ALBERTA ENERGY COMPANY LTD.
1985 ANNUAL REPORT

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THE COVER

The cover reflects our growth and diversification since AEC first began operations with a small group of people more than a decade ago. The confidence shown by AEC's original shareholders has enabled the Company to develop a solid base as a substantial oil and gas exploration and production company, an oil pipeline company, a significant participant in Syncrude, a forest products company, and a joint-venture owner in petrochemicals and coal. These investments, coupled with our financial strength and the abilities and dedication of our people, provide a firm foundation for our second decade.

TABLE OF CONTENTS

HIGHLIGHTS

FINANCIAL PERFORMANCE

- Net earnings increased by 11 percent to $80.5 million, another record.
- Net earnings per share increased 18 percent to $1.44.
- Funds provided from operations increased by 15 percent to $255.3 million, another record.
- Funds flow per share increased 25 percent to $5.11.
- AEC purchased 6.2 million common shares, reducing common shares outstanding to 44.9 million and issued $75 million of convertible preferred shares.
- Capital investments included $223 million in oil and gas exploration and development; $42 million in pipeline expansion; $33 million in the Syncrude project and $22 million in forest products development.

CONVENTIONAL OIL AND GAS

- The Western Accord, combined with new provincial royalties and incentives to be phased in over the next three years, will substantially reduce taxation.
- Production of conventional oil and natural gas was at record levels.
- AEC Oil and Gas Company was top operator in Canada for 1985, drilling 725 development and exploratory wells, with participation in 156 additional wells operated by others.
- The Primrose Lake heavy oil pilot produced its one millionth barrel. Regulatory approval was received for two 25,000 barrel per day joint-venture commercial heavy oil projects at Primrose.

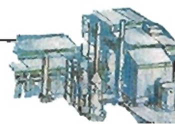
SYNCRUDE

- Syncrude achieved a new crude oil production record of 128,570 barrels per day.

PIPELINES

- A major expansion of the Cold Lake heavy oil pipeline was completed.
- The volume of oil transported via AEC-operated pipelines grew by 55 percent, to an average 172,000 barrels per day. At year-end, the throughput rate was 213,000 barrels per day.

PETROCHEMICALS



- AEC is investing $105 million in a new AEC/Cominco fertilizer joint venture.

FOREST PRODUCTS

- Operating efficiencies and record production levels allowed lumber operations to show positive funds flow and income contributions.

AEC AT A GLANCE

THE FOUNDATION OF AEC– OUR PRINCIPAL INVESTMENTS

Alberta Energy Company is a wholly Canadian owned, Alberta-based company, involved in the exploration, development and production of natural resources. A summary of the principal investments of AEC is given below.

Oil and Gas

- One of Canada's top 10 natural gas producing companies, with proven natural gas reserves of 1.7 trillion cubic feet and a remaining reserve life of 19 years at 1985 production rates.
- A growing producer of conventional oil, with proven reserves of 20 million barrels and a remaining reserve life of 19 years at 1985 production rates.
- Interests averaging 51 percent in 6.2 million acres of oil and gas properties in Canada.
- Participation in international production and exploration through 56 percent ownership of Chieftain Development. The market value of AEC's Chieftain ownership at 1985 year-end was $150 million.
- Owner of a 10 percent equity interest, and a royalty interest on an additional 10 percent, of the $2.7 billion Syncrude oil production facility. Also, a 67 percent owner of the $293 million Syncrude power plant.
- One-half owner of a company engaged in the purchase and sale of Canadian natural gas.
- Owner of a 25 percent interest in a $150 million natural gas liquids extraction plant.
- In-situ heavy oil sands resources of 14.5 billion barrels in place. Two 25,000 barrel per day commercial heavy oil projects have received regulatory approval.

Pipelines

- Owner and operator of two major intra-provincial pipeline systems transporting synthetic crude oil and Cold Lake heavy oil production. At the end of 1985, AEC had 760 miles of pipelines in operation with daily throughput of 213,000 barrels per day. The Company is also one-third owner of the 545-mile Alberta Ethane Gathering System.
- Alberta's largest intra-provincial oil pipeline company.
- Investment in pipelines at year-end 1985 totalled $285 million.

Petrochemicals

- Upon completion of a $105 million nitrogen fertilizer plant and associated facilities currently under construction, AEC will be a 25 percent participant in the entire Alberta nitrogen fertilizer business of Cominco. Cominco has been a producer and marketer of fertilizer under the "Elephant Brand" trademark for over 50 years, and requires more nitrogen fertilizer production capacity to serve its customers.

Forest Products Operations

- Owner and operator of a 135 million board feet per year lumber mill in Alberta.
- Also owner of a 50 million square foot per year medium-density fibreboard plant scheduled for completion in 1986.
- Holder of 1.1 million acres of timber rights in an Alberta forest management area.
- Investment in forest products operations at year-end 1985 totalled $65 million.

Coal

- Twenty-five percent owner of an Alberta thermal coal mine with reserves of 7.2 million tons and producing reserve life of 15 years at 1985 rates. This mine is producing at a profit and has an agreement for long-term, take-or-pay sales.
- Investment in coal at year-end 1985 totalled $42 million.

Portfolio Investments

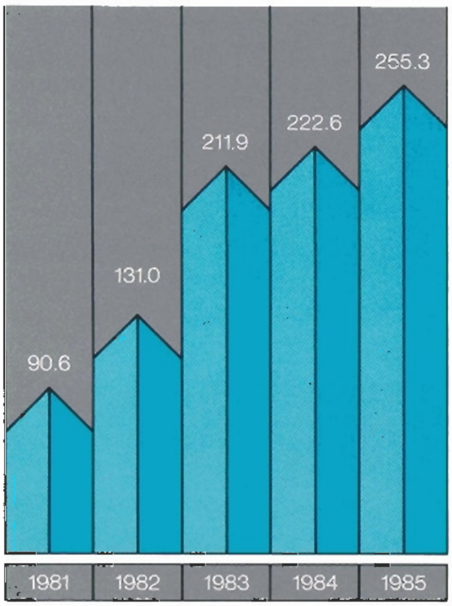
- AEC owns 17.7 percent of British Columbia Forest Products Limited and 10 percent of IPSCO Inc., a western Canadian-based steel pipe producer.
- The market value of these two investments at year-end 1985 totalled $121 million.

PRESIDENT'S REMARKS TO SHAREHOLDERS

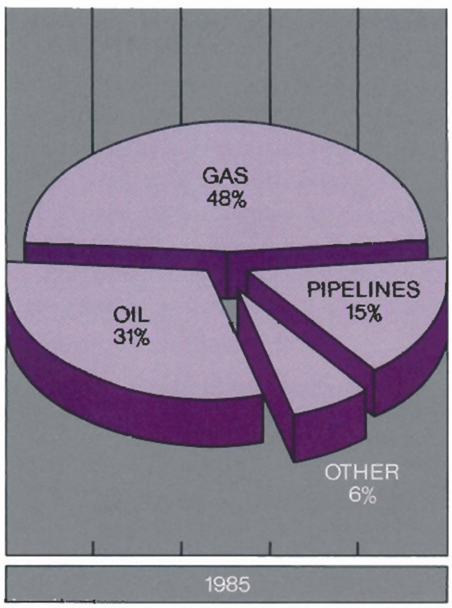
A FIRM FOUNDATION

The information on the preceding pages illustrates what Alberta Energy Company is today. The Company's resource base is very strong indeed; it has a sound financial position, strong funds flow and a fine team of highly qualified, dedicated people.

1985 was another year of progress with significant new additions to our asset base through new capital programs and the initiation of new projects. Production of natural gas, oil and lumber, as well as pipeline throughputs were at record levels. Each one of our business areas contributed positively to funds flow and net earnings. Net earnings and funds flow grew to record levels, the fifth consecutive year that steady growth has occurred. AEC was Canada's top driller of oil and gas wells in 1985. Syncrude production was at a record level, and work on new production facilities proceeded very well. Completion of a major new pipeline on time and within budget was another highlight. Details of these and other activities are outlined further on in this report.

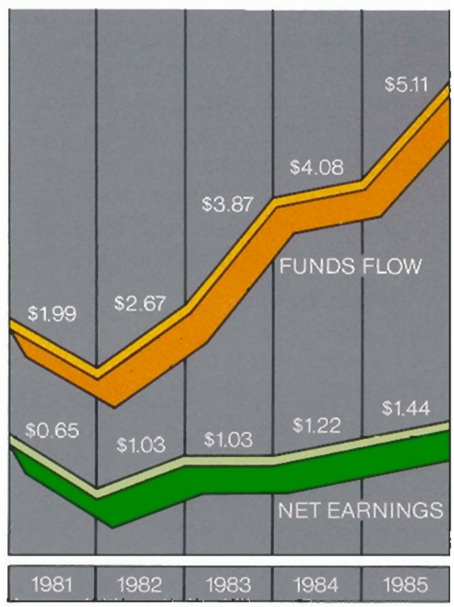


FUNDS PROVIDED FROM OPERATIONS
($ MILLIONS)



SOURCES OF FUNDS FLOW BY SEGMENT

Funds provided from operations increased by 15 percent to $255.3 million, another record.



FUNDS FLOW PER COMMON SHARE AND NET EARNINGS PER COMMON SHARE

Net earnings per share increased 18 percent... funds flow per share increased 25 percent.

PRESIDENT'S REMARKS TO SHAREHOLDERS

PLANS FOR 1986

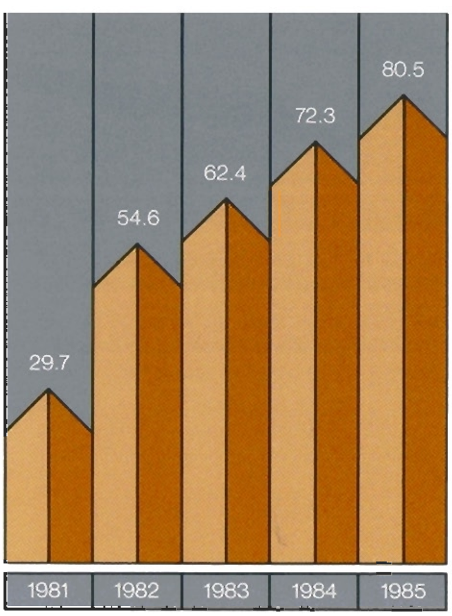
1986 is expected to be another year of significant investment in AEC's principal natural resource businesses. The level of capital expenditure by the Company presently is being assessed and will reflect the impact of the decline in oil prices which occurred early in the year. The Company will be making investments in oil and gas exploration and development, equipment for production increases at Syncrude, oil pipelines, forest products and fertilizer production facilities.

Our investment in oil and gas will include conventional exploration and development. As well, we expect to participate in the recovery of heavy oil from both the Primrose "in-situ" oil sands (deeply buried oil sands where heavy oil is recovered using steam injection) and from mineable oil sands at Syncrude. AEC believes that future years will see a good demand for both the heavy oil produced at Cold Lake Primrose and the high quality light oil product produced at Syncrude. North America is not self-sufficient in oil production, and these oil sands ventures will be vital as production of conventional oil declines in Canada and in other non-OPEC countries. Oil sands ventures have long lead times before going on production, making new capital investment decisions more challenging at this time of very unstable oil prices. However, AEC believes that the non-OPEC oil supply will lessen and that markets will strengthen as we move into the next decade.

Similarly, the North American natural gas market will strengthen and current exploration investments are in preparation for that demand growth. In the meantime, AEC will dedicate great effort to maintaining its existing gas marketing arrangements and identifying new markets. There are gas opportunities that can be profitably pursued.

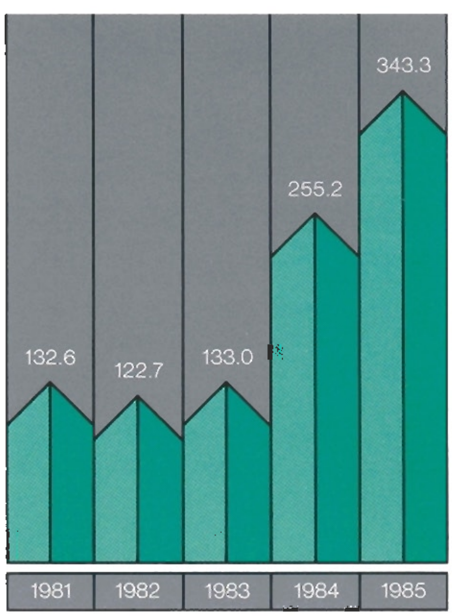
AEC's investment over the next two years in a new nitrogen fertilizer facility is a unique and promising venture. The plant will use hydrogen and nitrogen feedstocks produced at nearby petrochemical plants, very substantially reducing the costs relative to other facilities of similar size. Completion of this facility in mid-1987 will see additional funds flow coming as a result of AEC's 25 percent participation in all of Cominco's Alberta-based nitrogen fertilizer business.

Capital expenditures in forest products during 1986 will complete the construction of a plant to produce medium-density fibreboard a premium wood product. This investment fulfills a commitment that was made to maintain our ownership position in 1.1 million acres of timber rights.

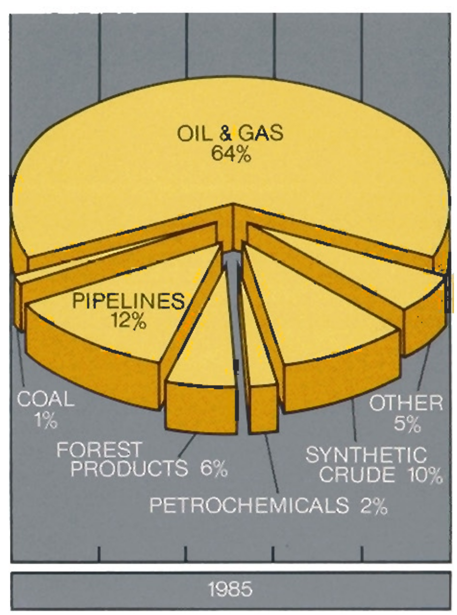


NET EARNINGS
($ MILLIONS)

Net earnings increased 11 percent to $80.5 million, another record.



