AEC

ALBERTA ENERGY COMPANY LTD.

1992 ANNUAL REPORT

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Corporate Profile

AEC is a Canadian natural resource development company with more than 40,000 shareholders. The Corporation participates in Canada's oil and natural gas, pipelines and forest product industries. AEC is among the top ten oil and gas companies in Canada in terms of reserves, production levels and exploratory landholdings.

Additional Information

This report provides an overview of AEC's 1992 activities. More detailed statistical information is available from the Investor Relations Department (403) 266-8111.

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Highlights

Financial

	1992	1991	% Change
Net Earnings *($ millions)*	42.2	13.8	206
Per Share *($)*	0.53	0.12	342
Cash Flow From Operations *($ millions)*	225.3	165.8	36
Per Share *($)* - Basic	3.19	2.37	35
- Fully Diluted	3.06	2.23	37
Year-End Long-Term Debt *($ millions)*	449.6	609.6	-26
Debt-to-Cash Flow Ratio *(times)*	2.0	3.8	-47
Average Interest Cost *(percent)*	6.0	8.2	-27

Operating

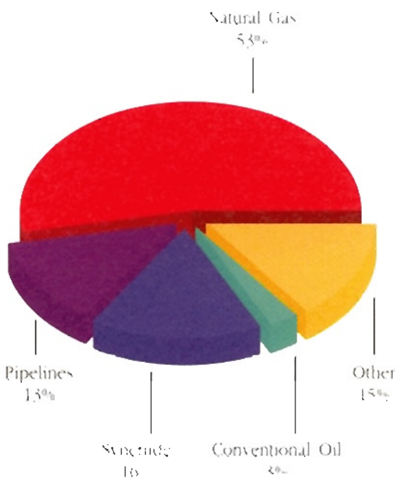
	1992	1991	% Change
Produced Natural Gas Sales *(million cubic feet per day)*	300	273	10
Oil and Natural Gas Liquids Sales *(barrels per day)*	25,759	22,983	12
Gas Price *($ per million BTU)*	1.38	1.37	1
Conventional Oil Price *($ per barrel)*	16.88	15.73	7
Syncrude Oil Price *($ per barrel)*	22.79	22.67	1
Syncrude Operating Cost *($ per barrel)*	15.39	16.51	-7
Lumber Sales *(million board feet)*	217	209	4
MDF Sales *(million square feet)*	59	60	-2
Pulp Sales *(thousand air dried tonnes)*	82	29	183
Oil Pipeline Throughputs *(barrels per day)*	349,587	335,028	4

Other

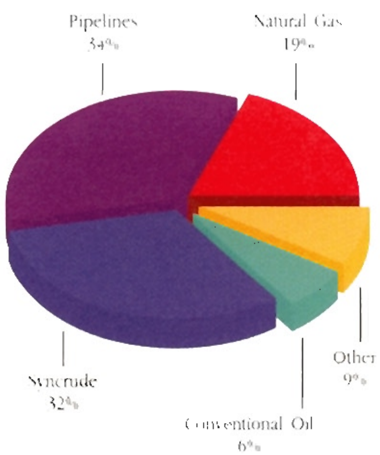
- A natural gas development project at Primrose was initiated, and delivery capability of the Suffield natural gas storage facility is being increased to 500 million cubic feet per day.
- Crude oil reserves increased 16 percent; gas reserve additions offset production.
- AEC Pipelines transported its billionth barrel of oil, completed a record six years with no lost-time accidents, and completed a lateral connecting to a system which provides service to the Lloydminster upgrader.
- Forest products recorded growth in lumber sales and prices, a good first full operating year at the Slave Lake pulp mill, but weak pulp prices.
- Interests in a contract drilling company and a coal venture were sold. Interest in Chieftain International was reduced to 22 percent.
- Discussions are in progress that could lead to a restructuring of AEC's 25 percent interest in a fertilizer venture.

AEC's strong 1992 results during a period of severe economic downturn reflect the dedication and capability of staff as well as the Corporation's solid financial footing. Our people are committed to achievement of profitable growth through safe and efficient operations and a responsible attitude toward the environment and the community.

INVESTMENT MIX - ASSETS



OPERATING INCOME



AEC's increased financial results were largely due to the following:

- Higher sales volumes: natural gas up 10 percent and oil and gas liquids 12 percent.
- Strict cost controls, resulting in only a nominal one percent increase in operating costs despite increased production rates and installation of additional production facilities.
- A $160 million reduction in long-term debt to $450 million, or only 2.0 times annual cash flow. Interest expenses were down due to the lower debt and lower interest rates.
- Lower general and administrative costs.

ASSETS

Natural gas represents 53 percent of AEC's strong natural resource asset base. Yet, as the chart to the left illustrates, natural gas generated only 19 percent of 1992 operating income. The average 1992 price for natural gas was $1.38 per million BTU, only one cent higher than the prior year. However, the price of natural gas increased appreciably toward the end of 1992, and growing confidence in its future suggests good upside potential for this major AEC asset.

Syncrude continues to set annual sales records while trimming costs to only $15.39 per barrel. And in conventional fields, unit operating costs were reduced to $3.60 from $5.20 per barrel in tandem with a 27 percent sales volume increase.

The life of AEC's reserves, at 1992 production rates, is 16 years for natural gas, 29 years for Syncrude's high-quality oil, and 9 years for conventional oil.

