ALBERTA ENERGY COMPANY LTD.

1984 ANNUAL REPORT

AEC

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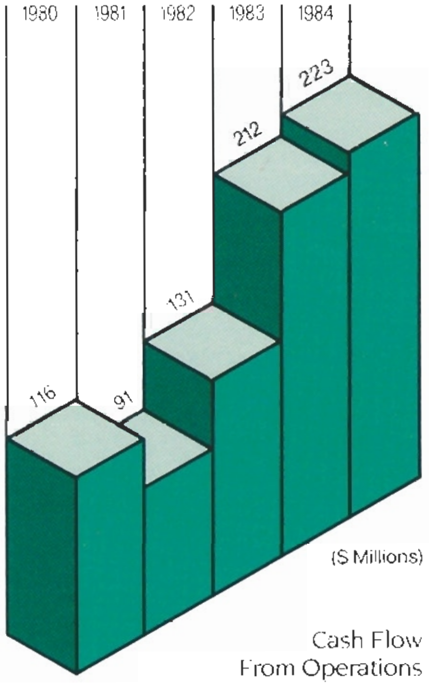
Our New Logo

The Company has adopted a new corporate logo, which incorporates ideas received from employees. The accompanying symbol conveys a sense of purpose, growth and energy, all characteristic of Alberta Energy Company Ltd. The angle vertically piercing the symbol's circular background creates a statement of defined purpose and will. A series of thick-and-thin lines represents the radiant quality of energy, while creating an impression of depth and dimension. The "arrowhead" or "mountain" structure of the design is appropriate for a western Canadian-based company with a sustained growth record.

AEC

Highlights

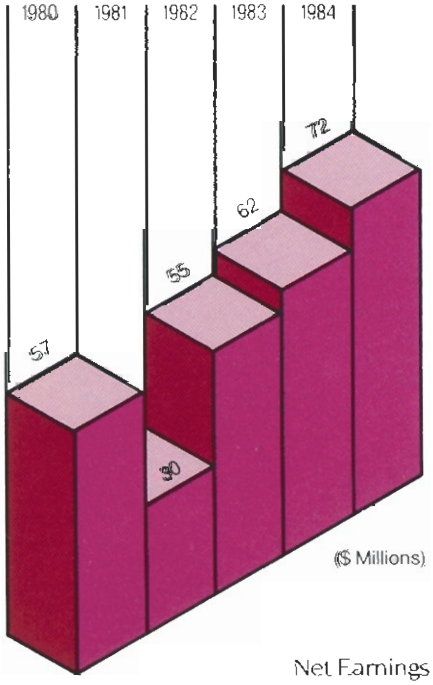


Cash Flow
From Operations

	1984	1983
Financial		
Net earnings (millions)	$ 72.3	$ 62.4
– Per share	1.22	1.03
Cash flow (millions)	222.6	211.9
– Per share	4.08	3.87
Production		
Gas		
• billion cubic metres	2.3	2.3
• billion cubic feet	82.1	81.7
Conventional oil		
• thousand cubic metres	99.2	57.5
• thousand barrels	624	362
Synthetic oil		
• thousand cubic metres	501.3	648.3
• million barrels	3.2	4.1
Lumber		
• million board feet	130	121
Coal		
• thousand tonnes	526	515
• thousand tons	579	568

Other

- AEC's extensive acquisition of exploratory lands placed the Company among western Canada's top ten oil and gas explorers. Oil and gas landholdings increased to 1.2 million net hectares (3.0 million net acres), including interests in most of the currently significant western Canadian exploratory plays. Exploratory and delineation drilling resulted in 21 discoveries and 86 wells cased for evaluation including discoveries at Peerless, Tangent and Worsley and evaluation drilling at Desan, B.C.
- At Suffield a $35 million, 300-well natural gas development program was initiated. Additional gas properties, including 52 producing wells and fee minerals, were acquired for $32.8 million.
- The first stage of increasing Syncrude's daily production capacity by 1 750 cubic metres (11 000 barrels) to 19 000 cubic metres (120 000 barrels) neared completion; design of a further $3¾ billion addition was completed, with a construction decision to be taken in 1985. In addition, preliminary discussions have been held with governments regarding a further $4.0 billion expansion to 32 000 cubic metres (200 000 barrels) per day.
- The Ipiatik Heavy Oil Pilot project at Primrose commenced pilot operation, with good initial results.
- Plans were made for commercial development at the Burnt Lake heavy oil pilot at Primrose.
- A natural gas liquids extraction plant, which is one of the three largest of its kind in the world and in which AEC has a 25 percent interest, commenced operation.
- Construction began on a $32 million medium-density fibreboard plant at Whitecourt.
- Improved profits and efficiencies were achieved at the Coal Valley project.
- Construction of a major expansion to the Cold Lake Bitumen Pipeline system commenced; total value of the expansion, plus an approved lateral addition to the system, is $100 million.



Net Earnings

On the Tenth Anniversary of the Alberta Energy Company

On January 3, 1985 AEC concluded its tenth year of operations. Although much could be said about corporate events during those first ten years, this special section of the Annual Report will focus primarily on the Company's present assets and outlook... the base upon which more growth will be achieved in the future.

To our 50,000 shareholders, many of whom have been investors since the initial common share issue in late 1975... thank you for your support and encouragement. The original share price of $3.33 (after allowing for the 3-for-1 split in 1980) has appreciated significantly. Original shareholders will recall that it was not always easy to cheer, especially right after the initial share sale, when the stock temporarily dipped 15 percent below its issue price. The market value of AEC's outstanding shares now is approximately one billion dollars.

A fundamental objective of the Company was to encourage more Albertans and other Canadians to invest in the future of their own country. That objective has been achieved. AEC is wholly Canadian-owned, and over 58 percent of our shareholders, many of them first time investors, own 100 shares or less.

To date, shareholders have invested a total of $305 million, $235 million in Common Shares and $70 million in Preferred Shares. This equity base has been strengthened by an additional $266 million of retained earnings. Currently there is $½ billion of unutilized long-term financing that has been arranged with banks and other institutions. Annual cash flow is now $220 million per year. The Company has considerable flexibility in its debt structure, achieving its borrowings with relatively few covenants to the lenders. Two other measures indicate the strength of AEC's financial position: all mandatory debt payments for the next five years could be paid with only four months' cash flow; and at 1984 year-end the average interest rate on all of our debt was 8.84 percent. Some might argue that our approach reflects overly conservative financial management, and perhaps it does.

The Company has not always made mistake-free investment decisions nor is it apt to do so in future, because significant risk-taking is a normal part of our business. We do take care to avoid attempts at large "leaps forward," which, if wrong, would threaten the financial stability of the Company. This approach, which seems only prudent nowadays, was not always fashionable in the corporate community. Our practice has been to invest in industries which are new to us with those who have experience in that industry.

Special mention should be made of the partial ownership of Alberta Energy Company by the Alberta government. This ownership was 50 percent after the first share issue, decreased to 44 percent in late 1982 and is expected to be reduced further in 1985. The Alberta government has abided, with the utmost integrity, by its commitment not to interfere in the management of the Company. AEC has neither elected members of government nor public service employees on its staff or on the Board of Directors.

AEC has worked extensively this past ten years with Canadian military forces at Suffield and Primrose. As our experience has grown in this unique relationship so has our respect for the quality of Canadian military personnel. Mutual objectives have been met due to dedicated attention by both parties, and there has not been a loss of life or a serious accident caused by the overlap of energy-related and military activities.

Of the original ten directors elected in 1975, eight are still members of the Board, one having retired due to mandatory age limitation and one because of appointment to the Court of Queen's Bench. All of our past and present directors have made significant contributions to the Company's deliberations and achievements.

The growth in Company staff (which started with four persons on January 3, 1975) has been appreciable. Growth in numbers is not so important as is the development—in a relatively short period of time—of the abilities to manage and operate a very large corporate enterprise. It is fascinating to observe the way in which many relatively young people have grown quickly to meet the challenges. AEC pays competitive salaries, strives to develop and promote persons from within the organization wherever practicable, and has a good employee benefits package. The Company makes a special effort to support its people in their community and educational endeavors through a charitable donation matching-grants program, as well as payment of tuition for work-related educational courses.

Specific data about AEC's activities is provided on page 4, but in quick summary, AEC's assets and activities make the Company: one of the largest oil and gas companies in Canada; a significant owner and active participant in the large Syncrude plant and in Syncrude's expansion plans; two-thirds owner of a utilities plant; owner and operator of two large pipeline systems and partial owner of a third; owner and operator of a lumber mill and a new fibreboard plant now under construction; a 25 percent participant in a coal mine, and an owner of a 25 percent interest in a natural gas liquids extraction plant. AEC holds 56 percent of Chieftain Development Company and 50 percent of Pan-Alberta Gas. In addition, it has portfolio investments in British Columbia Forest Products and IPSCO with a market value of approximately $112 million at year-end 1984.

All of these ventures, coupled with an interface with the investment community; accountability to one of the largest shareholder groups in Canada; and the development and integration of a highly motivated, hard-working group of people, have provided a tremendous challenge.

The existing asset base and high-quality people offer good promise for the future. Exploration for new oil and gas production is proceeding aggressively and is already adding to our existing cash flow. Further development is planned for Suffield; and Primrose heavy oil production, while still in the pilot stage, shows promise of being significant in the years ahead. Syncrude is expected to be another area for additional investment opportunities. As well, investments in pipelines and forest products are continuing in 1985, and it is anticipated that other significant opportunities will be developed in these businesses in the years ahead. The Company's hopes for acceptable petrochemical ventures have not materialized to date, and it is difficult to forecast just when they will. Steel investment, if any, would be expected to be made through the Company's existing shareholding, while coal offers little attraction for additional investment at present.

AEC is an active company and the opportunities outlined in the paragraph above are by no means all on which we are working. Certain current ideas purposely have been omitted for competitive and tactical reasons.

The corporate world is no longer a "tidy" place where forecasts of oil prices, gas prices, interest rates, economic growth, and government action may be made with certainty. It may never be that way again. Virtually every one of our strategies is subject to fairly rapid change.

So far, so good. We will keep working at it, enjoying the challenges.

David E. Mitchell
President and
Chief Executive Officer

An exploratory well
in the Alberta foothills

AEC "At a Glance"

As At Year-End 1984

Conventional Oil and Gas

- Conventional oil reserves 2.7 million cubic metres (17.1 million barrels): reserve-life at 1984 rates of production 27 years
- Natural gas reserves 60.9 billion cubic metres (2,162 billion cubic feet); reserve-life 26 years.
- Direct investment in conventional oil and gas exploration and production to year-end 1984: $518 million

Heavy Oil

- Syncrude reserve-life at 1984 rates of production, approximately 35 years. Initial production improvement program to 19 000 cubic metres (120,000 barrels) per day nearly complete; plans for expansion to 22 000 cubic metres (138,600 barrels) per day nearing finalization; and major expansion to 32 000 cubic metres (200,000 barrels) per day under consideration.
- Primrose in-situ reserves, net to AEC approximately 2.3 billion cubic metres (14 billion barrels), a portion of which will be recoverable by steam injection. One pilot program is nearing the point of expansion to commercial production.

Pipelines

- Pipelines: 1 580 kilometres (980 miles).
- Investment to date $243 million, expected to grow to $300 million by 1985 year-end.
- Third largest source of AEC's cash flow

Power Plant

- Investment to date, yielding utility return, $21 million.
- Yearly plant output 760 thousand megawatt-hours.
- AEC two-thirds owner.

Forest Products Operations

- Forest rights of 460 000 hectares (1,776 square miles, 1,137,000 acres).
- Investment to date $40 million, with $32 million more in progress.

Coal

- Coal reserve-life: 13 years at 1984 production rates.
- Investment to date $40 million.
- Annual sales: 552 000 tonnes (608,480 tons).

Portfolio

- Own approximately 10 percent of IPSCO and 18 percent of BCFP, having total year-end market values of $112 million.

Petrochemicals

- Continuing to work on opportunities in this area.

Technology Development

- Various projects are in progress, including bitumen upgrading; movement of heavy oil in pipelines; sulphur recovery, natural gas conversion; and heavy oil de-emulsification.

Financial

- Financial statements show assets are now about $1¾ billion and these may exceed $2 billion by the end of 1985.
  Shareholders should note that, in accordance with normal accounting practice for oil company reporting, the value of our largest asset—gas and oil reserves—appears on the balance sheet at historical cost, not its greater present value.
- Strong cash flow, good debt structure and financial flexibility.

