liabilities	28.9	29.7
Gross operating revenue	153.6	151.1
Expenses	101.7	108.1

3. Income taxes

($ millions)	1982	1981
Current	$ 3.6	$ 2.5
Deferred	24.8	14.2
Alberta royalty tax credit	(6.3)	(1.3)
	$ 22.1	$15.4

4. Extraordinary items

(a) 1982 Net income — $21.0 million

During 1982, the Company received a cash payment of $24.0 million under an agreement which granted another company the right to participate in the advancement of heavy oil production technology. This amount is reflected as extraordinary income in the statement of earnings in the amount of $21.1 million, which is net of $2.9 million in income taxes.

A subsidiary company incurred a $0.1 million loss on the sale of portfolio investments, which loss is net of minority interest and income taxes.

(b) 1981 Net expense — $12.7 million

The extraordinary expense for 1981 of $12.7 million represents a write-off of the Company's share of the costs incurred and the estimated winddown expenditures relating to the Petalta Project.

5. Inventories

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

($ millions)	1982	1981
Raw materials and supplies	**$10.8**	$10.7
Work-in-process	**3.8**	2.4
Finished goods	**4.4**	2.9
	$19.0	$16.0

6. Investments

Accounted for on the equity basis:

($ millions)	1982	1981
British Columbia Forest Products Limited	**$ —**	$207.7
AEC Power Ltd.	**20.7**	20.7
Steel Alberta Ltd.	**15.5**	14.8
Pan-Alberta Gas Ltd.	**5.0**	4.1
	$41.2	$247.3

Accounted for on the cost basis:

($ millions)	1982	
	Cost	Market
British Columbia Forest Products Limited	**$183.5**	**$70.9**
Other	**1.1**	**1.1**
	$184.6	**$72.0**

(a) British Columbia Forest Products Limited ("BCFP")

The Company acquired a 28 percent interest in BCFP during June, 1981, at a cost of $217.3 million which has been reduced by dividends of $4.3 million. The cost exceeded the underlying net book value of the assets by $111.3 million, which amount was ascribed to productive assets and was being amortized on a straight-line basis over 20 years. As a result of a common share issue, the Company's interest in BCFP was reduced to 18 percent.

Commencing in December, 1982, the Company changed its accounting for the investment in BCFP from the equity to the cost basis.

(b) AEC Power Ltd.

The Company holds a 66⅔% equity interest which carries a 50% voting interest.

(c) Steel Alberta Ltd.

The Company holds a 50% equity and voting interest in Steel Alberta Ltd. which owns 20.2% of Interprovincial Steel and Pipe Corporation Ltd. and accounts for this investment on the equity method.

(d) Pan-Alberta Gas Ltd.

The Company holds a 50% equity interest which carries a 40% voting interest.

7. **Acquisition of Chieftain Development Co. Ltd.**

On July 21, 1982, the Company acquired 7 million common shares of Chieftain Development Co. Ltd. ("Chieftain"), which acquisition increased its percentage ownership in Chieftain from 4.5% to 56.6%. The total cost of the 56.6% investment in Chieftain was $183.7 million. The acquisition has been accounted for by the purchase method with the results of operations included in these financial statements according to the Company's percentage ownership from August 1, 1982. Chieftain is engaged in the acquisition of petroleum and natural gas lands, the exploration for and development and production of natural gas and oil and in the contract drilling business.

On consolidation, $128.6 million, being the excess of the total investment over the underlying book value of the net assets acquired, has been assigned to fixed assets.

Net assets acquired at value assigned thereto:

($ millions)	1982
Net working capital	$ 44.7
Property, plant and equipment	342.1
Other non-current assets	1.5
	388.3
Non-current liabilities	126.5
Minority interest	78.1
	204.6
	$183.7
Consideration given:	
Cash	$173.4
11¼% Deferred Convertible Second Preferred Shares, Series 1	10.3
	$183.7

8. **Property, plant and equipment**

	1982			1981
($ millions)	Cost	Accumulated depreciation, depletion and amortization	Net	Net
Gas and oil	$ 930.1	$ 79.4	$ 850.7	$487.1
Pipelines	165.9	19.3	146.6	127.3
Other	141.2	30.3	110.9	79.6
	$1,237.2	$129.0	$1,108.2	$694.0

9. **Other assets and deferred charges**

($ millions)	1982	1981
Deferred stripping costs	$3.1	$1.9
Land held for future development	2.4	.6
Loans under Share Purchase Plans	—	1.9
Mineral properties	1.6	2.1
Unamortized financing costs	1.0	1.2
Other	1.2	1.3
	$9.3	$9.0

10. **Deferred revenue**

The December 31, 1982, balance of $89.3 million includes $68.9 million for payments received during 1982 resulting from take-or-pay provisions of a major gas sales contract. The delivery of gas in respect of these payments and the recognition of revenue will commence November, 1984, at a rate varying between 10 percent and 20 percent per contract year out of gas production occurring during the first four months of each contract year until the $89.3 million is repaid.