CAPITAL INVESTMENTS
($ MILLIONS)



CAPITAL INVESTMENTS BY SEGMENT

1985 was another year of progress with significant new additions to our asset base through new capital programs and the initiation of new projects.

SOME FUNDAMENTALS IN OUR FUTURE DECISIONS

AEC will concentrate on the natural resource businesses in which we currently function. Unless there is a special strategic advantage in doing otherwise, our intent is to structure investments so that we share directly in funds flow and tax credits from these ventures. When AEC is working in an area where in-house experience has not been adequately developed, we will work with proven expertise, as is illustrated by the Cominco fertilizer joint venture.

The Alberta government's commitment to participate as a shareholder but not in the management of the Company is further evidenced by its reduction in ownership to 37 percent. This was accomplished by our 1985 purchase of 6.2 million common shares held by the Government. AEC has no current intent of further share purchases from the Government and, to the best of our belief, the Alberta government has no current intent of selling more of its shares.

1986 investments are expected to be profitable and to add significantly to funds flow and revenue in the years ahead. There are other sources of revenue which should be realized in the future: our conventional oil and gas exploration program—only four years old—is beginning to produce significant revenues; we have more natural gas developed and ready for new sales opportunities; returns from our pipeline investments are growing; and development of our 14.5 billion barrels of heavy oil in place at Primrose will be of growing importance.

1986 OUTLOOK

Revenues from natural gas sales, which represent our largest source of funds flow, are expected to remain firm for 1986, reflecting the quality of contractual arrangements made in the past. Pipelines and other cost-of-service investments also will continue to provide a stable source of earnings and funds flow.

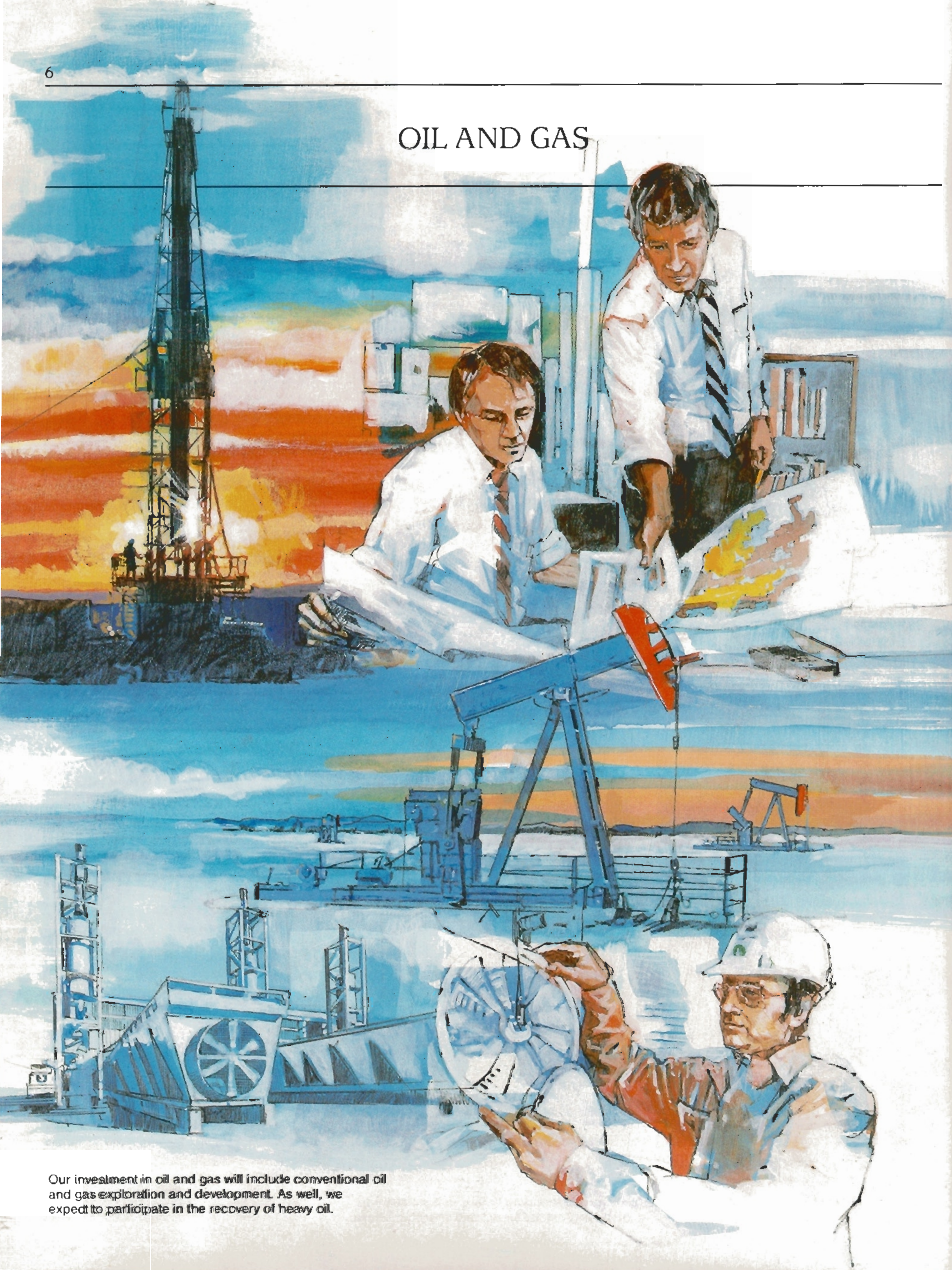
This is a time of great uncertainty in crude oil prices, and these days a confusing array of signals is regularly reported. Nevertheless, over time there will be some offset: the Western Accord and other changes to government policy will gradually reduce taxation and royalty levels beginning in 1986, becoming significant in the following two years.

In early 1985, AEC assessed its position and strategy should oil prices decline to (U.S.) \$25, \$20 or even \$15 per barrel. Regrettably, that analysis has proven necessary and our strategies will be altering when the new base price for crude oil has been established. Currently, there is too much fluctuation to adequately estimate the settling point.

All factors considered, even if the international oil price were to be (U.S.) \$15 per barrel (which equates to (Cdn.) \$20 per barrel for equivalent crude in Alberta), AEC anticipates that in 1986 it would have funds flow in excess of \$200 million. That still would be a very large funds flow—less than we would like but, nevertheless, a significant sum for profitable investment opportunities.

David E. Mitchell
President and
Chief Executive Officer

OIL AND GAS



Our investment in oil and gas will include conventional oil and gas exploration and development. As well, we expect to participate in the recovery of heavy oil.

AEC CONSOLIDATED RESULTS

The exploration, production, landholdings and reserves data presented on this page and on the map on page 8 reflect consolidation with Chieftain Development Co. Ltd. Information specific to AEC Oil and Gas Company is found on pages 9 through 17.

Western Canadian Reserves Position

At year-end, remaining western Canadian proven natural gas reserves, based on estimates by independent consulting firms, were 1,630 billion cubic feet after production of 85 billion cubic feet during the year. Gas reserve life is 19 years at 1985 production rates.

Proven conventional oil reserves in western Canada increased to 14 million barrels by year-end. At 1985 production rates the reserve life is 19 years.

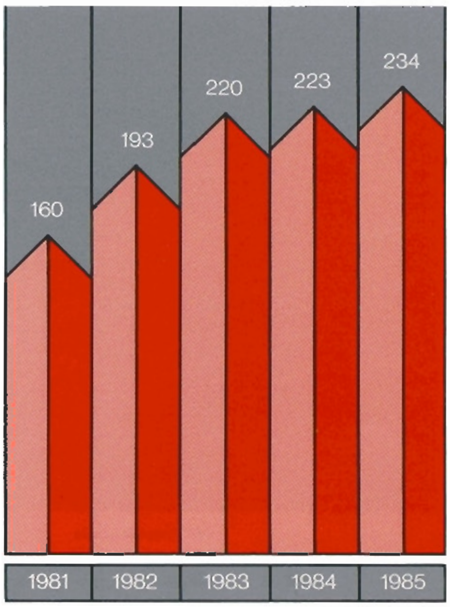
Independent consultants estimate that the Company holds additional probable oil and gas reserves of 8 million barrels and 147 billion cubic feet, respectively.

International Activities

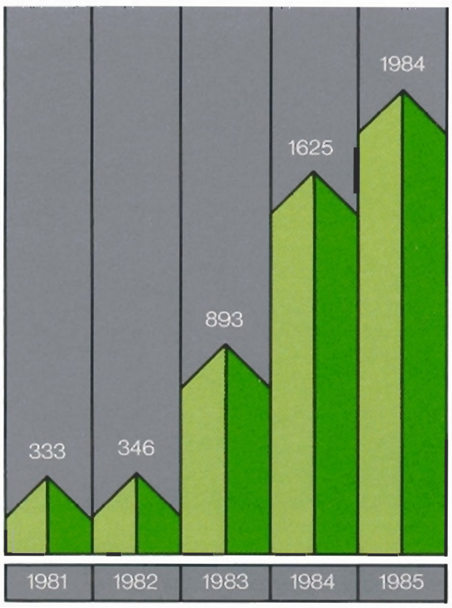
In addition to its considerable activities in western Canada, Chieftain holds significant reserves and is involved internationally in oil and gas exploration and production. For details see page 18.

Western Canadian Exploratory and Development Well Drilling Levels

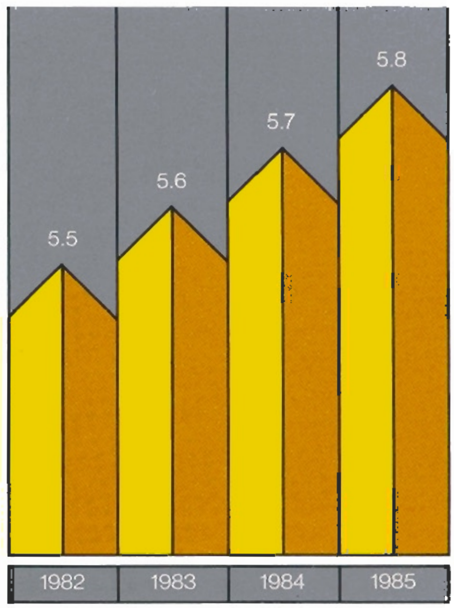
	1985		1984		1983	
	Gross	Net	Gross	Net	Gross	Net
Oil	220	117.9	58	17.7	67	25.1
Gas	587	568.9	180	164.9	34	14.8
Cased Awaiting Evaluation	18	6.1	73	24.2	10	2.6
Dry and Abandoned	129	54.1	96	40.5	54	16.8
Total	954	747.0	407	247.3	165	59.3



AVERAGE DAILY WESTERN CANADIAN GAS PRODUCTION
(MILLION CUBIC FEET)



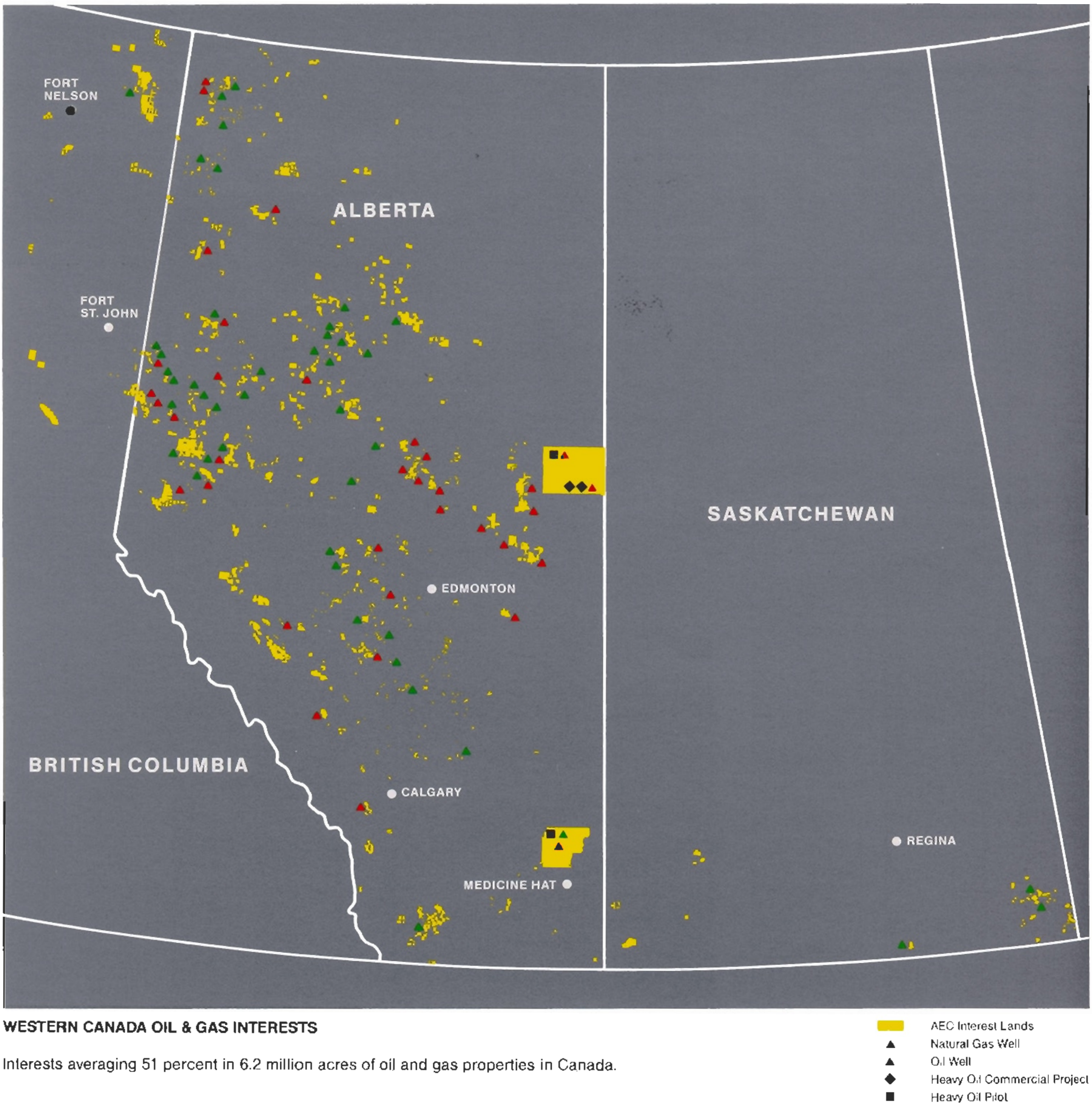
AVERAGE DAILY WESTERN CANADIAN CONVENTIONAL OIL PRODUCTION
(BARRELS)



WESTERN CANADIAN PETROLEUM AND NATURAL GAS LANDHOLDINGS
(GROSS MILLION ACRES)

Production of conventional oil and natural gas was at record levels.