In situ oil resources at Primrose, which are not included in the reserves estimates, are huge. Gradually, improvements to technology, upgrading capacity and market price for this type of oil are combining to bring commercial development closer. As this report goes to press, AEC is having discussions with one Primrose Block operator which has proposed a large-scale commercial project using new technology currently being pilot tested. If the new technology proves successful, it could significantly improve the recovery economics for this type of heavy oil.

Timberlands are becoming more scarce and therefore more valuable. AEC's natural resource assets also include rights to 1.8 million acres of timberlands, which support the Corporation's pulp, medium density fibreboard and lumber investments.

In addition to those natural resources, AEC has 820 miles of wholly owned crude oil pipelines, as well as a one-third interest in a 550-mile ethane gathering system, which all operate on a rate-of-return basis. AEC also owns one-half of a natural gas pipeline to Vancouver Island and a small interest in the Iroquois pipeline to the northeast United States.

Rounding out the assets at work for our shareholders is a 22 percent ownership of Chieftain International, having a market value of $52 million at year-end. Chieftain operations, currently focussed in the United States Gulf Coast area, are expanding selectively to other countries.

Despite poor economic conditions during the year, stock market interest in the Corporation was maintained. On average, more than 65,000 shares were traded each day, up 5 percent from 1991. The year-end market value of AEC's shares was $1.13 billion.

AEC has over 30,000 shareholders. The profile of AEC shareholders has changed significantly over the past 18 years. Today, approximately 78 percent of the "float" (the shares that are regularly traded in the marketplace) is held by large financial institutions and pension funds.

The next six pages address AEC's genuine interest in its social responsibilities to employees, our communities and, of course, the environment. Our current attitudes are not dissimilar to prior ones, but this report contains more information as a reminder that we really do care about social responsibilities as well as delivering a good return to shareholders. More detail on AEC's operations, the real foundation of the Corporation, follows as an introduction to the financial section of the report.

Outlook

AEC expects 1993 to be a year of good financial results, influenced markedly by prices for natural gas and oil. Natural gas is of growing value, with prices having strengthened toward year-end 1992. Oil prices are tending to be firmer, with OPEC determination causing some upward pressure.

Although the future inevitably will hold times of extra challenge, AEC is in an excellent position. Our debt is down, our credit rating is high and the cash flow outlook is good. We have kept very conservative financial accounts, with assets reported at low values and no reserve ceiling tests causing any concern. Our reported gas and oil reserves have been reviewed by independent outside professional engineers. Our pension fund assets substantially exceed our liabilities. Our plants and equipment are either new or maintained in excellent condition, and strict environmental standards are being met.

A number of capital investments in our existing businesses are in progress or being planned. Our natural gas business has a great future, as does Syncrude, and in time the same will be true for in situ heavy oil. Wood products prices continue to strenghten as decreasing timber supplies and improving economic conditions in North America impact the market. Pipelines are an ongoing source of stable revenue. And, through staff retraining and a significant number of job transfers, AEC once again has weathered the economic storms without any layoffs.

At the annual meeting Director Raymond J. Nelson will be standing aside due to mandatory retirement age. He has been an outstanding contributor to AEC's progress since joining the Board as one of the original Directors in 1974. He will be missed.

We look forward to the participation of Mrs. Joan Donald of Red Deer, Alberta, who will be joining the Board as of the date of the annual meeting.

A most sincere thank you to Directors, staff and shareholders for the support and encouragement that have helped create such a strong base and made this positive outlook possible.

David E. Mitchell, O.C.
President and
Chief Executive Officer
February 17, 1993

AEC has established a natural gas market centre at Suffield. Its underground gas storage facility illustrated here is an integral component of the market centre.

The Environment — An Important Consideration

Responsible resource development, conducted in harmony with the surrounding environment, reflects the proactive approach that has always been an integral component of AEC operating practices.

As a complement to its environmentally responsible operating practices, AEC funds wildlife research programs. One such study will enable the effective management of the remaining herds of the endangered woodland caribou in northeastern Alberta.

AEC has always recognized the need to maintain a balance between economic development and a healthy environment. The two are not mutually exclusive.

AEC's commitment to the environment is inherent in all levels of its operations — from the Environment Committee of its Board of Directors, to an Environmental Coordinating Committee of all operating divisions, to well established guidelines for protective and remedial action.

The Corporation's policy is to meet and, where economically and technically feasible, to surpass regulated environmental standards. To that end, AEC has established a "zero tolerance" spill reporting system. A Spill Monitoring and Rehabilitation Team (SMART) includes operators and maintenance and management people who ensure all spills are recorded and mitigative measures taken to prevent repetition.

AEC practices careful project planning to incorporate environmental protection in project development. Coincident with the acquisition of some oil and gas properties this year, an environmental plan was developed and funds allocated to environmentally rehabilitate the sites to be consistent with AEC's standards.

The Corporation also minimizes waste discharges to the environment by using technologies to reduce, reuse, recycle and recover. The Corporation's approach is evident not only in such standard practices as annually recycling tons of paper, but also in disposing of thousands of oil filters at Alberta's Swan Hills facility instead of the traditional local landfills. AEC is researching ways to use nutrient-rich waste materials as a soil additive, rather than disposal through combustion or landfill.

All operations are subject to periodic reviews to ensure practices are current with regulatory environmental standards.