11. Long-term debt

($ millions)	1982	1981
Alberta Energy Company Ltd. ("AEC")		
Income debentures	**$180.0**	$180.0
Term loans — secured	**64.4**	184.9
Term loans —unsecured	**23.0**	—
Notes payable	**115.9**	41.4
Unsecured trust company loan	**50.0**	50.0
Mortgages payable	**5.4**	10.0
Other	**8.5**	7.3
	447.2	473.6
Alberta Oil Sands Pipeline Ltd. ("AOSPL")		
First Mortgage Sinking Fund Bonds:		
Series A — 9⅝%, due June 15, 1997	**23.3**	23.3
Series B — 9¾%, due June 15, 1997	**25.8**	27.2
	49.1	50.5
Chieftain Development Co. Ltd. ("Chieftain")		
Income debentures	**42.9**	—
Secured bank loan: Chieftain International, Inc.	**34.4**	—
Other	**.6**	—
	77.9	—
	574.2	524.1
Current portion of long-term debt	**10.2**	6.0
	$564.0	$518.1

Payments on long-term debt required for each of the five years subsequent to December 31, 1982, are as follows:

1983	$10.2
1984	18.6
1985	18.5
1986	18.5
1987	18.5

(a) *AEC Income debentures and term loans — secured*

Revolving credit facilities with two chartered banks provide for up to $300 million to be drawn in the form of income debentures or term loans and a further $300 million to be drawn in the form of term loans.

These credit facilities 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 term loans may be drawn down in Canadian and/or U.S. dollars and/or by way of Canadian dollar Bankers' Acceptances.

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 52 percent of the sum of the lenders' prime commercial lending rate and a factor which varies over the term of the debentures from ⅜% to 1⅜%. The interest rate on term loans is the lenders' prime commercial lending rate plus a factor varying over the term of the loans up to 1%. Interest paid on income debentures is not deductible for income tax purposes.

(b) *AEC Term loans — unsecured*

In May, 1982, the Company entered into a revolving credit agreement with a chartered bank under which up to $200 million may be borrowed. The debt is repayable in equal quarterly installments over a five year period which commences May 29, 1987. The credit facility is unsecured and loans may be drawn down in Canadian and/or U.S. dollars and/or by way of Canadian dollar Bankers' Acceptances. The interest rate on the term loans is the lender's prime commercial lending rate plus a factor varying over the term up to ½%.

(c) *AEC Notes payable*

Notes payable consist of $49.2 million (December 31, 1981 — $25.8 million) in commercial paper and $66.7 million (December 31, 1981 — $15.6 million) in Bankers' Acceptances, all maturing at various dates up to April 25, 1983, with a weighted average interest rate of 12.3% (1981 — 16.47%). Notes payable are shown as long term debt because they are supported by the availability of term loans under the revolving credit facilities.

(d) AEC Unsecured trust company loan

A revolving credit facility with a major Canadian trust company provides that up to $50 million can be drawn down until January 30, 1991, after which any outstanding debt is repayable in full over a further ten year period. The credit arrangement is unsecured and the interest rate varies from the prime commercial lending (prime) rate of a major Canadian chartered bank less ¾% to prime less ¼%.

(e) AOSPL First Mortgage Sinking Fund Bonds

The Series A and B Bonds are secured by a fixed charge upon AOSPL's fixed assets and a floating charge on all of its other assets that relate to the Syncrude Project. 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. AOSPL has an obligation to retire in each year 4½% (being $2.8 million annually) of the total bond issue of $61.5 million.

(f) Chieftain Income debentures

The income debentures issued by Chieftain are secured by assignments of major hydrocarbon reserves and production contracts. Repayment by seven equal annual installments commenced December 31, 1982. Interest on income debentures at the rate of 52% of bank prime plus ¾%, plus ⅜% (aggregating 7.27% at December 31, 1982) is not deductible for income tax purposes.