1984 Review

1984 was another record year, with cash flow from operations up 5 percent to $223 million and net earnings up 16 percent to $72 million. Daily natural gas production remained at 6.3 million cubic metres (224 million cubic feet) and conventional oil production gained 73 percent to 271 cubic metres (1,700 barrels) per day, annual coal sales 8 percent to 552 thousand tonnes (609 thousand tons) and annual lumber shipments 7 percent to 130 million board feet. These results were achieved despite a serious cutback in Syncrude production, due to a fire in August, and low gas demand in the fourth quarter.

Capital investment during the year, before grants and incentives, totalled $320 million, almost double the previous year. Investments included $210 million for oil and gas exploration and development, $53 million of which related to the additional purchase and development of Suffield properties. Pipeline expenditures amounted to $74 million while Syncrude, forest products, and other capital expenditures were $19 million, $9 million and $8 million respectively.

Oil and gas exploration investment has grown rapidly in the three years since this activity was initiated, with the Company now being a prominent explorer in the Western Canadian Sedimentary Basin. A solid land base has been established and exploration drilling results to date have been encouraging.

AEC is emerging as one of the major players in the in-situ heavy oil business. To date, heavy oil in place net to AEC totals 2.3 billion cubic metres (14 billion barrels). One pilot project is progressing to a point of significant development and another pilot is being considered for expansion.

Syncrude, now back on full production, is proceeding with an expansion to increase production by 1 750 cubic metres (11,000 barrels) per day during 1985. By 1987, additional facilities may be constructed which would improve product quality, enhance plant reliability, and increase daily production capacity to 22 000 cubic metres (138,600 barrels). And, a further Syncrude development is currently under review.

Pipelining is now the third largest contributor to Company earnings, after conventional oil and gas and Syncrude production. Investment in pipelines increased significantly during 1984, a trend expected to continue in 1985.

Operating efficiencies led to improved profit performance at the Blue Ridge forest products facilities. Due to depressed market prices, however, profits remain at unsatisfactory levels.

Coal sales increased over 1983 levels, with lower operating costs and increased efficiencies. The challenge of competing in an environment of coal oversupply will continue to exist in 1985.

Shareholder Investment Plan

On June 4, 1984, the Company implemented a Shareholder Investment Plan which enables eligible shareholders to increase their ownership in AEC by reinvesting cash dividends and/or investing optional cash payments in new common shares. The Plan was very well received, with approximately $2.2 million being invested in new common shares during the seven months ended December 31, 1984.

Industry Comment

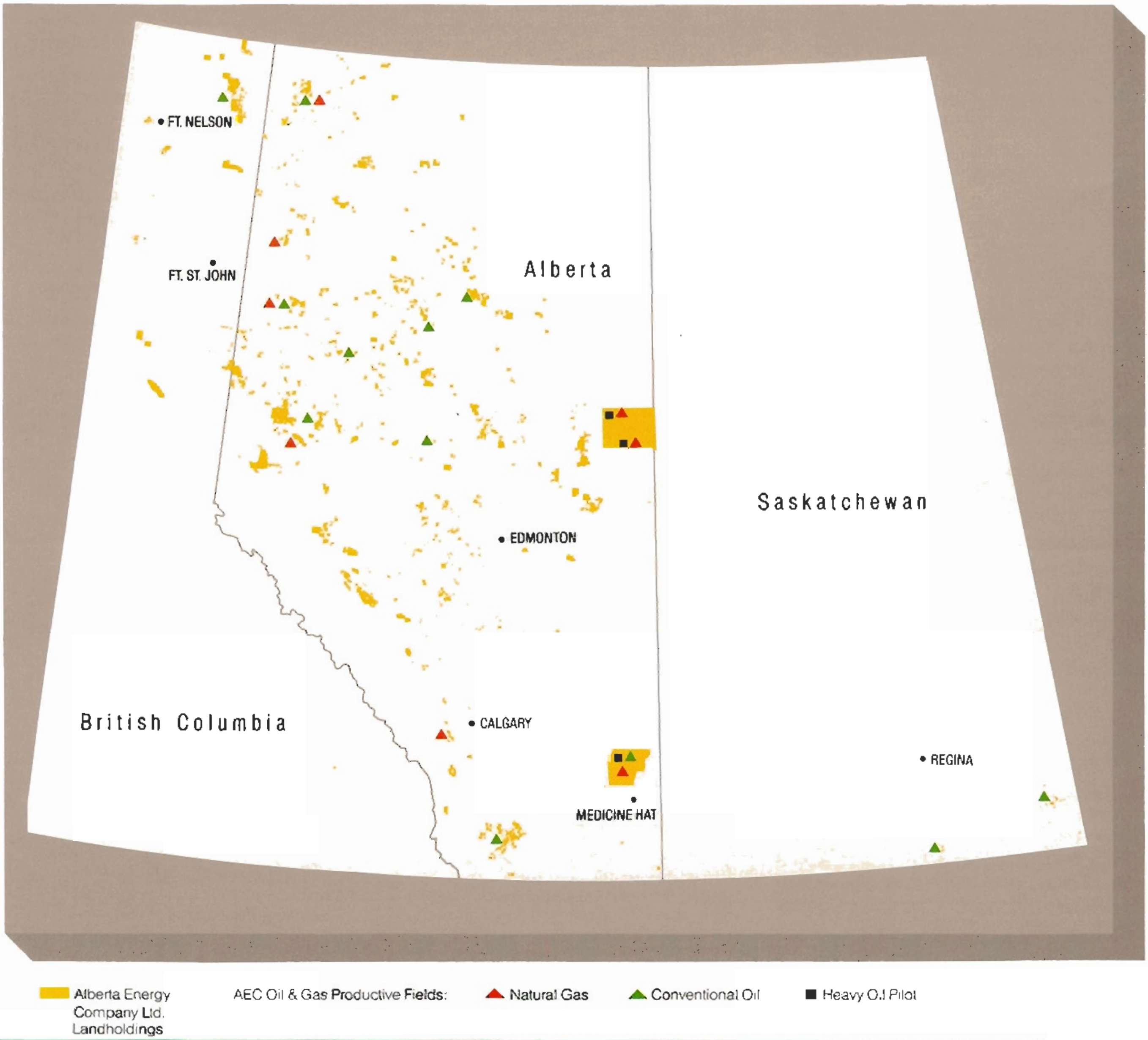
This is a time of transition for energy policy in Canada, and AEC awaits with great interest decisions on major restructuring of policies that affect the oil and gas industry. There is increasing realization that the oil and gas industry can contribute in a meaningful way to economic renewal throughout all of Canada. The tax regime established following the National Energy Program (NEP) was based upon an assumption that the international price of crude oil in 1984 would be $67 Canadian per barrel: today the price is about half of that, and there is downward pressure on world oil prices. This is but one illustration of the many reasons for substantive change in the ill-advised NEP.

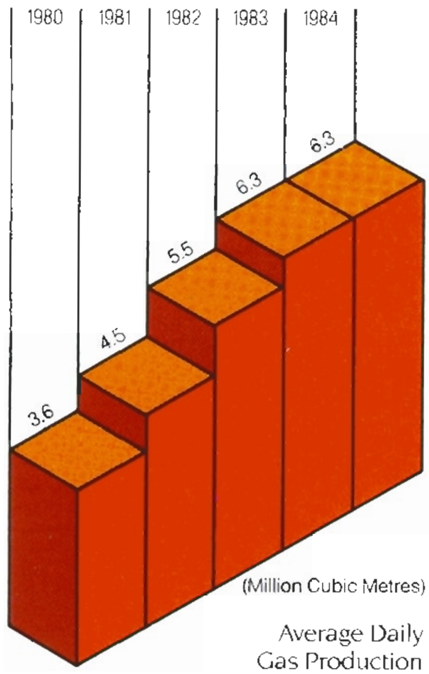
Outlook

In 1985, AEC expects to maintain a strong cash flow and to continue its aggressive program of capital investment. A number of variables make precise prediction unusually difficult at this time, but capital expenditures for conventional oil and gas, Syncrude production increases, pipelines, and other ventures are expected to reach approximately $375 million. Other possibilities currently under consideration would add to that amount.

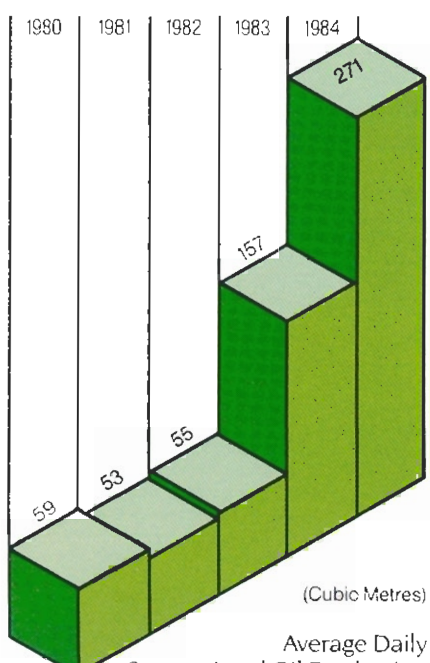
Although 1985 is starting out as a year with significant international oil price uncertainties, our view is that, as a long-term trend, there will be good demand for oil and gas in Canada and the United States, and the economy of Canada will gradually improve somewhat, adding to opportunities for AEC.

Western Canada Oil & Gas Interests





Average Daily
Gas Production



Average Daily
Conventional Oil Production

Exploration and production results, together with landholdings and reserves, are consolidated, except where specifically noted as applying only to AEC Oil and Gas Company (pages 8 through 15).

The exploration program grew substantially with the Company participating in 69.5 net exploratory wells compared to 28.1 in 1983. The 1984 program resulted in interests in 4.6 net oil wells, 2.9 net gas wells, and 23.0 net wells cased for further evaluation.

The development program resulted in 7.4 net oil wells, 161.6 net gas wells, and 5.2 net wells cased for further evaluation.

Land acquisition continued at a high level, and at year-end interests were held directly or indirectly in 2 288 000 gross hectares (5 719 000 gross acres) equivalent to 1 212 000 net hectares (3 029 000 net acres) in western Canada and in more than 1 545 000 gross hectares (3 861 000 gross acres) equivalent to 581 000 net hectares (1 453 000 net acres) elsewhere.

Average daily natural gas production of 6.3 million cubic metres (224 million cubic feet) was approximately equal to the 1983 level, despite lower sales in the last quarter due to abnormally warm weather and weak export sales. One gas purchaser which had been taking about 12 percent of the gas produced at Suffield discontinued taking gas on November 27, 1984; AEC has initiated legal action on this matter.

At year-end, AEC had remaining gas reserves, based on estimates by independent consulting firms, of 60.9 billion cubic metres (2 162 billion cubic feet) after production of over 2.2 billion cubic metres during the year. The gas reserve life is in excess of 26 years based on 1984 production rates.

Conventional oil production increased significantly to a level of 271 cubic metres (1 700 barrels) per day, compared to 157 cubic metres (990 barrels) per day in 1983. Conventional oil reserves also increased during this same period by 23 percent to a total of 2.7 million cubic metres (17.1 million barrels).