OIL AND GAS



WESTERN CANADA OIL & GAS INTERESTS

Interests averaging 51 percent in 6.2 million acres of oil and gas properties in Canada.

AEC OIL AND GAS COMPANY

Activity Summary

AEC Oil and Gas Company, a Division of Alberta Energy Company Ltd., continues as one of the most active companies in western Canada.

"AEC was Canada's top driller of oil and gas wells in 1985."

Highlights of the 1985 program are: exploration success in the Senex/Trout area, the Tangent/Eaglesham area, and the Keg River Basins; initiation of significant development drilling in the Trout discovery area; the initiation of a major exploration program in the Caribou Lake area of Primrose; long-term production testing at Desan; 557 shallow gas wells drilled on the Suffield Block; the infill drilling of a major oil pool in Suffield; and regulatory approval for two 25,000 barrel per day joint venture heavy oil projects at Primrose.

"The Western Accord, combined with new provincial royalties and incentives to be phased in over the next three years, will substantially reduce taxation."

The Western Accord provides for substantial changes to government policies concerning the royalty, taxation and investment incentives applying to the oil and gas industry. The combination of these changes enhances the economics of AEC's new oil and gas investment opportunities and the value of the Company's oil and gas assets. These changes, to be phased in over the next three years, will provide a more positive investment environment over the longer term.

AEC Oil and Gas Company 1985 Well Statistics

Exploratory

	Operated		Non-Operated		Farmout		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Oil	13	6.8	25	6.5	4	0.6	42	13.9
Gas	5	3.6	8	2.8	1	0.5	14	6.9
Cased Awaiting Evaluation	8	3.0	–	–	2	0.3	10	3.3
Dry and Abandoned	13	8.9	47	16.2	34	15.2	94	40.3
Total	39	22.3	80	25.5	41	16.6	160	64.4

Development

	Operated		Non-Operated		Farmout		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Oil	129	90	26	8.5	4	1	159	99.5
Gas	557	557	2	0.4	–	–	559	557.4
Cased Awaiting Evaluation	–	–	1	0.3	–	–	1	0.3
Dry and Abandoned	–	–	2	0.6	–	–	2	0.6
Total	686	647	31	9.8	4	1	721	657.8
						Total Wells	881	722.2

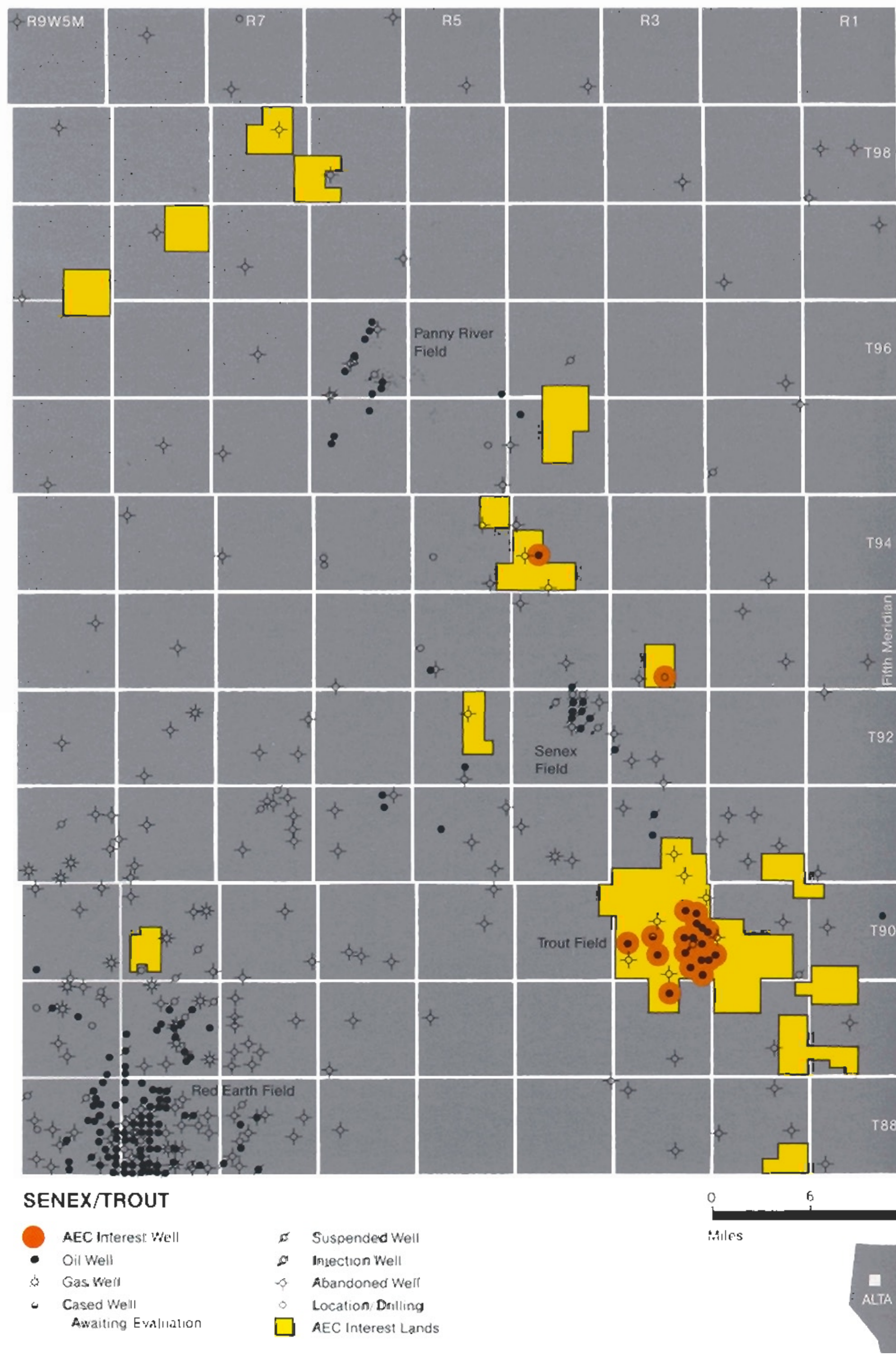
AEC Oil and Gas Company Petroleum and Natural Gas Landholdings
(Acres)

	1985		1984		1983	
	Gross	Net	Gross	Net	Gross	Net
Alberta						
-Suffield	**645,603**	**641,354**	642,408	640,360	619,907	616,403
-Primrose	**1,275,200**	**1,061,502**	1,275,200	1,059,582	1,275,200	1,059,582
-Other	**1,381,682**	**488,620**	1,289,417	406,147	1,156,900	296,161
Saskatchewan	**87,809**	**54,096**	31,153	24,504	23,408	19,426
British Columbia	**449,252**	**154,649**	471,249	151,334	384,213	93,840
Beaufort	**349,780**	**9,551**	136,615	2,614	–	–
Total	**4,189,326**	**2,409,772**	3,846,042	2,284,541	3,459,628	2,085,412

OIL AND GAS

In response to the increasingly competitive market environment created by these policy changes, the Company has strengthened its oil and gas marketing capability. These marketing efforts are directed at ensuring that maximum value is realized for oil and natural gas production, and that sales channels offering the lowest cost and risk are utilized. The Company's marketing strategy will be to retain its current foundation of firm long-term contractual arrangements and to obtain new markets in which it can develop and sustain a competitive advantage.

A significant exploration program is expected to continue in 1986. There will be a shift in emphasis to the evaluation of existing exploratory lands in contrast to the emphasis on expansion of the western Canadian land base which occurred over the first four years of AEC's exploration program. The Company's lands are well positioned in major plays. 1986 will see continuation of the exploration programs at Senex/Trout, Tangent/Eaglesham and in the Keg River Basins of Alberta. Drilling also is planned for the natural gas prone areas of western Alberta and the Foothills and selected areas of Saskatchewan and British Columbia.



Exploration success in the Senex/Trout area...

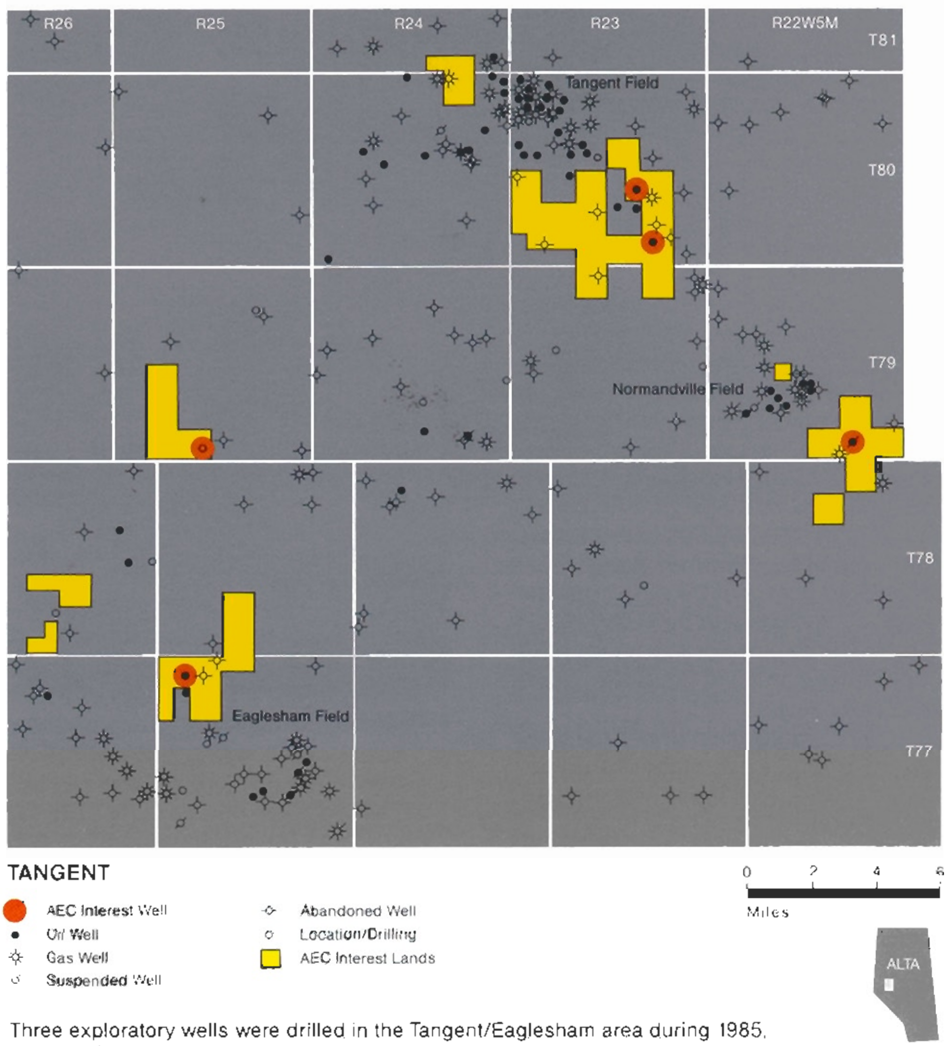
Exploration

Activity increased in the Keg River Basins with seven wells drilled in 1985 resulting in five oil discoveries and one gas discovery. Ten exploratory wells are planned for the play in 1986 as well as development drilling follow-up on two of the recent discoveries. AEC has an average 55 percent interest in 34,400 acres in the Keg River Basins in addition to 14,000 acres under option in the Shekilie Basin.

"Similarly, the North American natural gas market will strengthen and current exploration investments are in preparation for that demand growth."

Three exploratory wells were drilled in the Tangent/Eaglesham area during 1985, resulting in two oil discoveries. At year-end, AEC had an average 48 percent interest in three wells producing at an average rate of 90 barrels per day per well. A further six exploratory wells are planned for this area in early 1986.

In the Desan/Helmet area of north-eastern British Columbia, as many as six exploratory wells are planned for 1986. The Company has a large acreage position along the trend and plans to continue exploratory work.



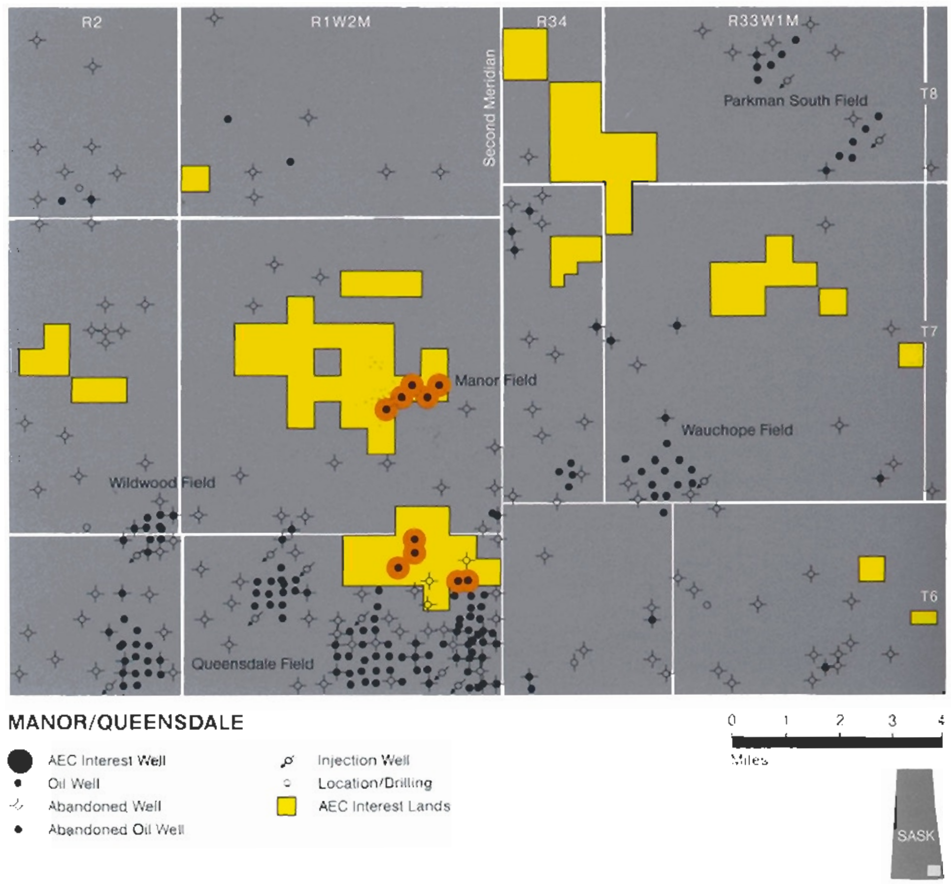
Three exploratory wells were drilled in the Tangent/Eaglesham area during 1985, resulting in two oil discoveries.