(g) Chieftain Secured bank loan

The loan of Chieftain International, Inc. is for a principal amount of U.S. $28 million secured by assignments of major hydrocarbon reserves and production contracts of the company. The interest rate to be paid is, at the borrower's option, the London interbank offered rate (LIBOR) plus 1% or the U.S. prime rate plus ½%. At December 31, 1982, the Company was paying interest at the LIBOR rate plus 1% which aggregated 10.69%. Interest only is payable for the first three years with the principal amount to be repaid in four equal annual installments commencing December 18, 1984. Repayment is permitted at any time without penalty.

12. 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 in cash and work obligations. The balance of the cash obligation of $15.9 million is payable when leases to the remaining portions of the Range are issued.

13. Interests of minority shareholders

($ millions)	1982
Chieftain Development Co. Ltd.	
Preferred equity	$34.9
Common equity	44.1
	$79.0

14. Share capital

($ millions)	1982	1981
First Preferred Shares:		
Authorized — 20,000,000 shares with a par value of $25 each		
Issued and fully paid — 2,400,000, 15% Cumulative Redeemable Retractable, Series A	$60.0	$ —
Second Preferred Shares:		
Authorized — 20,000,000 shares with a par value of $25 each		
Issued and fully paid — 412,515, 11¼% Deferred Convertible, Series 1	10.3	—
Common Shares:		
Authorized — 300,000,000 shares without par value		
Issued and fully paid — 50,800,755 (December 31, 1981 — 45,491,255)	232.0	149.7
	$302.3	$149.7

(a) Common Shares

	1982		1981	
	Number of Shares	**Net Proceeds**	Number of Shares	Net Proceeds
Issued for cash	**5,312,500**	**$ 82.4**	37,500	$ .7
Redeemed for cancellation	**3,000**	**.1**	6,750	.1
Net increase in the year	**5,309,500**	**82.3**	30,750	.6
Issued and outstanding Beginning of year	**45,491,255**	**149.7**	45,460,505	149.1
Issued and outstanding End of year	**50,800,755**	**$232.0**	45,491,255	$149.7

Pursuant to an underwriting agreement dated December 6, 1982, the Company issued 5,312,500 Common Shares at $16.00 per share.

(b) Preferred Shares

On January 26, 1982, shareholder approval was granted to increase the authorized capital of the Company by creating 20,000,000 First Preferred Shares having a par value of $25 each and 20,000,000 Second Preferred Shares having a par value of $25 each.

Pursuant to an underwriting agreement dated February 18, 1982, the Company agreed to issue and sell 2,400,000 15% Cumulative Redeemable Retractable First Preferred Shares, Series A, redeemable at $26.50 after December 1, 1986 to December 1, 1991, thereafter reducing by $0.30 per share annually to a minimum of $25.00. The net proceeds of this issue were $57.8 million. The Series A Preferred Shares are retractable at $25.00 at the option of the holder on December 1, 1986 or December 1, 1991.

The Company issued 412,515, 11¼% Deferred Convertible Second Preferred Shares, Series 1 in connection with its acquisition of Chieftain (Note 7). The Series 1 Preferred Shares are cumulative and are retractable at $26.50 at the option of the holder on August 1, 1984 or August 1, 1989. Subject to certain conditions the shares are redeemable at the option of the Company at $26.50 from January 1, 1985 to August 1, 1989, and thereafter at par.

Each Series 1 Preferred Share is convertible during the period July 1, 1984 to July 1, 1989, at the option of the holder into two AEC Common Shares. The conversion price is to be 90% of the weighted average price of the Common Shares on The Toronto Stock Exchange for the twenty days prior to July 1, 1984, subject to a minimum conversion price of $13.50 per Common Share.

(c) Share Purchase Plan

At December 31, 1982, 100,108 Common Shares (December 31, 1981 — 100,108) are reserved under the Share Purchase Plan.

(d) Employee Share Option Plan

The Employee Share Option Plan provides for granting to employees of the Company and its subsidiaries options to purchase Common Shares of the Company. At December 31, 1982, options have been granted to purchase 278,000 Common Shares at an option price of $10.58 per share, and an additional 422,000 Common Shares are reserved but unallocated under the plan. Each option which has been granted under the plan expires after seven years and may be exercised in cumulative quarterly amounts on or after each of the first four anniversary dates of the grant.

