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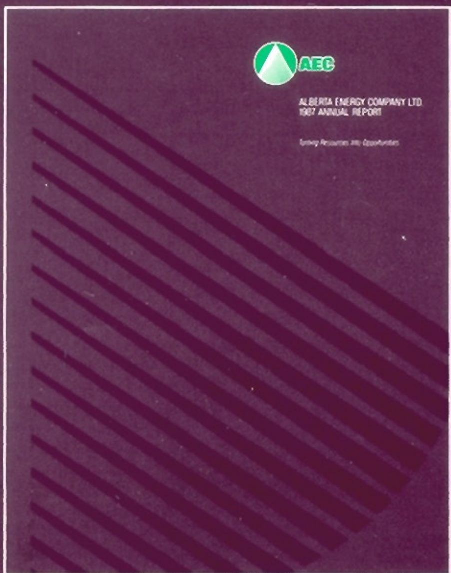
AEC

ALBERTA ENERGY COMPANY LTD.
1987 ANNUAL REPORT

Turning Resources Into Opportunities



AEC's diversified activities continue to provide profitable investment opportunities through the development of natural resources and the international marketing of products.

YEAR AT A GLANCE

	1987	1986
Net earnings (millions)	$ 60.5	$ 47.8*
Per share	$ 1.02	$ 0.72*
Cash flow (millions)	$204.2	$198.2
Per share	$ 3.63	$ 3.94
Revenues, net of royalties (millions)	$479.7	$460.4
Synthetic oil production (barrels/day)	13,700	13,000
Conventional oil production (barrels/day)	6,550	6,250
Gas production (million cubic feet/day)	234	252
Lumber shipments (million board feet)	169	152
Medium density fibreboard shipments (million square feet)	48	8
Pipeline throughput (barrels/day)	293,000	250,000
Coal sales (tons)	500,900	447,600

*before extraordinary items

- All of AEC's Divisions achieved positive cash flow.
- $250 million of convertible debentures were issued, with an average interest rate of 7 percent.
- Exploratory drilling discoveries yielded additions to gas and oil reserves.
- Design work continued on a major commercial heavy oil project at Primrose, scheduled to start construction in 1988.
- Syncrude, 10 percent owned by AEC, produced 50 million barrels of synthetic crude oil—another record.
- Work continued on the Syncrude Capacity Addition Project to add 20,000 barrels per day of productive capacity by the fall of 1988.
- AEC Pipelines had a record year for operating cash flow and pipeline throughput.
- AEC Pipelines commenced a joint venture field test of new technology for heavy oil pipelining.
- AEC became a 25 percent participant in the Alberta-based "Elephant Brand" nitrogen fertilizer business.
- The $105 million Joffre ammonia plant and related storage facilities started up on time and under budget.
- Ranger™ lumber production reached a record 164 million board feet.
- The new Ranger™ medium density fibreboard plant reached full productive capacity and is successfully marketing worldwide.

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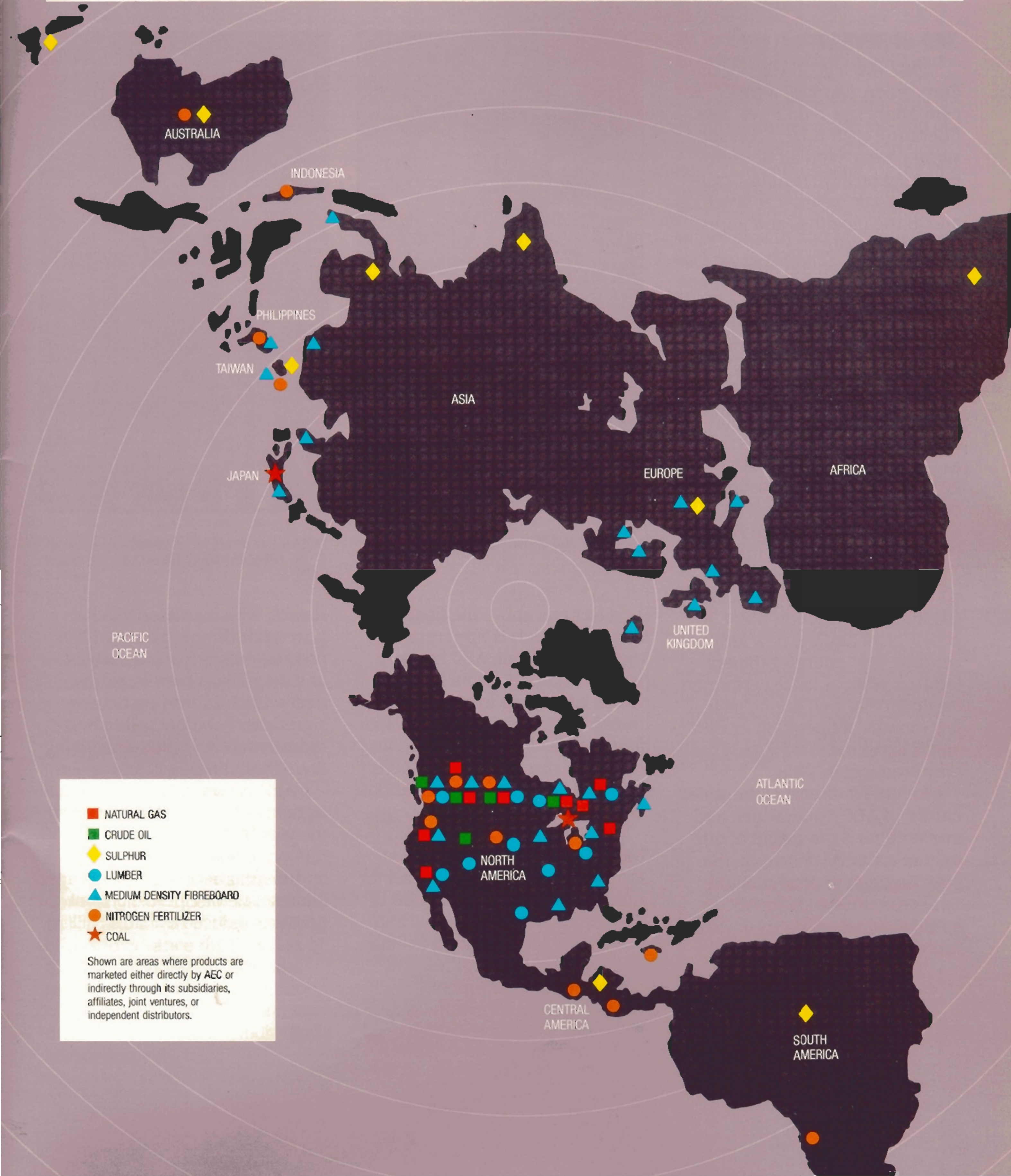
MARKET AREAS



Shown are areas where products are marketed either directly by AEC or indirectly through its subsidiaries, affiliates, joint ventures, or independent distributors.

PRESIDENT'S REPORT TO SHAREHOLDERS

1987 IN REVIEW

1987 was a good year for the Corporation. Earnings were 27 percent above the 1986 level, and operating cash flow increased significantly, with all divisions reporting positive results. Operational records were set at Syncrude and in the Pipelines and Forest Products divisions.

The graph on the right illustrates the diversification of AEC's cash flow sources. In 1987 Syncrude and the Pipelines Division performed particularly well, with operating cash flow of $56.3 million and $61.1 million respectively. These results offset the decline in cash flow from natural gas sales, as our average gas price fell by 27 percent and sales declined by 7 percent. For the first time, operating cash flow from Forest Products exceeded $10 million.

Included in the "Other" category are revenues from a natural gas liquids extraction plant, a power plant and the new fertilizer venture. The energy-efficient fertilizer plant at Joffre performed exceptionally well during its first few months of operation in 1987 and is expected to be a good cash flow producer in 1988.

Another indicator of the varied nature of AEC's operations and investments is the extent of our market areas. As shown on the map on page 3, products are marketed worldwide by AEC or its subsidiaries, affiliates or joint ventures.

SOURCES OF 1987 OPERATING CASH FLOW
($ Millions)

RESERVE LIFE OF AEC NET HOLDINGS
AT 1987 RATES OF PRODUCTION
(Years)

Over and above the financial strength which is apparent on the balance sheet, AEC has very valuable natural resource assets which contribute to its excellent results and offer good potential for future years. The graph above illustrates the size of these resources, showing the reserve life of various holdings.

For example, the 24 billion barrels of heavy oil in place at Primrose is an enormous asset for AEC. Development of portions of this resource is progressing, and in 1988 should advance from the pilot stage to the beginning of commercial development.

Exploration for natural gas and conventional oil yielded good results, with increased reserves at year-end, after deducting 1987 production of 85 billion cubic feet and 2.4 million barrels, respectively. 1987 finding costs were significantly below published industry levels, further enhancing the bottom line.

AEC's financial position was significantly strengthened during the year by the conversion of $250 million of floating rate debt to 15- and 16-year debt with an average interest rate of 7 percent. Total debt was reduced by $10.8 million.

AEC

1987 CASH FLOW
MANDATORY DEBT PAYMENTS 1988 TO 1992
($ Millions)

All of the Corporation's mandatory debt payments for the next five years, shown in the graph above, could be met using only 41 percent of 1987 cash flow. Of the total debt, 63 percent is at fixed rates of interest. Our average interest rate at year-end 1987 was 8.0 percent as compared with a year-end prime rate of 9.75 percent.

AEC PEOPLE

The staff of Alberta Energy Company continue to show dedication and talent in their ongoing efforts to advance the progress of the Corporation. AEC's results reflect the significant contribution of our people, and we appreciate their accomplishments, individually and collectively.

THE PRICE OF OIL

Crude oil is sold around the world in U.S. dollars and it is interesting to note that the price has decreased significantly in recent years. The decrease varies considerably between countries due to changes in currency values as compared to the U.S. dollar. The table below shows the impact of changes in crude oil price and currency values in selected countries since January, 1985. In Japan, for example, the price and currency-value-adjusted cost of crude oil has decreased to U.S. $8.69 per barrel and is 33.9 percent of the cost which prevailed there in January, 1985.

COST OF A BARREL OF OIL JANUARY 1988*

(Combines Changes in Foreign Exchange and Price)

	U.S. $/Bbl	Index
U.S.	$16.95	66.1
Canada	$16.46	64.2
Spain	$11.10	43.1
U.K.	$10.81	41.9
France	$ 9.93	38.7
Germany	$ 9.04	35.0
Japan	$ 8.69	33.9

*Indexed from January, 1985, when the price was U.S. $25.64

THE YEAR AHEAD

During 1988, AEC's capital program is expected to be in excess of $200 million. The allocation of these funds will depend upon which opportunities are expected to provide the optimum return to our shareholders, but it is anticipated that the Oil and Gas and Pipelines divisions will invest the largest share. In addition, during 1988 there likely will be decisions on projects requiring major commitments of capital in 1989 and subsequent years.

Canadians are voicing strong opinions on free trade. We add our voice, wholeheartedly and with complete enthusiasm, for the free trade initiative. For AEC, the new free trade deal bodes well for future growth and profitability. It will mean new jobs for Canadians and new opportunities for the Corporation. It will help provide unhindered access for our products and substantially avoid or forestall future tariff confrontations in one of the largest markets in the world. When put into effect, the Free Trade Agreement could well enhance Canadian unity by providing all regions of Canada the chance to participate equally in building a prosperous future.

1988 should be another good year for AEC, as we move ahead with a solid base of assets, good cash flow and a fine staff. Subject to a reasonable degree of stability in oil prices, we are expecting that results will be similar to those of 1987 and that 1988's challenges, unpredictable though they may be, will provide a lively and interesting year.

David E. Mitchell, O.C.
President and
Chief Executive Officer

February 12, 1988

OIL AND GAS

> ***"AEC has an exceptionally strong resource base on which to build future profit growth."***
>
> Gwyn Morgan
> President
> AEC Oil and Gas Company

Maurice DeGagne, Operator, takes a meter reading in the vapour recovery unit at the South Jenner oil treating facility.

AEC

CONSOLIDATED RESULTS

Data related to oil and gas exploration, production, landholdings and reserves shown elsewhere in this report reflect consolidation with Chieftain Development Co. Ltd., of which AEC is the majority shareholder. Information specific to AEC Oil and Gas Company, a Division of Alberta Energy Company Ltd., is contained on pages 8 through 12. A summary report on Chieftain appears on page 13.

Canadian Reserves

The Corporation's conventional oil and gas reserves in Canada at year-end 1987 are estimated to be:

Gas (billion cubic feet)	
• Proven	1,634
• Probable	163
• Total	1,797

Oil (million barrels)	
• Proven	15.9
• Probable	6.7
• Total	22.6

In addition to the above conventional reserves, AEC Oil and Gas Company holds an estimated 24 billion barrels of heavy oil in place at Primrose after deducting the portion that joint venture participants have earned or are entitled to earn. AEC's share of the resource is estimated to have the capacity to ultimately produce some 50,000 barrels per day, of which 5,000 to 10,000 barrels per day could be realized within the next five years dependent upon oil prices, markets, fiscal terms and technological developments.

AEC's share of reserves in the Syncrude venture are discussed on page 15.

Summary of Canadian Results

	1987	1986
Average daily gas production (million cubic feet)	233	252
Average daily oil production (barrels)	5,020	4,613
Petroleum and natural gas landholdings (net million acres)	3.2	3.2
Exploratory and development wells drilled		
• Oil—Gross	52	62
—Net	12	27
• Gas—Gross	48	89
—Net	19	66
• Cased Awaiting Evaluation—Gross	24	11
—Net	13	4
• Dry and Abandoned—Gross	32	95
—Net	13	35
• Total—Gross	156	257
—Net	57	132

OIL AND GAS

AEC OIL AND GAS COMPANY

Activity Summary

AEC Oil and Gas Company continued to strengthen its resource base through both successful natural gas and conventional oil exploration and further definition of the commercial potential of heavy oil resources.