AEC's belief in the efficient use of natural resources is evident in the following examples:

- On the Suffield Block, AEC uses the natural gas it produces as fuel for the 75 trucks used to service the field production facilities.
- AEC's anhydrous ammonia plant at Joffre was designed to use as

When a portion of the Suffield Block was designated a National Wildlife Area in 1992, HRH Prince Philip presented a plaque to AEC President Dave Mitchell in recognition of AEC's many years of environmentally responsible operations at Suffield.

feedstocks the by-products of two neighbouring petrochemical plants. Previously these gases were either vented to the atmosphere or used as fuel. AEC's process consumes only two-thirds the overall energy of a conventional ammonia plant.

- The Corporation's medium density fibreboard plant makes a premium product that uses waste shavings from AEC's Blue Ridge lumber operation; the process at the Slave Lake pulp mill makes very efficient use of the aspen timber feedstock.

Employees at the Hythe sour gas plant in northwest Alberta are so confident of their environmentally safe operating practices that they have created a fish pond and nesting and feeding site for migrating waterfowl at the plant water runoff catch basin.

That employee attitude also is inherent at Suffield in southeast Alberta, where AEC's operations co-exist with an abundance of wildlife as well as military manoeuvres. His Royal Highness, Prince Philip, in his capacity as president of the Worldwide Fund for Nature, recognized that positive AEC attitude during a ceremony witnessing the designation of Suffield lands as a National Wildlife Area.

While AEC and its employees take pride in their environmentally safe, strong operating performance, everyone strives on a continual basis to do even better. For example, staff at the Slave Lake pulp mill conduct intensive monitoring of the ecology of the Lesser Slave River, which is not a requirement of the mill's operating licence.

Financial support has been given to some additional programs which complement AEC's corporate commitment to environmental preservation. In partnership with interested associations and other corporations, AEC funded a multi-year study of the migration patterns and local habitat of cougars in Alberta. AEC also is very active in its support of a study of woodland caribou in northeastern Alberta. The study is designed to identify the habitat requirements and other ecological needs of the caribou. This knowledge will enable responsible management of the remaining herds. Within the Primrose Block, AEC is administering the caribou reporting system on behalf of the provincial government.

AEC will continue to operate in an environmentally responsible manner. Corporations, environmentalists and governments must strive to promote a more practical balance between environmental protection and *economic development. Not all* environmentalists are saints. There are some with personal agendas or unstated objectives who use the proper cause of environmental protection for their own purposes. Neither are all corporations sinners. There are many which are trying conscientiously to improve conditions. The reasonable concerns and honest interests of people are served better today than they were before the environment gained its present high profile. Now, *hopefully*, corporations and environmentalists can build responsibly and sensibly, working for the same objective.

AEC Employees — A Valuable Resource

AEC's employees are an important resource to both the Corporation and the community. AEC supports these hardworking employees by providing a safe, efficient working environment and opportunities for personal growth and development.

Office employees can progress within their disciplines through either Managerial or Specialist streams depending on their expertise, skills and aspirations.

Over its 18-year history, AEC has made a major investment in the development of its employees, who respond ably to the challenges and opportunities of change.

At a time of severe economic downturn, AEC has avoided staff layoffs. This has been accomplished through a program initiated in 1991 to minimize hiring. It incorporated reallocation of employee talents, ideas and energies throughout the Corporation, as well as a few employee retirements. AEC's permanent employee count, exclusive of subsidiaries and affiliates, decreased from 672 in April 1991 to 600 in February 1993.

Staff employed in field positions participate in an innovative competency-based progression system which links career development and pay to individual proficiency and knowledge. Employees have the opportunity to increase their compensation by learning additional skills and demonstrating the ability to apply them. Office staff have a similar opportunity to excel within their disciplines through a "Dual Career Ladder." They can progress through either Managerial or Specialist streams based on their expertise, skills and aspirations.

AEC expects responsibility and dedication from its people. The Corporation, in turn, is committed to the ongoing enhancement of employee skills to ensure a pool of technical competence and leadership talent. While AEC employees are primarily responsible for initiating their own personal development, the Corporation provides assistance and opportunities through:

- in-house training programs;
- attendance at external courses and seminars;
- participation in professional associations;
- apprenticeship programs; and
- tuition reimbursement for job-related courses.

The Corporation provides an environment that fosters appreciation of new technologies and their roles in improved productivity. For example, new systems technology was introduced in 1992 which makes timely, accurate technical and

AEC facilitates employees' development through their attendance at internal and external courses and seminars.

business information available to AEC employees. This technology includes state-of-the-art financial systems which allow precise analysis and fast response to changing business conditions.

These improvements to computer systems yielded significant financial gains as did other initiatives to reduce interest expense and general and administrative costs.

Other actions led to a variety of additional cost savings, all of which added up to meaningful contributions to the overall financial results. These activities included, among others, increased automation of pipeline monitoring, modifications to various production equipment, implementation of central purchasing, and car pooling to distant work sites.

AEC also is taking advantage of local market conditions to relocate its Calgary office into new and less expensive facilities — another employee recommendation that will provide savings for many years.

Employee safety is a major focus in all operations. While AEC provides a safe work environment, employees recognize their responsibility for their own personal safety and that of fellow employees and others in the community.

In November 1992, AEC's pipeliners celebrated six years of operation without a lost-time accident. This is a significant milestone in the Canadian pipeline industry. Also in November, employees at the South Jenner oil battery shipped their 10 millionth barrel of oil while achieving six years of operation with no lost-time accidents.