Oil and Gas

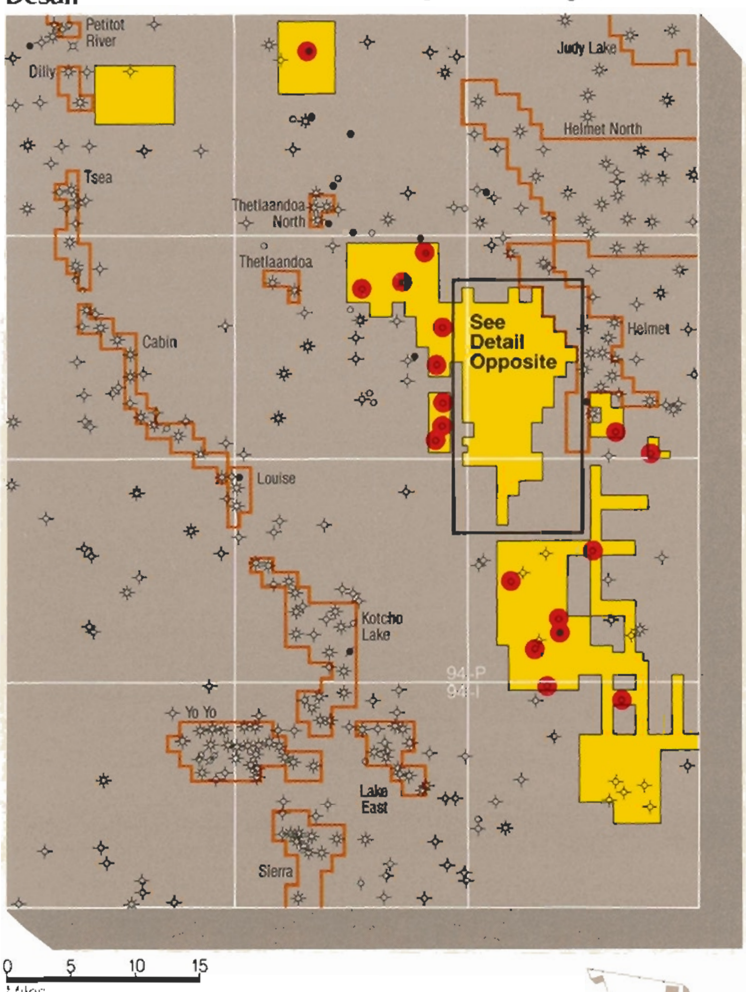
AEC Oil and Gas Company

Exploration

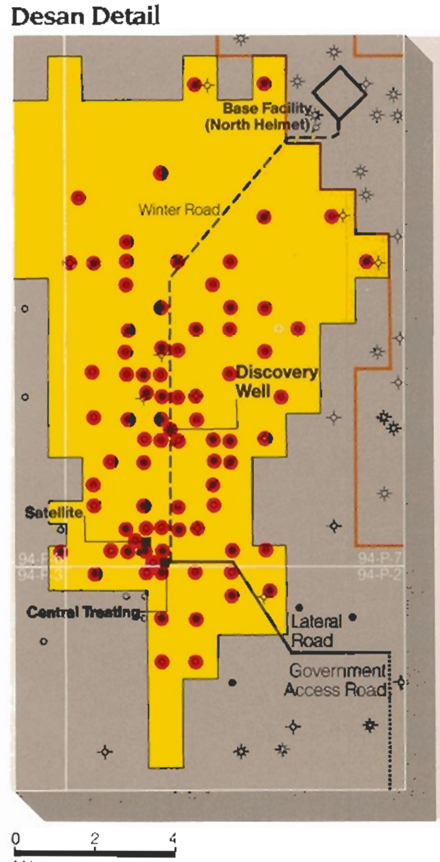
AEC Oil and Gas Company, a Division of Alberta Energy Company Ltd., now ranks among the most active explorers in western Canada. The exploration staff and land position built up during the three years since AEC commenced exploration provide a strong competitive base for the increased industry activity anticipated in 1985. The Company is well represented in most of the highly active western Canadian exploration plays, including Desan, Tangent, Senex/Peerless Lake, and Worsley.

Investment in exploration is averaging more than $50 million per year plus available grants and incentives. This aggressive exploration program will continue in 1985. In 1984, AEC Oil and Gas Company participated in 140 gross wells (53.5 net), including 31 gross wells drilled at no cost to the Company.

Desan



Desan Detail

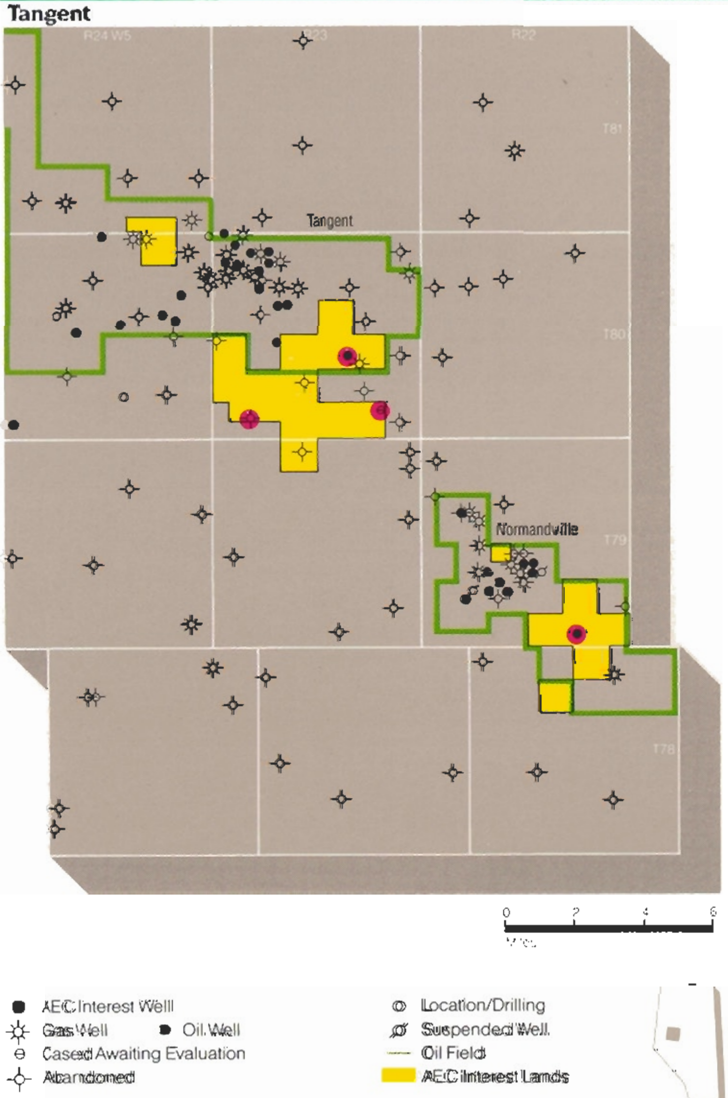


- AEC Interest Well
- Location/Drilling
- Suspended Oil Well
- Injection Well
- Cased Awaiting Evaluation
- Abandoned
- Oil Well
- Gas Well
- Gas Field
- AEC Interest Lands

Exploratory Wells

	1984		1983		1982	
	Gross	Net	Gross	Net	Gross	Net
Oil	8	3.4	8	2.4	5	1.3
Gas	3	1.2	9	3.3	4	1.1
Cased Awaiting Evaluation	59	19.9	—	—	—	—
Dry and Abandoned	70	29.0	34	11.5	22	5.5
Total	140	53.5	51	17.2	31	7.9

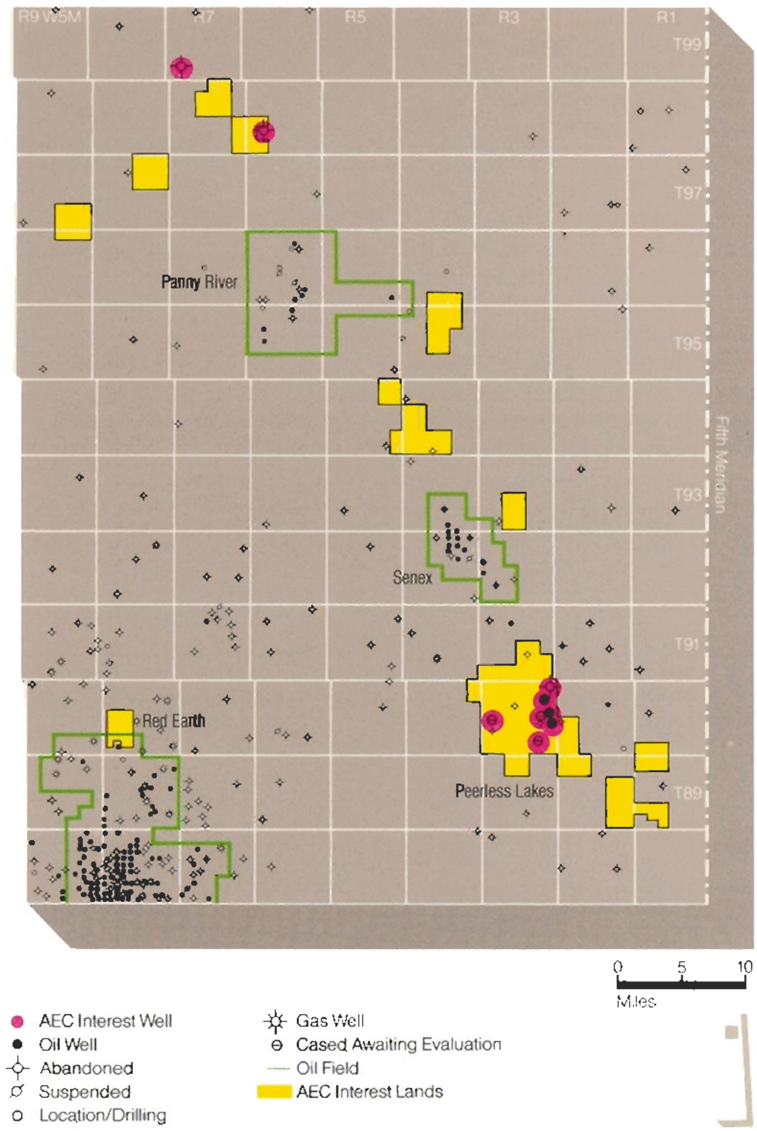
Tangent



Land acquisition resulted in the addition of interests in 189 800 gross hectares (474,500 gross acres) equivalent to 95 600 net hectares (239,000 net acres). Increasing efforts to acquire natural gas-prone lands to complement the initial emphasis on oil-prone lands reflects the Company's optimism respecting the outlook for natural gas market conditions.

During the past year, the most intensive exploration project was the follow-up exploration and delineation drilling at the 1983 Desan/Helmet oil discovery in northeastern British Columbia. The b-64-D94-P-7 discovery well flowed oil at a rate of 27 cubic metres (170 barrels) per day from a depth of 580 metres (1,900 feet). A 30 percent working interest is held in 67 exploratory and development wells drilled in this area in 1984. Oil has been recovered from 30 of the wells, with 24 wells not yet completed for production and 4 wells having been abandoned. There has been no prior oil production from this geologic interval in the area and, consequently, no historical production data is available for comparison. The short winter operating season allowed short test evaluations of only three wells during the first quarter of 1984. A production testing and initial development program started in late 1984 will include drilling about 20 more delineation and development wells and the installation of facilities to allow continuous production from several wells. The

Senex/Peerless



Province of British Columbia is currently constructing an all-weather access road into this remote area which will greatly facilitate year-round operations. The Company expects to participate in 15 or more exploratory wells along the trend in the coming year. Interests are now held in over 97 300 gross hectares (240,500 gross acres) equivalent to 40 300 net hectares (99,600 net acres). The 1985 exploration, development and testing program will provide key data on the very large Desan play. Desan could develop into a producing area of significance for AEC.

Two oil discoveries were made in the Tangent area of the Peace River Arch during 1984. The Tangent 8-15 discovery well was drilled on farmin lands, and AEC Oil and Gas Company earned a 50 percent working interest (40 percent after payout) by the drilling of this well. In the second oil discovery, the Normandville 6-2, AEC earned a 100 percent working interest (50 percent after payout). The Company also participated in one unsuccessful test and a fourth well was drilling at year-end. Data from nonconfidential wells in the area indicates oil production rates ranging from 10 cubic metres (63 barrels) per day to 85 cubic metres (535 barrels) per day and averaging 33 cubic metres (287 barrels) per day. The Company holds an average interest of 46 percent in 5 248 gross hectares (13,120 gross acres) in the play.