Natural gas demand and prices weakened considerably in 1987. North American natural gas markets are believed to be on the verge of strengthening. As they do, AEC Oil and Gas Company is very strongly positioned for growth in cash flow and earnings.

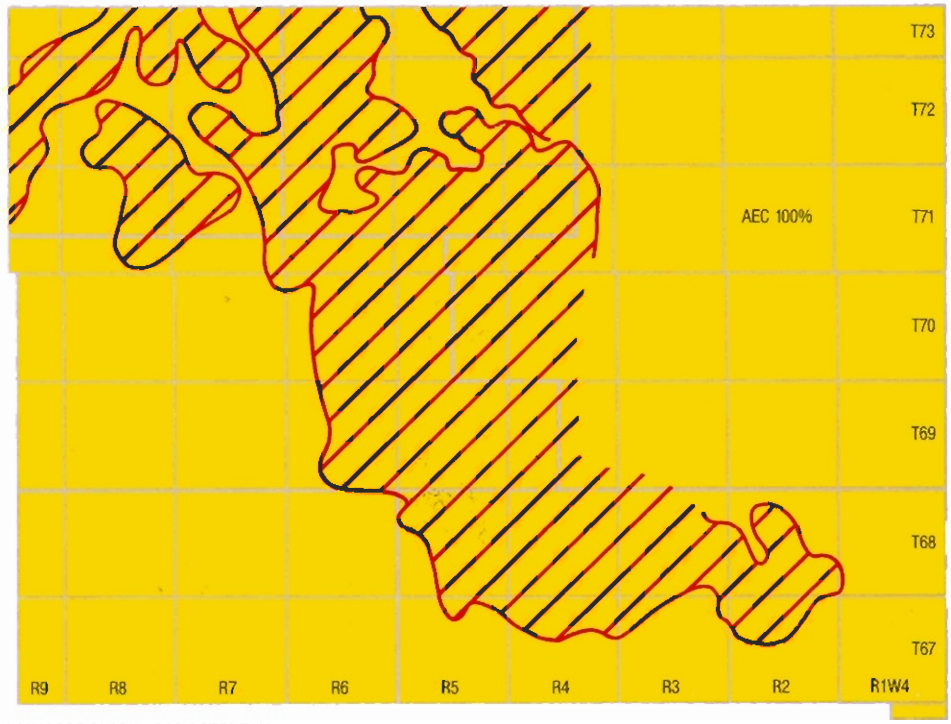
The Company has additional productive capacity available from developed gas fields and from newly discovered reserves which will be developed. It has a diverse base of strong and flexible natural gas marketing arrangements.

AEC is developing new opportunities for gas sales in the U.S. where signs of natural gas market resurgence are already evident.

Conventional oil production was down slightly in 1987, but operating cash flow was higher due to higher prices. Conventional oil production is expected to increase in 1988.

The Company's revised exploration strategies, implemented following the pricing collapse of 1986, yielded good results in terms of both reserves replacement and low finding costs. AEC has developed a good land position in some of the higher potential western Canadian oil and gas exploration plays.

AEC successfully drilled and placed on production Canada's first "medium radius" horizontal well. This advanced technology presents exciting potential to increase the Company's oil reserve base and production levels.



PRIMROSE BLOCK—GAS POTENTIAL

Areas Containing Proven Natural Gas Pools
AEC Interest Land

0 6 12
Miles

The enormous heavy oil resources on the Primrose Block in northeast Alberta place AEC in one of the strongest positions of any Canadian company. Heavy oil accounts for over 20 percent of Canadian production and this proportion is expected to increase substantially as Canada's conventional oil supplies decline. In the southern region of Primrose, two projects are on the verge of commercial development. In the northern region, improved technology has greatly enhanced prospects for commercial development. A full-scale pilot is planned for the central region of the Primrose Block.

AEC Oil and Gas Company has a substantial resource base and solid marketing position. The Company has good prospects for growth in natural gas and conventional oil revenues and has enormous heavy oil resources which are poised for profitable development.

Exploration

Over the past year, AEC Oil and Gas Company implemented major revisions to its exploration strategy. Financial and human resources were concentrated on fewer areas and average ownership interests were increased. During 1987, the Company's finding costs were less than half of published finding costs for the industry as a whole. 1987 natural gas reserve additions resulting from the exploration program kept pace with the Company's substantial level of production. Oil discoveries were slightly below 1987 production.

On the Primrose Block, AEC Oil and Gas Company has interests of between 50 percent and 100 percent in more than 160 gas wells. Successful exploration in 1987 increased Primrose gas reserves to 145 billion cubic feet, net to AEC. During 1988, AEC plans to participate in 170 miles of seismic and 26 exploratory wells on the Primrose Block.

The Swan Hills trend in south-central Alberta features, at Caroline, one of the most significant western Canadian gas/condensate discoveries in many years. AEC has exploratory lands on the Swan Hills trend to the north and south of Caroline. Three deep wells are being drilled on the trend near Company lands at Strachan, twelve miles northwest of Caroline.

AEC has an average 22.5 percent interest in four deep gas/condensate wells in the Millarville area of southwestern Alberta. One well is currently being drilled with additional wells planned for 1988. Production from one of the discoveries commenced in late 1987 at a rate of 4 million cubic feet of gas per day, 150 barrels per day of liquid hydrocarbons, and 16 long tons of sulphur, net to AEC.

AEC Oil and Gas Company 1987 Well Statistics

Exploratory

	Total Gross	Total Net
Oil	11	4
Gas	22	12
Cased Awaiting Evaluation	5	3
Dry and Abandoned	13	5
Total	51	24

Development

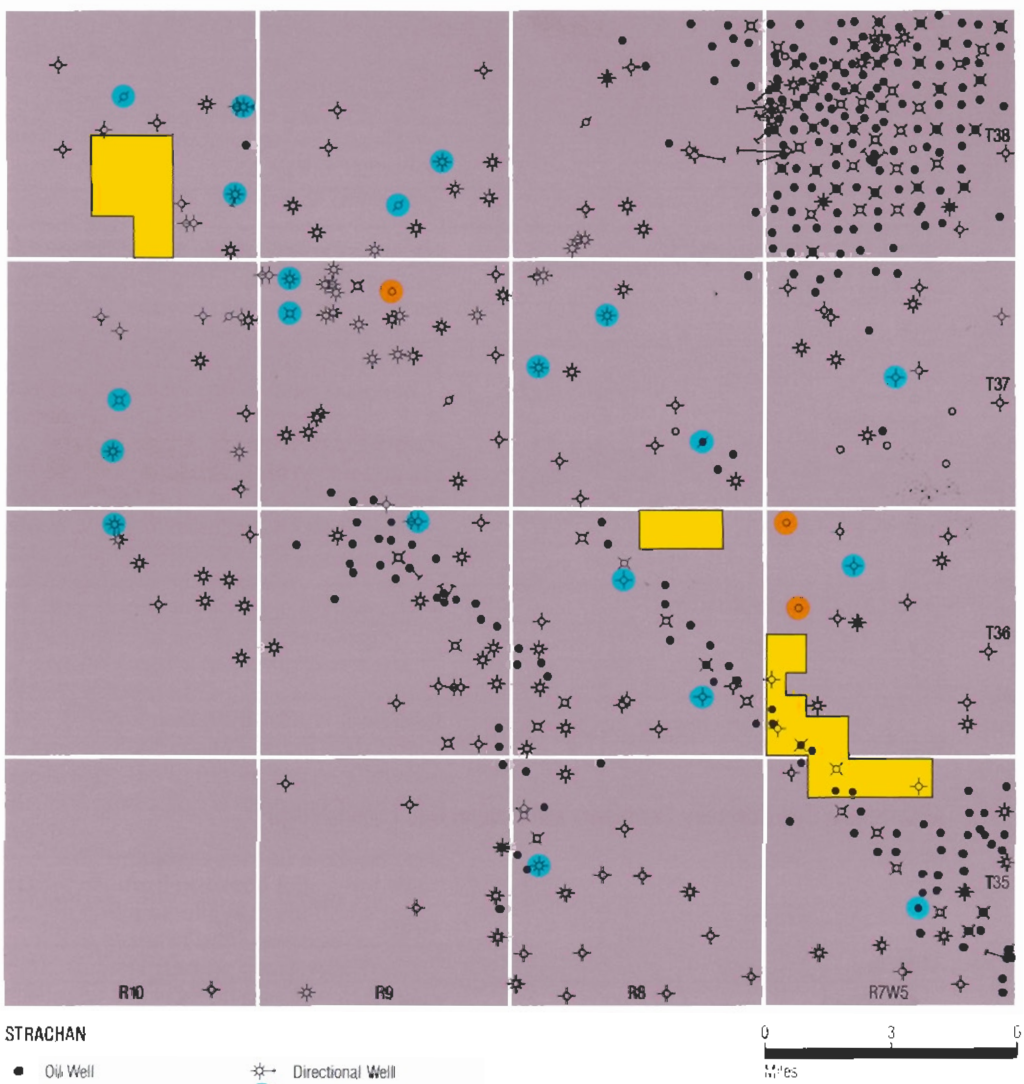
	Total Gross	Total Net
Oil	4	2
Gas	1	–
Cased Awaiting Evaluation	8	6
Dry and Abandoned	3	2
Total	16	10
Total Wells	67	34

AEC Oil and Gas Company Petroleum and Natural Gas Landholdings

(Acres)

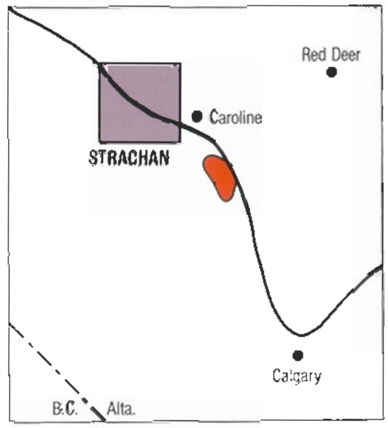
	1987 Gross	1987 Net	1986 Net
Alberta			
–Suffield	644,731	641,153	641,354
–Primrose	1,380,160	1,138,765	1,194,176
–Other	1,240,942	514,986	487,296
Saskatchewan	133,732	76,376	50,505
British Columbia	382,570	137,663	152,937
Beaufort	2,760,472	47,771	47,771
Total	6,542,607	2,556,714	2,574,039

OIL AND GAS



STRACHAN

- ● Oil Well
- Gas Well
- Suspended Well
- Service Well
- Abandoned Well
- Location/Drilling
- Directional Well
- Swan Hills Exploration Well
- Swan Hills Drilling Well
- Caroline Gas Discovery
- AEC Interest Land



SWAN HILLS TREND

During 1987, AEC drilled six exploratory wells on the western portion of the Suffield Block and nearby lands. This drilling resulted in four oil wells and one gas discovery. A successful gas well was also drilled near Pageant, 50 miles to the southwest. The two most significant gas discoveries tested at 10 and 6 million cubic feet per day. Three of the oil discoveries tested at an average rate of 70 barrels per day, and the fourth well will be tested in 1988.

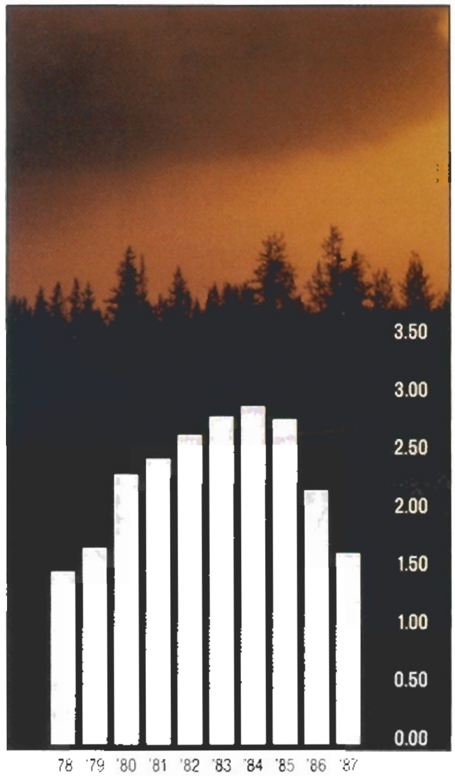
Natural Gas Production

AEC Oil and Gas Company is a major natural gas producer, holding interests in 3,006 producing natural gas wells located mainly in Alberta. In 1987, natural gas production was 201 million cubic feet per day compared with 223 million cubic feet per day in 1986. Natural gas prices were weaker as a consequence of the deregulation process, in both Canada and the U.S., and unusually warm winter weather. These factors resulted in a 30 percent reduction in operating cash flow from natural gas.