Employees of the pipelines division also continued their intensive landowner liaison program, contacting all residents affected by Corporation pipelines to keep them informed and to respond to any concerns. This program helps to prevent accidents and environmental incidents and enhances emergency response capability.

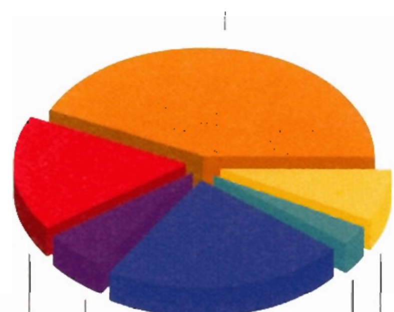
AEC is proud of the trained, responsible and innovative workforce which has made significant contributions to the success of the Corporation.

Field staff participate in an innovative system which ties career development and compensation to their knowledge and proficiency.

The Community — A Worthwhile Investment

With offices and operations in many communities throughout Alberta, AEC contributes to the quality of life and success of those regions. Through support of suppliers, sponsorship of community activities and employee volunteerism, AEC responds to the needs of the communities that support its resource development activities.

Time Volunteered by Employees
(By Category)



Employees of AEC and its subsidiaries and affiliates are based in 16 communities. These communities are as far north as Fort McMurray and as far south as Redcliff Medicine Hat.

In the past year, AEC invested more than $190 million in the Alberta economy in the form of salaries and benefits paid to employees; crown payments; and municipal, provincial, and federal taxes.

In addition to this investment, AEC also supports the community through its donations and sponsorships programs. The Corporation has been denoted a "Caring Company" by the Canadian Centre for Philanthropy. The Centre sponsors the national IMAGINE program which encourages corporations and individuals to increase their level of support to Canadian charities. "Caring Companies" donate at least one percent of pre-tax profits to charity each year.

Although AEC does not fund any political or religious activities, it supports a wide spectrum of community endeavours. These activities fall within the major categories of health and welfare, education, arts and culture, civic causes and amateur athletics. Priority is placed on activities in communities where AEC has operations and a large employee base; however, AEC also supports provincial and national organizations.

In the current difficult economy, many charities are finding it a challenge to secure sources of funding. The challenge for AEC is to determine the most effective distribution of its donations resources, knowing that it cannot accommodate all requests received.

In 1992 AEC contributed more than $600,000 to community endeavours. Of this amount, approximately $90,000 represented corporate donations to United Way campaigns. In addition, AEC employees contributed another $85,000 through United Way employee campaigns. Employees in three cities were recognized for high levels of participation and or average per capita contributions.

The following points highlight some of the many community undertakings which AEC assisted in the past year.

- AEC made a major contribution to The University of Calgary "Building on the Vision" Campaign. As well, the Corporation funded scholarships at post-secondary institutions, such as the University of Alberta and Medicine Hat College, and continued to support youth programs such as Junior Achievement and Science Fairs.

AEC employees volunteer their talents and time to numerous community endeavours. Paul Carr, below, has guided blind runner Larry Rinke in many competitions for the disabled. Paul can neither pull nor push Larry; only loose arm contact can be used.

- Through a cash contribution and provision of office space and other services, AEC is supporting the world premiere of "The Greatest Show Unearthed" Dinosaur Exhibition. This hands-on, Alberta-initiated educational show will visit Edmonton in the spring of 1993 before touring North America and Japan.
- AEC supported programs for the prevention and treatment of family violence at several Alberta shelters for needy women and children.
- Among the civic facilities AEC helped fund in 1992 was a cultural centre currently under construction.
- A major portion of AEC's 1992 donations budget was directed to the organizations which provide research into the causes and cures, as well as treatment, of health conditions such as heart disease, cancer, diabetes, and arthritis.
- AEC continued to fund amateur athletics as a major sponsor of the Alberta Sport Council. Through its affiliation with the Council AEC also supported the 1992 Seniors Games.

As a complement to its corporate support of the community, AEC encourages employee volunteerism. Employees and their family members have numerous talents and skills which are of great benefit in improving the quality of life in the community.

AEC recently did an optional survey of its employees regarding their individual volunteer activities. On average, the people who responded contributed about 180 volunteer hours to their communities during 1992. The wide variety of activities include, among many others, the following:

Amateur sports coaches, managers and referees; Aunts/Uncles at Large; Beaver, Cub and Scout leaders; Calgary Great Paint Exchange workers; volunteer firefighters; community association executives; hospital and school board trustees; literacy program tutors; fundraisers and canvassers; charitable organization board members; organizers of blood donor clinics and United Way endeavours, and board members in agencies for troubled youth. AEC employees also provide assistance to seniors and battered women, design and build stage sets for theatre groups, and monitor birds and other wildlife.

In addition to volunteering their time, AEC employees also participate in the Corporation's Matching Gifts Program. To encourage charitable giving among its employees, AEC will match employee donations to eligible charities up to a maximum of $250 per organization each year for a total of $1,000 per employee annually. AEC does not match gifts to religious or political activities.

1992 Operations — A Year of Gains

Stronger results were achieved in all operational areas during the past year. Several production records were set and through employee efforts low operating costs were maintained or reduced even further.