OIL AND GAS

Over the past three years, the Company has accumulated interests in 88,000 acres in Saskatchewan, mainly along the oil bearing trends in the southeast and the shallow gas trend in the southwest. In southeastern Saskatchewan the Company has acquired an average working interest of 74 percent in 33,000 acres and participated in the drilling of eight wells on the lands. These wells have resulted in the discovery and confirmation of two oil fields at Manor and Queensdale. In 1986, six exploratory wells are planned in addition to further development drilling.

A joint venture agreement has been reached with Husky Oil Operations Ltd. to conduct a major joint exploration program on the 238,000 acre Caribou Lake area of the Primrose Range. These lands hold potential for both conventional oil and gas and for heavy oil sands. The exploratory program has commenced and will continue over the next three years.

AEC's obligation under the large farmin arrangement made with Gulf Canada Resources Inc. was completed at year-end.



The drilling of eight wells has resulted in the discovery and confirmation of two oil fields at Manor and Queensdale.

The second major program at Suffield was an intense infill oil development program undertaken in the South Jenner pool in the northwest corner of the Block, where AEC has a 70 percent working interest.

Production and Development

During the year an agreement was reached with a Suffield area gas purchaser which resolved the dispute that had arisen as a result of the purchaser failing to pay for gas not taken. During the contract year ending October 31, 1985 the purchaser took only 23 percent of its obligation. The new agreement will allow the purchaser to make up past deficiencies over the next two years.

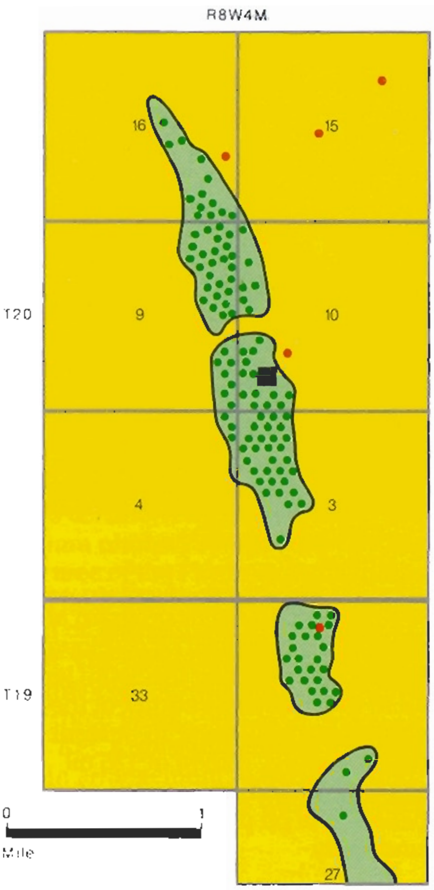
In response to the positive environment created by the Western Accord and provincial royalty and incentive changes, two major development programs were undertaken on the Suffield Block in southeastern Alberta. In one program, 400 shallow gas wells were drilled as an additional step in developing the full production and recovery potential of the large Suffield reserves.

"We have more natural gas developed and ready for new sales opportunities . . ."

There are now approximately 3,100 producing gas wells at Suffield, making it the largest North American natural gas field owned by a single operator. The Company's sound natural gas production base combined with significant sales contract flexibility will provide an advantage in pursuing new marketing opportunities.

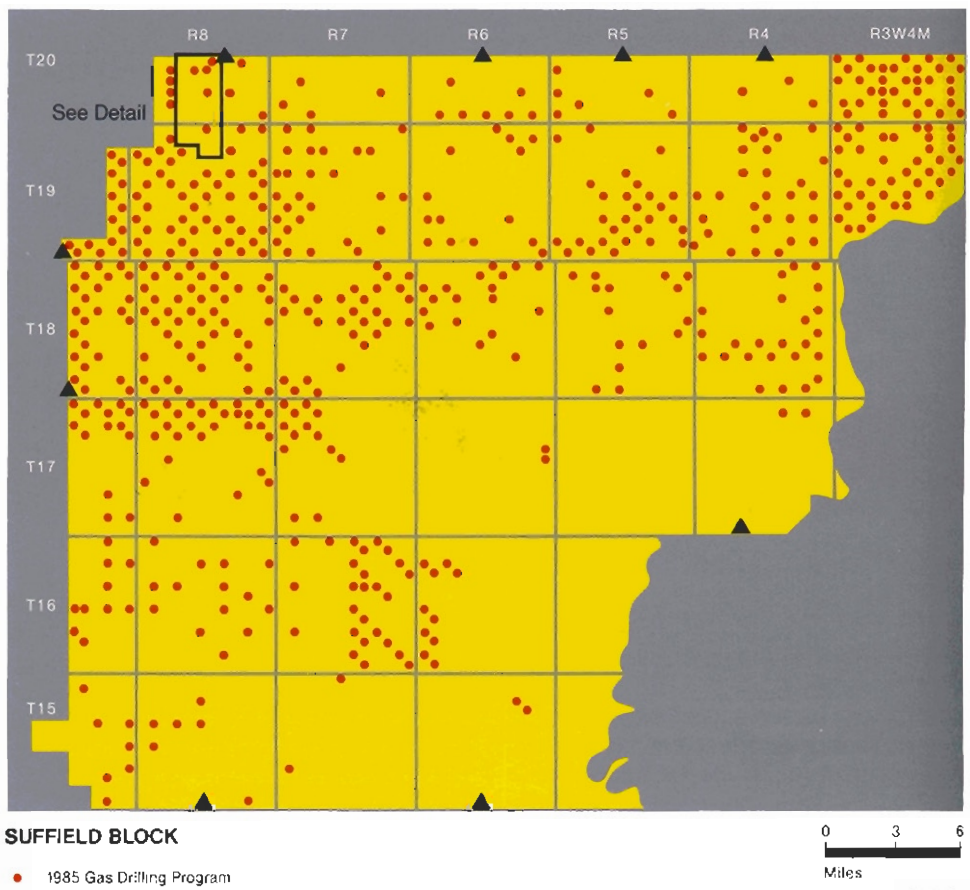
The second major program at Suffield was a large infill oil development program undertaken in the South Jenner pool in the northwest corner of the Block, where AEC has a 70 percent working interest. A total of 126 oil wells were drilled, and construction of pipelines and oil processing facilities is underway.

OIL AND GAS



SUFFIELD BLOCK DETAIL

- 1985 Infill Oil Drilling Program
- 1985 Gas Drilling Program
- Suffield Heavy Oil Pilot
- South Jenner Oil Pool
- AEC Interest Lands



SUFFIELD BLOCK

- 1985 Gas Drilling Program
- Compressor Stations
- AEC Interest Lands

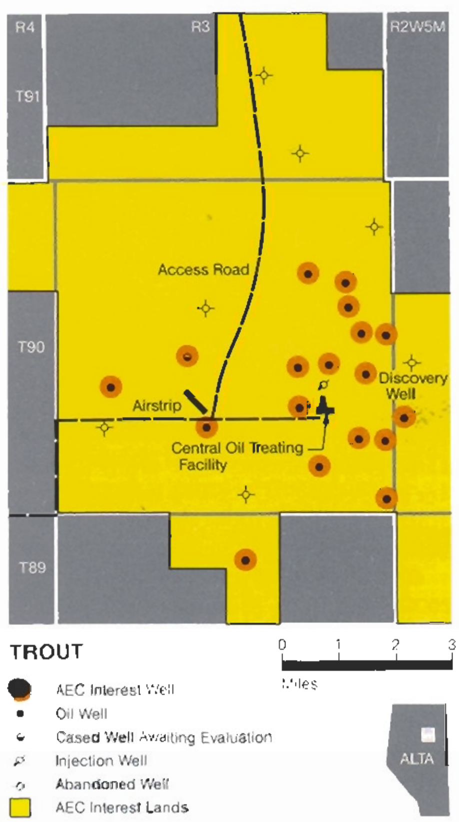
There are now approximately 3,100 producing gas wells at Suffield, making it the largest North American gas field owned by a single operator.

AEC has a 30 percent interest in a significant new oil pool discovered in 1984 in the Senex/Trout area in north-central Alberta. Six delineation and development wells have been drilled and additional development drilling will be undertaken in 1986 to fully develop the pool. A 1,500 barrel per day oil treating facility is expected to be operational in early 1986.

"AEC has a 30 percent interest in a significant new oil pool discovered in 1984 in the Senex/Trout area in northcentral Alberta."

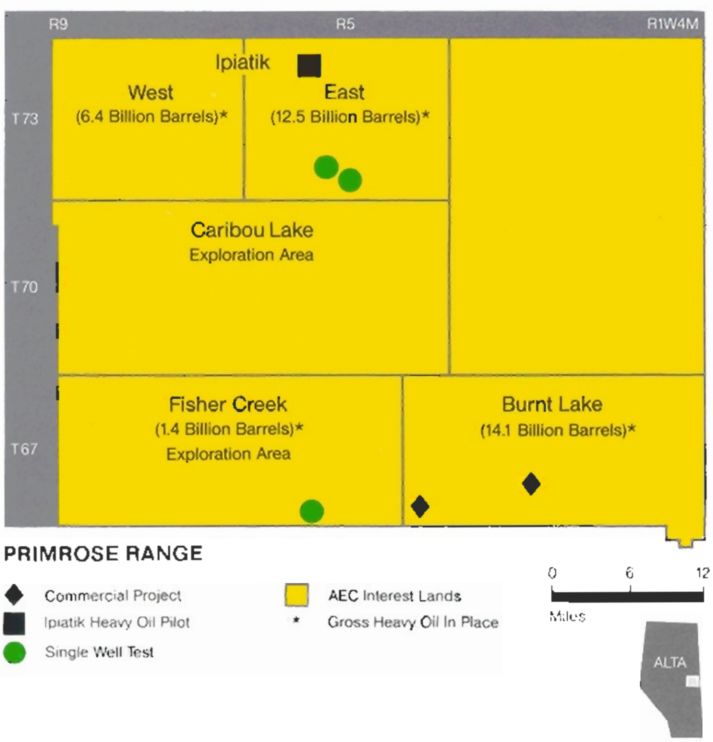
The installation of facilities and roads in the Desan area of northeastern British Columbia, in which the Company holds a 30 percent working interest, has allowed continuous production from nine wells since August. Production has been averaging 30 barrels per day per well. Work is proceeding this winter to tie-in five additional wells. Significant reserves of oil in place have been delineated, but the ability to produce the oil economically is limited by the remoteness of the area, which leads to high field operating and oil transportation costs. The challenge here is to both enhance well productivity and reduce costs so that large scale development can take place.

AEC Oil and Gas Company's oil development program resulted in growth of daily conventional oil production from 905 barrels at the beginning of 1985 to 2,113 barrels by year-end. Daily gas production averaged 204 million cubic feet for the year, up four percent from 1984.



OIL AND GAS

COMMERCIAL PROJECT



PRIMROSE RANGE

EXPLORATION

SINGLE-WELL TEST

In-Situ Heavy Oil

Unlike the oil recovered by mining in the Syncrude project, heavy oil in other areas is more deeply buried. The thermal processes required to recover this oil must be applied in the underground rock or sands where the oil is present. This technique is termed "in-situ" recovery.

The Company is actively involved with in-situ projects at both Primrose and Suffield. Exploration to date on the Primrose Range has found very large quantities of heavy oil; the Company's share is approximately 14.5 billion barrels of heavy oil in place.

"In-situ heavy oil sands resources of 14.5 billion barrels in place. Two 25,000 barrel per day commercial heavy oil projects have received regulatory approval."

Primrose

Continued drilling activity on the Primrose Range since 1978 and the success of recent pilot operations has led to the initiation of commercial projects in the Burnt Lake region.

The 25,000 barrel per day Burnt Lake Thermal Project operated by Suncor Inc. is in the early stages. Plans call for the project to be constructed in four phases, each with a daily output of 6,250 barrels. AEC may elect a 25 percent working interest, a net profits interest or a combination of working interest and net profits interest.

Governmental authorization also was received for the 25,000 barrel per day Primrose Commercial Project operated by Dome Petroleum Limited. AEC has the same participation rights as in the Burnt Lake Thermal Project.

AEC expects that the development rate of these two substantial heavy oil projects will continue to be reviewed as oil pricing trends become clearer.

In other parts of the Primrose Range activity is at an all-time high, with exploration continuing in two areas. In the Fisher Creek region, 26 wells will be drilled by Esso Resources to complete the exploration program with a total of 67 wells. A single-well steam stimulation test is scheduled to further delineate the heavy oil potential identified in this area.