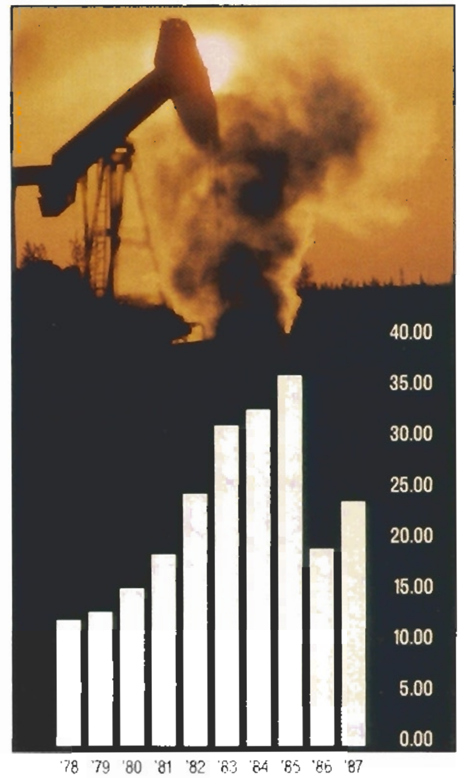
AEC's marketing strategy is to avoid deep discount markets to maximize the longer term return from its valuable natural gas resource base. Production operating costs are among the lowest in the industry, giving the Company exceptional resilience to weather this period of weakness in natural gas markets.

As markets strengthen, AEC has the ability to increase sales from its existing productive capacity, as well as through development of new reserves, including Primrose and Millarville.

During 1987, natural gas markets continued to restructure in response to changing regulatory and business conditions. AEC has been successful at further diversifying its broad portfolio of natural gas sales arrangements.



ALBERTA NATURAL GAS WELLHEAD/PLANT GATE PRICES
(C$/mcf)



AVERAGE ALBERTA WELLHEAD PRICE LIGHT AND MEDIUM CRUDE OIL
(C$/bbl)

Regulatory review of a project for sale of Alberta gas to distributors in the northeastern United States is continuing in Canada and the United States, with decisions expected in 1988.

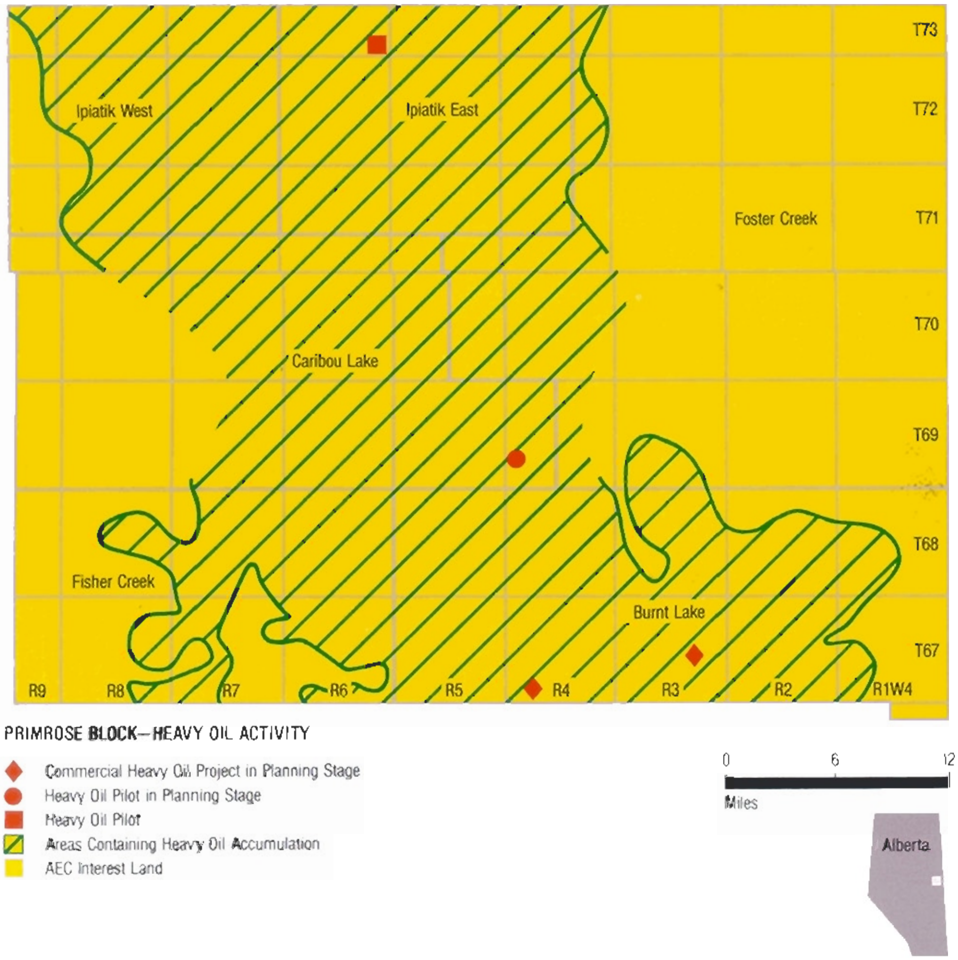
Conventional Oil Production

Stronger prices resulted in a 145 percent increase in operating cash flow from conventional oil production despite somewhat lower productive levels. Conventional oil production averaged 2,750 barrels per day, down 440 barrels per day from 1986. This reduction occurred as a result of a need to install low gravity oil treatment facilities which will be completed early in 1988. The outlook for 1988 is for increased conventional oil production.

Conventional light and medium crude oil was sold to domestic refineries while the Company's heavy oil production was sold to a well established U.S. heavy oil refiner under a long-term contract.

AEC has approximately 275 million barrels of conventional heavy oil in place in the Suffield area, of which 7 million barrels are currently included as recoverable in AEC's reserve base. The Company has implemented a number of pilot programs to apply advanced technology to increase recovery of these conventional heavy oil reserves.

OIL AND GAS



PRIMROSE BLOCK—HEAVY OIL ACTIVITY

The first "medium radius" horizontal well in Canada was successfully drilled and completed by AEC in the last quarter of 1987. This technology allows the wellbore to drain a far greater portion of the reservoir than is possible from a vertical well. The well is currently on test at a carefully controlled production rate of 150 barrels of oil per day.

The Company also is conducting encouraging gas injection tests to reduce water production and increase oil recovery. These advanced technologies have the potential to significantly increase AEC's conventional oil reserve base.

In Situ Heavy Oil Sands

Delineation and production testing of heavy oil resources continued on the 2,000-square-mile Primrose Block. AEC has interests ranging from a 60 percent working interest to a combination 12.5 percent working interest and 5.4 percent net profits interest.

Drilling in the Caribou Lake and Foster Creek areas of the Primrose Block delineated an extension of the Clearwater heavy oil sands. These sands currently produce approximately 100,000 barrels per day in the Cold Lake area south of Primrose. AEC's share of Primrose heavy oil in place is estimated to be 24 billion barrels of which about 2 percent, or 500 million barrels, may ultimately be recovered depending upon oil prices, markets, fiscal terms and technological developments.

Two major commercial heavy oil projects have been approved in the Burnt Lake area of Primrose for about one year. The oil price reduction of 1986 resulted in deferral of these projects pending oil price strengthening and other ways of improving the economics. Detailed engineering work has resulted in reduced development and operating cost estimates. Commercial development is conditional upon satisfactory government fiscal terms and the outlook for oil prices.

A heavy oil pilot project at Burnt Lake in the southern part of Primrose has achieved production rates in the 3,000 barrels per day range from the Clearwater formation. This pilot was shut in when oil prices fell in 1986. Pilot operations are scheduled to recommence with 24 new wells planned for 1988. The excellent production potential of the Clearwater formation was further confirmed by two single-well steam tests at Caribou Lake in the central portion of the Primrose Block. Tests indicate that production averaging 60 barrels per day will be realized from each of these wells. Planning is now under way to commence construction of a full-scale pilot project in 1988.

The application of new completion and stimulation techniques in the Wabiskaw formation at the Ipiatik pilot project proved to be very successful in 1987. As a result of this, AEC and its co-venturers will add four wells to the pilot in early 1988 in order to further test the commercial potential of the Wabiskaw formation.

AEC successfully drilled and placed on production Canada's first "medium radius" horizontal well.

CHIEFTAIN DEVELOPMENT CO. LTD.

AEC owns 57 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.

Chieftain's 1987 exploration program included several light gravity crude oil discoveries in Alberta and a natural gas discovery in the Gulf of Mexico.

Oil and natural gas liquids production increased 24 percent to 3,800 barrels per day during 1987. Natural gas production increased to 33 million cubic feet per day, up 12 percent from 1986.

Chieftain continued to increase its oil and gas reserves. Independent consultants estimate that Chieftain's proven natural gas reserves had increased by 52 billion cubic feet (bcf) to 494 bcf at December 31, 1987. Proven reserves of oil and natural gas liquids had increased by 900,000 barrels to 14.4 million barrels. The consultants estimate that Chieftain holds probable additional oil and gas reserves of 2.9 million barrels and 45 billion cubic feet, respectively.

Landholdings in Alberta, the United States and the North Sea total 2,500,000 gross (856,000 net) acres at December 31, 1987. These holdings include 1,874,000 gross (714,000 net) acres in Alberta and 339,000 gross (108,000 net) acres in the United States.

Chieftain participated in 94 exploratory and development wells in Alberta, in the continental United States and offshore in the Gulf of Mexico during 1987. This drilling program resulted in 33 oil wells, 22 gas wells, 7 oil-and-gas wells, 11 wells cased for evaluation, and 4 wells drilling at year-end. Oil reserves were added in Alberta at Hythe, Gold Creek, Tangent, Bezanson, Gordondale, Valhalla, Hunt Creek, Medicine Lake and Panny River. Gas reserves were added at Hythe, Gordondale, Craigend, Tweedie, Vilna and Edwand. At Edwand, in east central Alberta, Chieftain drilled five gas wells and work is commencing on a gas compression facility with a capacity net to Chieftain of 15 million cubic feet per day. In the Gulf of Mexico, Chieftain participated with a one-third interest (23 percent after payout) in a natural gas discovery that flowed 12 million cubic feet per day. Onshore in the U.S., Chieftain participated in five oil-and-gas wells on Wyoming's Moxa Arch and an oil well in North Dakota.

PAN-ALBERTA

AEC owns one-half of Pan-Alberta Gas Ltd. and Pan-Alberta Resources Inc.

In 1987 Pan-Alberta Gas Ltd. strengthened its position as the second largest exporter of natural gas to the United States. Export sales volumes were up substantially to a level of 232 billion cubic feet, representing 25 percent of the 1987 Canadian export market. Domestic sales increased 20 percent to 47 billion cubic feet.

Pan-Alberta successfully settled a contractual dispute with a U.S. purchaser, allowing substantially increased export sales.

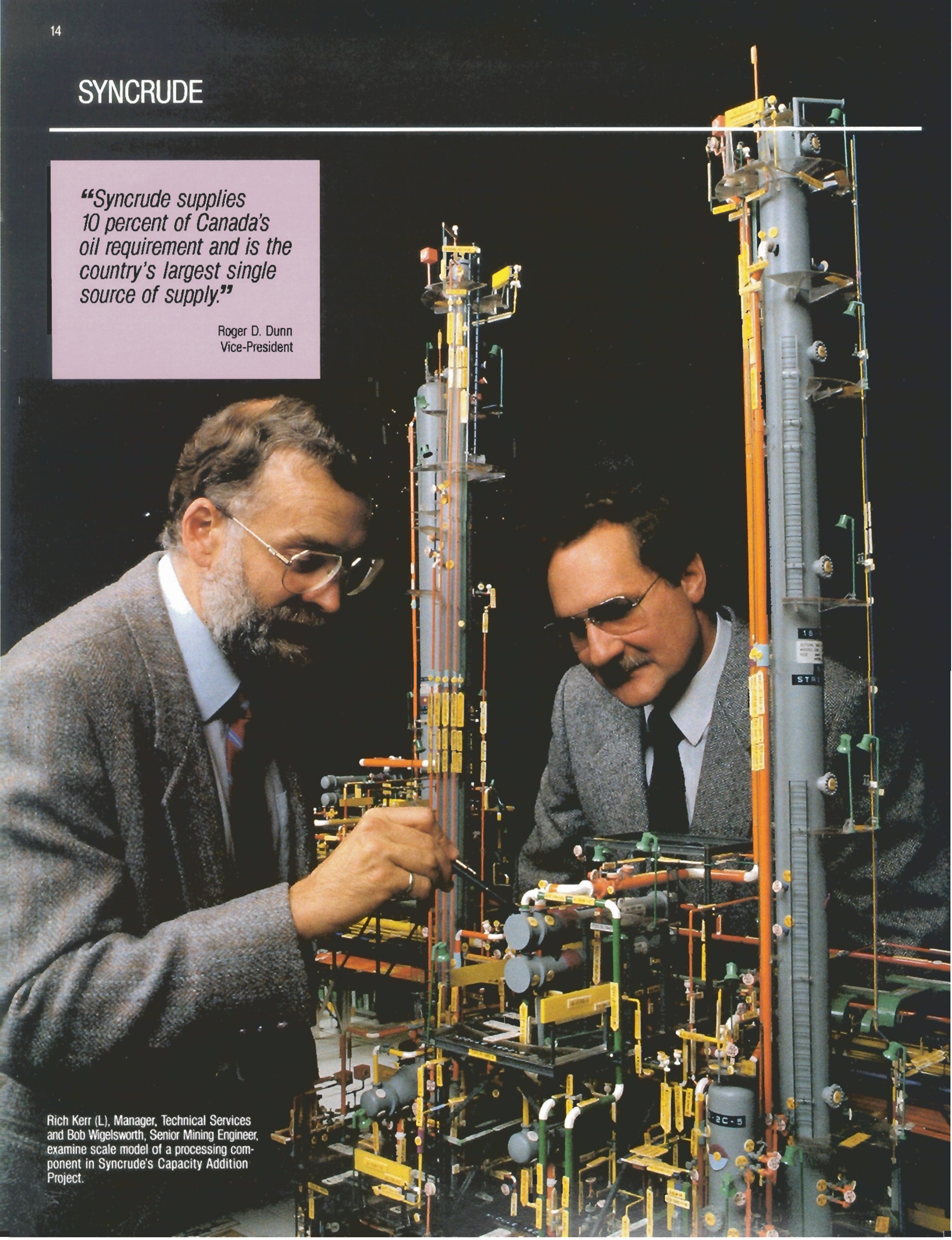
The company also completed its third consecutive year of 100 percent of contract volume sales of natural gas to a southern California market.