(e) Alberta Energy Company Act

Pursuant to the Alberta Energy Company Act only citizens or residents of Canada are eligible to purchase, own or hold voting 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 voting shares of each class of the Company.

15. Remuneration of directors and senior officers

The aggregate direct remuneration paid by the Company and its subsidiaries to its directors was $198,000 (1981 — $151,000) and to its senior officers as officers was $1,313,000 (1981 — $1,286,000).

16. Contingent liability

With respect to the public offering for Chieftain common shares which resulted in the acquisition as set out in Note 7, a Complaint was filed in the United States District Court for the Southern District of New York on July 16, 1982, by an individual resident in the United States purporting to have owned and tendered into the offer 500 Chieftain common shares, and purporting to sue individually and on behalf of all common shareholders of Chieftain similarly situated. The Complaint alleges that non-Canadian shareholders were not offered equivalent and non-discriminatory consideration for their shares and alleges that the offer contravened certain provisions of United States statutory and common law. The Complaint names as defendants the Company, each of its directors and one of its senior officers and Chieftain, each of its directors and four of its senior officers. The action is being defended and answers to the Complaint have been filed on behalf of the Company and Chieftain and of those individual defendants who have been served with process, seeking dismissal of the action and costs.

17. Subsequent event

Pursuant to an underwriting agreement dated January 12, 1983, a subsidiary (Chieftain Development Co. Ltd.) has issued and sold on January 27, 1983, 900,000, $4.00 Convertible Second Preferred Shares 1983 Series at $50 each for a total consideration of $45.0 million. A wholly-owned subsidiary of the Company (Alberta Oil Sands Pipeline Ltd.) has purchased 400,000 of these preferred shares for a consideration of $20.0 million.

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, 1982 and the consolidated statements of earnings, 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, 1982 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 which, except for the change in accounting for foreign currency translation as referred to in the summary of accounting policies, with which we concur, have been applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants
Edmonton, Alberta
February 7, 1983

General Description of Some of the Financial Terminology

Assets
These are items owned by the Company or owing to the Company which have a measurable dollar value. While the asset values have been recorded at their historical cost, they could have a future value which is many times this carrying value. For example, AEC's gas and oil properties are shown at the amount paid or to be paid for them, plus the cost of developing them, less the amounts amortized to date. Their potential value, as they are produced in the future, is substantially greater than the asset value shown on the balance sheet.

Liabilities
These are amounts which the Company owes.

Shareholders' Equity
The net worth of the Company which belongs to the shareholders and which is equal to the excess of the Company's total assets over its total liabilities.

Cash Flow From Operations
The net cash that has been generated by the Company from its operating activities. It is calculated by adding back to the net earnings (see below) for a stated period any deductions that are not paid out in actual cash, such as depreciation, amortization and income taxes which are payable in the future.

Cash Flow Per Common Share
The Company's cash flow from operations, less payment of dividends to preferred shareholders, divided by the average number of outstanding common shares.

Net Earnings
The revenue remaining after all expenses and taxes have been deducted, including deductions for non-cash expense items such as depreciation, depletion and income taxes which must be paid in the future.

Earnings Per Common Share
Net earnings, less preferred share dividends, divided by the average number of outstanding common shares.

Retained Earnings
This is the cumulative total of annual net earnings retained by the Company since incorporation, after payment of dividends. The earnings retained each year are re-invested in the business.

Extraordinary Items
Gains, losses or provisions for losses which result from occurrences which are not typical of the normal business activities of the Company and which are not expected to occur regularly.

Current Assets
An asset which can be turned into cash right away or which, in the normal course of business, will be turned into cash within one year.

Current Liabilities
For the most part, these are amounts owed by the Company which have to be paid within a short time — a year at most.

Working Capital
The amount obtained by subtracting total current liabilities from total current assets. This is a measure of the Company's ability to meet its current obligations.

Consolidated Financial Statements
Ownership of other companies, with their respective assets, debts and earnings, etc. must be reflected in the AEC statements in certain circumstances, depending upon AEC's percentage ownership of these other companies. These consolidated statements are a special form of financial statement which show the combined financial position of all the companies, viewed as a single enterprise. For example, the debt of AEC including the wholly-owned Alberta Oil Sands Pipeline, was $493 million at year-end 1982. The consolidated statements include Chieftain's year-end debt of $71 million so that the consolidated debt, as reported, totals $564 million. Elsewhere, in the liability section of the balance sheet, the interest of Chieftain's other shareholders has been deducted and is shown separately.