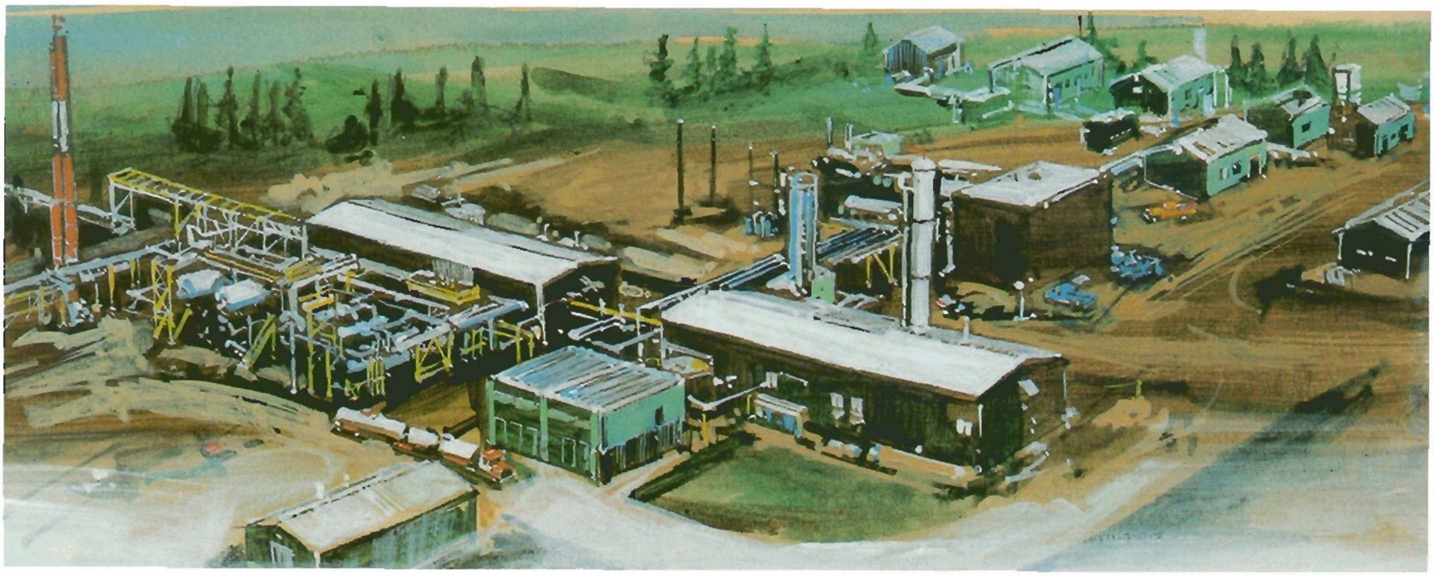
In the 400-square-mile Caribou Lake region, AEC is participating in a $24 million joint-venture exploration program with Husky Oil Operations Ltd. A 210-mile seismic program is under way, and drilling has commenced. AEC and Husky are planning a multi-year, 85-well exploration program. If potentially commercial heavy oil sands deposits are identified, the companies will conduct a $20 million pilot project. Husky has acquired a 50 percent interest in the petroleum and natural gas rights held by AEC, and has the right to earn up to a 50 percent interest in heavy oil sands rights plus an additional 10 percent interest in a 15-square-mile area.

In the Ipiatik Lake region the Company has a 60 percent working interest in a steam recovery pilot, now in its second year of operation. The original wells are currently in the third cycle of "huff-and-puff" steam injection and production. The commercial application of conventional "huff-and-puff" technology in this area has not yet been confirmed, and three wells recently have been added to the project in order to test new techniques. To the south of the main pilot plant, two single-well steam tests are under way to evaluate the potential of heavy oil bearing formations below the one being tested at the main pilot site. Primrose is a 2,000-square-mile area, and reservoir conditions at Ipiatik are quite different from those in other parts of the Range.

Suffield

Participants in the Suffield heavy oil in-situ combustion project (SHOP) have agreed to extend operations beyond the original project life. Results continue to indicate that the technology is applicable to this area and that further experimentation is warranted. The largest heavy oil pool in Suffield contains 76 million barrels of oil in place, and in-situ methods are being tested there.

OIL AND GAS



Chieftain operates the Hythe-Brainard gas processing plant in northwestern Alberta.

CHIEFTAIN DEVELOPMENT CO. LTD.

AEC owns 56 percent of the voting shares of Chieftain, which is engaged in Canadian and international oil and gas exploration and development. In this report, Chieftain's financial, exploration and production results, as well as landholdings, are consolidated except where specific activities of AEC Oil and Gas Company are discussed. Highlights of Chieftain's 1985 activities follow.

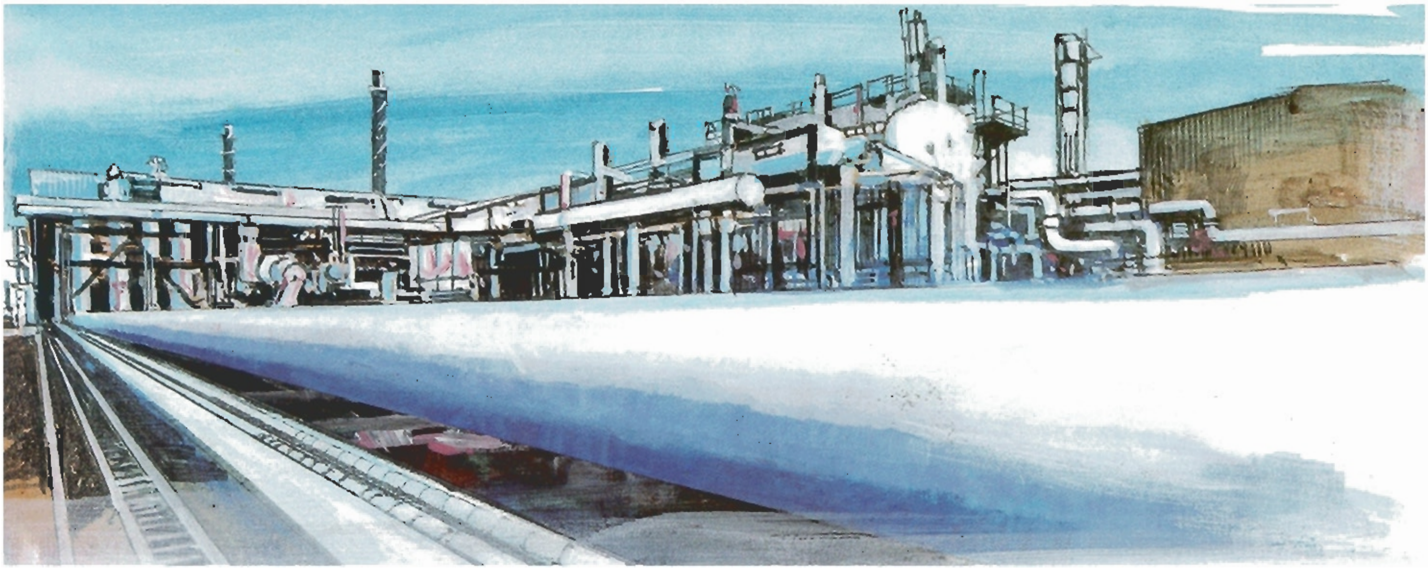
Natural gas production averaged 30 million cubic feet per day. Oil production averaged 1,558 barrels per day. Chieftain acquired producing properties in the United States and participated in drilling 93 exploration and development wells in Alberta, the U.S. and the North Sea.

"Participation in international production and exploration through 56 percent ownership of Chieftain Development."

Proven oil reserves at year-end were estimated by independent consultants to be 13.4 million barrels. Proven natural gas reserves were approximately 399 billion cubic feet at year-end. Independent consultants estimate that Chieftain holds additional probable oil and gas reserves of 2.6 million barrels and 66 billion cubic feet, respectively.

Landholdings in western Canada, the United States, the North Sea, Australia and the Middle East totalled 5,722,000 gross acres or 2,201,800 net acres at December 31, 1985.

Exploration activity concentrated on oil prospects in Alberta where Chieftain participated in successful exploratory and development drilling at Seal, Slave, Loon and Sawn lakes in the East Peace River Region; at Gold Creek, Gordondale, Pouce Coupe in the West Peace River Region, and at Medicine Lake in central Alberta. In the U.S., Chieftain participated in two oil discoveries in the Williston Basin of North Dakota, and two gas wells on Matagorda Block 604 in the Gulf of Mexico. Chieftain's landholdings, at December 31, 1985, included 761,000 net acres in western Canada and 378,000 net acres in the United States, of which 67,000 net acres were in the Gulf of Mexico.



A natural gas liquids extraction plant makes a significant contribution to earnings.

PAN-ALBERTA GAS LTD.

Pan-Alberta Gas Ltd., half owned by AEC, maintained its position in 1985 as one of the top two Canadian exporters of natural gas to the U.S.

"Pan-Alberta Gas continues to provide an important service to Canadian natural gas producers, marketing 10 percent of all gas produced in Canada."

For the contract year ending October 31, 1985, Pan-Alberta increased its export volumes to 214 billion cubic feet, 52 percent higher than a year earlier. Domestic sales increased by 12 percent to 52 billion cubic feet.

In both Canada and the United States, further steps were taken towards deregulation of natural gas markets. In Canada, an October 1985 agreement between the federal government and the producing provinces provided for phased price deregulation and greater access to domestic and export markets. In the United States, new regulations by the Federal Energy Regulatory Commission reinforced the trend toward increased competition involving pipeline sales and direct short-term sales. Pan-Alberta responded to these changes in market conditions by negotiating scheduled adjustments in existing contracts with its major U.S. buyers and developing arrangements to participate in the direct sale or spot market.

Pan-Alberta Gas continues to provide an important service to Canadian natural gas producers, marketing 10 percent of all gas produced in Canada.

NATURAL GAS LIQUIDS EXTRACTION PLANT

AEC has a 25 percent interest, through a Pan-Alberta affiliate, in a natural gas liquids extraction plant. The natural gas liquids from this plant are sold on a cost-of-service basis. This investment makes a significant contribution to earnings.

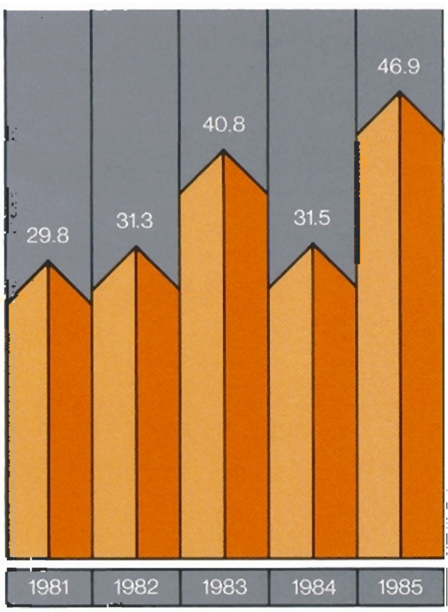
OIL AND GAS

In the Syncrude mine three feeder breakers and a very large electric mining shovel were added. Four tailings oil recovery vessels and a naphtha recovery unit were installed in the extraction area.

SYNCRUDE

Syncrude is the largest plant producing synthetic crude oil from mineable oil sands in the world. 1985 was the most profitable and productive year since production commenced in 1978. Synthetic oil shipments were 46.9 million barrels compared with 31.5 million barrels in 1984. AEC's 10 percent ownership of Syncrude's remaining proven synthetic oil reserves is estimated to be 119 million barrels, and the reserve life of the entire project is 25 years at 1985 production rates.

The 49 percent increase in production is attributed to an outstanding effort by an increasingly experienced team of Syncrude employees as well as reliability and efficiency improvements incorporated into the plant. 1985 cash operating costs were the lowest in Syncrude's seven-year history, reflecting these improvements. Cash operating costs, which exclude interest on investment, depreciation, corporate tax, Petroleum Gas Revenue Tax, and Crown payments, declined to $17.74 (U.S. $12.50) per barrel. Although 1985 was an outstanding year, significant opportunities remain for improved performance.



ANNUAL SYNCRUDE PRODUCTION
(MILLION BARRELS)

Effective June 1, 1985, under the terms of the Western Accord, the regulated system for determining the Canadian oil price was removed leaving competitive market forces to determine price. The Western Accord also resulted in phasing out of PGRT commencing in 1986 with its eventual elimination by 1989. This is particularly significant since PGRT has been a severe financial encumbrance since it was imposed in 1982.

In 1983, the Province of Alberta agreed to defer a portion of its royalties for a five-year period in order to encourage new capital investment in the plant. In response, Syncrude embarked upon a $1.5 billion investment program to improve plant reliability and efficiency and to increase production.

"Syncrude achieved a new crude oil production record of 128,570 barrels per day."

1985 saw continued progress towards the completion of these new facilities. In the mine, three feeder breakers were installed which allow the oil sands previously hauled by truck to the extraction plant to be transported by a more cost-effective conveyor belt system. A very large electric mining shovel, which is expected to be less costly than existing hydraulic shovels, was commissioned. In the extraction area, four tailings oil recovery vessels were added to increase the recovery of bitumen by approximately 6,000 barrels per day, and a naphtha recovery unit was installed which recovers approximately 2,800 barrels per day of naphtha that was previously being lost.

When this five-year capacity addition program is completed in 1987, production capacity should exceed 140,000 barrels per day.

Syncrude employs 4,520 people directly and, in addition, during 1985 an average of 1,140 contract employees worked at the site constructing new facilities and providing maintenance services.

AEC owns 10 percent of Syncrude and retains an average 7 percent gross overriding royalty on an additional 10 percent of production.

AEC Power Ltd.

Through AEC Power Ltd., AEC holds a two-thirds interest in the $293 million power plant which supplies the utilities for Syncrude.

PIPELINES

The volume of oil transported via AEC-operated pipelines grew by 55 percent to an average 172,000 barrels per day.

The past year was one of continued growth for AEC's pipeline operations. AEC now transports more oil than any other intra-Alberta pipeline company. Expansions were completed on both the Alberta Oil Sands Pipeline and the Cold Lake heavy oil pipeline to support increased production from the Fort McMurray and Cold Lake regions, respectively. The Alberta Ethane Gathering System, of which AEC owns one-third, experienced an increase in throughput in support of enhanced oil recovery schemes based on ethane flooding.