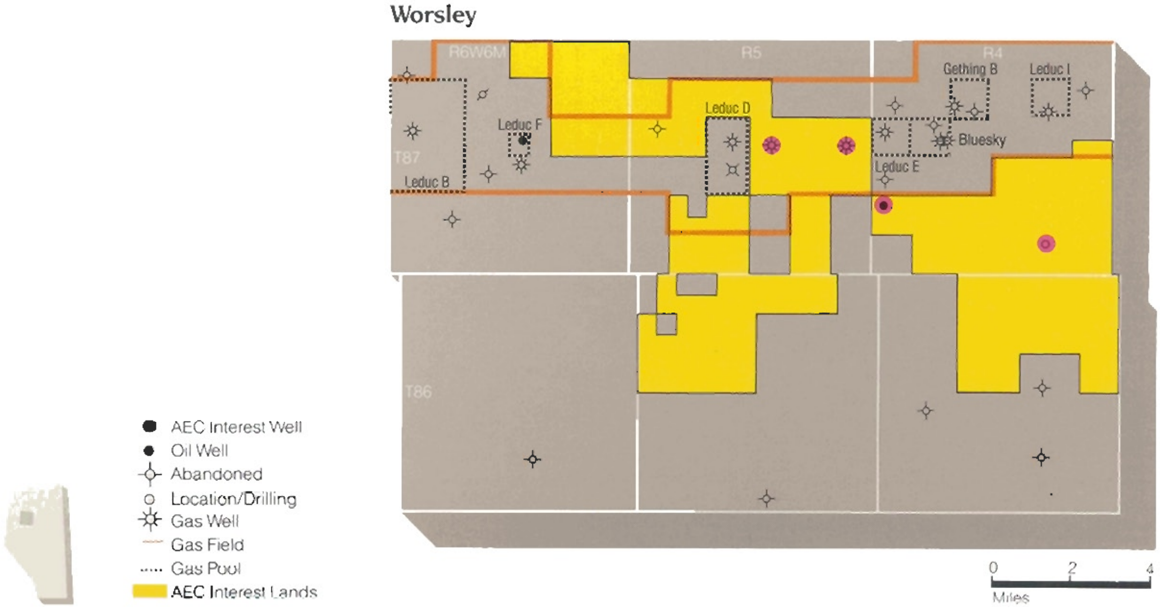
Petroleum and Natural Gas Landholdings

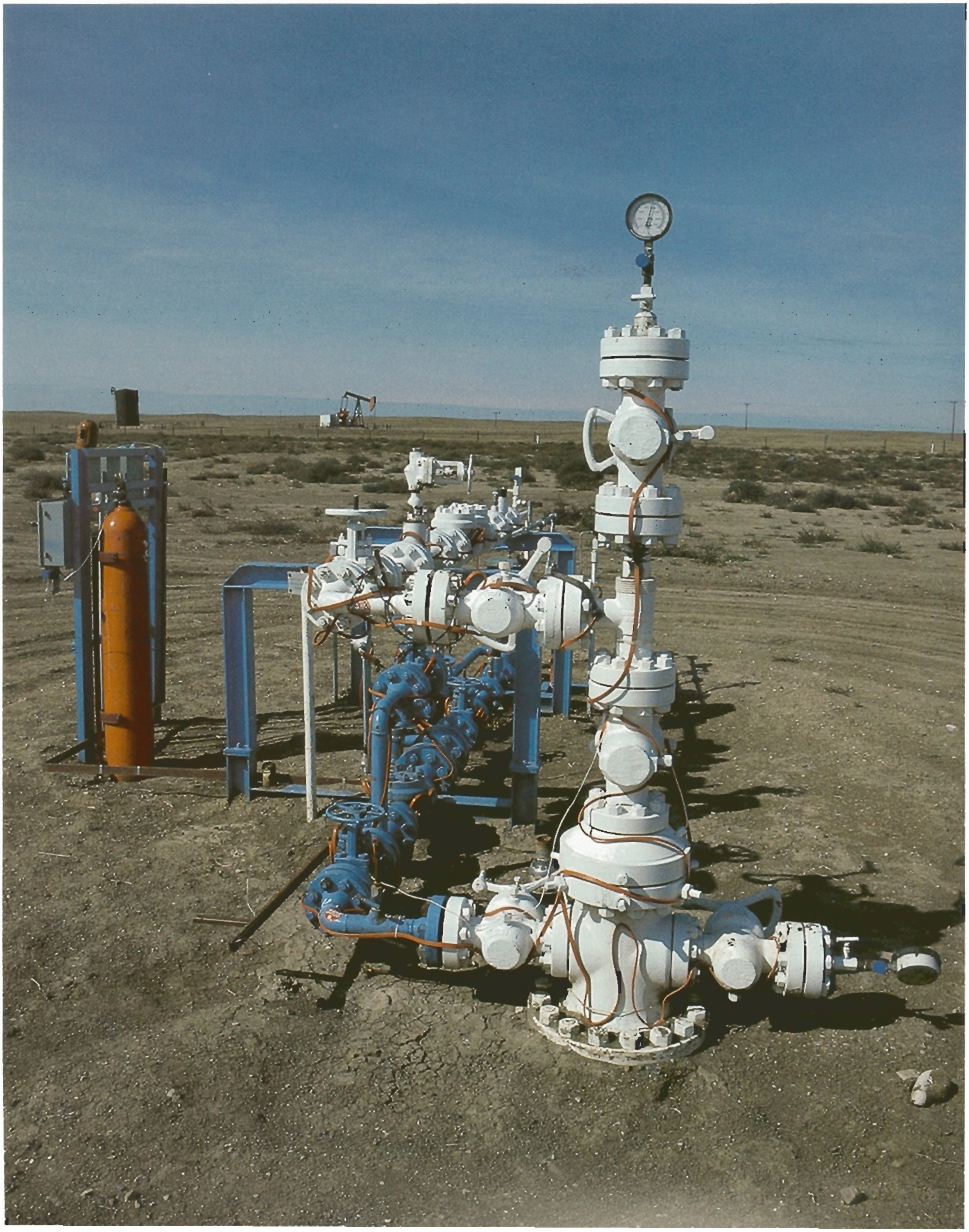
(Hectares)

	1984		1983		1982	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Alberta						
–Exploration Lands	515 766	162 771	462 760	118 465	448 983	100 100
–Suffield Block	256 963	256 144	247 963	246 561	247 963	246 561
–Primrose Block	510 080	423 833	510 080	423 833	510 080	423 833
Saskatchewan	12 604	9 915	9 473	7 862	–	–
British Columbia	190 715	61 278	155 491	37 977	114 815	24 242
Beaufort	55 288	1 058	–	–	–	–
Total	1 541 416	914 999	1 385 767	834 698	1 321 841	794 736

'Sunrise at an exploration drilling site''

Worsley





In the Peerless Lake discovery area located in north-central Alberta, a 30 percent working interest is held in three producing oil wells and two wells cased for evaluation. On initial production the wells have produced at rates varying from 17 cubic metres (107 barrels) to 40 cubic metres (252 barrels) per day. Current production is limited by allowables to 9.2 cubic metres (58 barrels) per day per well. It is anticipated that a central treating facility will be built and three additional development wells drilled in the pool in 1985. The Company also plans to participate in 10 additional exploratory wells on lands within the Senex/Peerless Lake trend; an average 36 percent interest is held in 45 300 gross hectares (113,300 gross acres), 16 300 net hectares (40,700 net acres).

At Worsley, a 30 percent interest is held in 15 100 gross hectares (37,700 gross acres), two gas wells, and one oil well. The Worsley 3-24 gas discovery is expected to produce at a rate of 140 thousand cubic metres (5 million cubic feet) per day when the well goes on production, and the Worsley 2-22 gas discovery is capable of production at similar or higher rates. A fourth well is currently drilling, and up to five additional exploratory wells are planned for 1985.

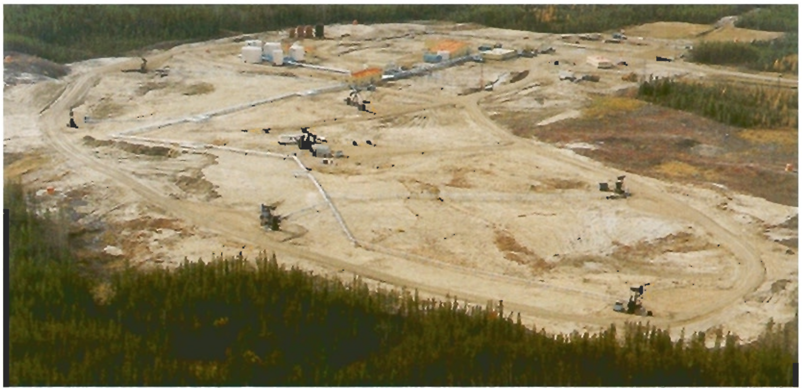
As part of its long-term exploration strategy, AEC Oil and Gas Company is earning small interests in lands held by a major company in the Beaufort Sea and Mackenzie Delta and will earn small interests in lands held by the same company in the Flemish Pass area off Canada's East Coast. In the Beaufort area, the Company has participated in five wells, including the Tuk M-09 discovery which tested gas at rates up to 480 thousand cubic metres (17 million cubic feet) per day and condensate at a rate of 147 cubic metres (924 barrels) per day. Drilling on the Flemish Pass lands is expected to start in 1985.

Production and Development

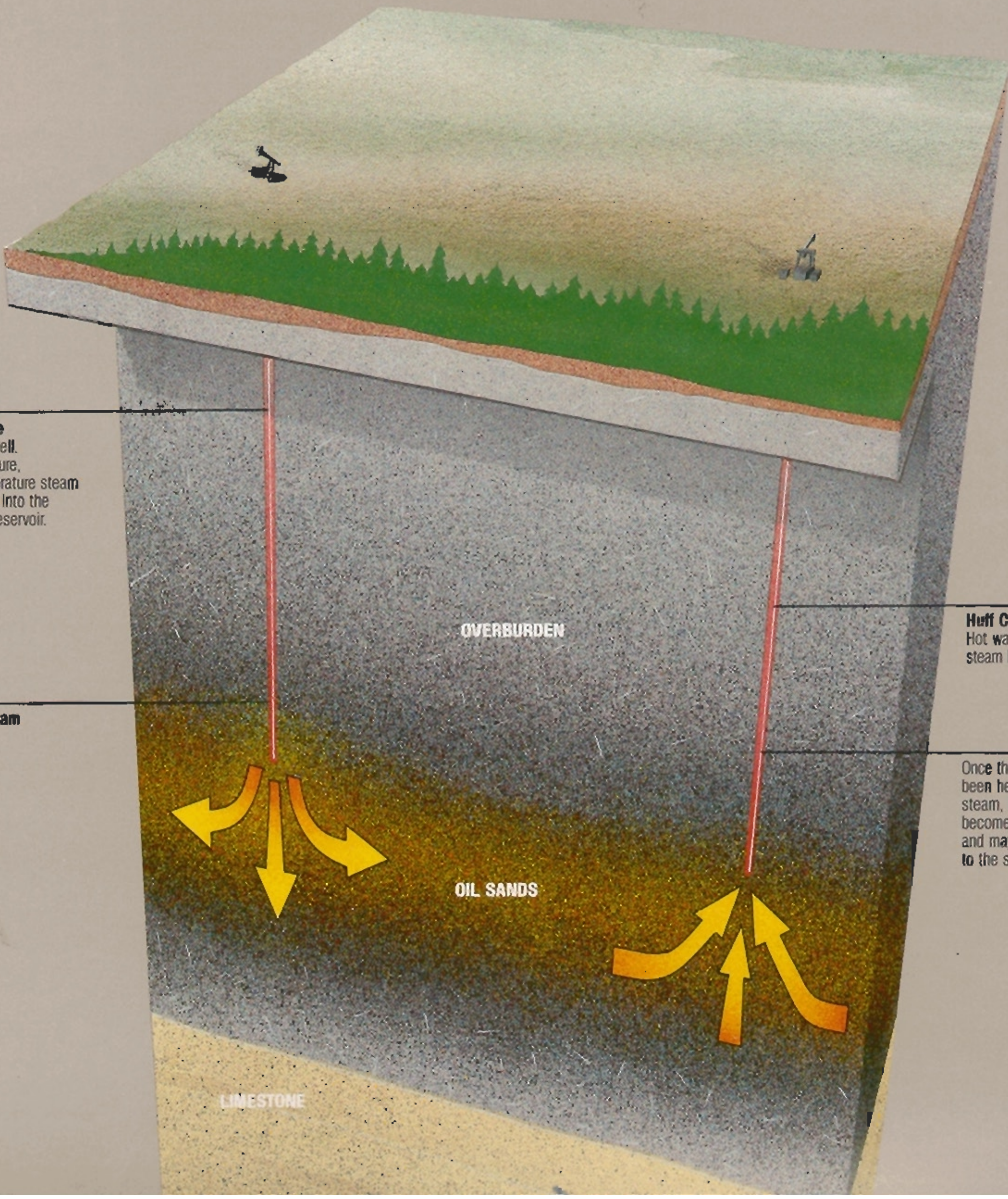
A significant development drilling program was initiated at Suffield, and a large portion of this project, which will add 300 wells to the 2,300 plus producing gas wells, was completed at year-end. These wells will provide additional deliverability and consequently will contribute to the Company's revenues as markets improve. The Company also was able to acquire additional gas properties on the Suffield Block for $32.8 million. This acquisition added 52 producing wells along with fee simple minerals (both lease and royalty rights) and gas purchase contracts which will provide additional Suffield revenues in 1985 and beyond. Due to the potential economies of natural gas as a transportation fuel, the Company's vehicles at Suffield have been converted to operate on AEC's natural gas.

This wellhead controls the injection of air and water necessary to sustain the SHOP fireflood and enhance production at the well in the background.