Oil and Gas

Natural Gas

AEC believes the future is bright for natural gas and, therefore, has continued to focus on the natural gas business. Production levels in 1992 were at near-record levels, while sales of both produced and purchased gas were at record levels. Prices generally strengthened during the past year. In December, Alberta spot market prices increased to levels not seen in almost a decade.

Natural Gas Sales (Million Cubic Feet per Day)

	1992	*1991*	*1990*
Produced Gas	**300**	273	272
Purchased Gas - Long-Term	**51**	31	6
Short-Term	**26**	15	-
Total	**377**	319	278

Successful implementation of the Corporation's natural gas marketing strategies make it one of Alberta's key gas marketers. AEC's natural gas storage facility at Suffield in southeastern Alberta is a cornerstone of its marketing approach.

In 1992 use of the facility enabled AEC to purchase gas on the spot market so it could fulfill its contract obligations with the least expensive natural gas available. AEC kept much of its own gas in inventory or natural reservoirs until gas prices increased later in the year. In this way the costs of reserves replacement, development and operation were minimized and profits were maximized. Using the storage facility, AEC also expanded its gas trading activity in short-term, domestic markets.

A major new marketing initiative during 1992 was the establishment of an AEC market centre to handle between 1 and 2 billion cubic feet per day of western Canadian natural gas. The centre, at AEC's "Suffield hub," offers a wide range of services such as trading with other market participants. Another significant component of the market centre concept is the provision of natural gas storage capability. This service has led to further expansion of AEC's natural gas storage facility.

Through the facility expansion, total injection withdrawal capacity will be more than doubled in 1993 to 500 million cubic feet of gas per day. AEC recently completed negotiations to provide Pan-Alberta Gas Ltd. with 300 million cubic feet of this daily storage capacity.

Given the recent strengthening in gas demand and impending California and Pacific Northwest markets, AEC also has begun development of the Caribou Lake gas project on the Primrose Block in northeastern Alberta. Although initial plans called for 45 million cubic feet per day of gas production, design capacity has been increased to 55 million cubic feet per day due to the improved outlook for natural gas demand. The project is expected to be onstream in late 1993.

Conventional Oil

Conventional oil production was up in 1992, primarily due to increased heavy oil recovery at Suffield. New North American heavy oil upgrading capacity has led to increased

Conventional Oil and Natural Gas Liquids Sales
(Thousand Barrels per Day)

	1992	1991	1990
Conventional Oil	**6.9**	5.4	6.2
Natural Gas Liquids	**1.0**	1.1	0.7
Total	**7.9**	6.5	6.9

Reserves

	Proven	Probable	Total
Natural Gas (Billion Cubic Feet)			
Balance at December 31, 1991	1,485	254	1,739
Revisions of established pools	35	4	39
Discoveries and extensions	23	8	31
Acquisition of reserves, less dispositions	28	13	41
Production	110	-	110
Balance at December 31, 1992	**1,461**	**279**	**1,740**
Crude Oil and Natural Gas Liquids (Million Barrels)			
Balance at December 31, 1991	14.2	8.2	22.4
Revisions of previous estimates	2.2	(0.9)	1.3
Discoveries and extensions	2.3	(0.4)	1.9
Acquisition of reserves	1.1	1.5	2.6
Production	2.9	-	2.9
Balance at December 31, 1992	**16.9**	**8.4**	**25.3**
Synthetic Oil (Million Barrels)			
Balance at December 31, 1991	193	-	193
Revisions of previous estimates	-	-	-
Production	7	-	7
Balance at December 31, 1992	**186**	-	**186**

In Situ Heavy Oil

The above reserves do not include in situ heavy oil. AEC holds substantial amounts of in situ heavy oil primarily on the Primrose Block in northeast Alberta. In situ heavy oil reserves will be recognized on a progressive basis as and when commercial development projects proceed.

demand for heavier oils, and price differentials have narrowed to more traditional levels.

Higher heavy oil volumes were achieved mainly due to the use of horizontal drilling technology for new wells. Also, application of AWACT treatments to existing vertical wells at Suffield increased reserves for those wells by about 6 percent. AWACT stands for anti-water coning technology, a proprietary water-blocking technique developed at Suffield and now being marketed to the oil industry.

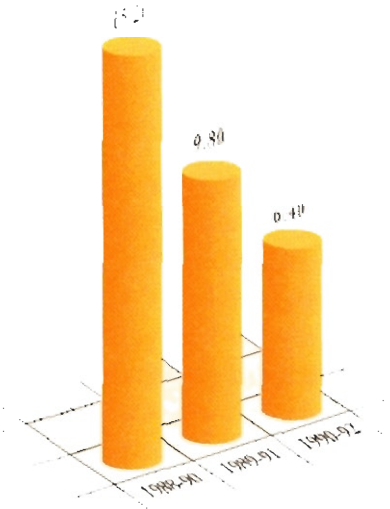
Reserves

AEC's strategy is to replace reserves by combining exploration, acquisition and new development technology to add reserves at the lowest cost. In 1992 additions to natural gas and oil reserves offset 1992 production levels.

Exploration successes in the past year include a second Red Earth oil discovery well in the East Peace River Arch and the testing in the West Peace River Arch of two new gas concepts with potential for reserve development and acquisition.