Pan-Alberta Resources Inc. has a 50 percent interest in a natural gas liquids extraction plant located at Empress, Alberta. These natural gas liquids are sold on a cost-of-service basis. During 1987, increased exports of natural gas resulted in more gas being processed at this plant.

Pan-Alberta Resources also receives a share of the profit from another plant where natural gas liquids are extracted from Pan-Alberta's gas stream.

SYNCRUDE

> *"Syncrude supplies 10 percent of Canada's oil requirement and is the country's largest single source of supply."*
>
> Roger D. Dunn
> Vice-President



Rich Kerr (L), Manager, Technical Services and Bob Wigelsworth, Senior Mining Engineer, examine scale model of a processing component in Syncrude's Capacity Addition Project.

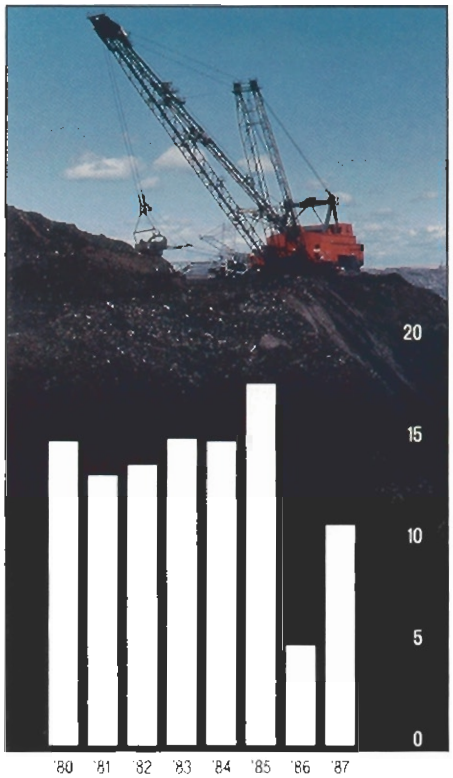
AEC owns a 10 percent joint venture interest in Syncrude, with an average 7 percent overriding royalty on another 10 percent of project revenues. Syncrude, located 320 miles north of Edmonton, is the world's largest oilsands mining operation. It supplied 10 percent of Canada's crude oil consumption during 1987. Oil shipments for 1987 were a record 50 million barrels or 137,000 barrels per day, a 6 percent increase over 1986. This is the third consecutive year that Syncrude has established records for annual synthetic crude oil shipments.

The 1987 plant gate synthetic crude oil price averaged $23.60 per barrel, a 21 percent increase from 1986. This higher oil price, combined with record shipments and lower production costs, resulted in an increase of 136 percent in AEC's operating cash flow from oil sands.

AEC was successful in restructuring its arrangements for the sale of Syncrude production. The synthetic crude oil was previously sold to a single refiner. AEC's marketing flexibility and market position have been improved significantly with the addition of another major Canadian refiner.

The commendable efforts of Syncrude's management and staff, as they strive for operational excellence, resulted in the 1987 base plant unit operating cost dropping to Cdn. $14.60 (about U.S. $11.00) per barrel. This is the lowest in Syncrude's nine-year history and a $0.10 per barrel improvement over the average 1986 base plant costs.

The Syncrude Aggressive Capital Program, initiated in 1983, is nearing completion. Construction of the final phase, the $680 million Capacity Addition Project (CAP), was 90 percent complete



OPERATING CASH FLOW PER BARREL OF SYNCRUDE PRODUCTION
($ Per Barrel)

at year-end. These new facilities are expected to start up in August 1988, four months earlier than originally scheduled and $80 million under the initial estimated cost. Upon completion of this last phase, Syncrude's daily capacity will be increased a further 20,000 barrels to 157,000 barrels.

At year-end, the two-year $85 million expansion engineering study was 50 percent complete. To date, the study indicates that an additional 82,000 barrels per day of capacity will cost approximately $3.8 billion ($1987) and would be capable of production commencing as early as 1993. Expansion would create over 398,000 person-years of employment opportunities and reduce Canada's dependence on imported oil by more than 10 percent by the year 2000. Before proceeding with the expansion the Syncrude owners will consider a number of factors including the financing of the project, the availability of construction labour and materials, the outlook for the price of oil, and the fiscal terms that can be negotiated with the Alberta and federal governments. Syncrude also will have to review the provisions of an Alberta Energy Resources Conservation Board permit. A decision on this project may be made in late 1988.

AEC's share of Syncrude's proven reserves at year-end 1987 was 115 million barrels of synthetic crude oil. At 1987 production rates this is sufficient for about 23 years of operation. AEC's share of proven but undeveloped reserves is 70 million barrels. Once CAP is operational in August 1988, the undeveloped reserves will be added to the reserve base. The combined proven reserve is large enough to supply Syncrude to about the year 2020. In addition, sufficient unproven reserves have been identified within the Syncrude leases to supply the proposed expansion project.

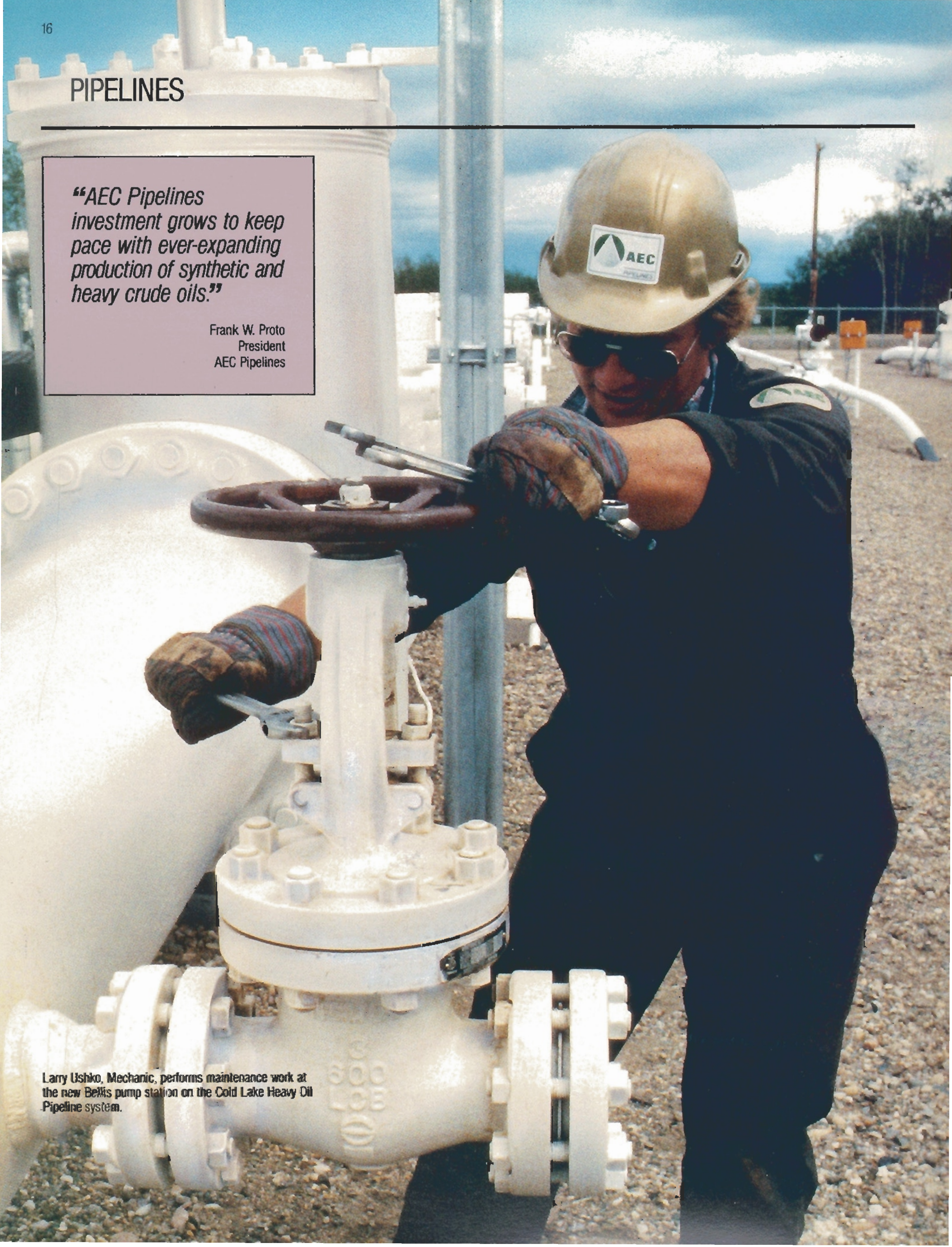
AEC POWER LTD.

Alberta Energy Company Ltd. holds a two-thirds interest in AEC Power Ltd., owner of the $312 million power plant which supplies power and steam for Syncrude. Profits are earned on a contractually set cost-of-service basis.

PIPELINES

"AEC Pipelines investment grows to keep pace with ever-expanding production of synthetic and heavy crude oils."

Frank W. Proto
President
AEC Pipelines



Larry Ushko, Mechanic, performs maintenance work at the new Bellis pump station on the Cold Lake Heavy Oil Pipeline system.

AEC

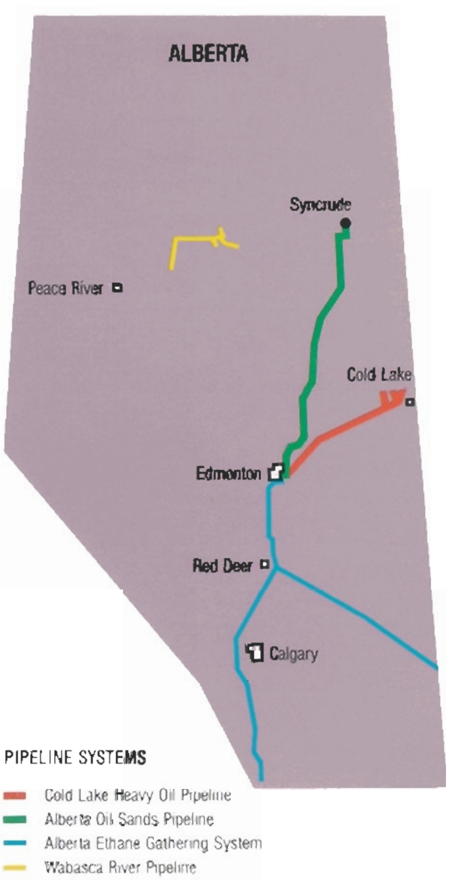
AEC PIPELINES

AEC Pipelines continued its strong growth in terms of both volume of oil transported and capital invested. Record volumes of oil averaging in excess of 293,000 barrels per day were transported via AEC owned and operated pipeline systems. This is about 25 percent of Alberta's total oil production. The announced expansions of heavy oil production and the completion of the Syncrude Capacity Addition Project provide additional pipeline investment opportunities.

AEC Pipelines' 1988 capital program will be in excess of $53 million to provide the required pipeline transportation capability.

Expansion work continued on both of the AEC-operated systems employing the Division's expertise in engineering, design and project management. AEC Pipelines also participated in a joint venture to build and start up the Wabasca River Pipeline, a new oil gathering system near Peace River.

AEC Pipelines incurred no lost time accidents or unscheduled downtime in 1987. This enviable record is evidence of the diligence and commitment of the Division's very capable employees.



Alberta Oil Sands Pipeline

Alberta Oil Sands Pipeline (AOSPL), a wholly owned and operated system, is a 270-mile pipeline delivering the oil production from the Syncrude plant at Fort McMurray to the Edmonton area where it is distributed to local refineries and to other pipeline systems for export from Alberta.

In response to record Syncrude production, the pipeline transported record throughput averaging 136,500 barrels per day.

A $9 million project was completed to relocate a 13-mile section of the AOSPL system near Syncrude to facilitate mine operations.

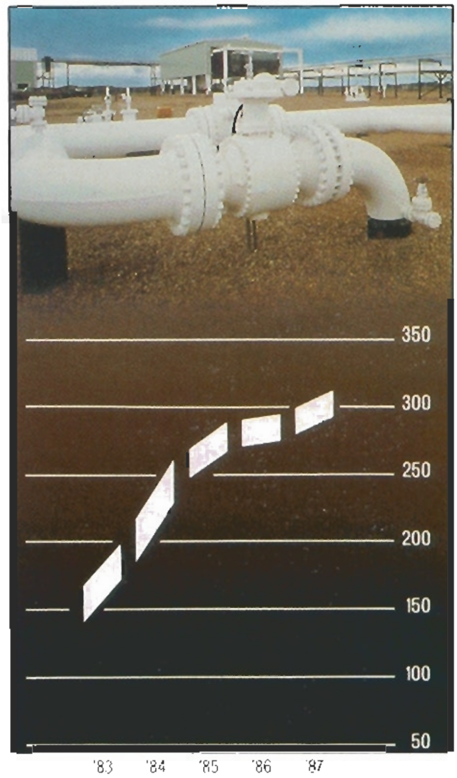
Preliminary construction commenced to increase peak capacity to 226,000 barrels per day. This $19 million project will be completed in 1988 to accommodate the increased output from Syncrude's Capacity Addition Project.