"Alberta's largest intra-provincial oil pipeline company."

ALBERTA OIL SANDS PIPELINE

Alberta Oil Sands Pipeline Ltd., a wholly owned subsidiary of AEC, owns and operates the 270-mile pipeline from the Syncrude plant at Fort McMurray to Edmonton. All of the synthetic crude oil manufactured by Syncrude is transported by this facility. The oil is delivered to Edmonton area refineries and inlets of other pipelines.

During the year, the average daily throughput of synthetic crude oil rose to record levels of 127,500 barrels per day.

An expansion was completed which will increase the throughput capacity of the pipeline from 163,500 barrels per day to 187,000 barrels per day to enable additional synthetic crude oil resulting from Syncrude production improvements to be shipped to market.

An additional major expansion to increase the daily capacity to levels consistent with added production from the Syncrude capacity addition program will begin in 1986.

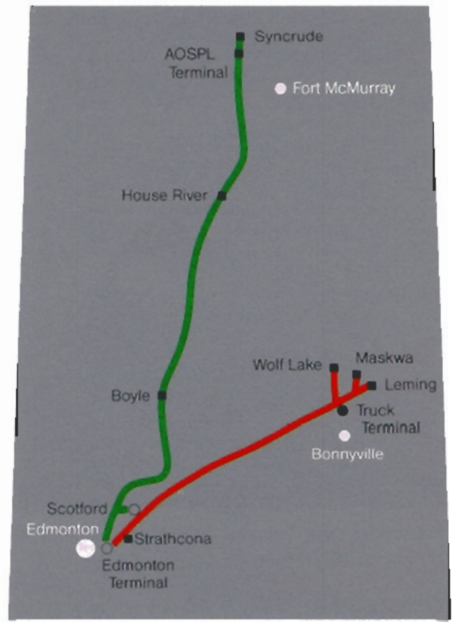
COLD LAKE HEAVY OIL PIPELINE

A major $100 million expansion to the Cold Lake heavy oil pipeline was completed to provide additional capacity for heavy oil blend from the Cold Lake region. The average throughput increased from 25,300 barrels per day in 1984 to 44,200 barrels per day in 1985.

The original 145-mile dual pipeline system was expanded by adding a 24-inch heavy oil/condensate blend pipeline from Cold Lake to Edmonton which became operational in April.

The original 12-inch heavy oil blend pipeline was converted to a diluent pipeline for the transport of large volumes of condensate from Edmonton to Cold Lake where it is mixed with the heavy oil to produce the blend. The present system has a capacity of approximately 100,000 barrels per day of blend and can be readily expanded to 300,000 barrels per day. Some of this expansion will provide for commercial heavy oil development on the Primrose Range.

PIPELINE SYSTEMS



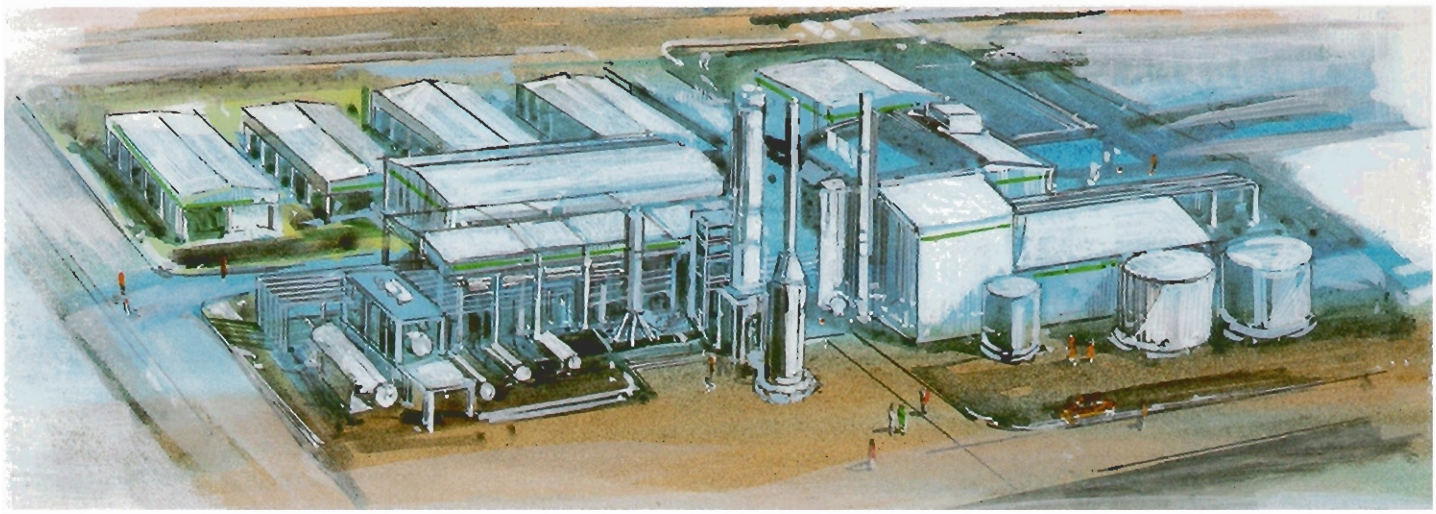
PIPELINE DETAIL

Lateral pipelines also were constructed to connect expanded heavy oil production facilities in the original Cold Lake development as well as the plant of a new producer at Wolf Lake.

ALBERTA ETHANE GATHERING SYSTEM

Daily throughput increased to 96,400 barrels per day from 94,000 barrels per day in 1984. This system gathers ethane from several natural gas processing plants throughout the province and transports it to the ethylene plants near Red Deer, to various enhanced oil recovery sites utilizing an "ethane flooding" system and to underground storage caverns near Fort Saskatchewan prior to shipment to eastern Canada and the U.S.

OTHER INVESTMENTS



Investment over the next two years in a new nitrogen fertilizer facility is a unique and promising venture.

NITROGEN FERTILIZER JOINT VENTURE

In June, AEC and Cominco Ltd. formed a joint venture which will develop and expand the Alberta-based nitrogen fertilizer production and marketing business.

"AEC will be a 25 percent participant in the entire Alberta nitrogen fertilizer business of Cominco."

AEC will be investing $105 million over the 1985-1987 period in a new 350 000 tonne per year ammonia plant to be built near Joffre, Alberta, and storage facilities to be constructed in Saskatchewan and North Dakota. Upon completion of the Joffre plant, AEC will be a full 25 percent participant in all of the revenues from Cominco's existing Calgary and Carseland nitrogen fertilizer operations as well as from the new ammonia plant. These products will continue to be marketed under the well-established "Elephant Brand" trademark.

After receipt of regulatory approvals, site preparation for the plant began in November. Completion of the facility is scheduled for 1987. During the peak construction period, about 240 construction workers will be employed at the project. Upon completion, a total of 28 permanent, operational jobs will be created, excluding indirect jobs which will be created in support of this facility.

The Joffre facility will utilize hydrogen and nitrogen feedstocks produced as by-products of nearby petrochemical plants, substantially reducing the capital costs relative to other fertilizer operations of comparable size.

Products of the Cominco-operated joint venture; including ammonia, urea, ammonium nitrate and urea sulphur totalling about 1.2 million tonnes per year, will serve the growing markets in western Canada and the United States.

Cominco is one of Canada's largest chemical fertilizer producers. In this joint venture, AEC continues its practice of associating with well experienced, successful partners in business areas where AEC does not have well developed expertise.

COAL

The Coal Valley mine, located 130 miles west of Edmonton, Alberta, produces high-quality thermal coal used primarily for electricity generation in the domestic and export markets.

Due to the worldwide oversupply of coal, export markets have been soft since 1983. Coal Valley has remained profitable during this period by concentrating on improved efficiency.

Even though 1985 operating performance was adversely affected by the December 1984 fire in the loadout facility and reduced sales to major customers, the operation remained profitable. AEC's 25 percent share of production in 1985 was 469,000 tons compared with 579,000 tons in 1984.

Lumber shipments from the Blue Ridge mill near Whitecourt, Alberta totalled 140 million board feet, a record for the Company.

FOREST PRODUCTS

Financial performance of Blue Ridge Lumber (1981) Ltd. improved during the year due to continuing attention to operating efficiencies and a somewhat stronger market for certain products. Lumber shipments from the Blue Ridge mill near Whitecourt, Alberta, totalled 140 million board feet, a record for the Company. In spite of a higher demand for wood products, average market prices improved very little over 1984 levels.

"Operating efficiencies and record production levels allowed lumber operations to show positive funds flow and income contribution."

Construction of a medium-density fibreboard plant adjacent to the existing Blue Ridge lumber mill is proceeding on schedule and is expected to commence operations in mid-1986. The facility will result in a higher utilization of the timber resource, using shavings and sawdust from the existing mill for a large portion of its fibre requirements. The medium-density fibreboard, a premium wood product suitable for use in the manufacture of furniture and cabinets, will serve Canadian, U.S. and offshore markets. Onsite construction employment created by the project totals 92 man-years. A total of 65 permanent operational jobs will be established upon completion of the facility, excluding indirect jobs which will be created in support of this facility.

PORTFOLIO INVESTMENTS

British Columbia Forest Products Limited

British Columbia Forest Products Limited, in which AEC holds a 17.7 percent interest, recorded 1985 earnings of $30.1 million on sales of $1.1 billion as compared with 1984 earnings of $9.2 million on sales of $1 billion. The improved financial performance was primarily attributable to stronger markets for paper and newsprint.

IPSCO Inc.

IPSCO Inc., in which AEC currently holds a 10 percent interest through Steel Alberta Ltd., recorded earnings of $4.3 million on sales of $219.9 million for the nine months ended September 30, 1985 compared with earnings of $12.2 million on sales of $219.5 million for the same period in 1984. Competition from imported products has had a significant impact on markets and resulted in very low sales prices. The company is pursuing this matter aggressively.

Steel Alberta Ltd., which has been inactive for a number of years, will be wound up early in 1986. Subsequent to wind-up, AEC will hold directly its 10 percent interest in IPSCO Inc.

TECHNOLOGY DEVELOPMENT

AEC invests capital in the identification, transference and development of new technology which has the potential to be profitably applied to AEC's businesses. During 1985, several technology projects were initiated that offer potential benefit in the areas of enhanced oil recovery, upgrading, heavy oil pipelining, natural gas conversion, and separation of oil/water emulsions.

COMMUNITY INVOLVEMENT

AEC is proud of its employees' record of community involvement in all of the locales in which it operates. Many of our employees serve their community through active involvement on various community committees and boards, as coaches of athletic teams, and in many other voluntary capacities. AEC provides support to these worthwhile employee endeavors through a corporate donations program.

In addition to selected corporate donations, the Company has a program which matches gifts made by its employees to recognized charitable organizations.

The Company feels it is particularly important that the charities it supports benefit the community as a whole, and contributions are made only to organizations which have demonstrated sound objectives and management.

Major areas of Company support during 1985 were health and welfare, community services, education, arts and culture, and athletics.

The United Way, with its numerous and varied health, welfare and community services, continued to receive strong support both corporately and individually.

Recognizing the far reaching importance of higher education in management, AEC's 1985 donations program included a special pledge to the Future Fund of The University of Calgary. The Future Fund was established to secure private sector support for the Faculty of Management's goal to reach international standards and recognition in this field. Significant benefit to the community will result from having such high-calibre education available in Alberta.

FINANCIAL REVIEW

The Company continued to experience a strong financial performance with all segments contributing to the achievement of record levels of net revenues, net earnings and funds provided from operations.

Net earnings were \$80.5 million (\$1.44 per common share), up \$8.2 million from the previous high of \$72.3 million in 1984 (\$1.22 per common share). Funds provided from operations increased \$32.7 million to \$255.3 million (\$5.11 per common share) from the \$222.6 million (\$4.08 per common share) in 1984.

Revenues, net of royalties, reached a record \$546.4 million, up 12.8 percent over 1984. Increased synthetic crude oil sales revenues, an expanded Cold Lake heavy oil pipeline system and higher conventional crude oil volumes were the main contributors to the improved results.

The growth in operating expenses of 7.5 percent over 1984 reflects cost increases directly attributable to the higher level of operating activity, principally in the production of synthetic crude oil and conventional oil and gas. Additionally, general and administrative expenses have risen over last year as a reflection of the Company's greater need for support services relative to capital investment and operating activities.

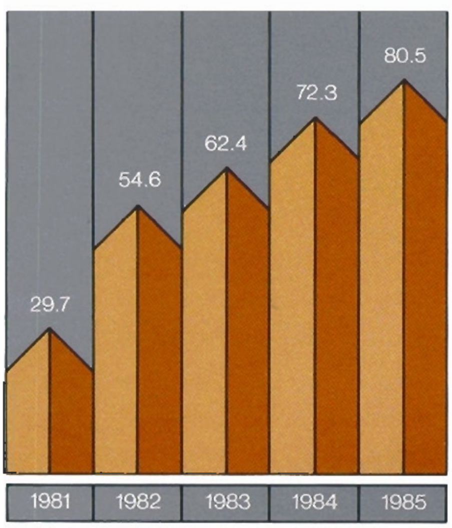
Interest expense increased from \$39.3 million to \$47.5 million due primarily to higher debt outstanding during 1985 and reduced investment income, partially offset by the effect of a lower average interest rate.

Depreciation, depletion and amortization increased by \$23.5 million due to the Company's on-going capital investments, principally in the areas of oil and gas development and exploration, and as a result of higher sales volumes.