Finding and Development Costs

(Three-Year Average; $/Barrel of Oil Equivalent 10:1)



AEC continued to decrease its finding and development costs, with a 1992 annual cost of $4.40 per barrel of oil equivalent. The three-year average, as illustrated in the graph above, smooths out annual fluctuations while reflecting the recent performance of AEC's reserve additions and development program. A similar, though less pronounced, trend is evident over the longer term, with a five-year average cost for the 1988-92 period of $9.20 per barrel of oil equivalent.

Natural gas reserve acquisitions were concentrated in the Primrose Block, where AEC made three purchases of partners' interests. A portion of the gas from these acquisitions already is onstream; the remainder will come onstream in the near future. AEC also acquired a heavy oil property near Lloydminster, Alberta.

Syncrude

During the past year, Syncrude set a number of annual production records including a record 65 million barrels of synthetic oil shipped.

Syncrude's unit cost was reduced by $1.12 per barrel to $15.39 as a result of the higher production levels and increased efficiency. In September Syncrude produced its 600 millionth barrel of synthetic oil. Only three Alberta oil pools have produced more than this amount. AEC owns a 10 percent working interest in Syncrude plus an average 7 percent overriding royalty on another 10 percent of Syncrude revenue.

Pan-Alberta Companies

In 1992 Pan-Alberta Gas celebrated its twentieth year of reliable natural gas supply to North Americans. It is Canada's largest independent gas aggregator and marketer, with 1992 sales totalling 469 billion cubic feet. Pan-Alberta Resources Inc. has a 50 percent interest in an Empress natural gas liquids extraction plant, as well as a share in natural gas liquids extracted from the Pan-Alberta gas stream processed by Empress and Cochrane plants. AEC owns one-half of each Pan-Alberta company.

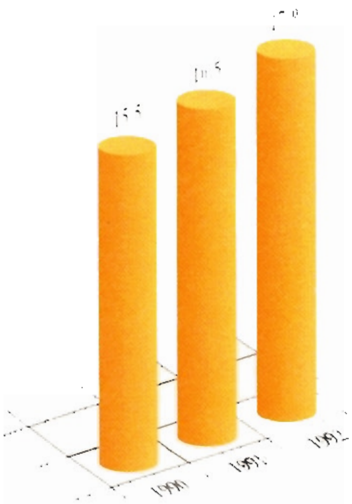
1992 Drilling Statistics

	Gross	*Net*
Exploratory		
Oil	3	2
Gas	5	5
Dry and Abandoned	9	8
Total	**17**	**15**
Success Rate (Percent)	47	47
Development		
Oil	22	9
Gas	6	5
Dry and Abandoned	1	-
Total	**29**	**14**
Success Rate (Percent)	97	100

1992 Landholdings (Thousand Acres)

	Total		*Undeveloped*	*Developed*
	Gross	*Net*	*Net*	*Net*
Alberta	4,056	3,097	888	2,209
Saskatchewan	106	40	29	11
British Columbia	301	170	154	16
Beaufort	490	13	13	-
Total	**4,953**	**3,320**	**1,084**	**2,236**

Synthetic Oil Sales
(Thousand Barrels per Day)



Chieftain International, Inc.

Chieftain, in which AEC holds a 22 percent interest, is an international oil and gas exploration company whose principal activities are in the United States. It also has gas and oil rights in the British sector of the North Sea and Libya. Gas sales averaged 41 million cubic feet per day compared with 34 million cubic feet per day last year. Conventional oil and NGL sales were 1,800 compared with 1,720 barrels per day.

Pipelines

In its continuing efforts to provide quality service to its pipeline customers, AEC reduced costs, increased operating efficiencies and improved system reliability.

AEC is Alberta's largest intra-provincial transporter of oil. In June, the Corporation moved its billionth barrel of oil. The Alberta Oil Sands Pipeline established a daily shipping record of 224,000 barrels in October.

A lateral extension to the Cold Lake pipeline was constructed to connect to the supply system for the new bi-provincial heavy oil upgrader at Lloydminster. The lateral was completed on schedule. As well, property owners complimented AEC on its construction practices and its public information programs.

AEC and heavy oil producers began to examine the potential for expansion of the Cold Lake Pipeline system south of the Cold Lake Bonnyville area to provide more market options for the area's heavy oil. The Corporation also is studying the feasibility of expanding the system through the Primrose Block to the oil sands plants in Fort McMurray. The plants could upgrade Cold Lake heavy oil in addition to their own oil sands feedstock.

AEC began negotiations with Japanese interests regarding the commercialization of AEC's "Transoil" technology. In this process, heavy oil is pipelined using water, instead of the traditional oil-based diluent, to reduce its viscosity.

AEC owns 50 percent of Pacific Coast Energy Corporation, which owns and operates the Vancouver Island natural gas pipeline. Public hearings are anticipated in the second quarter of 1993 to determine the final rate base and cost of service of this system.

The Iroquois Gas Transmission System, which serves the northeast United States, achieved full throughput capacity in November. Regulatory approvals have been received for compressor expansion in the U.S. to increase system capacity by 11 percent.

Forest Products

Sales of Ranger™ lumber and pulp increased while medium density fibreboard (MDF) sales were down slightly. Both lumber and MDF products experienced increasing prices throughout the year.

Particularly significant was the increase in mill net returns on lumber sales. This increase was principally due to improved market conditions and the Corporation's decision to target specific high-value end-uses in North American and offshore markets. Pulp markets deteriorated significantly through year-end, due to a slowdown in the economies of Europe and southeast Asia.