Cold Lake Heavy Oil Pipeline

The Cold Lake Heavy Oil Pipeline transportation network moves heavy oil blends from in situ heavy oil projects in the Cold Lake region to Edmonton. Daily system throughput averaged 121,500 barrels of blended heavy oil in 1987, compared with 95,000 barrels in 1986.

During the year a new pump station was constructed at Bellis. This facility utilizes state-of-the-art variable speed technology applied for the first time on a crude oil pipeline system in North America. The pump station provided a system expansion of 55,000 barrels per day to 185,000 barrels per day peak capacity and was completed at a cost of $6 million.

Late in 1987, AEC Pipelines filed an application with the Alberta Energy Resources Conservation Board for a permit to expand the Cold Lake Heavy Oil Pipeline to a peak capacity of 215,000 barrels per day. This expansion is in response to planned production increases by the heavy oil producers in the Cold Lake region.



CUMULATIVE PIPELINE CAPITAL INVESTMENT
($ Millions)

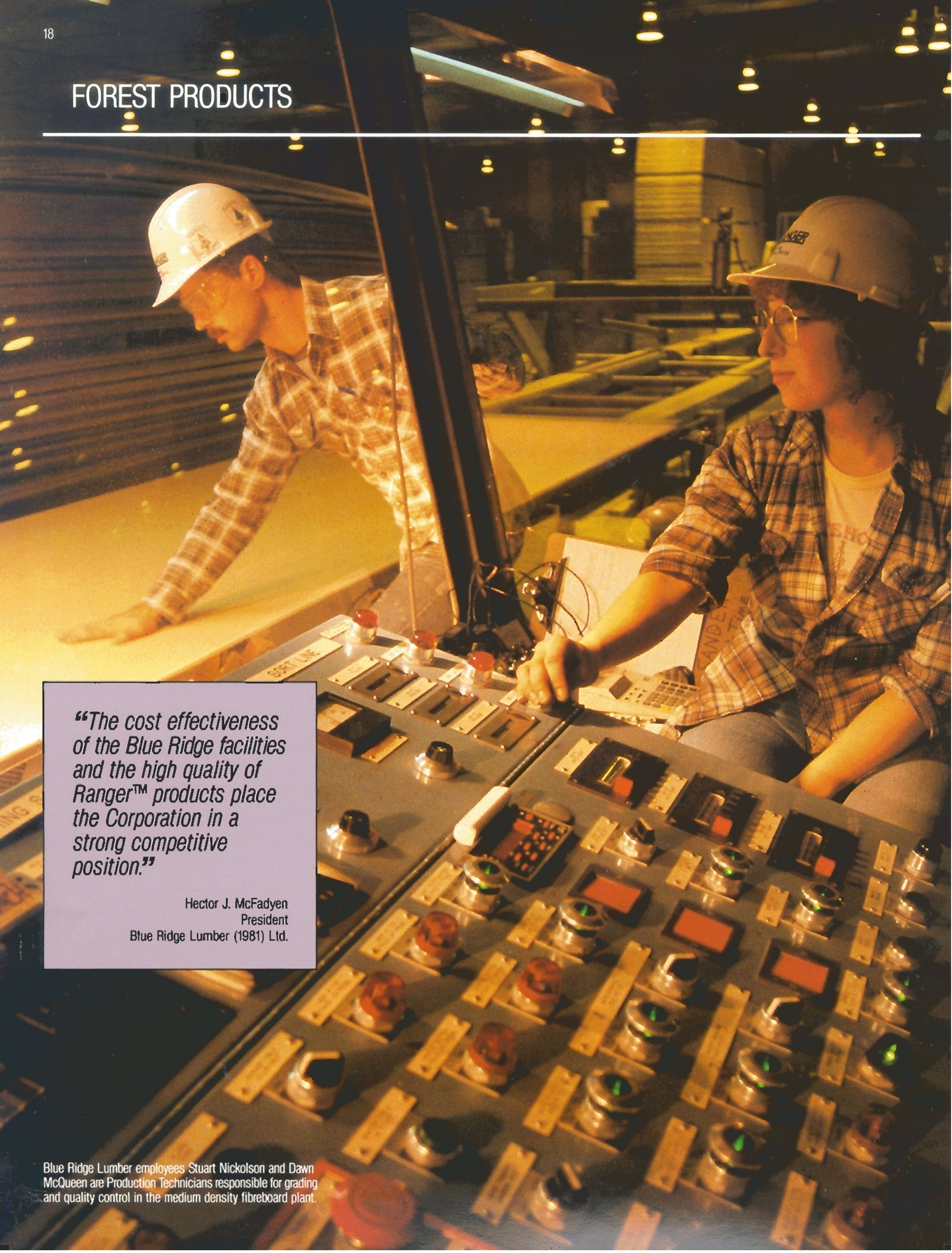
Alberta Ethane Gathering System

The Alberta Ethane Gathering System collects ethane from several natural gas processing plants within the province. The system, one-third owned by AEC, delivers ethane to ethylene plants near Red Deer, to storage caverns near Fort Saskatchewan and to several oil pools where it is used in enhanced oil recovery.

Wabasca River Pipeline

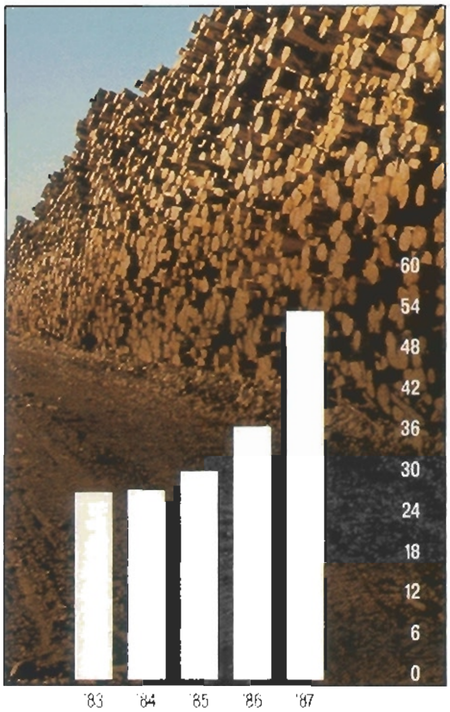
The Wabasca River Pipeline is a 105-mile, conventional crude oil gathering pipeline system located in the northwest sector of Alberta having a capacity of 14,000 barrels per day. AEC Pipelines owns 19 percent of this new system. The pipeline serves the highly productive East Peace River Arch area and has the potential to expand and serve new oil developments in the area.

FOREST PRODUCTS

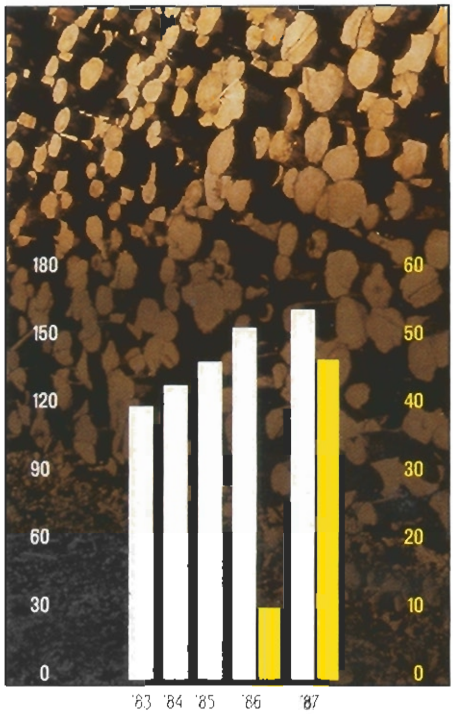


> ***"The cost effectiveness of the Blue Ridge facilities and the high quality of Ranger™ products place the Corporation in a strong competitive position."***
>
> Hector J. McFadyen
> President
> Blue Ridge Lumber (1981) Ltd.

Blue Ridge Lumber employees Stuart Nickolson and Dawn McQueen are Production Technicians responsible for grading and quality control in the medium density fibreboard plant.



FOREST PRODUCTS SALES REVENUE
($ millions)



FOREST PRODUCTS PRODUCTION

- Lumber (million board feet)
- MDF (million square feet)

MARKET PRICES - LUMBER
Spruce, pine, fir - 2" x 4" standard and better
(U.S. $/thousand board feet)

1987 was another year of growth for AEC's forest products operations. Sales revenues from wholly owned Blue Ridge Lumber (1981) Ltd. reached $54.4 million, an increase of 46 percent over the 1986 level and about twice that achieved in 1983. This growth has resulted from expanded lumber production and the commencement of the medium density fibreboard (MDF) operation. Both products are marketed under Ranger™.

Market prices for lumber production increased in 1987. This did not, however, result in higher mill net prices. The average mill net price on sales decreased by some 7 percent from the 1986 level due in large measure to Canada's imposition in January of a 15 percent export tax on softwood lumber shipments to the U.S. This initiative was taken to settle the softwood lumber dispute with the U.S. and resulted in lower returns on sales to both Canadian and U.S. markets. Also contributing to the decrease in the mill net price was the increased value of the Canadian dollar against that of the U.S. Blue Ridge was able to increase its shipments of lumber products by 11 percent to 169 million board feet to offset the impact of lower mill net prices. The Corporation also benefitted from higher prices for residual chips as pulp prices strengthened considerably during the year.

The medium density fibreboard plant completed its first full year of operation in 1987. The product has received strong market acceptance throughout Canada, Europe and Southeast Asia. Shipments totalled 48 million square feet (3/4-inch basis). The Corporation's marketing strategy is based on producing a high quality product for distribution to various regions around the world through companies which have intimate knowledge of the product and their respective market regions.

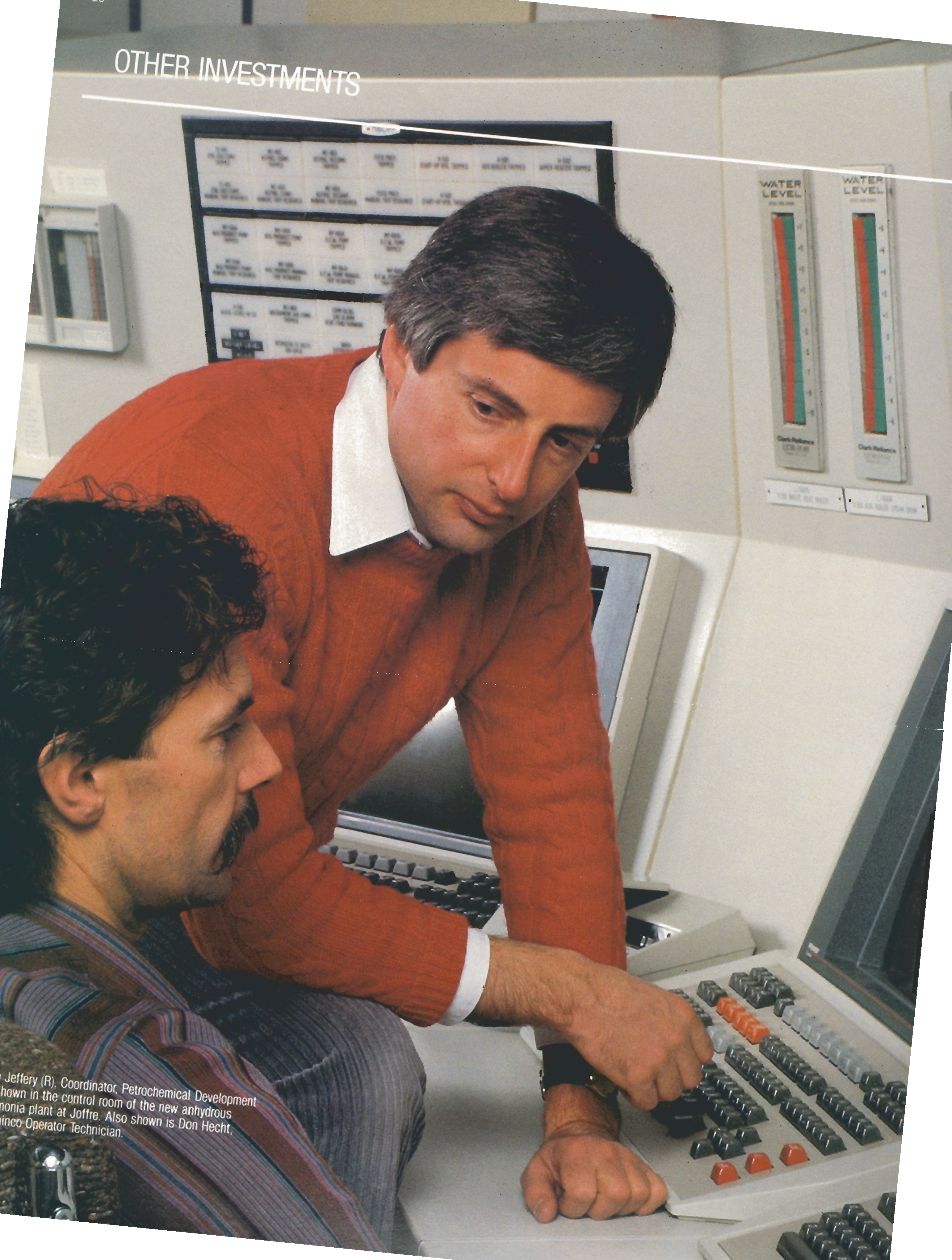
Operational performance at Blue Ridge showed continued improvement during 1987. Lumber production levels reached a record 164 million board feet, compared with 156 million board feet in 1986. The lumber mill expansion project was completed in December, increasing production capacity to 200 million board feet per year. This expansion is expected to further enhance the mill's cost performance in 1988.