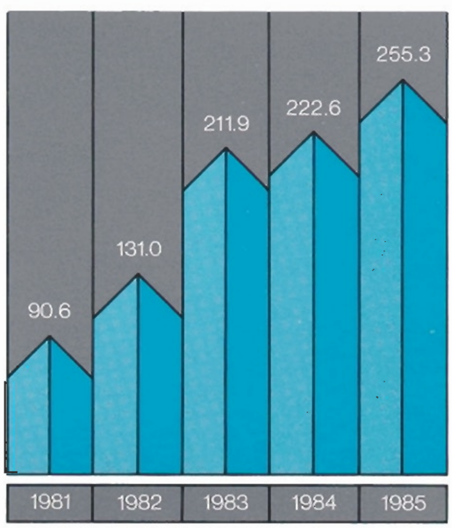
Investment in property, plant and equipment, after grants and incentives, totalled \$359 million, up significantly from the prior year's level of \$242 million. This record level of capital expenditure, when combined with previous investments, raises the total assets of the Company to more than \$2 billion. The commitment of \$121.0 million for on-going oil and gas exploration and associated development activities, principally in Western Canada, along with \$59.0 million for additional development of the Suffield Block and \$42.9 million for the purchase of producing oil and gas reserves in the United States makes up a significant portion of this expenditure. The expanded Cold Lake heavy oil pipeline system, completed earlier in the year, resulted in expenditures of \$36.0 million, while \$5.1 million was incurred on the Alberta Oil Sands Pipeline to increase synthetic crude oil throughput capacity. Syncrude capital expenditures amounted to \$32.7 million, \$22.3 million of which was for production improvement programs with the balance related to on-going capital requirements. A total of \$19.0 million was spent on construction of the medium density fibreboard plant at Blue Ridge. This plant is expected to commence operations in mid-1986. The remaining capital relates to expenditures in the Company's other operations, including contract drilling, leasing and an initial investment in the construction of a nitrogen fertilizer plant at Joffre, Alberta.

During 1985, the Company paid \$13.4 million in common share dividends, \$0.30 per common share, up from the \$0.25 per common share paid in 1984. A further \$13.8 million in preferred share dividends were declared in 1985.

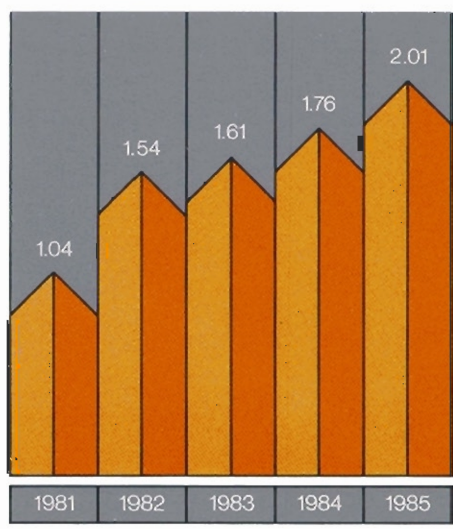
During the year, the Company purchased, for cancellation, 6.2 million of its common shares from the Government of Alberta for \$125.0 million, thereby reducing common share capital by \$28.7 million and retained earnings by \$96.3 million. Additionally, the Company raised \$75.0 million with the issuance of 3,000,000 7.75% Second Preferred Shares.



NET EARNINGS
(\$ MILLIONS)



FUNDS PROVIDED FROM OPERATIONS
(\$ MILLIONS)



TOTAL ASSETS
(\$ BILLIONS)

ALBERTA ENERGY COMPANY LTD.

SUMMARY OF SIGNIFICANT 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 major 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 5.

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.

The Company does not exclude costs related to unproved properties from depletion. Interest is not capitalized with respect to such costs.

Oil sands

Property, plant and equipment, including preproduction costs, associated with the Syncrude Project are accumulated, at cost, 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 1984 figures have been reclassified and restated for comparative purposes.

ALBERTA ENERGY COMPANY LTD.

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended December 31 ($ millions)	Note Reference	1985	1984
Revenues, Net of Royalties		$546.4	$484.2
Equity Earnings of Affiliates		8.7	10.0
		555.1	494.2
Costs and Expenses			
Operating		189.3	176.1
Interest—net	2(a)	47.5	39.3
General and administrative		26.4	23.2
Depreciation, depletion and amortization		96.9	73.4
		360.1	312.0
Earnings before Income and Revenue Taxes and Minority Interest		195.0	182.2
Income taxes	3	76.2	70.7
Petroleum and gas revenue tax		33.2	32.5
		109.4	103.2
Earnings before Minority Interest		85.6	79.0
Minority Interest		5.1	6.7
Net Earnings		$ 80.5	$ 72.3
Basic Earnings per Common Share		$ 1.44	$ 1.22
Fully Diluted Earnings per Common Share		$ 1.43	$ 1.22

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended December 31 ($ millions)	Note Reference	1985	1984
Balance—Beginning of Year		$266.1	$216.7
Net Earnings		80.5	72.3
		346.6	289.0
Dividends—Preferred Shares		13.8	10.2
—Common Shares		13.4	12.7
Preferred Share Issue Costs, Net of Income Tax		1.7	–
Purchase and Cancellation of Common Shares	12(b)	96.3	–
		125.2	22.9
Balance—End of Year		$221.4	$266.1

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

ALBERTA ENERGY COMPANY LTD.

CONSOLIDATED BALANCE SHEET

As at December 31 **($ millions)**	Note Reference	**1985**	1984
Assets			
Current Assets			
Cash and short-term investments at cost which approximates market		**$ 59.6**	$ 73.2
Accounts receivable and accrued revenue		**92.4**	75.4
Inventories	4	**17.5**	17.9
Prepaid expenses		**2.6**	2.3
		172.1	168.8
Investments	5	**263.4**	267.3
Property, Plant and Equipment	6	**1,573.9**	1,323.7
Other Assets and Deferred Charges	7	**4.1**	5.1
		$2,013.5	$1,764.9
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank indebtedness		**$ 3.1**	$ .3
Accounts payable and accrued liabilities		**108.7**	95.4
Dividends payable		**4.3**	2.8
Income and revenue taxes payable		**8.6**	2.3
Deferred revenue and other		**9.4**	8.3
Current portion of long-term debt	9	**11.8**	9.8
		145.9	118.9
Deferred Revenue	8	**72.4**	80.5
Long-Term Debt	9	**734.8**	577.4
Deferred Liabilities	10	**42.2**	44.5
Deferred Income Taxes		**341.1**	270.4
Interests of Minority Shareholders	11	**99.9**	101.7
		1,436.3	1,193.4
Shareholders' Equity			
Share capital	12	**354.3**	304.8
Retained earnings		**221.4**	266.1
Unrealized foreign exchange gain		**1.5**	.6
		577.2	571.5
		$2,013.5	$1,764.9

Approved by the Board:

Director

Director

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

ALBERTA ENERGY COMPANY LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31 **($ millions)**	Note Reference	**1985**	1984
Operating Activities			
Funds provided from operations	2(c)	**$255.3**	$222.6
Net change in operating working capital		**11.5**	(7.5)
Deferred revenue		**(8.9)**	(2.4)
Other		**4.5**	.9
		262.4	213.6
Investing Activities			
Purchase of property, plant and equipment		**(358.9)**	(242.1)
Investments in affiliate and subsidiary		**(2.9)**	(4.2)
Proceeds on disposal of assets		**3.2**	19.0
Repayment of advance by affiliate		**8.3**	4.0
		(350.3)	(223.3)
Dividends			
Preferred share dividends		**(12.3)**	(10.2)
Common share dividends		**(13.4)**	(12.7)
Dividends paid by a subsidiary to minority interests		**(4.7)**	(4.9)
		(30.4)	(27.8)
Net Cash Deficiency before Financing		**(118.3)**	(37.5)
Financing Activities			
Issue of long-term debt		**261.1**	184.1
Repayment of long-term debt		**(107.3)**	(123.5)
Issue of preferred shares—net	12(a)	**71.8**	–
Issue of common shares		**3.2**	2.4
Purchase of common shares	12(b)	**(125.0)**	–
Redemption of preferred shares of a subsidiary		**(.8)**	(4.5)
Other		**(1.1)**	–
		101.9	58.5
Increase (decrease) in cash and short-term investments less bank indebtedness		**$ (16.4)**	$ 21.0
Cash and short-term investments less bank indebtedness at year end		**$ 56.5**	$ 72.9

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

ALBERTA ENERGY COMPANY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Segmented information

	Oil and Gas		Pipelines		Other		Total	
($ millions)	**1985**	1984	**1985**	1984	**1985**	1984	**1985**	1984
Gross revenue	**$ 460.9**	$ 397.2	**$ 59.7**	$ 43.8	**$ 82.7**	$ 88.2	**$ 603.3**	$ 529.2
Royalties	**56.9**	44.8	**–**	–	**–**	.2	**56.9**	45.0
Revenues, net of royalties	**404.0**	352.4	**59.7**	43.8	**82.7**	88.0	**546.4**	484.2
Operating expenses	**114.8**	100.1	**11.8**	9.9	**62.1**	66.1	**188.7**	176.1
Depreciation, depletion and amortization	**74.6**	54.9	**10.0**	7.2	**10.3**	9.6	**94.9**	71.7
Petroleum and gas revenue tax	**33.2**	32.5	**–**	–	**–**	–	**33.2**	32.5
	222.6	187.5	**21.8**	17.1	**72.4**	75.7	**316.8**	280.3
Segmented operating income	**$ 181.4**	$ 164.9	**$ 37.9**	$ 26.7	**$ 10.3**	$ 12.3	**229.6**	203.9
Equity earnings of affiliates							**8.7**	10.0
Corporate expenses							**(29.0)**	(24.9)
Interest–net							**(47.5)**	(39.3)
Income taxes							**(76.2)**	(70.7)
Minority interest							**(5.1)**	(6.7)
Net earnings							**$ 80.5**	$ 72.3
Identifiable assets	**$1,295.4**	$1,094.4	**$ 249.1**	$ 214.4	**$ 123.1**	$ 95.7	**$1,667.6**	$1,404.5
Corporate assets							**82.5**	93.1
Investments							**263.4**	267.3
Total assets							**$2,013.5**	$1,764.9
Capital expenditures	**$ 255.7**	$ 168.8	**$ 41.6**	$ 73.8	**$ 40.0**	$ 11.6	**$ 337.3**	$ 254.2

2. Supplementary information

(a) Interest–net

($ millions)	**1985**	1984
Interest expense–on long-term debt	**$ 56.9**	$ 47.0
–on short-term debt	**.5**	5.4
Interest income	**(7.5)**	(10.9)
Capitalized interest	**(2.4)**	(2.2)
	$ 47.5	$ 39.3

(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)	**1985**	1984
Assets	**$334.0**	$313.8
Liabilities	**48.4**	36.2
Revenues, net of royalties	**202.3**	158.7
Expenses	**115.4**	105.5

(c) Funds provided from operations

($ millions)	**1985**	1984
Net earnings	**$ 80.5**	$ 72.3
Depreciation, depletion and amortization	**96.9**	73.4
Deferred income taxes	**75.2**	74.1
Equity earnings of affiliates	**(8.7)**	(10.0)
Minority interest	**5.1**	6.7
Other	**6.3**	6.1
	$255.3	$222.6

3. Income taxes

The provision for income taxes is comprised as follows:

($ millions)	**1985**	1984
Current	**$ 5.0**	$ .6
Deferred	**75.2**	74.1
Alberta royalty tax credit	**(4.0)**	(4.0)
	$ 76.2	$ 70.7

ALBERTA ENERGY COMPANY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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)	1985	1984
Income before income taxes, equity earnings and minority interest	$153.1	$139.7
Expected income tax expense (Statutory Rate: 1985 - 47.9%; 1984 - 47.0%)	$ 73.3	$ 65.6
Effect on taxes resulting from:		
Non-deductibility of–		
Crown royalties and leases	17.6	17.2
Income debenture interest–net	6.1	6.9
Petroleum and gas revenue tax	15.4	14.6
Depreciation and depletion	3.7	3.4
Federal allowances–		
Resource allowance	(32.5)	(29.4)
Earned depletion	(4.8)	(3.8)
Provincial income tax rebates	(4.1)	(4.1)
Other–net	1.5	.3
Income tax expense (Effective Rate: 1985 - 49.8%; 1984 - 50.6%)	$ 76.2	$ 70.7

4. Inventories

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

($ millions)	1985	1984
Raw materials and supplies	$ 10.4	$ 10.3
Work-in-process	3.7	4.9
Finished goods	3.4	2.7
	$ 17.5	$ 17.9

5. Investments

Accounted for on the equity basis:

($ millions)	Percent Interest	1985	1984
AEC Power Ltd. (50% voting)	66⅔	$ 20.7	$ 20.7
Steel Alberta Ltd.	50	19.4	19.8
Pan-Alberta Gas Ltd. (40% voting)	50	7.3	6.7
Pan-Alberta Resources Inc. (40% voting)	50	32.0	35.7
		$ 79.4	$ 82.9

Accounted for on the cost basis:

($ millions)	1985		1984	
	Cost	**Market**	Cost	Market
British Columbia Forest Products Limited	**$183.5**	**$103.1**	$183.5	$ 93.8
Other	**.5**	**.5**	.9	1.3
	$184.0	**$103.6**	$184.4	$ 95.1

(a) Steel Alberta Ltd.

The principal asset of Steel Alberta Ltd. is a 20.1% equity interest in IPSCO Inc., which investment is accounted for on the equity method.

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

The Company owns 8,962,001 common shares of BCFP, representing a 17.7% interest therein.

6. Property, plant and equipment

($ millions)	1985 Cost	1985 Accumulated depreciation, depletion and amortization	1985 Net	1984 Net
Oil and Gas	**$1,463.2**	**$ 253.8**	**$1,209.4**	$1,020.9
Pipelines	**284.7**	**43.3**	**241.4**	209.8
Other	**179.2**	**56.1**	**123.1**	93.0
	$1,927.1	**$ 353.2**	**$1,573.9**	$1,323.7

7. Other assets and deferred charges

($ millions)	**1985**	1984
Deferred stripping costs	**$ 2.0**	$ 2.6
Land held for future development	**.7**	.7
Unamortized financing costs	**.7**	.8
Other	**.7**	1.0
	$ 4.1	$ 5.1

8. 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 1986 is classified as a current liability.