Seven-Year Review

(all dollar amounts, except per share amounts, are in millions)	**1982**	1981	1980	1979	1978	1977	1976
FINANCIAL							
Revenue (net of royalties)	**$374.1**	$285.1	$232.6	$ 90.9	$ 54.8	$ 20.3	$ 1.3
Net earnings, after extraordinary items	**54.6**	29.7	57.4	27.4	18.8	14.9	8.5
Net earnings, before extraordinary items	**33.6**	42.4	57.4	27.4	18.8	14.9	8.5
Cash flow	**131.0**	90.6	115.6	60.8	32.5	17.1	8.2
Petroleum and Gas Revenue Tax	**29.5**	15.6	—	—	—	—	—
Gas and oil royalties paid	**62.0**	55.1	43.1	18.3	13.6	7.6	0.3
Working capital	**62.5**	1.5	10.1	44.3	141.0	15.5	68.4
Investment in property, plant and equipment	**1,108.2**	694.0	593.0	531.9	290.8	206.6	99.3
Long-term debt	**564.0**	518.1	251.8	309.6	209.2	44.6	—
Total assets	**1,538.9**	1,036.9	702.7	651.0	504.1	273.3	216.4
PER SHARE DATA*							
Net earnings	**$ 1.03**	$ 0.65	$ 1.26	$ 0.60	$ 0.41	$ 0.33	$0.19
Cash flow	**2.67**	1.99	2.54	1.34	0.72	0.38	0.18
Shareholders' equity	**9.44**	6.37	5.90	4.80	4.27	3.85	3.52
Dividend	**0.20**	0.20	0.15	0.10	—	—	—
SHARES*							
Number of shareholders	**56,894**	52,841	54,252	51,725	53,292	54,169	56,394
Common shares outstanding	**50,800,755**	45,491,255	45,460,505	45,446,505	45,335,553	45,272,928	45,206,928
Volume of shares traded	**6,330,743**	4,788,371	9,706,332	8,530,752	5,543,070	5,386,023	7,668,018
Share price range							
— High	**$ 20.25**	$ 27.75	$ 24.38	$ 14.42	$ 6.58	$ 6.42	$ 4.08
— Low	**8.00**	14.00	12.50	6.21	4.88	3.92	2.83
— Close	**15.00**	16.00	23.88	13.50	6.29	5.88	4.00
OPERATING DATA							
Successful wells drilled	**574**	264	485	307	397	301	216
Gas production, net before royalties							
— billion cubic metres	**2.0**	1.6	1.3	1.1	.8	.5	.02
— billion cubic feet	**71.5**	58.5	46.5	38.3	27.0	17.8	.8
Syncrude production							
— thousands of cubic metres	**497.8**	473.2	470.1	108.0	—	—	—
— millions of barrels	**3.1**	3.0	3.0	0.7	—	—	—
Utility plant output							
— thousands of megawatts	**869**	793	809	788	300	—	—
Coal production							
— thousands of tonnes	**671.8**	684.1	600.2	488.3	156.6	—	—
— thousands of tons	**740.6**	754.1	661.6	538.3	172.6	—	—
Lumber production, Whitecourt complex**							
— million board feet	**90**	113	115	100	94	63	—
Pipeline throughput							
— millions of cubic metres	**9.9**	9.3	9.1	6.3	1.9	—	—
— millions of barrels	**62.4**	59.1	57.3	39.6	11.7	—	—

Financial and operating data include all of the results of Chieftain Development Co. Ltd. since August 1, 1982

**Adjusted for three-for-one stock split*

***AEC's share prior to June 1981 was 40%*

AT YEAR-END 1982

Net Canadian petroleum and natural gas rights ...... 1.1 million hectares (2.8 million acres)

Natural gas reserves

	Proven	Probable	Total
Billion cubic metres	51.4	11.7	63.1
Billion cubic feet	1,823	417	2,240

*Proven natural gas reserve life .... 25 years

Oil and natural gas liquids reserves

	Proven	Probable	Total
Thousand cubic metres	559	801	1 360
Thousand barrels	3,517	5,044	8,561

Syncrude reserves .... 19.7 million cubic metres (124 million barrels)

*Syncrude reserve life .... 40 years

Primrose heavy oil in place net to AEC .... 2.3 billion cubic metres (14 billion barrels)

Timber licences .... 566 thousand hectares (1.4 million acres)