Huff & Puff Cycle
Cyclic steam injection, known as "huff and puff", is the simplest method of in-situ heavy oil recovery. High pressure steam is pumped down a well for varying lengths of time. Then it is shut off, and the warmer, more "runny" oil flows to the well. The same well is then used to pump out the mixture of steam, water and heavy oil.



Ipiatik Heavy Oil Pilot



In-Situ Heavy Oil

1984 was an active year in assessing the Company's in-situ heavy oil reserve potential. At Primrose, the encouraging results of the Burnt Lake pilot have been complemented by the start-up of operations at the Ipiatik Heavy Oil Pilot (IHOP). In the Ipiatik region, the Company has a 60 percent interest in 67 072 hectares (167,700 acres) of oil sands rights and some 2.0 billion cubic metres (12.5 billion barrels) of heavy oil in place. IHOP represents the first stage of developing this resource and consists of seven wells located at the northern edge of the Primrose Range. The pilot has been operating for nine months and is nearing completion of the first cycle of "huff-and-puff" steam injection/production. Several of the wells have had encouraging production results, and discussions are under way among the joint venture participants regarding expansion of this pilot.

The Company's associate at the Burnt Lake Heavy Oil Pilot on the southern end of the Primrose Range has operated a 31-well pilot for over a year and recently added 10 more wells to test new drilling and production techniques. Results have been particularly encouraging, and plans are being developed for a commercial project. Preliminary engineering work has been completed, and negotiations regarding fiscal terms are nearing finalization. AEC has the right to participate directly in this proposed project with a 25 percent equity interest or to elect other forms of participation.

Exploration of two areas of the Primrose Range has led to the pilot projects at Burnt Lake and Ipiatik to test major extensions to Alberta's heavy oil deposits. A third area currently is being explored, with 15 wells having been drilled in 1984 and a further 25 wells planned for 1985. In addition to the three areas of the Range mentioned, a significant portion of the lands remain unexplored.

The Company has a 70 percent interest in 67 million cubic metres (422 million barrels) of heavy oil in the Suffield Block, only a small portion of which can be recovered by conventional means. The Suffield Heavy Oil Pilot (SHOP), operational since 1982, has been testing an enhanced recovery technique—fireflooding—to increase the ultimate recovery of this oil. The fireflood appears to offer the potential for higher oil recovery than would be expected from conventional means, and the joint venture participants have held preliminary discussions regarding the desirability of testing of the fireflooding technique over a larger pilot area.

The market for heavy oil has been strong during the last year and, although it is presently less stable due to the international oil price weakness, the long-term North American requirements for heavy oil are expected to grow.

Oil and Gas

Chieftain Development Co. Ltd.

AEC owns 56 percent of Chieftain, a company engaged in Canadian and international oil and gas exploration and development. In this report, Chieftain's financial, exploration and production results, together with landholdings, are consolidated except in those sections of the report in which specific activities of AEC Oil and Gas Company are discussed. Following are brief highlights of Chieftain's past year.

Oil production increased by 86 percent over 1983 levels to 147 cubic metres (924 barrels) per day. Natural gas production of 768 thousand cubic metres (27.2 million cubic feet) per day represented a 2 percent increase.

Chieftain participated in 99 exploration and development wells in Alberta, the United States and Australia. Proved and probable oil reserves increased by approximately 330 thousand cubic metres (2.1 million barrels) to total 1.9 million cubic metres (11.7 million barrels) at December 31, 1984. Proved and probable natural gas reserves were approximately 18.8 billion cubic metres (667 billion cubic feet) at year-end.

Exploration for oil dominated activity in both Canada and the U.S. In Alberta, Chieftain participated in successful exploratory and development drilling at Sawn Lake, Gold Creek, Rycroft, Gordondale, Hythe, Pouce Coupe, Kakut and La Glace. Landholdings in the highly prospective East Peace River Region increased to 106 435 gross hectares (263,000 gross acres) or 52 085 net hectares (128,700 net acres). In the United States, Chieftain increased its holdings in the Gulf of Mexico to 89 235 gross hectares (220,500 gross acres) or 25 090 net hectares (62,000 net acres) with the acquisition of 16 federal offshore leases. A gas condensate discovery was drilled on Matagorda Island Block 604. In the Rocky Mountain and Williston Basin regions, Chieftain participated in the drilling of oil wells in Uinta County, Wyoming and McKenzie, Mountrail and Burke counties, North Dakota.

The natural gas liquids extraction plant strips out the heavier components – ethane butane propane – from the gas stream prior to the gas being shipped out of Alberta.

Natural Gas Liquids Extraction Plant

A natural gas liquids extraction plant, in which AEC has a 25 percent interest, commenced production on July 1, 1984. This plant is one of the largest and most efficient natural gas liquids extraction plants in the world. In addition to methane, natural gas contains heavier liquid components such as ethane, propane and butane. The extraction process strips out these liquids prior to the natural gas being transported from Alberta.

The natural gas liquids products from this plant are being sold to two Alberta companies on a cost-of-service basis.

Pan-Alberta Gas Ltd.

Pan-Alberta Gas, owned one-half by AEC, is one of the top two exporters of Canadian natural gas to the United States.

During 1984, the U.S. Economic Regulatory Administration (ERA) released guidelines for the import of natural gas to the U.S., and the Canadian government revised its policy to allow more flexibility in pricing of Canadian natural gas exports. Pan-Alberta was successful in renegotiating its export gas sales contracts, with the result that volumes sold into the export market are expected to show an increase of approximately 75 percent during the coming year.

Pan-Alberta Gas continues to provide an important service to Canadian natural gas producers.

Syncrude

1984 was a year of both achievement and challenge at Syncrude, the world's largest synthetic crude oil facility. AEC owns 10 percent of the plant and also retains an average 7 percent gross overriding royalty on an additional 10 percent of production.

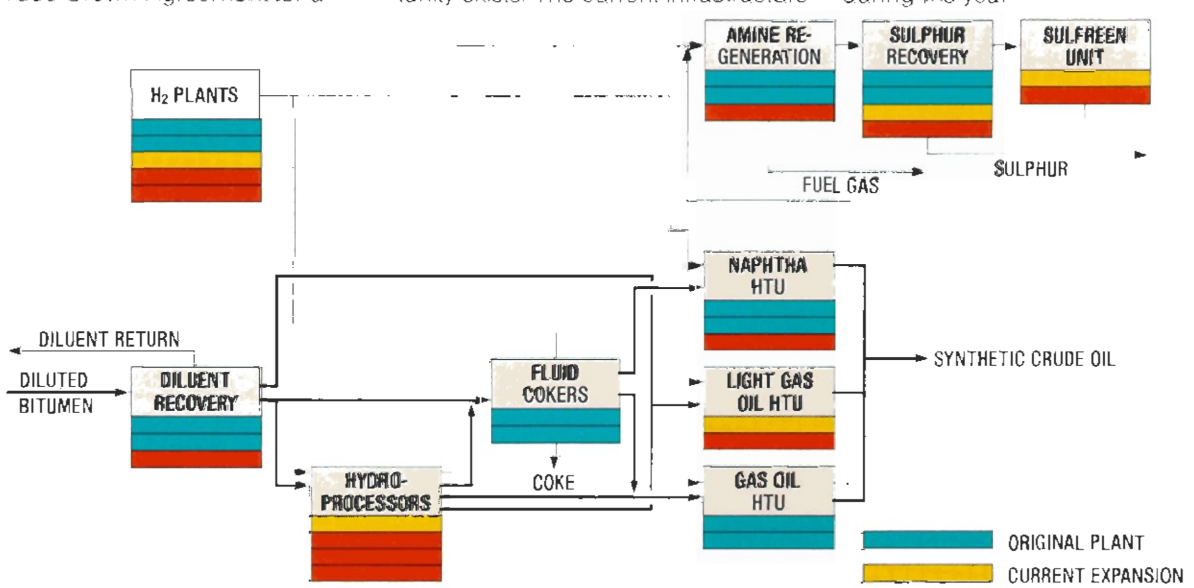
Outstanding production results were achieved during the second quarter, with a new three-month high being recorded. However, total 1984 production reached only 5.0 million cubic metres (31.5 million barrels) compared with 6.5 million cubic metres (40.8 million barrels) in 1983. This year's production was adversely affected by a fire in mid-August which caused extensive damage to one of the two fluid cokers. The other coker, shut down as a precautionary measure, returned to operation in mid-September, whereas the damaged coker came back onstream December 21.

Effective January 1, 1983 the Alberta government amended the Syncrude Crown Agreement for a five-year period permitting a portion of the Crown payments to be deferred. This encouraged an aggressive capital investment program to improve plant reliability and efficiency and to increase production capacity. The federal government lessened its revenue-based tax by reducing the PGRT rate from 12 percent to 8 percent for both 1983 and 1984, and recently extended the 8 percent rate into 1985.

The first stage of increasing the production capacity by 1 750 cubic metres (11 000 barrels) per day will be completed in 1985. The facilities for an additional 2 960 cubic metres (18,600 barrels) per day of production have been designed. If the Syncrude owners decide to proceed with construction in 1985, the total plant designed capacity will be 22 000 cubic metres (138,600 barrels) per day by 1987. The new facilities would not only increase production, but would also reduce sulphur dioxide emissions, improve product quality, and enhance processing reliability.

A further development opportunity exists. The current infrastructure and operating experience make Syncrude the most effective location for the next major addition of oil sands synthetic oil production. Discussions have been held with the Alberta and federal governments regarding an additional 50 percent expansion of Syncrude, which would increase total plant production capacity to about 32 000 cubic metres (200,000 barrels) per day. The expansion would cost an estimated $4 billion and create 75,000 man-years of Canadian employment during construction and 1,200 permanent operating jobs. Detailed design engineering work could commence in 1985 as the forerunner to a construction decision, pending satisfactory resolution of fiscal terms with the two levels of government.

Syncrude impacts significantly on Canada as evidenced by the fact that it supplied 6 percent of the country's 1984 oil requirement. The project directly employed 4,385 people, and provided employment for in excess of 1 200 construction workers during the year.

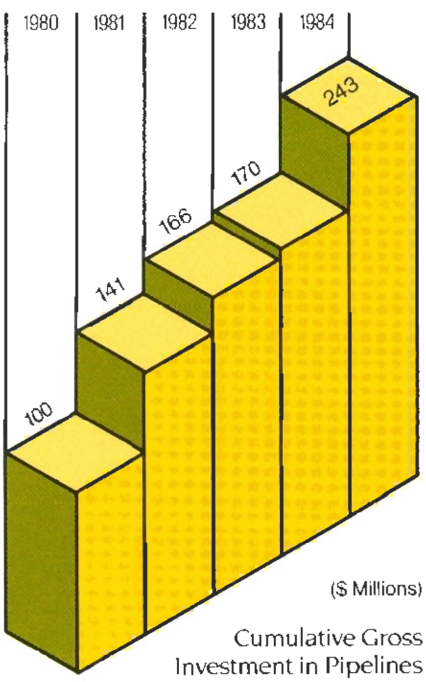


SYNCRUDE UPGRADING FACILITIES

The Syncrude operation utilizes four enormous draglines whose buckets can move 5 500 tonnes of material per hour

Pipelines

"A new 24-inch pipeline was laid to transport bitumen blend through the expanded Cold Lake Bitumen Pipeline system."



Cumulative Gross Investment in Pipelines

During the past year, AEC significantly increased its investment in pipelines. Existing systems were expanded to meet increased transportation requirements, with the major expenditures being incurred for the Cold Lake Bitumen Pipeline expansion.

Alberta Oil Sands Pipeline Ltd.

Alberta Oil Sands Pipeline Ltd., a wholly owned subsidiary of AEC, operates the 430-kilometre (270-mile) pipeline which transports synthetic crude oil from the Syncrude operation near Fort McMurray to Edmonton.

A pipeline lateral to supply synthetic crude oil to a new Edmonton area refinery was commissioned in July. A significant portion of the refinery's feedstock is transported through this lateral.

It is anticipated that the daily capacity of the oil sands pipeline will be expanded during 1985 to meet projected increased throughput requirements. The extent of such additions has not been decided.

Cold Lake Bitumen Pipeline

Cold Lake Bitumen Pipeline throughput averaged 4 023 cubic metres (25,307 barrels) of bitumen blend per day. The throughput capacity of the system was enhanced during 1984 with the installation of a temporary mid-point pumping station.