Modernization of the lumber mill continued during the year. Further upgrades are planned in 1993 and subsequent years to improve product quality and decrease costs. A second refiner was installed at the MDF plant, which resulted in improved product quality and enhanced the competitive position of the facility.

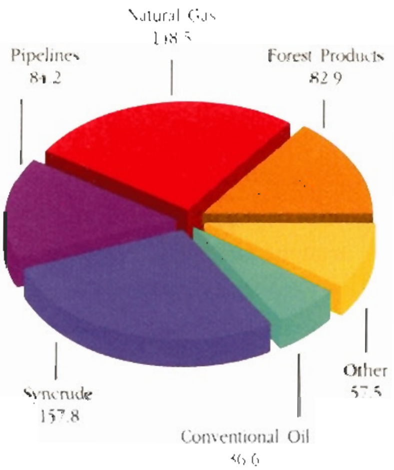
Modest capital investment at the Slave Lake pulp mill added greater effluent treatment flexibility and increased plant operating capacity by 18 percent.

Management Discussion and Analysis

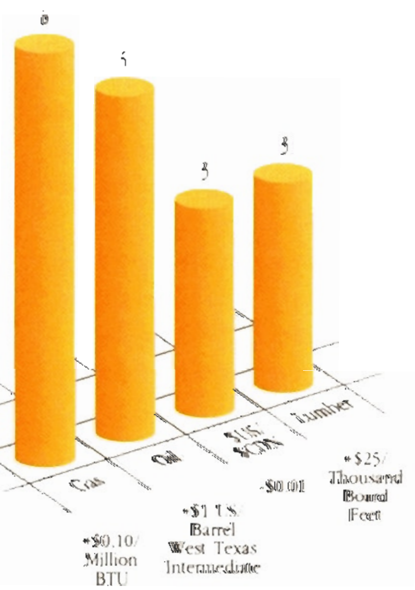
TO BE READ IN CONJUNCTION WITH THE 1992 AUDITED CONSOLIDATED FINANCIAL STATEMENTS (COMPARISONS ARE WITH 1991 AMOUNTS UNLESS OTHERWISE STATED)

Net earnings increased 206 percent to $42.2 million and cash flow from operations increased 36 percent to $225.3 million. The results reflect higher oil and gas and forest products revenues. Operating expenses increased only 1 percent to $288.2 million despite significant volume increases for most

1992 Revenues Net of Royalties
(Millions of Dollars)



1993 Sensitivities Net Earnings and Cash Flow From Operations
(Millions of Dollars)



products. Interest expense was down $12.6 million reflecting lower interest rates and lower debt balances. Depreciation, depletion and amortization expense increased $4.5 million, primarily a result of increased oil and gas volumes. Non-recurring items reduced earnings by $9.5 million on an after-tax basis with no impact on cash flow from operations.

Oil and gas revenues increased largely due to the following volume increases: produced gas 10 percent, purchased gas 67 percent, synthetic oil 8 percent and conventional oil 27 percent. Average gas prices of $1.58 per million BTU were $0.01 higher and average oil prices of $16.88 per barrel were 7 percent higher. Gas production for 1993 is expected to maintain the 1992 level; 1993 conventional oil production is expected to be higher. Gas and oil prices are estimated to be somewhat improved for 1993.

Pipeline revenues of $84.2 million maintained the same level as in 1991 and are expected to continue at this level through 1993.

Forest products revenues increased, primarily due to higher prices for lumber and medium density fibreboard. The Slave Lake pulp mill completed a full year of operation with a 70 percent increase in production to 84,600 air-dried tonnes. Average pulp prices improved, and the Partnership incurred a reduced loss for 1992. In 1993 wood products prices are expected to trend upwards with volumes being maintained; some softening of pulp prices is expected.

Other revenues decreased 8 percent in 1992 and are expected to decrease substantially in 1993, a result of the asset sales of Tri-City Drilling (July 1, 1992) and Coal Valley (December 31, 1992).

Capital investment in 1992, mainly in oil and gas and forest products, totalled $102.7 million, a reduction of $64.1 million from 1991. Capital investment for 1993 is expected to increase by more than 50 percent, primarily in oil and gas, to be funded by cash flow from operations. Investments declined to $191.2 million, primarily a result of the sale of 50 percent of the shares held in Chieftain International for proceeds of $40.5 million.

During 1992 long-term debt was reduced by $160 million as a result of surplus cash flow from operations, proceeds from sales of investments and the exchange of convertible debentures. The debt-to-equity ratio reduced to 33:67 and is not expected to change materially through 1993. The average term to maturity of long-term debt is 5.3 years and approximately 94 percent of it is unsecured. Mandatory long-term debt repayment over the next five years totals $133.4 million, most of which will occur in June 1996 with the maturity of a debenture issue. At year-end, approximately $160 million was available in unused long-term lines of credit.

Approximately 60 percent of revenue is directly or indirectly impacted by the U.S. dollar. At year-end 58 percent of debt is denominated in U.S. dollars and 94 percent of debt is at floating rates. Interest expense is expected to be lower in 1993.

Net earnings and cash flow from operations for 1993 will vary depending on both the prices and exchange rate as noted in the sensitivities graph at the left and ongoing operating activities. It is expected that the Corporation will pay Syncrude crown royalties and cash income taxes in 1993. The Corporation is considering a restructuring of its fertilizer business.