The MDF plant recorded steady improvement in operations throughout the year reducing per unit operating costs and increasing the proportion of premium grade produced. The plant reached annual design capacity of 50 million square feet in September. Operating performance has shown continued improvement in 1988.

The Corporation's 1987 reforestation program included the planting of seedlings on 3,200 acres and preparing an additional 4,500 acres for natural reforestation. Harvested lands are replanted annually to perpetuate the timber lands which are under the Corporation's management.

AEC continues to view forest products as an attractive industry for further investment.

OTHER INVESTMENTS



n Jeffery (R), Coordinator, Petrochemical Development
hown in the control room of the new anhydrous
nonia plant at Joffre. Also shown is Don Hecht,
inco Operator Technician.

NITROGEN FERTILIZER

In 1987, AEC became a significant producer in the North American nitrogen fertilizer business with the commissioning in March of irs 350 000 tonne per year anhydrous ammonia plant at Joffre, near Red Deer, Alberta.

The investment of $105 million in this plant and related distribution facilities has earned AEC a 25 percent interest in AEC's and Cominco's combined nitrogen production facilities and access to a worldwide marketing network.

The nitrogen fertilizers are marketed across western Canada under the well known "Elephant Brand" trademark.

With the start-up of the new facilities the joint venture has become one of Canada's largest nitrogen fertilizer producers, having the capacity to produce 750 000 tonnes of ammonia and 575 000 tonnes of urea per year. The new facilities came on stream on time and under budget and have demonstrated an ability to operate above design levels.

Over the past two years, large world grain inventories have led to government-induced acreage reduction programs in the United States. This has resulted in cutbacks in fertilizer usage and lower fertilizer prices. Despite the severe downturn in the fertilizer business and the need to market the very sizeable output from the new world scale plant, AEC realized a small positive operating cash flow during the start-up year for this new venture. During the fourth quarter, efforts to secure markets for all of the new production were successful and the Joffre plant operated at close to full capacity.

AEC's share of 1987 nitrogen-based fertilizer sales totalled 120 000 tonnes. With the full implementation of joint venture production and marketing in 1988, sales will increase significantly.

COAL

The Coal Valley Mine is located 130 miles west of Edmonton in the foothills of central Alberta. AEC holds a 25 percent interest in this mine which produces high quality, low sulphur coal for use in the generation of electricity. The mine has been in operation since 1978, and in April 1987 shipped its 20 millionth ton of coal. Over three-quarters of Coal Valley's annual production is sold to Ontario Hydro under a long-term contract, with the remainder being sold in the international market, primarily to Japanese utilities. Coal Valley employs 350 people and is an integral part of the economy of communities in the region.

AEC's share of 1987 sales totalled 500,900 tons compared with 447,600 tons in 1986. The operation has stressed productivity improvements and cost reductions over the years and continues to make a positive contribution to AEC's earnings and cash flow.

TECHNOLOGY DEVELOPMENT

AEC's Technical Services group develops technology that can be used in its operating divisions.

In 1987, AEC Pipelines formed a joint venture with a major international oil company for the commercial development of proprietary technology to emulsify heavy oil in water so that it can be pipelined without condensate diluent. The traditional way to transport heavy oil is to dilute it with natural gas condensate so that the resulting bitumen blend has a viscosity low enough for pipelining. Due to the increasing levels of heavy oil production, condensate is expected to be in short supply by the early 1990's, and this is one of the methods by which the shortage could be alleviated.

A field test program at a Cold Lake plant site using AEC Pipelines' lateral to La Corey was very successful. The project involved the preparation and storage of a large volume of heavy oil emulsion, its transportation and storage, and the successful reversal of the emulsion to recover the oil. Tests will continue in 1988 to further develop and commercialize the technology.

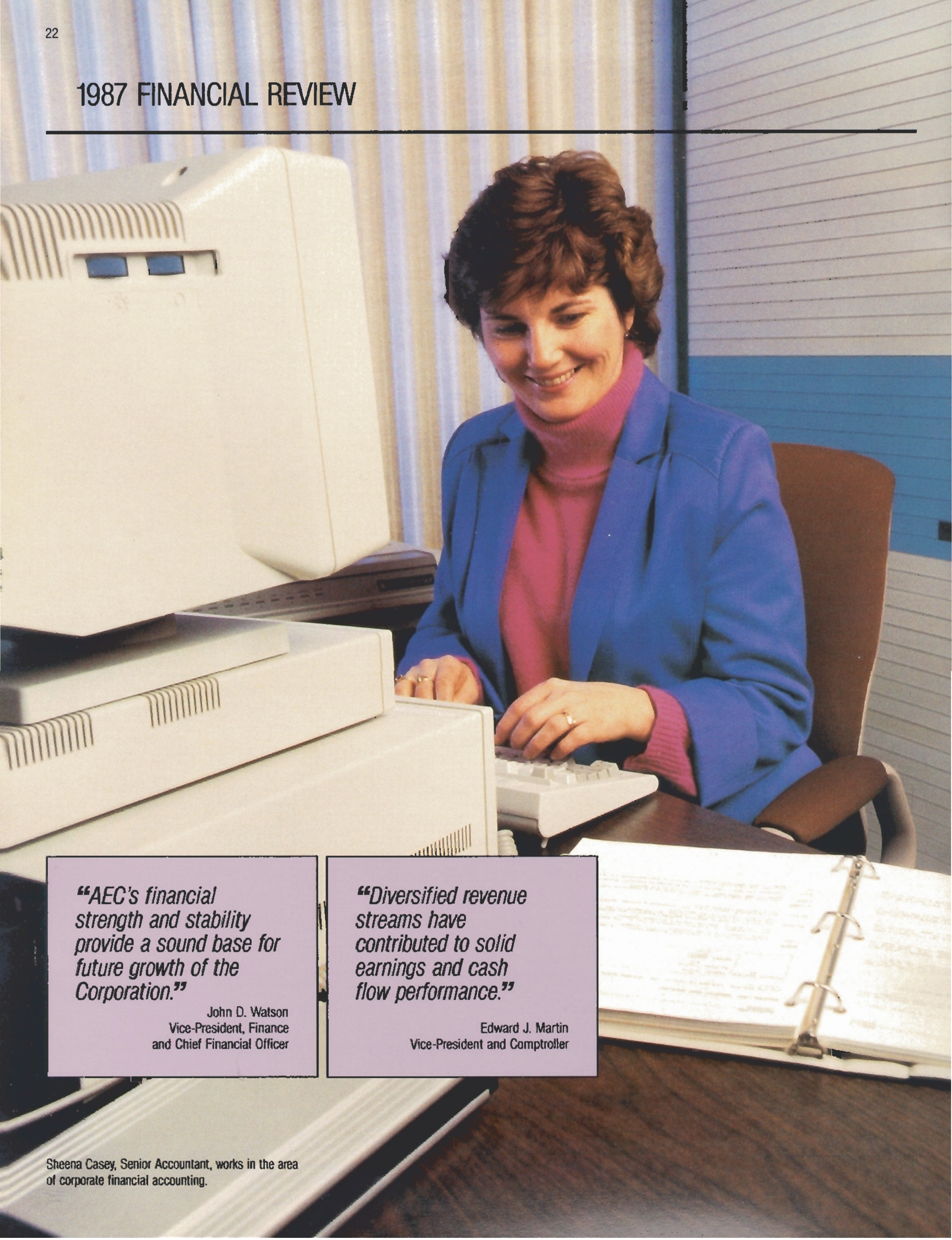
The group also discovered that the addition of a chemical to steam injected into a particular heavy oil reservoir would reduce the migration of fine particles, thereby reducing plugging and increasing the rate of production. This discovery is being pilot tested in the field.

In the forest products area, Technical Services is developing technology for the production of a new fibreboard.

STEEL

AEC owns 10 percent of the outstanding common shares of IPSCO Inc. As a result of the upturn in oil industry activity, a major cost reduction program and the installation of a new continuous caster, the 1987 earnings of IPSCO are expected to exceed $5 million, compared with its 1986 loss of $6.9 million.

1987 FINANCIAL REVIEW



"AEC's financial strength and stability provide a sound base for future growth of the Corporation."

John D. Watson
Vice-President, Finance
and Chief Financial Officer

"Diversified revenue streams have contributed to solid earnings and cash flow performance."

Edward J. Martin
Vice-President and Comptroller

Sheena Casey, Senior Accountant, works in the area of corporate financial accounting.

EARNINGS AND CASH FLOW

Improved financial results were achieved in 1987, reflecting higher world oil prices, the elimination of Petroleum and Gas Revenue Tax (PGRT), and the benefit of the Corporation's diversification efforts. The higher net earnings and cash flow from operations were attained despite declines in both gas sales prices and volumes.

1987 per share calculations are based on a daily weighted average of 53.3 million Common Shares, an increase of 8.0 million shares over 1986, due principally to the 7.5 million Common Shares issued under a Rights Offering in late 1986.

Net earnings in 1987 were $60.5 million, $1.02 per Common Share, an increase of $12.7 million over 1986 earnings before extraordinary items of $47.8 million, $0.72 per Common Share.

Cash flow from operations was $204.2 million, $3.63 per Common Share, as compared to 1986 cash flow of $198.2 million, $3.94 per Common Share. This level of cash flow has supported the Corporation's capital investment programs and permitted a $7.3 million reduction in long-term debt.

During the year, $15.9 million in Common Share dividends ($0.30 per Common Share) and $6.4 million in Preferred Share dividends were paid.

REVENUE AND EXPENSES

Revenues, net of royalties, totalled $479.7 million, up $19.3 million over 1986. Oil and Gas net revenues were down $19.2 million due to declining natural gas sales prices and lower gas sales volumes. Higher oil prices and increased synthetic and conventional crude oil volumes partially offset the drop in gas revenues. Pipeline revenues were up $4.4 million over the prior year due to an increased rate base and the start-up of Wabasca River Pipeline operations. The $17.1 million increase in Forest Products revenues reflected a full year's operations from the Blue Ridge medium density fibreboard (MDF) plant and the impact of higher lumber sales volumes, offset partially by lower lumber sales prices. Other revenues were up by $17.0 million due primarily to the commencement of the nitrogen fertilizer venture.

A full year's operation of the Blue Ridge MDF plant and the start-up of the nitrogen fertilizer operations are reflected in the higher operating costs. Interest expense, net of interest income and capitalized amounts, totalled $43.8 million in 1987, down significantly from $57.0 million in the previous year due to lower average debt levels and a reduction in the Corporation's cost of funds. General and administrative costs incurred in support of expanded operating and capital activities were $26.3 million, up $2.7 million over 1986.

Income taxes were $33.2 million, up $3.5 million as a result of higher pre-tax earnings. The effective rate in 1987 was 38.0%, down 4.2% due primarily to the removal of PGRT which was not deductible for income tax purposes.

CAPITAL EXPENDITURES

Investment in property, plant and equipment totalled $159.7 million. Expenditures for conventional oil and gas activities were $75 million, most of which pertained to ongoing exploration and development activities in western Canada. The other major capital investments occurred in the following areas: Petrochemicals, $27 million; Syncrude, $24 million; Pipelines, $19 million; and Forest Products, $7 million.

FINANCING ACTIVITY

During the year a number of steps were taken which contributed to the enhancement of the overall financial strength of the Corporation.

AEC issued a total of $250 million of convertible subordinated debentures at rates averaging 7.0% with 15- and 16-year terms. Proceeds from these financings were primarily used to reduce floating rate bank debt which included the repayment of income debentures. The average interest cost of Corporation debt is currently 8.0%.

During the year, approximately 85 percent of the 11.25% Deferred Convertible Second Preferred Shares were converted into 719,385 Common Shares. Shares not converted were called for redemption.

At year end 1987, long-term debt totalled $658.1 million, down $7.3 million over 1986. The significant shift from floating to fixed interest rates has resulted in approximately 63 percent of AEC's outstanding debt now being fixed rate.

In 1987 the Corporation achieved higher ratings on its debt, a significant decrease in the mandatory debt repayment requirements, improved interest coverage, an average outstanding debt term extended beyond ten years, and an improved debt equity ratio.

When combined with diversified revenue streams, AEC's financial strength and stability provide a sound base for continued future growth.

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 "Corporation") and its subsidiaries.

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

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

Investments

The Corporation 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

Effective December 31, 1986, the Corporation prospectively adopted the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry.

Under this method all costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized in cost centres on a country by country basis. Interest is not capitalized.

Depletion and depreciation is calculated using the unit-of-production method based upon estimated proven reserves, before royalties. For purposes of the calculation, oil is converted to gas on an energy equivalent basis. All capitalized costs are subject to depletion and depreciation including costs related to unproved properties as well as estimated future costs to be incurred in developing proven reserves.

A ceiling test is applied to ensure that capitalized costs do not exceed estimated future net revenues less certain costs.

Oil sands

Property, plant and equipment associated with both surface mineable and in situ commercial oil sands projects are accumulated, at cost, in separate cost centres and substantially all of these costs are amortized using the unit-of-production method based on estimated recoverable reserves applicable to each project. Project expenditures during the exploratory and pilot phases are depreciated on the straight-line method with terms varying up to five years. For the Syncrude Project, 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 assets.

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.

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

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 on a straight-line basis over the remaining life of the debt.

The accounts of self-sustaining foreign subsidiaries are translated using the current rate method. Under this method, assets and liabilities are translated at year end exchange rates. Revenues and expenses are converted using average annual rates. Exchange gains and losses are deferred and included separately in shareholders' equity.

Comparative Figures

Certain 1986 figures have been reclassified and restated for comparative purposes.

ALBERTA ENERGY COMPANY LTD.