Coal reserves .... 8 million clean tonnes (8.8 million clean tons)

*Coal reserve life .... 11 years

Pipelines .... 1 544 kilometres (965 miles) in three pipelines

*At 1982 production rates

Board of Directors

MATHEW M. BALDWIN
Company Director
Edmonton, Alberta

EDWARD A. GALVIN
Chairman of the Board
Poco Petroleums Ltd.
Calgary, Alberta

DONALD S. MACDONALD
Partner, McCarthy & McCarthy
Barristers and Solicitors
Toronto, Ontario

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

JOHN E. MAYBIN
Executive Director
Petroleum Recovery Institute
Calgary, Alberta

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 & Company
Limited
Calgary, Alberta

Officers and Senior Personnel

DAVID E. MITCHELL
President and Chief
Executive Officer

JACK G. ARMSTRONG
Senior Vice-President
Finance

FRANK W. PROTO
Senior Vice-President

ROGER D. DUNN
Vice-President

EDWARD J. MARTIN
Vice-President and
Comptroller

HECTOR J. McFADYEN
Vice-President

GWYN MORGAN
Vice-President
Gas and Oil

ARLENE J. MOORE
Corporate Secretary

SYDNEY R. CHEN-SEE
Assistant Corporate
Secretary

JOHN D. WATSON
Treasurer

DEREK S. BWINT
Director, Financial
Evaluations

V. NEIL DESAULNIERS
Director, Forest
Products

JACK E. ELLEFSON
Vice-President, Alberta
Oil Sands Pipeline

KEITH O. FOWLER
Director, Corporate
Taxation

ROGER N. GIMBY
Director, Gas and
Oil Operations

LAWRENCE J. HICKEY
Assistant Comptroller

WAYNE G. HOLT
General Counsel

RONALD A. McINTOSH
Director, Exploration
Division

Corporate Information

Offices
#2400, 639 - 5 Avenue S.W.
Calgary, Alberta T2P 0M9

#1200, 10707 - 100 Avenue
Edmonton, Alberta T5J 3M1

Registrar and Transfer Agent — Common Shares and First Preferred Shares, Series A
National Trust Company, Limited
Edmonton, Calgary, Vancouver,
Winnipeg, Toronto, Montreal;
and its agent, Canada Permanent Trust Company
in Regina and Halifax

Registrar and Transfer Agent — Second Preferred Shares, Series 1
The Royal Trust Company
Edmonton, Calgary, Vancouver,
Winnipeg, Toronto, Montreal,
Regina and Halifax

Auditors
Price Waterhouse
Chartered Accountants
Edmonton, Alberta

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

Subsidiaries	
Alberta Oil Sands Pipeline Ltd.	100%
AEC Heavy Oil Ltd.	100%
AEC Coal Company Ltd.	100%
Alberta Industrial Gas Suppliers, Ltd.	100%
Alenco Holdings, Inc.	100%
Blue Ridge Lumber (1981) Ltd.	100%
Chieftain Development Co. Ltd.	57%
Ranger Forest Products Ltd.	100%
Affiliates	
AEC Power Ltd.	66⅔%
Pan-Alberta Gas Ltd.	50%
Steel Alberta Ltd.	50%
Major Joint Ventures	
Ethane Gathering System	33⅓%
Coal Valley Project	25%
Syncrude Project	10%

Corporate Summary

Alberta Energy Company Ltd. is a wholly Canadian-owned company established to encourage Canadians to participate in the development of energy and natural resources. AEC became an active, public company in 1975. Common shareholders total over 55,000, with more than 50 percent owning 100 shares or less. Since the successful completion of the Company's second common share offering, ownership by the public has increased to 56 percent of the outstanding common shares. AEC participates in the exploration for and development of gas and oil, and has investments in Syncrude, pipelines, an electric utility, and the forest products, steel and coal industries.

Annual Meeting

The annual general meeting of shareholders of Alberta Energy Company Ltd. will be held in the Alberta Room, Palliser Hotel, 133 - 9 Avenue S.W., Calgary, Alberta at 3:00 p.m. local time on Wednesday, April 20, 1983.

Copies of the Company's 1982 annual report may be obtained by contacting the office of the Secretary of the Company at Alberta Energy Company Ltd., #2400, 639 - 5 Avenue S.W., Calgary, Alberta T2P 0M9.

Alberta Energy Company Ltd.

1982 Annual Report

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