9. Long-term debt

($ millions)	**1985**	1984
Alberta Energy Company Ltd.("AEC")		
Borrowings under revolving credit and term loan agreements		
Income debentures	**$180.0**	$180.0
Bank loan–unsecured	**10.0**	–
Trust company loans–unsecured	**75.0**	40.0
Notes payable	**258.3**	196.7
Mortgage payable	**5.3**	5.4
Other	**7.7**	8.4
	536.3	430.5
Alberta Oil Sands Pipeline Ltd.("AOSPL")		
First Mortgage Sinking Fund Bonds:		
Series A–9⅝%, due June 15, 1997	**19.0**	20.4
Series B–9¾%, due June 15, 1997	**21.6**	23.0
	40.6	43.4
Chieftain Development Co. Ltd. ("Chieftain")		
Borrowings under revolving credit and term loan agreement		
Income debentures	**21.4**	28.6
Bank loans–Chieftain International, Inc.	**111.8**	83.2
Production loan–Chieftain International, Inc.	**19.6**	–
Purchase obligation	**14.0**	–
Other	**2.9**	1.5
	169.7	113.3
	746.6	587.2
Current portion of long-term debt	**11.8**	9.8
	$734.8	$577.4

The aggregate maturities of long-term debt in each of the five years subsequent to December 31, 1985, are as follows:

1986	$11.8
1987	14.5
1988	16.6
1989	43.9
1990	45.6

(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	1991	1991
	$875		

After allowance for notes payable outstanding, undrawn lines of credit under these agreements amounted to $348.0 million at December 31, 1985.

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, 1985 have been adhered to by the Company.

Notes payable consist of $98.7 million (December 31, 1984-$49.3 million) in Commercial Paper and $159.6 million (December 31, 1984-$147.4 million) in Bankers' Acceptances, all maturing at various dates up to March 5, 1986, with a weighted average interest rate of 9.45% (1984-10.97%). 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 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, 1985 have been adhered to by Chieftain.

After allowance for debt outstanding, the undrawn line of credit under this agreement amounted to $16.8 million at December 31, 1985.

(d) *Chieftain production loan*

The CII production loan is a U.S. $24.0 million facility secured by assignment of certain U.S. oil and gas properties. Interest is payable based on the lender's prime commercial U.S. lending rate or the London interbank offered rate, plus a factor of ½% or 1% respectively. Repayment is required over an eight year period beginning December 31, 1986.

The amount outstanding at December 31, 1985 of U.S. $14.0 million (Cdn. $19.6 million) will be increased by U.S. $10.0 million (Cdn. $14.0 million) pending the closing of an oil and gas property purchase in 1986, which liability is shown as a purchase obligation.

10. 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. A total of $1.1 million has been included in current liabilities for the payment of additional leases. The balance of the cash obligation of $12.2 million is payable when leases to the remaining portions of the Range are issued.

11. Interests of minority shareholders

($ millions)	1985	1984
Chieftain Development Co. Ltd.		
Preferred equity	$ 53.8	$ 54.6
Common equity	46.1	47.1
	$ 99.9	$101.7

12. Share capital

($ millions)	1985	1984
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 - 412,512 11¼% Deferred Convertible, Series 1 (1984 - 412,515 shares)	10.3	10.3
- 3,000,000 7.75% Deferred Convertible, Redeemable, Series 2	75.0	–
Common Shares:		
Authorized–300,000,000 shares without par value		
Issued and fully paid - 44,876,570 shares (1984 - 50,933,122)	209.0	234.5
	$354.3	$304.8

(a) 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 until 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.

ALBERTA ENERGY COMPANY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(iii) Second Preferred Shares—Series 2

On May 16, 1985 the Company issued 3,000,000 7.75% Deferred Convertible Redeemable Second Preferred Shares, Series 2 for a net consideration of $71.8 million. Series 2 Preferred Shares are cumulative and, subject to certain conditions, are redeemable at the option of the Company at predetermined prices varying from $26.50 to $25.00 commencing on May 16, 1988.

Each Series 2 Preferred Share is convertible during the period May 16, 1987 to May 16, 1995, at the option of the holder into 1.25 AEC Common Shares, upon payment by the holder to the Company of a cash amount equal to the difference between the $25.00 par value of such share and the aggregate conversion price of 1.25 Common Shares. The conversion price per Common Share will be equal to 90% of the weighted average price of the Common Shares on the Toronto Stock Exchange for the twenty trading days ending May 16, 1987, subject to a minimum conversion price of $20.00 per Common Share.

(b) Common Shares

	1985		1984	
	Number of Shares	**Share Capital**	Number of Shares	Share Capital
Issued and outstanding—Beginning of year	**50,933,122**	**$234.5**	50,813,255	$232.1
Purchased for cancellation	**(6,237,500)**	**(28.7)**	—	—
Conversion of Second Preferred Shares, Series 1	**6**	—	—	—
Issued for cash under Shareholder Investment Plan	**158,022**	**3.0**	108,117	2.2
Issued for cash under Employee Share Option Plan	**22,920**	**.2**	11,750	.2
Issued and outstanding—End of year	**44,876,570**	**$209.0**	50,933,122	$234.5

On April 3, 1985, the Company purchased for cancellation 6,237,500 of its Common Shares from the Governmenr of Alberta for an aggregate consideration of $125 million. This transaction reduced Common Share capital by $28.7 million and retained earnings by $96.3 million.

(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, 1985, options, exercisable between 1986 and 1992, were outstanding to purchase 775,580 Common Shares at minimum prices ranging from $10.58 to $19.92 per share.

(d) Common Shares reserved

At December 31, 1985, Common Shares were reserved for issuance as follows:

Conversion of Second Preferred Shares	4,575,024
Shareholder Investment Plan	733,861
Employee Share Option Plan	1,239,080
Share Purchase Plan (presently inactive)	100,108
	6,648,073

(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 Government of Alberta, is limited to 1% of the total number of issued and outstanding voting shares of each class of the Company.

13. Remuneration of directors and senior officers

The aggregate direct remuneration paid by the Company and its subsidiaries to its directors was $255,000 (1984 - $224,000) and to its senior officers as officers was $2,099,000 (1984 - $2,015,000).

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, 1985 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, 1985 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 5, 1986

HISTORICAL REVIEW

(all dollar amounts, except per share amounts, are in millions)	**1985**	1984	1983	1982	1981
Financial					
Revenue (net of royalties)	**$ 546.4**	$ 484.2	$ 462.1	$ 374.1	$ 285.1
Net earnings, before extraordinary items	**80.5**	72.3	62.4	33.6	42.4
Net earnings, after extraordinary items	**80.5**	72.3	62.4	54.6	29.7
Funds provided from operations	**255.3**	222.6	211.9	131.0	90.6
Petroleum and Gas Revenue Tax	**33.2**	32.5	29.5	29.5	15.6
Oil and gas royalties paid	**56.9**	44.8	66.3	62.0	55.1
Working capital	**26.2**	49.9	51.8	62.5	1.5
Investment in property, plant and equipment	**1,573.9**	1,323.7	1,155.3	1,108.2	694.0
Long-term debt	**734.8**	577.4	506.3	564.0	518.1
Total assets	**2,013.5**	1,764.9	1,613.3	1,538.9	1,036.9
Per Share Data*					
Net earnings, before extraordinary items	**$ 1.44**	$ 1.22	$ 1.03	$ 0.57	$ 0.93
Net earnings, after extraordinary items	**1.44**	1.22	1.03	1.03	0.65
Funds flow	**5.11**	4.08	3.87	2.67	1.99
Shareholders' equity	**9.62**	9.84	8.83	8.05	6.37
Dividend	**0.30**	0.25	0.20	0.20	0.20
Shares*					
Number of shareholders**	**52,974**	52,460	55,939	58,816	52,841
Common shares outstanding	**44,876,570**	50,933,122	50,813,255	50,800,755	45,491,255
Volume of shares traded	**8,542,225**	7,787,853	9,313,891	6,330,743	4,788,371
Share price range					
– High	**$ 22.13**	$ 23.25	$ 21.25	$ 20.25	$ 27.75
– Low	**16.13**	17.63	13.63	8.00	14.00
– Close	**17.38**	19.88	18.25	15.00	16.00
Operating Data					
Gas production, net before royalties – billion cubic feet	**85.6**	82.1	81.7	71.5	58.5
Syncrude production (net) – million barrels	**4.7**	3.2	4.1	3.1	3.0
Conventional oil production – million barrels	**1.0**	0.6	0.4	0.1	0.1
Utility plant output – thousand megawatt-hours	**928**	757	903	869	793
Coal production (net) – thousand tons	**469**	579	568	741	754
Lumber production, Whitecourt complex – million board feet	**140**	130	121	90	113
Pipeline throughput – million barrels	**97.8**	74.7	77.0	62.4	59.1

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

* *Reflects three-for-one stock split*
** *Includes preferred shareholders since 1982*

1980	1979	1978	1977	1976
$ 232.6	$ 90.9	$ 54.8	$ 20.3	$ 1 3
57 4	27.4	18.8	14.9	8.5
57.4	27.4	18.8	14.9	8.5
115.6	60.8	32 5	17.1	8 2
–	–	–	–	–
43.1	18.3	13.6	7.6	0.3
10.1	44.3	141.0	15.5	68.4
593.0	531.9	290 8	206.6	99.3
251.8	309.6	209 2	44.6	–
702.7	651 0	504.1	273.3	216.4
$ 1.26	$ 0.60	$ 0.41	$ 0.33	$ 0.19
1.26	0.60	0.41	0.33	0.19
2.54	1.34	0.72	0.38	0.18
5.90	4.80	4.27	3.85	3.52
0.15	0.10	–	–	–
54,252	51,725	53,292	54,169	56,394
45,460,505	45,446,505	45,335,553	45,272,928	45,206,928
9,706,332	8,530,752	5,543,070	5,386,023	7,668,018
$ 24.38	$ 14.42	$ 6.58	$ 6.42	$ 4.08
12.50	6.21	4.88	3.92	2.83
23.88	13.50	6.29	5.88	4.00
46.5	38.3	27.0	17.8	.8
3.0	0.7	–	–	–
0.1	0.1	0.1	0.1	–
809	788	300	–	–
662	538	173	–	–
115	100	94	63	–
57.3	39.6	11.7	–	–

AT YEAR-END 1985

Net Canadian petroleum and natural gas rights	3.1 million acres		
Natural gas reserves	Proven	Probable	Total
Billion cubic feet	1,665	177	1,842
†Proven natural gas reserve life	19 years		
Oil and natural gas liquids reserves	Proven	Probable	Total
Million barrels	19.7	8.2	27.9
†Proven oil and gas liquids reserve life	19 years		
Proven synthetic oil reserves	119 million barrels		
†Synthetic oil reserve life	25 years		
Primrose heavy oil in place net to AEC	14.5 billion barrels		
Timber lands	1.3 million acres		
Coal reserves	7.2 million clean tons		
†Coal reserve life	15 years		
Pipelines (in three pipelines)	1,300 miles		

† *At 1985 production rates*

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, P.C.
Partner,
McCarthy & McCarthy
Barristers & Solicitors
Toronto, Ontario

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

JOHN E. MAYBIN
President
Colmac Energy Inc.
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
Chairman of the Board
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

GWYN MORGAN
Senior Vice-President

FRANK W. PROTO
Senior Vice-President

ROGER D. DUNN
Vice-President

EDWARD J. MARTIN
Vice-President & Comptroller

HECTOR J. McFADYEN
Vice-President

JOHN D. WATSON
Treasurer

ARLENE J. MOORE
Corporate Secretary

SYDNEY R. CHEN-SEE
Assistant Corporate Secretary

DEREK S. BWINT
Director,
Financial Evaluations

WAYNE G. HOLT
General Counsel

KEITH O. FOWLER
Director,
Corporate Taxation

LAWRENCE J. HICKEY
Assistant Comptroller

ROBERT A. TOWLER
Director,
Petrochemicals

Principal Officers of Divisions

AEC Oil and Gas Company

GWYN MORGAN
President

RONALD A. McINTOSH
Senior Vice-President

DENNIS W. CORNELSON
Vice-President, Marketing

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)

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

Registrar and Transfer Agent—(Second Preferred Shares, Series 1 and 2)

The Royal Trust Company
Calgary, Edmonton, Montreal, Toronto, Winnipeg, Vancouver, 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

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

Duplicate Annual Reports

Receipt of duplicate shareholder material results from a shareholder having shares of the same class or series registered in different names or addresses. You can avoid receiving duplicate shareholder reports by contacting your Transfer Agent (See Registrar and Transfer Agent) to have your holdings registered under one name and address.

Annual Meeting

The Annual and Special General Meeting of Shareholders of Alberta Energy Company Ltd. will be held in the Heritage Room, Continental Inn, 954 - 7 Street S.W., Medicine Hat, Alberta at 3:00 p.m. local time on Wednesday, April 9, 1986.

Copies of the Company's 1985 annual report may be obtained by contacting the office of the Corporate Secretary at Alberta Energy Company Ltd., #2400, 639 - 5 Avenue S.W., Calgary, Alberta T2P 0M9.

Shareholder Investment Plan

Eligible registered shareholders wishing to acquire or increase their holdings of Common Shares of Alberta Energy Company Ltd. can take advantage of the Shareholder Investment Plan which offers two options:

<u>Dividend Reinvestment Plan</u> (DRP) provides a convenient method for shareholders to reinvest their cash dividends in new Common Shares of AEC at 95 percent of Average Market Price.

<u>Optional Share Purchase Plan</u> (OSP) allows a shareholder to purchase new Common Shares at Average Market Price up to an aggregate of $5,000 per calendar quarter (minimum $50 per remittance).

No commission, service charges or brokerage fees are payable by shareholders to acquire shares via DRP or OSP as all administrative costs are borne by AEC.

Eligible registered holders are registered holders of Common Shares; 15% Cumulative Redeemable Retractable First Preferred Shares, Series A; 11.25% Deferred Convertible Second Preferred Shares, Series 1; and 7.75% Deferred Convertible Redeemable Second Preferred Shares, Series 2; resident in Canada or Canadian citizens resident in any country except the United States.

Detailed information and copies of the Shareholder Investment Plan can be obtained from:

National Trust Company
Corporate Trust Services
Suite 1008, 324 - 8 Avenue S.W.
Calgary, Alberta
T2P 2Z2

Telephone: (403) 263-1460

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