CONSOLIDATED STATEMENT OF EARNINGS

AEC

Year Ended December 31 ($ millions except per share amounts)	Note Reference	1987	1986
Revenues, Net of Royalties		$479.7	$460.4
Equity Earnings of Affiliates		9.6	8.9
		489.3	469.3
Costs and Expenses			
Operating		208.8	183.5
Interest—net	2(a)	43.8	57.0
General and administrative		26.3	23.6
Depreciation, depletion and amortization		113.5	114.4
		392.4	378.5
Earnings before Taxes and Minority Interest		96.9	90.8
Income taxes	3	33.2	29.7
Petroleum and gas revenue tax		–	11.5
Minority interest		3.2	1.8
		36.4	43.0
Earnings before Extraordinary Items		60.5	47.8
Extraordinary Items	15	–	(83.3)
Net Earnings (Loss)		$ 60.5	$ (35.5)
Earnings (Loss) per Common Share			
Before Extraordinary Items			
Basic		$ 1.02	$ .72
Fully Diluted	14	$ .98	$ .71
After Extraordinary Items			
Basic		$ 1.02	$ (1.12)
Fully Diluted	14	$ .98	$ (1.13)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended December 31 ($ millions)	1987	1986
Balance—Beginning of Year	$154.6	$221.4
Net Earnings (Loss)	60.5	(35.5)
	215.1	185.9
Dividends—Preferred Shares	6.4	13.7
—Common Shares	15.9	13.5
Premium on Redemption of Preferred Shares	.1	3.6
Other	–	.5
	22.4	31.3
Balance—End of Year	$192.7	$154.6

The summary of significant 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	1987	1986
ASSETS			
Current Assets			
Cash and short-term investments at cost which approximates market		$ 87.8	$ 86.8
Accounts receivable and accrued revenue		68.8	63.8
Inventories	4	23.0	19.3
Prepaid expenses		2.7	2.1
Current portion of notes receivable		5.0	5.0
		187.3	177.0
Notes Receivable		6.0	11.0
Investments	5	71.8	71.5
Property, Plant and Equipment	6	1,699.3	1,671.2
Other Assets and Deferred Charges	7	12.1	4.4
		$1,976.5	$1,935.1

	Note Reference	1987	1986
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Bank indebtedness		$ 5.8	$ 2.0
Accounts payable and accrued liabilities		100.8	104.5
Dividends payable		1.8	2.1
Taxes payable		23.9	.2
Deferred revenue and other		24.8	23.2
Current portion of long-term debt	9	9.9	13.4
		167.0	145.4
Deferred Revenue	8	55.2	63.7
Long-Term Debt	9	658.1	665.4
Deferred Liabilities	10	28.3	45.5
Deferred Income Taxes		379.8	369.7
Interests of Minority Shareholders	11	103.0	105.5
		1,391.4	1,395.2
Shareholders' Equity			
Share capital	12	391.4	384.0
Retained earnings		192.7	154.6
Unrealized foreign exchange gain		1.0	1.3
		585.1	539.9
		$1,976.5	$1,935.1

Approved by the Board:

D. Mitchell Director

Merv Leitch Director

The summary of significant 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

AEC

Year Ended December 31 ($ millions)	Note Reference	1987	1986
Operating Activities			
Cash flow from operations	2(c)	$ 204.2	$ 198.2
Net change in non-cash working capital		1.1	30.9
Deferred revenue		(8.3)	(9.5)
		197.0	219.6
Investing Activities			
Purchase of property, plant and equipment		(159.7)	(271.9)
Investments in affiliate and subsidiary		(5.0)	(6.5)
Proceeds on disposal of assets		7.0	8.5
Proceeds on disposal of investment		–	118.8
Other		4.4	4.4
		(153.3)	(146.7)
Dividends			
Preferred share dividends		(6.4)	(13.7)
Common share dividends		(15.9)	(13.5)
Preferred dividends paid by a subsidiary to minority interests		(4.5)	(4.6)
		(26.8)	(31.8)
Net Cash Surplus before Financing		16.9	41.1
Financing Activities			
Issue of long-term debt		373.3	146.5
Repayment of long-term debt		(384.2)	(213.9)
Issue of common shares	12(b)	9.0	89.7
Increase in (payment of) deferred liability		(15.6)	17.9
Redemption of preferred shares	12(a)	(1.7)	(63.6)
Issue of warrants by a subsidiary to minority interests		–	13.0
Other		(.5)	(2.4)
		(19.7)	(12.8)
Increase (decrease) in cash and short-term investments less bank indebtedness		$ (2.8)	$ 28.3
Cash and short-term investments less bank indebtedness at year end		$ 82.0	$ 84.8

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Segmented information

	Oil and Gas		Pipelines		Forest Products		Other		Total	
($ millions)	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986
Gross revenue	$ 318.4	$ 344.4	$ 75.7	$ 71.3	$ 54.4	$ 37.3	$ 55.7	$ 38.3	$ 504.2	$ 491.3
Royalties	24.0	30.8	–	–	–	–	.5	.1	24.5	30.9
Revenues, net of royalties	294.4	313.6	75.7	71.3	54.4	37.3	55.2	38.2	479.7	460.4
Operating expenses	106.9	113.4	16.3	13.5	43.3	32.6	41.5	25.3	208.0	184.8
Depreciation, depletion and amortization	81.0	87.9	12.5	11.5	5.0	3.9	12.0	8.3	110.5	111.6
Petroleum and gas revenue tax	–	11.5	–	–	–	–	–	–	–	11.5
	187.9	212.8	28.8	25.0	48.3	36.5	53.5	33.6	318.5	307.9
Segmented operating income	$ 106.5	$ 100.8	$ 46.9	$ 46.3	$ 6.1	$ .8	$ 1.7	$ 4.6	161.2	152.5
Equity earnings of affiliates									9.6	8.9
Corporate expenses									(30.1)	(25.1)
Interest–net									(43.8)	(57.0)
Income taxes									(33.2)	(29.7)
Minority interest									(3.2)	(1.8)
Earnings before extraordinary items									$ 60.5	$ 47.8
Identifiable assets	$1,313.7	$1,312.2	$251.9	$246.0	$ 64.9	$ 63.7	$155.9	$ 51.3	$1,786.4	$1,673.2
Corporate assets									118.3	111.8
Fertilizer project under construction									–	78.6
Investments									71.8	71.5
Total assets									$1,976.5	$1,935.1
Capital expenditures	$ 100.0	$ 165.3	$ 19.4	$ 10.1	$ 7.3	$ 10.7	$ 31.8	$ 8.0	$ 158.5	$ 194.1

2. Supplementary information

(a) *Interest–net*

($ millions)	1987	1986
Interest expense–on long-term debt	$ 53.5	$ 65.2
–on short-term debt	.3	.4
Interest income	(7.7)	(5.8)
Capitalized interest	(2.3)	(2.8)
	$ 43.8	$ 57.0

The Corporation capitalizes interest during the construction phase of large capital projects.

(b) *Joint ventures*

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

($ millions)	1987	1986
Assets	$443.6	$405.7
Liabilities	43.7	53.4
Revenues, net of royalties	161.9	125.2
Expenses	117.9	109.4

(c) *Cash flow from operations*

($ millions)	1987	1986
Earnings before extraordinary items	$ 60.5	$ 47.8
Depreciation, depletion and amortization	113.5	114.4
Deferred income taxes	17.3	31.0
Dividends from affiliates, net of equity earnings	4.6	.5
Minority interest	3.2	1.8
Other	5.1	2.7
	$204.2	$198.2

(d) *Capitalized general and administrative expenses*

The amount of general and administrative expenses capitalized during the year was $7.0 million (1986–$9.6 million).

(e) *Ceiling test prices*

The 1987 year end weighted average prices used in the ceiling test evaluation of the Corporation's reserves at December 31 were as follows:

Natural gas	$1.68 (U.S. $1.29) per thousand cubic feet
Oil and natural gas liquids	$19.52 (U.S. $15.02) per barrel

(f) *Pension plans*

As at December 31, 1987 the accrued pension liability, as estimated by the Corporation's actuaries, was $16.3 million and the market value of pension fund assets was $14.7 million. All required liabilities have been provided for in the Corporation's accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Income taxes

The provision for income taxes is comprised as follows:

($ millions)	1987	1986
Current	$ 21.9	$ 4.2
Deferred	17.3	31.0
Alberta royalty tax credit	(6.0)	(5.5)
	$ 33.2	$ 29.7

The following table reconciles the difference between the recorded income tax expense and the expected income tax expense obtained by applying the basic tax rate to earnings before income taxes, equity earnings and minority interest.

($ millions)	1987	1986
Earnings before income taxes, equity earnings and minority interest	$ 87.3	$ 70.4
Expected income tax expense (Statutory Rate: 1987–50.6%; 1986–48.8%)	$ 44.2	$ 34.3
Effect on taxes resulting from:		
Non-deductibility of–		
Crown royalties and leases	9.9	14.3
Income debenture interest–net	5.5	6.0
Petroleum and gas revenue tax	–	5.4
Depreciation and depletion	3.0	3.5
Federal allowances–		
Resource allowance	(20.3)	(22.4)
Earned depletion	(4.7)	(5.9)
Provincial income tax rebates	(6.0)	(5.6)
Other–net	1.6	.1
Income tax expense (Effective Rate: 1987–38.0%; 1986–42.2%)	$ 33.2	$ 29.7

4. Inventories

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

($ millions)	1987	1986
Raw materials and supplies	$ 12.2	$ 10.6
Work-in-process	5.0	4.0
Finished goods	5.8	4.7
	$ 23.0	$ 19.3

5. Investments

($ millions)	Percent Interest	1987	1986
Accounted for on the equity basis:			
AEC Power Ltd. (50% voting)	66⅔	$ 29.3	$ 24.4
Pan-Alberta Gas Ltd. (40% voting)	50	5.9	7.7
Pan-Alberta Resources Inc. (40% voting)	50	25.8	28.5
		61.0	60.6
Accounted for on the cost basis:			
IPSCO Inc. (market value - $14.3; 1986 - $10.4)	10	10.4	10.4
Other (market value—$.4; 1986—$.5)		.4	.5
		10.8	10.9
		$ 71.8	$ 71.5

6. Property, plant and equipment

	1987			1986
($ millions)	Cost	Accumulated depreciation, depletion and amortization	Net	Net
Oil and Gas	$1,680.0	$ 432.6	$1,247.4	$1,241.4
Pipelines	309.6	66.3	243.3	238.3
Forest Products	79.6	27.7	51.9	50.4
Other	216.4	59.7	156.7	141.1
	$2,285.6	$ 586.3	$1,699.3	$1,671.2

7. Other assets and deferred charges

($ millions)	1987	1986
Unamortized financing costs	$ 9.5	$ 1.9
Deferred stripping costs	1.9	1.7
Other	.7	.8
	$ 12.1	$ 4.4

8. Deferred revenue

Deferred revenue represents 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, $7.5 million which is estimated to become due in 1988 is classified as a current liability.

9. Long-term debt

($ millions)	1987	1986
Alberta Energy Company Ltd. ("AEC")		
Revolving credit and term loan borrowings		
Income debentures	$ –	$180.0
Notes payable	109.4	145.7
Trust company loans–unsecured	–	40.0
Unsecured debentures		
10.5%, due June 1996	100.0	100.0
6.75% convertible subordinated, due June 2002	125.0	–
7.25% convertible subordinated, due September 2003	125.0	–
Mortgage payable	5.3	5.3
Other	8.4	8.1
	473.1	479.1
Alberta Oil Sands Pipeline Ltd. ("AOSPL")		
First Mortgage Sinking Fund Bonds		
Series A–9⅝%, due June 1997	16.4	17.8
Series B–9¾%, due June 1997	18.7	20.2
	35.1	38.0
Chieftain Development Co. Ltd. ("Chieftain")		
Revolving credit and term loan borrowings		
Income debentures	7.1	14.3
Bank loans–Chieftain International, Inc.	107.9	114.6
Production loan–Chieftain International, Inc.	16.3	31.1
7.25% convertible subordinated debentures, due June 2002	25.0	–
Other	3.5	1.7
	159.8	161.7
	668.0	678.8
Current portion of long-term debt	9.9	13.4
	$658.1	$665.4

The aggregate maturities of long-term debt in each of the five years subsequent to December 31, 1987, are as follows:

1988	$ 9.9
1989	6.1
1990	12.0
1991	20.5
1992	35.0

(a) *AEC revolving credit and term loan agreements*

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

($ millions)	Amount Available	Revolving Until	Repayment Period
Secured			
Bank loans	$400	1988	1989-1998
Unsecured			
Bank loan	100	1990	1990-1995
Trust company loan	50	1991	1991-2001
Trust company loan	25	1991	1991
	$575		

The bank loans are available in Canadian and/or U.S. dollar equivalents and bear interest based on the lenders' prime commercial lending rates plus a varying factor up to 1%. Interest on the trust company loan is the prime commercial lending rate of a major Canadian chartered bank minus a varying factor over the revolving term of the loans up to ¾%.

Security for the secured bank loans consists of a portion of the Suffield Block reserves, a fixed charge on the related production equipment and an assignment of the related gas sales contracts.

Notes payable consist of Commercial Paper and Bankers' Acceptances all maturing at various dates up to February 18, 1988, with a weighted average interest rate of 9.04% (1986–8.88%). Notes payable are shown as long-term debt because they are supported by the availability of term loans under the revolving credit facilities.

(b) *AEC convertible debentures – 6.75%*

Each debenture is convertible at the option of the holder into Common Shares at any time until June 29, 1997 or the date fixed for redemption, whichever is earlier, at a conversion price of $23.375 per Common Share.