In early 1984, the Energy Resources Conservation Board approved construction of a major expansion to the pipeline system. As well, a lateral pipeline to transport bitumen from a new heavy oil plant near Wolf Lake also was approved. Total value of the new pipeline facilities will be approximately $100 million. The expansion will raise the daily capacity of the system to 15 900 cubic metres (100,000 barrels) and provide an ultimate daily volume of approximately 47 700 cubic metres (300,000 barrels). Development of further heavy oil projects in the Cold Lake area will increase the utilization of the expanded pipeline system.

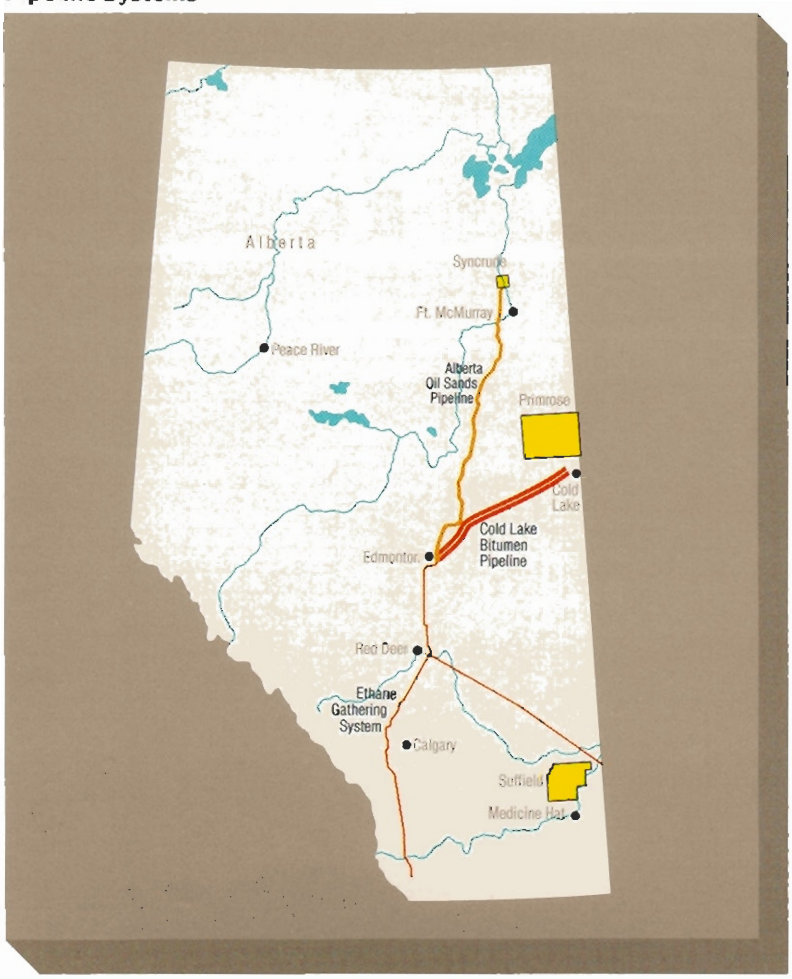
Alberta Ethane Gathering System

Daily throughput was 14 972 cubic metres (94 177 barrels) in 1984, as compared to 12 457 cubic metres (78,395 barrels) in 1983. This system collects ethane from several natural gas processing plants throughout the province and transports it to ethylene plants in Red Deer and to underground storage caverns near Fort Saskatchewan for subsequent shipment to the East.

IPSCO Inc.

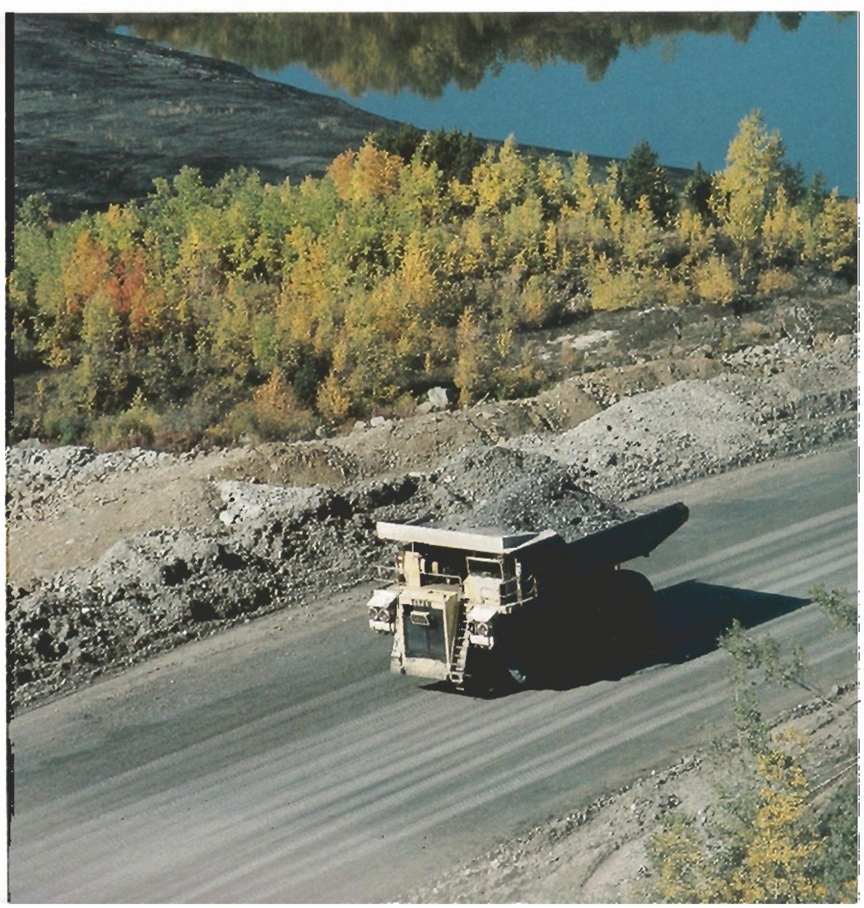
IPSCO Inc., in which AEC holds a 10 percent interest through Steel Alberta Ltd., recorded net earnings of $14.6 million on sales of $280.2 million for fiscal year 1984 compared to net earnings of $7.1 million on sales of $192.6 million in fiscal year 1983. The improved profit performance of IPSCO during 1984 reflected a stronger demand principally for products supplied to the oil and gas industry.

Pipeline Systems



"The dimensional lumber and studs produced at the Blue Ridge mill are marketed under the "Ranger®" brand name."

"Use of new, larger 150-tonne trucks contributed to increased efficiency and productivity at Coal Valley."



Forest Products

Blue Ridge Lumber (1981) Ltd.

North American demand for wood products increased in 1984 as a result of significant growth in housing starts in both the United States and Canada. Despite this, lumber prices remained at depressed levels for most of the year. Lumber shipments by Blue Ridge Lumber (1981) Ltd., a wholly owned subsidiary of AEC, totalled 130 million board feet during the year. Although profit performance improved as a result of operating efficiencies, it remained below acceptable levels.

Medium-Density Fibreboard Plant

The Company commenced construction during 1984 of a $32 million medium-density fibreboard plant, the first of its kind in Canada. The plant is located adjacent to the existing Blue Ridge sawmill and will use shaving and sawdust wastes from that facility for a considerable portion of its fibre requirements. Production of medium-density fibreboard is expected to commence during the second quarter of 1986 and serve Canadian, United States, and offshore markets.

British Columbia Forest Products Limited

British Columbia Forest Products Limited, in which AEC holds an 18 percent interest, recorded 1984 earnings of $9.2 million on sales of $1 billion, compared to a loss of $32.7 million on sales of $900 million in 1983. The improved financial performance in 1984 was due principally to stronger markets for pulp and paper and newsprint; however, profits remained far below acceptable levels because of high interest costs and disappointing wood products markets.

Coal

1984 was a year of significant accomplishment at the Coal Valley mine, near Edson, Alberta. The mine realized increased efficiency and improved productivity resulting in the lowest inflation-adjusted cost of sales in its history. Profitability also was significantly improved.

The 1984 market for thermal coal – used primarily to generate electricity – remained extremely competitive due to world coal oversupply, modest electricity demand growth, and the strength of the Canadian dollar relative to the currencies of other coal-exporting nations. However, due to lower operating costs and intensified marketing efforts, the mine was able to increase coal sold by 8 percent over 1983.

As a result of intensive testing and process analysis carried out in the coal preparation area, the plant achieved the best coal recovery performance in its operating history. As well, a computerized mine planning system was introduced.

At year-end, the rail car coal loading facilities were damaged by an explosion and fire. Sales originally planned for early 1985 will be deferred until later in the year due to the fire; however, total 1985 sales will not be adversely affected because of the mine's overcapacity.

The oversupply of thermal coal in world markets is expected to continue in 1985. Cost and productivity improvements will be essential to maintain the mine's competitive position.

1984 Financial Review

The year was one of continued strong financial performance with the Company attaining record net revenues, net earnings and cash flow from operations.

Revenues, net of royalties, reached a new high of $484.2 million, up 4.8 percent over 1983 results. Oil and gas revenue increased as a result of higher oil and gas prices and record levels of conventional oil production. This gain was partially offset by lower Syncrude volumes as a result of the mid-August fire at the plant. In spite of a highly competitive environment, revenue increases were also recorded in the Company's coal, forest products and drilling operations.

Net earnings for the year totalled $72.3 million ($1.22 per common share), up 16 percent over 1983 net earnings of $62.4 million ($1.03 per common share).

Cash flow from operations was $222.6 million ($4.08 per common share), up 5 percent from the 1983 previous high of $211.9 million ($3.87 per common share). This continued level of cash flow has supported the Company's aggressive capital investment programs, with a minimal increase in its debt position.

The higher level of capital investment and activities in all business segments is reflected in the 4.8 percent increase in operating costs with general and administrative expenses being held close to 1983 levels.

Interest expense, net of interest income, was down $2.5 million from 1983 primarily due to a reduced average debt outstanding throughout 1984. This reduction was partially offset by a higher average effective interest rate and lower investment income.

Increases in income taxes and the Petroleum Gas Revenue Tax are a function of increased earnings and revenues.

The 1984 investment of $255.2 million in property, plant and equipment is net of $65.2 million in recoveries from various incentive programs and in Investment Tax Credits. This high level of expenditure reflects the Company's ongoing commitment to investments in new oil and gas exploration and development, while continuing to develop the Suffield Block, expand pipeline operations and invest in a new medium-density fibreboard plant. Gross expenditures of $153.1 million for exploration and development of conventional oil and gas were made in 1984. The expansion of the Cold Lake Bitumen Pipeline, scheduled for a second quarter 1985 start-up, resulted in 1984 expenditures of $67.5 million with an additional $16.7 million having been invested in the continuing development of the Suffield Block. A further investment of $32.8 million for the acquisition of additional Suffield lands was also made in the year.

In 1984, the Company paid common share dividends of $12.7 million or $0.25 per common share, up from the $0.20 per common share paid in 1983. Preferred share dividends amounted to $10.2 million.

With year-end working capital of $50 million, existing unutilized long-term credit facilities of $493 million, strong cash flows and nominal annual debt repayments in the next four years of under $10 million, the Company has the financial strength to continue to actively pursue further significant investment opportunities.

"The deployment of $3 million of computer equipment throughout the Company contributes to profitability by providing cost savings, efficiencies and improved productivity."

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 over 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

Oil and Gas

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 or unit-of-production method, whichever is deemed appropriate.

Investment Tax Credits

Investment Tax Credits are recorded as a reduction of the expenditures which gave rise to such credits, at the time such expenditures are incurred, if the Company has reasonable assurance that the credits will be realized.

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.