Subject to certain conditions and subsequent to June 30, 1989, the debentures are redeemable at the option of the Corporation at prices varying from 105.25% to 100.00% of the principal amount.

(c) *AEC convertible debentures – 7.25%*

Each debenture is convertible at the option of the holder into Common Shares at any time until September 29, 1997 or the date fixed for redemption, whichever is earlier, at a conversion price of $25.50 per Common Share.

Subject to certain conditions and subsequent to September 30, 1989, the debentures are redeemable at the option of the Corporation at prices varying from 105.6% to 100.0% of the principal amount.

(d) *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 Corporation is a participant to the extent of 10%, have guaranteed the repayment of these bonds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(e) 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. The 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 varying factor up to 1%.

The income debentures form part of this credit facility and are limited to the amount currently outstanding, subject to the original terms and conditions of issue. Repayment in seven equal annual instalments will be completed December 31, 1988. Interest on the income debentures, at rates aggregating 5.84% at December 31, 1987, is not deductible for income tax purposes.

Security for this facility consists of a first floating charge debenture over all Canadian assets of Chieftain and CII, assignment of interests in oil and gas properties, related sales contracts, and accounts receivable.

(f) Chieftain production loan

The CII production loan is a U.S. $12.5 million facility secured by assignment of certain U.S. and Canadian oil and gas properties and the guarantee of Chieftain Development Co. Ltd. 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 in five equal annual instalments commencing December 31, 1989.

(g) Chieftain convertible subordinated debentures

The 7¼% Convertible Subordinated Debentures are convertible into Chieftain Common Shares until June 30, 1997 at a conversion price of $17.25 per Chieftain Common Share.

Subject to certain conditions and subsequent to June 30, 1989, the debentures are redeemable at prices varying from 105.65% to 100.00% of the principal amount.

10. Deferred liabilities

Deferred liabilities represent the remaining instalments payable on the acquisition of certain petroleum and natural gas rights, of which $17.0 million is payable in 1989. The balance of $11.3 million is payable when the related leases are issued.

11. Interests of minority shareholders

($ millions)	1987	1986
Chieftain Development Co. Ltd.		
Preferred equity	$ 51.6	$ 52.1
Warrants	12.7	14.8
Common equity	38.7	38.6
	$103.0	$105.5

12. Share capital

($ millions)	1987	1986
First Preferred Shares:		
Authorized—20,000,000 shares		
Issued—None	$ —	$ —
Second Preferred Shares:		
Authorized—20,000,000 shares		
Issued—None (1986—412,512 11¼% Deferred Convertible, Series 1 with a paid up amount of $25 each)	—	10.3
—2,999,700 7.75% Deferred Convertible Redeemable, Series 2 with a paid up amount of $25 each (1986—3,000,000)	75.0	75.0
Third Preferred Shares:		
Authorized—20,000,000 shares		
Issued—None	—	—
Common Shares:		
Authorized—300,000,000 shares		
Issued—53,814,652 shares (1986—52,757,339)	316.4	298.7
Non-Voting Shares:		
Authorized—5,000,000 shares		
Issued—None	—	—
	$391.4	$384.0

(a) Preferred Shares

(i) Second Preferred Shares—Series 1

During the year, 349,229 Series 1 Preferred Shares were converted into 719,385 Common Shares. The Corporation also received $4.3 million in cash representing $12.30 for each Preferred Share converted. The remaining 63,283 Preferred Shares were redeemed at a price of $26.50 per share.

(ii) Second Preferred Shares—Series 2

Series 2 Preferred Shares are cumulative and, subject to certain conditions, are redeemable at the option of the Corporation at predetermined prices varying from $26.50 to $25.00 commencing on May 16, 1988.

The holders of Series 2 Preferred Shares have the option, until May 16, 1995, to convert each Series 2 Preferred Share into 1.28 Common Shares.

(b) Common Shares

	1987		1986	
	Number of Shares	Share Capital	Number of Shares	Share Capital
Issued—Beginning of year	52,757,339	$298.7	44,876,570	$209.0
Conversion of Second Preferred Shares, Series 1	719,385	13.0	—	—
Conversion of Second Preferred Shares, Series 2	384	—	—	—
Issued under Rights Offering	—	—	7,532,797	85.8
Issued for cash under Shareholder Investment Plan	134,734	2.5	330,472	3.7
Issued for cash under Employee Share Option Plan	202,810	2.2	17,500	.2
Issued—End of year	53,814,652	$316.4	52,757,339	$298.7

(c) Employee Share Option Plan

The Employee Share Option Plan provides for granting to employees of the Corporation and its subsidiaries options to purchase Common Shares of the Corporation. 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, 1987, options, exercisable between 1988 and 1994, were outstanding to purchase 750,770 Common Shares at minimum prices ranging from $9.79 to $21.60 per share.

(d) Common Shares Reserved

At December 31, 1987, Common Shares were reserved for issuance as follows:

Conversion of Second Preferred Shares	3,839,616
Conversion of Subordinated Debentures	10,250,000
Shareholder Investment Plan	268,655
Employee Share Option Plan	1,018,770
Share Purchase Plan (presently inactive)	100,108
	15,477,149

(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 Corporation. 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 Corporation.

13. Related Party Transactions

During the year, the Corporation sold approximately $27.2 million (1986 - $25.4 million) of natural gas to affiliates of which $3.7 million (1986 - $2.2 million) is included in accounts receivable at year end.

14. Fully Diluted Earnings (Loss) per Common Share

Fully diluted earnings (loss) per common share calculations exclude the effect of potential non-recurring charges to earnings, which would result on conversion of a subsidiary's outstanding warrants and stock options to common shares. These one-time charges would have totalled $3.2 million at December 31, 1987 and would further impact the fully diluted earnings per common share calculations by $.04 per share. The 1986 fully diluted earnings per share amounts have been restated accordingly.

15. Extraordinary Items

In 1986, extraordinary losses of $83.3 million, net of $4.1 million in income tax, reflect principally the loss on sale of British Columbia Forest Products Limited shares, a write-down of the investment in IPSCO Inc. shares to market value and the write-down of certain experimental oil and gas projects.

AEC

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, 1987 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 corporation as at December 31, 1987 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 3, 1988

HISTORICAL REVIEW

AT YEAR-END 1987

Net petroleum and natural gas rights
3.4 million acres

Natural gas reserves

	Proven	Probable	Total
Billion cubic feet	1,677	167	1,844

†Proven natural gas reserve life
20 years

Oil and natural gas liquids reserves

	Proven	Probable	Total
Million barrels	21.4	6.9	28.3

†Proven oil and natural gas liquids reserve life
9 years

Proven synthetic oil reserves
115 million barrels

†Synthetic oil reserve life
23 years

Primrose heavy oil in place net to AEC
24 billion barrels

Timber lands
1.3 million acres

Coal reserves
6.3 million clean tons

†Coal reserve life
12.6 years

Pipelines (in five pipelines)
1,400 miles

† At 1987 production rates

(all dollar amounts, except per share amounts, are in millions)	1987
Financial	
Revenue (net of royalties)	$ 479.7
Earnings before extraordinary items	60.5
Net earnings (loss) after extraordinary items	60.5
Cash flow from operations	204.2
Petroleum and Gas Revenue Tax	–
Oil and gas royalties paid	24.0
Working capital	20.3
Investment in property, plant and equipment	1,699.3
Long-term debt	658.1
Total assets	1,976.5
Per Share Data*	
Basic earnings before extraordinary items	$ 1.02
Basic net earnings (loss) after extraordinary items	1.02
Cash flow	3.63
Shareholders' equity	9.48
Common dividend	0.30
Shares*	
Registered shareholders**	46,528
Common shares outstanding	53,814,652
Volume of common shares traded	21,188,500
Common share price range	
–High	$ 25.25
–Low	14.38
–Close	15.88
Operating Data	
Gas production	
–billion cubic feet	85.4
Syncrude crude oil production (net)	
–million barrels	5.0
Conventional oil production	
–million barrels	2.4
Coal production (net)	
–thousand tons	475
Lumber production	
–million board feet	164
Medium density fibreboard production	
–million square feet	47
Pipeline throughput (all systems)	
–million barrels	160.0

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

* *Reflects three-for-one stock split*

** *Includes preferred shareholders 1982 - 1987*

1986	1985	1984	1983	1982	1981	1980	1979	1978
$ 460.4	$ 546.4	$ 484.2	$ 462.1	$ 374.1	$ 285.1	$ 232.6	$ 90.9	$ 54.8
47.8	80.5	72.3	62.4	33.6	42.4	57.4	27.4	18.8
(35.5)	80.5	72.3	62.4	54.6	29.7	57.4	27.4	18.8
198.2	255.3	222.6	211.9	131.0	90.6	115.6	60.8	32.5
11.5	33.2	32.5	29.5	29.5	15.6	–	–	–
30.8	56.9	44.8	66.3	62.0	55.1	43.1	18.3	13.6
31.6	26.2	49.9	51.8	62.5	1.5	10.1	44.3	141.0
1,671.2	1,573.9	1,323.7	1,155.3	1,108.2	694.0	593.0	531.9	290.8
665.4	734.8	577.4	506.3	564.0	518.1	251.8	309.6	209.2
1,935.1	2,013.5	1,764.9	1,613.3	1,538.9	1,036.9	702.7	651.0	504.1
$ 0.72	$ 1.44	$ 1.22	$ 1.03	$ 0.57	$ 0.93	$ 1.26	$ 0.60	$ 0.41
(1.12)	1.44	1.22	1.03	1.03	0.65	1.26	0.60	0.41
3.94	5.11	4.08	3.87	2.67	1.99	2.54	1.34	0.72
8.62	9.62	9.84	8.83	8.05	6.37	5.90	4.80	4.27
0.30	0.30	0.25	0.20	0.20	0.20	0.15	0.10	–
51,125	52,974	52,460	55,939	58,816	52,841	54,252	51,725	53,292
52,757,339	44,876,570	50,933,122	50,813,255	50,800,755	45,491,255	45,460,505	45,446,505	45,335,553
15,327,109	8,542,225	7,787,853	9,313,891	6,330,743	4,788,371	9,706,332	8,530,752	5,543,070
$ 17.38	$ 22.13	$ 23.25	$ 21.25	$ 20.25	$ 27.75	$ 24.38	$ 14.42	$ 6.58
9.75	16.13	17.63	13.63	8.00	14.00	12.50	6.21	4.88
14.88	17.38	19.88	18.25	15.00	16.00	23.88	13.50	6.29
92.1	85.6	82.1	81.7	71.5	58.5	46.5	38.3	27.0
4.7	4.7	3.2	4.1	3.1	3.0	3.0	0.7	–
2.3	1.0	0.6	0.4	0.1	0.1	0.1	0.1	0.1
433	469	579	568	741	754	662	538	173
156	141	130	120	91	113	115	100	94
10	–	–	–	–	–	–	–	–
118.8	97.8	74.7	77.0	62.4	59.1	57.3	39.6	11.7

DIRECTORS AND OFFICERS

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, O.C.
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

Corporate Officers and Senior Personnel

DAVID E. MITCHELL, O.C.
President & Chief Executive Officer

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
Vice-President, Finance
and Chief Financial Officer

BARRY D. GILCHRIST
Corporate Secretary

SYDNEY R. CHEN-SEE
Assistant Corporate
Secretary

DAVID W. RICHARDSON
Assistant Treasurer

DEREK S. BWINT
Director, Financial
Evaluations

KEITH O. FOWLER
Director
Tax & Treasury Operations

WAYNE G. HOLT
General Counsel

LAWRENCE J. HICKEY
Assistant Comptroller

RONALD D. JONES
Director, Computer Services

ROBERT A. TOWLER
Director, Petrochemicals

RICHARD H. WILSON
Director, Public Affairs

Principal Officers of Divisions

AEC Oil and Gas Company

GWYN MORGAN
President

ROGER D. DUNN
Senior Vice-President

RONALD A. McINTOSH
Senior Vice-President

DENNIS W. CORNELSON
Vice-President, Marketing

WAYNE G. THOMSON
Vice-President, Production

AEC Pipelines

FRANK W. PROTO
President

BERNIE J. BRADLEY
Vice-President

JOHN D. WATSON
Vice-President, Finance

CORPORATE INFORMATION

Offices

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

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

Transfer Agent and Registrar— (Common Shares)

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

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

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

Transfer Agent and Registrar— (Convertible Debentures and 10.50% Debentures)

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

In newspaper listings, AEC's various share issues are shown as follows:

Alt Energy	Common
Al Enr 775	Second Preferred, Series 2

Major Subsidiaries

Alberta Oil Sands Pipeline Ltd.	100%
Alenco Holdings, Inc.	100%
Alenco Inc.	100%
Blue Ridge Lumber (1981) Ltd.	100%
Chieftain Development Co. Ltd.	57%
Ranger Forest Products Ltd.	100%

Major Affiliates

AEC Power Ltd. (50% voting)	66⅔%
Pan-Alberta Gas Ltd. (40% voting)	49.995%
Pan-Alberta Resources Inc. (40% voting)	49.995%

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 and help the Corporation save money by contacting your Transfer Agent (See Transfer Agent and Registrar) to have your holdings registered under one name and address.

Annual Meeting

The Annual Meeting of Shareholders of Alberta Energy Company Ltd. will be held in the Gregoire Room, MacKenzie Park Inn, 424 Gregoire Drive, Fort McMurray, Alberta at 3:00 p.m. local time on Wednesday, April 13, 1988.

Copies of the Corporation's 1987 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:

Dividend Reinvestment Plan (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.

Optional Share Purchase Plan (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 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 3B2

Telephone (403) 263-1460

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