Comparative Figures

Certain 1983 figures have been reclassified and restated for comparative purposes

Consolidated Statement of Earnings

Year Ended December 31 ($ millions)	Note Reference	1984	1983
Revenues, Net of Royalties		$484.2	$462.1
Equity Earnings of Affiliates		10.0	7.0
		494.2	469.1
Costs and Expenses			
Operating		176.1	168.0
Interest – net	2(a)	39.3	41.8
General and administrative		23.2	23.1
Depreciation, depletion and amortization		73.4	75.8
		312.0	308.7
Earnings before Income and Revenue Taxes and Minority Interest		182.2	160.4
Income taxes	3	70.7	63.4
Petroleum and gas revenue tax		32.5	29.5
		103.2	92.9
Earnings before Minority Interest		79.0	67.5
Minority Interest		6.7	5.1
Net Earnings		$ 72.3	$ 62.4
Basic and Fully Diluted Earnings per Common Share		$ 1.22	$ 1.03

Consolidated Statement of Retained Earnings

Year Ended December 31 ($ millions)	1984	1983
Balance—Beginning of Year	$216.7	$177.3
Net Earnings	72.3	62.4
	289.0	239.7
Deduct		
Dividends—Preferred Shares	10.2	12.4
—Common Shares	12.7	10.2
Financing Costs—Preferred shares of a subsidiary, net of income tax and minority interest	—	.4
	22.9	23.0
Balance—End of Year	$266.1	$216.7

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

AEC

Consolidated Balance Sheet

As at December 31 ($ millions)	Note Reference	1984	1983
Assets			
Current Assets			
Cash and short-term investments at cost which approximates market		**$ 73.2**	$ 92.1
Accounts receivable and accrued revenue		**75.4**	80.0
Inventories	5	**17.9**	18.0
Prepaid expenses		**2.3**	2.0
		168.8	192.1
Investments	6	**267.3**	260.5
Property, Plant and Equipment	7	**1,323.7**	1,155.3
Other Assets and Deferred Charges	8	**5.1**	5.4
		$1,764.9	$1,613.3
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank indebtedness		**$ .3**	$ 40.2
Accounts payable and accrued liabilities		**95.4**	72.7
Dividends payable		**2.8**	2.8
Income and revenue taxes payable		**2.3**	2.4
Deferred revenue	9	**8.3**	3.6
Current portion of long-term debt	10	**9.8**	18.6
		118.9	140.3
Deferred Revenue	9	**80.5**	87.6
Long-Term Debt	10	**577.4**	506.3
Deferred Liabilities	11	**44.5**	44.5
Deferred Income Taxes		**270.4**	212.4
Interests of Minority Shareholders	12	**101.7**	103.2
		1,193.4	1,094.3
Shareholders' Equity			
Share capital	13	**304.8**	302.4
Retained earnings		**266.1**	216.7
Unrealized foreign exchange gain (loss)		**.6**	(.1)
		571.5	519.0
		$1,764.9	$1,613.3

Approved by the Board:

D. Mitchell Director

J.E. Mayhew Director

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

Consolidated Statement of Changes in Financial Position

Year Ended December 31 **($ millions)**	Note Reference	**1984**	1983
Source of Funds			
Net earnings		**$ 72.3**	$ 62.4
Depreciation, depletion and amortization		**73.4**	75.9
Deferred income taxes		**74.1**	68.3
Equity earnings of affiliates		**(10.0)**	(7.0)
Minority interest		**6.7**	5.1
Other		**6.1**	7.2
Cash flow from operations		**222.6**	211.9
Deferred revenue		**1.3**	1.9
Issue of preferred shares by a subsidiary, net proceeds		**—**	23.5
Issue of common shares—net proceeds	13	**2.4**	.1
Issue of long-term debt		**184.1**	19.6
Other		**21.3**	7.2
		431.7	264.2
Use of Funds			
Investment in property, plant and equipment		**255.2**	133.0
Investment in affiliates		**4.2**	30.7
Reduction of long-term debt		**114.7**	77.7
Current portion of deferred liabilities and deferred revenue		**8.4**	5.1
Reduction in deferred income taxes on recognition of investment tax credits	4	**18.8**	—
Redemption of preferred shares issued by a subsidiary		**4.5**	.8
Dividends—			
Preferred and common shareholders		**22.9**	22.6
Minority shareholders of a subsidiary		**4.9**	5.0
		433.6	274.9
Decrease in Working Capital		**1.9**	10.7
Working Capital—Beginning of Year		**51.8**	62.5
Working Capital—End of Year		**$ 49.9**	$ 51.8

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

1. Segmented information

($ millions)	Oil and Gas 1984	Oil and Gas 1983	Pipelines 1984	Pipelines 1983	Other 1984	Other 1983	Total 1984	Total 1983
Gross revenue	**$ 397.2**	$405.1	**$ 43.8**	$ 43.1	**$ 88.2**	$ 80.9	**$ 529.2**	$ 529.1
Royalties	**44.8**	66.3	**—**	—	**.2**	.7	**45.0**	67.0
Revenues, net of royalties	**352.4**	338.8	**43.8**	43.1	**88.0**	80.2	**484.2**	462.1
Operating expenses	**100.1**	95.1	**9.9**	8.0	**66.1**	62.6	**176.1**	165.7
Depreciation, depletion and amortization	**54.9**	57.7	**7.2**	7.0	**9.6**	9.5	**71.7**	74.2
Petroleum and gas revenue tax	**32.5**	29.5	**—**	—	**—**	—	**32.5**	29.5
	187.5	182.3	**17.1**	15.0	**75.7**	72.1	**280.3**	269.4
Segmented operating income	**$ 164.9**	$156.5	**$ 26.7**	$ 28.1	**$ 12.3**	$ 8.1	**203.9**	192.7
Equity earnings of affiliates							**10.0**	7.0
Corporate expenses							**(24.9)**	(27.0)
Interest—net							**(39.3)**	(41.8)
Income taxes							**(70.7)**	(63.4)
Minority interest							**(6.7)**	(5.1)
Net earnings							**$ 72.3**	$ 62.4
Identifiable assets	**$1,094.4**	$985.3	**$208.5**	$147.7	**$101.6**	$101.1	**$1,404.5**	$1,234.1
Corporate assets							**93.1**	118.7
Investments							**267.3**	260.5
Total assets							**$1,764.9**	$1,613.3
Capital expenditures	**$ 168.8**	$122.3	**$ 73.8**	$ 4.3	**$ 11.6**	$ 5.7	**$ 254.2**	$ 132.3

2. Supplementary information

(a) Interest—net

($ millions)	1984	1983
Interest expense—on long-term debt	**$ 47.0**	$ 53.9
—on short-term debt	**5.4**	3.4
Interest income	**(10.9)**	(15.4)
Capitalized interest	**(2.2)**	(.1)
	$ 39.3	$ 41.8

(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)	1984	1983
Assets	$313.8	$305.9
Liabilities	36.2	36.1
Gross operating revenue	165.5	202.1
Expenses	105.5	106.1

3. Income taxes

The provision for income taxes is comprised as follows:

($ millions)	1984	1983
Current	$ .6	$ 3.1
Deferred	74.1	68.3
Alberta royalty tax credit	(4.0)	(8.0)
	$ 70.7	$ 63.4

The following table reconciles the difference between the recorded income tax expense and the expected tax expense obtained by applying the basic tax rate to income before income taxes:

($ millions)	1984	1983
Income before income taxes, equity earnings and minority interest	$139.7	$123.9
Expected income tax expense (Statutory Rate: 1984 - 47.0%; 1983 - 47.9%)	$ 65.6	$ 59.3
Effect on taxes resulting from:		
Non-deductibility of—		
Crown royalties and leases	17.2	19.8
Income debenture interest—net	6.9	6.4
Petroleum and gas revenue tax	14.6	14.1
Depreciation and depletion	3.4	5.2
Federal allowances—		
Resource allowance	(29.4)	(27.3)
Earned and supplementary depletion	(3.8)	(8.0)
Provincial income tax rebates	(4.1)	(7.9)
Other—net	.3	1.8
Income tax expense (Effective Rate: 1984 - 50.6%; 1983 - 51.2%)	$ 70.7	$ 63.4

4. Investment Tax Credits

Changes to the Income Tax Act (Canada), enacted in 1984, substantially improved the Company's ability to utilize Investment Tax Credits which have arisen from the making of qualifying expenditures, primarily the acquisition of certain plant and equipment. It is the Company's policy to reduce such expenditures by the amount of the related Investment Tax Credit. Because of the aforementioned changes to the Income Tax Act, the Company has now reflected Investment Tax Credits to which it is entitled in the amount of $18.8 million ($15.6 million of which relates to expenditures made prior to 1984), by reducing the related expenditures accordingly. The Investment Tax Credit which has or will be used to reduce Federal Income Taxes otherwise payable, results in a decrease in the amount of the Deferred Income Tax liability.

5. Inventories

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

($ millions)	1984	1983
Raw materials and supplies	$ 10.3	$ 10 3
Work-in-process	4.9	3.0
Finished goods	2.7	4.7
	$ 17.9	$ 18.0

6. Investments

Accounted for on the equity basis.

($ millions)	Percent Interest	1984	1983
AEC Power Ltd. (50% voting)	66⅔	$ 20.7	$ 20.7
Steel Alberta Ltd.	50	19.8	15 9
Pan-Alberta Gas Ltd (40% voting)	50	6.7	5.9
Pan-Alberta Resources Inc. (40% voting)	50	35.7	33.4
		$ 82.9	$ 75.9

Accounted for on the cost basis:

($ millions)	1984		1983	
	Cost	Market	Cost	Market
British Columbia Forest Products Limited	$183.5	$ 93.8	$183.5	$116.4
Other	.9	1.3	1.1	1.2
	$184.4	$ 95.1	$184 6	$117.6

(a) *Steel Alberta Ltd.*

The principal asset of Steel Alberta Ltd. is a 20 2% equity interest in IPSCO Inc., which investment is accounted for on the equity method.

(b) Pan-Alberta Resources Inc. ("PARI")

PARI and another company jointly constructed a natural gas liquids extraction plant which commenced production in July, 1984. The cost of service agreement covering the operation of this plant provides for a return on the capital invested in the plant, while under construction, by capitalizing an allowance for funds used during construction. Accordingly, the earnings of PARI for 1984 and 1983 include an allowance on equity funds employed during the construction period, the Company's share of which was $1.6 million in 1984 and $2.5 million in 1983.

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

The Company owns 8,822,696 common shares of BCFP, representing an 18% interest therein.

7. Property, plant and equipment

	1984			1983
($ millions)	Cost	Accumulated depreciation, depletion and amortization	Net	Net
Oil and Gas	$1,203.6	$ 182.7	$1,020.9	$ 913.3
Pipelines	243.2	33.4	209.8	143.5
Other	138.4	45.4	93.0	98.5
	$1,585.2	$ 261.5	$1,323.7	$1,155.3

8. Other assets and deferred charges

($ millions)	1984	1983
Deferred stripping costs	$ 2.6	$ 3.2
Land held for future development	.7	.7
Unamortized financing costs	.8	1.0
Other	1.0	.5
	$ 5.1	$ 5.4

9. Deferred revenue

These amounts represent payments received under take-or-pay provisions of a major gas sales contract. The delivery of gas in respect of these payments and the recognition of revenue occurs out of gas production during the first five months of each contract year (commencing November 1 each year) at rates varying between 10 percent and 20 percent per contract year until the requisite amount of gas is delivered. Accordingly, $8.3 million which is estimated to become due in 1985 is classified as a current liability.

10. Long-term debt

($ millions)	1984	1983
Alberta Energy Company Ltd. ("AEC")		
Borrowings under revolving credit and term loan agreements		
Income debentures	**$180.0**	$180.0
Trust company loans - unsecured	**40.0**	50.0
Notes payable	**196.7**	163.3
Mortgage payable	**5.4**	5.4
Other	**8.4**	9.0
	430.5	407.7
Alberta Oil Sands Pipeline Ltd. ("AOSPL")		
First Mortgage Sinking Fund Bonds:		
Series A—9⅝%, due June 15, 1997	**20.4**	21.6
Series B—9¾%, due June 15, 1997	**23.0**	24.4
	43.4	46.0
Chieftain Development Co. Ltd. ("Chieftain")		
Borrowings under revolving credit and term loan agreement		
Income debentures	**28.6**	35.7
Bank loans—Chieftain International, Inc.	**83.2**	34.8
Other	**1.5**	.7
	113.3	71.2
	587.2	524.9
Current portion of long-term debt	**9.8**	18.6
	$577.4	$506.3

The aggregate maturities of long-term debt in each of the five years subsequent to December 31, 1984, are as follows:

1985	$ 9.8
1986	9.9
1987	9.9
1988	9.9
1989	39.5

(a) AEC revolving credit and term loan agreements

The Company has revolving credit and term loan agreements with financial institutions as follows:

	Amount Available	Revolving Until	Repayment Period
Secured			
Income debentures	$180	—	1989-1998
Bank loans	420	1988	1989-1998
Unsecured			
Bank loan	200	1987	1987-1992
Trust company loan	50	1991	1991-2001
Trust company loan	25	1988	1988
	$875		

After allowance for notes payable outstanding, undrawn lines of credit under these agreements amounted to $455.1 million at December 31, 1984.

The bank loans are available in Canadian and/or U.S. dollars and bear interest based on the lenders' prime commercial lending rates plus a factor varying over the terms of the loans up to 1%. Interest on the income debentures is approximately one-half of a similarly determined rate and is not deductible for income tax purposes. Interest on the trust company loans is the prime commercial lending rate of a major Canadian chartered bank minus a factor varying over the revolving term of the loans up to ¾%.

The income debentures and secured bank loans 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 unsecured loan agreements require the Company to maintain certain financial measurements which at December 31, 1984 have been adhered to by the Company.

Notes payable consist of $49.3 million (December 31, 1983-$49.2 million) in Commercial Paper and $147.4 million (December 31, 1983-$114.1 million) in Bankers' Acceptances, all maturing at various dates up to March 25, 1985, with a weighted average interest rate of 10.97% (1983-9.97%). Notes payable are shown as long-term debt because they are supported by the availability of term loans under the revolving credit facilities.

(b) AOSPL First Mortgage Sinking Fund Bonds

AOSPL is obligated to retire $2.8 million of these bonds annually. The bonds are secured by both a fixed and floating charge on AOSPL's assets that relate to the Syncrude Project. The participants in the Syncrude Project, of which the Company is a participant to the extent of 10%, have guaranteed the repayment of these bonds.

(c) Chieftain revolving credit and term loan agreement

Chieftain and its wholly-owned subsidiary, Chieftain International, Inc. ("CII") have a credit facility with a Canadian chartered bank in the amount of $150.0 million, which facility is fully revolving until 1991, at which time the amount then outstanding is repayable over the next seven years in twenty-eight blended quarterly payments.

The bank loans are available in Canadian and/or U.S. dollar equivalents and bear interest based on the lender's prime commercial lending rates or the London interbank offered rate, plus a factor varying over the term of the loans up to 1%. Interest on the income debentures at the approximate rate of one-half of the prime rate plus 1%, is not deductible for income tax purposes.

The income debentures, originally issued in 1979, form a part of this credit facility and are limited to the amount currently outstanding, subject to the original terms and conditions of issue. The required repayments of $7.1 million annually do not reduce the total credit available under this loan agreement.

Security for this loan agreement consists of a first floating charge debenture over all Canadian assets of Chieftain and CII, assignment of interests in oil and gas properties and related sales contracts, and accounts receivable. The loan agreement requires Chieftain to maintain certain financial measurements which at December 31, 1984 have been adhered to by Chieftain.

After allowance for debt outstanding, the undrawn lines of credit under this agreement amounted to $38.2 million at December 31, 1984.

11. 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 latter of which have been met. The balance of the cash obligation of $14.5 million is payable when leases to the remaining portions of the Range are issued.

12. Interests of minority shareholders

($ millions)	1984	1983
Chieftain Development Co. Ltd.		
Preferred equity	$ 54.6	$ 59.1
Common equity	47.1	44.1
	$101.7	$103.2

13. Share capital

($ millions)	1984	1983
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	$ 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	10.3
Common Shares:		
Authorized - 300,000,000 shares without par value		
Issued and fully paid - 50,933,122 (December 31, 1983 - 50,813,255)	234.5	232.1
	$304.8	$302.4

(a) Common Shares

	1984		1983	
	Number of Shares	Net Proceeds	Number of Shares	Net Proceeds
Issued for cash under Shareholder Investment Plan	108,117	$ 2.2	–	$ –
Issued for cash under Employee Share Option Plan	11,750	.2	12,500	.1
Net increase in the year	119,867	2.4	12,500	.1
Issued and outstanding – Beginning of year	50,813,255	232.1	50,800,755	232.0
Issued and outstanding – End of year	50,933,122	$234.5	50,813,255	$232.1

(b) Preferred Shares

(i) First Preferred Shares - Series A

The Series A Preferred Shares are cumulative and are retractable at the option of the holder on December 1, 1986 or December 1, 1991 at a price of $25.00. The shares are redeemable on December 1, 1986, or at anytime thereafter, at predetermined prices varying from $26.50 to $25.00.

(ii) Second Preferred Shares - Series 1

Series 1 Preferred Shares are cumulative and are retractable at the option of the holder on August 1, 1989 at a price of $26.50. 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.

The holders of Series 1 Preferred Shares have the option, until July 1, 1989, to convert each Series 1 Preferred Share into two AEC Common Shares, by tendering to the Company the sum of $12.30 with each Series 1 Preferred Share to be converted.

(c) 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. Each option which has been granted under the plan expires after seven years and may be exercised in cumulative annual amounts of 25% on or after each of the first four anniversary dates of the grant.

As at December 31, 1984 the following options to purchase Common Shares under the plan were outstanding:

Date Granted	Expiry Date	Price Per Share	Number of Common Shares
July 15, 1982	July 15, 1989	$10.58	233,500
September 19, 1983	September 19, 1990	$17.67	139,500
August 7, 1984	August 7, 1991	$17.45	180,000
November 13, 1984	November 13, 1991	$19.92	2,000
			555,000

(d) *Common Shares reserved*

At December 31, 1984, Common Shares were reserved for issuance as follows:

Conversion of Second Preferred Shares - Series 1	825,030
Shareholder Investment Plan	891,883
Employee Share Option Plan	675,750
Share Purchase Plan (presently inactive)	100,108
	2,492,771

(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.

14. Remuneration of directors and senior officers

The aggregate direct remuneration paid by the Company and its subsidiaries to its directors was $224.000 (1983 - $183.000) and to its senior officers as officers was $2.015,000 (1983 - $1,774,000).

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. 1984 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, 1984 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

Chartered Accountants
Edmonton, Alberta
February 6, 1985

Historical Review

(all dollar amounts, except per share amounts, are in millions)	**1984**	1983	1982	1981	1980	1979	1978	1977	1976
Financial									
Revenue (net of royalties)	**$ 484.2**	$ 462.1	$ 374.1	$ 285.1	$232.6	$ 90.9	$ 54.8	$ 20.3	$ 1.3
Net earnings, before extraordinary items	**72.3**	62.4	33.6	42.4	57.4	27.4	18.8	14.9	8.5
Net earnings, after extraordinary items	**72.3**	62.4	54.6	29.7	57.4	27.4	18.8	14.9	8.5
Cash flow from operations	**222.6**	211.9	131.0	90.6	115.6	60.8	32.5	17.1	8.2
Petroleum and Gas Revenue Tax	**32.5**	29.5	29.5	15.6	–	–	–	–	–
Oil and gas royalties paid	**44.8**	66.3	62.0	55.1	43.1	18.3	13.6	7.6	0.3
Working capital	**49.9**	51.8	62.5	1.5	10.1	44.3	141.0	15.5	68.4
Investment in property, plant and equipment	**1,323.7**	1,155.3	1,108.2	694.0	593.0	531.9	290.8	206.6	99.3
Long-term debt	**577.4**	506.3	564.0	518.1	251.8	309.6	209.2	44.6	–
Total assets	**1,764.9**	1,613.3	1,538.9	1,036.9	702.7	651.0	504.1	273.3	216.4
Per Share Data*									
Net earnings, before extraordinary items	**$ 1.22**	$ 1.03	$ 0.57	$ 0.93	$ 1.26	$ 0.60	$ 0.41	$ 0.33	$ 0.19
Net earnings, after extraordinary items	**1.22**	1.03	1.03	0.65	1.26	0.60	0.41	0.33	0.19
Cash flow	**4.08**	3.87	2.67	1.99	2.54	1.34	0.72	0.38	0.18
Shareholders' equity	**9.84**	8.83	8.05	6.37	5.90	4.80	4.27	3.85	3.52
Dividend	**0.25**	0.20	0.20	0.20	0.15	0.10	–	–	–
Shares*									
Number of shareholders	**49,524**	52,871	56,894	52,841	54,252	51,725	53,292	54,169	56,394
Common shares outstanding	**50,933,122**	50,813,255	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	**7,787,853**	9,313,891	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	**$ 23.25**	$ 21.25	$ 20.25	$ 27.75	$ 24.38	$ 14.42	$ 6.58	$ 6.42	$ 4.08
– Low	**17.63**	13.63	8.00	14.00	12.50	6.21	4.88	3.92	2.83
– Close	**19.88**	18.25	15.00	16.00	23.88	13.50	6.29	5.88	4.00
Operating Data									
Gas production, net before royalties									
– billion cubic metres	**2.3**	2.3	2.0	1.6	1.3	1.1	.8	.5	.02
– billion cubic feet	**82.1**	81.7	71.5	58.5	46.5	38.3	27.0	17.8	.8
Syncrude production (net)									
– thousand cubic metres	**501.3**	648.3	497.8	473.2	470.1	108.0	–	–	–
– million barrels	**3.2**	4.1	3.1	3.0	3.0	0.7	–	–	–
Conventional oil production									
– thousand cubic metres	**99.2**	57.5	20.0	19.3	21.5	20.9	24.4	12.3	–
– thousand barrels	**624.4**	361.7	126.1	121.2	135.4	131.8	153.3	77.4	–
Utility plant output									
– thousand megawatt-hours	**757**	903	869	793	809	788	300	–	–
Coal production (net)									
– thousand tonnes	**526**	515	672	684	600	488	157	–	–
– thousand tons	**579**	568	741	754	662	538	173	–	–
Lumber production, Whitecourt complex									
– million board feet	**130**	121	90	113	115	100	94	63	–
Pipeline throughput									
– million cubic metres	**11.9**	12.2	9.9	9.3	9.1	6.3	1.9	–	–
– million barrels	**74.7**	77.0	62.4	59.1	57.3	39.6	11.7	–	–

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

**Reflects three-for-one stock split*

Board of Directors

MATHEW M. BALDWIN
Company Director
Edmonton, Alberta

C. MERV LEITCH, Q.C
Partner,
Macleod Dixon
Barristers & Solicitors
Calgary, Alberta

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

PETER L.P. MACDONNELL, Q.C.
Partner, Milner & Steer
Barristers & 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
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

Company Officers and Senior Personnel

DAVID E. MITCHELL, President & Chief Executive Officer

JACK G. ARMSTRONG
Senior Vice-President
Finance

FRANK W. PROTO
Senior Vice-President

GWYN MORGAN
Vice-President
Oil and Gas

ROGER D. DUNN
Vice-President

EDWARD J. MARTIN
Vice-President &
Comptroller

HECTOR J. McFADYEN
Vice-President

ARLENE J. MOORE
Corporate Secretary

SYDNEY R. CHEN-SEE
Assistant Corporate
Secretary

JOHN D. WATSON
Treasurer

DEREK S. BWINT
Director, Financial
Evaluations

WAYNE G. HOLT
General Counsel

KEITH O. FOWLER
Director, Corporate
Taxation

LAWRENCE J. HICKEY
Assistant Comptroller

Principal Officers of Divisions

AEC Oil and Gas Company

GWYN MORGAN
President

RONALD A. McINTOSH
Senior Vice-President

ROGER N. GIMBY
Vice-President, Production

AEC Pipelines

FRANK W. PROTO
President

JACK G. ARMSTRONG
Senior Vice-President, Finance

BERNIE J. BRADLEY
Vice-President

Corporate Information

Offices

#2400, 639 - 5 Avenue S.W.
Calgary, Alberta T2P 0M9
(Executive Office)

#1200, 10707 - 100 Avenue
Edmonton, Alberta T5J 3M1
(Head Office)

Registrar and Transfer Agent— (Common Shares and First Preferred Shares, Series A)

The National Victoria and Grey Trust Company
Calgary, Edmonton, 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
Calgary, Edmonton, Vancouver, Winnipeg, Toronto, Montreal, Regina and Halifax

Auditors

Price Waterhouse
Chartered Accountants
Edmonton, Alberta

Stock Exchange Listings

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

Subsidiaries

Alberta Oil Sands Pipeline Ltd.	100%
Alenco Holdings, Inc.	100%
Blue Ridge Lumber (1981) Ltd.	100%
Chieftain Development Co. Ltd.	56%
Ranger Forest Products Ltd.	100%

Affiliates

AEC Power Ltd. (50% voting)	66⅔%
Pan-Alberta Gas Ltd. (40% voting)	50%
Pan-Alberta Resources Inc. (40% voting)	50%
Steel Alberta Ltd.	50%

Major Joint Ventures

Ethane Gathering System	33⅓%
Coal Valley Project	25%
Syncrude Project	10%

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 p.m. local time on Wednesday, April 10, 1985.

Copies of the Company's 1984 annual report may be obtained by contacting the office of the Corporate Secretary of the Company at Alberta Energy Company Ltd., #2400, 639 - 5 Avenue S.W., Calgary, Alberta T2P 0M9.

Printed in Canada