Management Report

The accompanying consolidated financial statements and all information in this annual report are the responsibility of Management. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best judgments. Financial information contained throughout this annual report is consistent with these financial statements.

Management has developed and maintains an extensive system of internal control that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Corporation's operating and financial results and that the Corporation's assets are safeguarded. The Corporation's internal audit department reviews and evaluates the adequacy of and compliance with the Corporation's internal controls. As well, it is the policy of the Corporation to maintain the highest standard of ethics in all its activities.

AEC's Board of Directors has approved the information contained in the financial statements. The Board fulfills its responsibility regarding the financial statements mainly through its Audit Committee.

Price Waterhouse, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.

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

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

Auditors' Report

To the Shareholders of Alberta Energy Company Ltd.:

We have audited the consolidated balance sheets of Alberta Energy Company Ltd. as at December 31, 1992 and 1991 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1992 and 1991 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Edmonton, Alberta
February 8, 1993

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31
($ MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Note Reference	1992	1991
Revenues, Net of Royalties		$ 567.5	$ 517.6
Costs and Expenses			
Operating		288.2	284.0
General and administrative		20.6	21.3
Interest, net	2	37.3	49.9
Depreciation, depletion and amortization		142.4	137.9
		488.5	493.1
Earnings before the Undernoted		79.0	24.5
Non-recurring items	3	(29.2)	-
Income taxes	4	(9.2)	(2.8)
Equity earnings (loss)		1.6	(7.9)
Net Earnings		$ 42.2	$ 13.8
Earnings per Common Share		$ 0.53	$ 0.12

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31
($ MILLIONS)

	1992	1991
Balance, Beginning of Year	$ 240.8	$ 254.8
Net Earnings	42.2	13.8
	283.0	268.6
Dividends - Preferred Shares	5.8	5.8
- Common Shares	23.8	22.0
	29.6	27.8
Balance, End of Year	$ 253.4	$ 240.8

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheet

AS AT DECEMBER 31

($ MILLIONS)

Assets	Note Reference	1992	1991
Current Assets			
Cash and short-term investments, at cost which approximates market		$ **16.6**	$ 18.6
Accounts receivable and accrued revenue		**75.2**	68.1
Inventories	5	**31.3**	37.1
		123.1	123.8
Investments	6	**194.2**	231.6
Property, Plant and Equipment	7	**1,576.9**	1,687.3
Deferred Charges and Other Assets	8	**38.7**	20.4
		$ **1,932.9**	$ 2,063.1

Liabilities and Shareholders' Equity	Note Reference	1992	1991
Current Liabilities			
Notes payable		$ -	$ 12.8
Accounts payable and accrued liabilities		**102.0**	93.7
Current portion of long-term debt	9	**2.9**	3.5
		104.9	110.0
Long-Term Debt	9	**449.6**	609.6
Other Liabilities		**32.7**	36.9
Deferred Income Taxes		**438.6**	433.1
		1,025.8	1,189.6
Shareholders' Equity			
Share capital	10	**651.8**	635.3
Retained earnings		**253.4**	240.8
Foreign currency translation adjustment		**1.9**	(2.6)
		907.1	873.5
		$ **1,932.9**	$ 2,063.1

Approved by the Board:

Director Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31
($ MILLIONS, EXCEPT PER SHARE AMOUNTS)

	1992	1991
Operating Activities		
Net earnings	$ **42.2**	$ 13.8
Depreciation, depletion and amortization	**142.4**	137.9
Deferred income taxes	**5.6**	(3.9)
Equity earnings, net of dividends	**10.3**	17.7
Other	**24.8**	0.3
Cash Flow From Operations	**225.3**	165.8
Net change in non-cash working capital	**1.1**	6.4
	226.4	172.2
Investing Activities		
Purchase of property, plant and equipment	**(90.3)**	(122.4)
Additions to equity investments	**(12.4)**	(44.4)
Proceeds on disposal of assets and investments	**53.1**	3.8
Repayment of advances from affiliates	**6.7**	4.9
Other	**(1.1)**	0.5
	(44.0)	(157.6)
Dividends		
Preferred share dividends	**(5.8)**	(5.8)
Common share dividends	**(23.8)**	(22.0)
	(29.6)	(27.8)
Increase (Decrease) in Cash before Financing Activities	**152.8**	(13.2)
Financing Activities		
Net (repayment) issue of long-term debt	**(158.5)**	11.5
Issue of common shares	**16.5**	15.5
	(142.0)	27.0
Increase in cash and short-term investments less notes payable	$ **10.8**	$ 13.8
Cash and short-term investments less notes payable, end of year	$ **16.6**	$ 5.8
Cash Flow from Operations per Common Share		
Basic	$ **3.19**	$ 2.37
Fully diluted	$ **3.06**	$ 2.23

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

(TABULAR AMOUNTS IN $ MILLIONS, UNLESS OTHERWISE INDICATED)

1. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Alberta Energy Company Ltd. (the "Corporation") and its subsidiaries, all of which are wholly owned.

Investments in unincorporated joint ventures are accounted for using the proportionate consolidation method, whereby the Corporation's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

Investments in companies and partnerships over which the Corporation has significant influence or joint control are accounted for using the equity method.

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

(b) Property, plant and equipment

Oil and gas

Conventional

The Corporation accounts for conventional oil and gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry.

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. Direct general and administrative costs related to exploration activities are capitalized.

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

Future removal and site restoration cost is estimated and recorded over approximately 20 years.

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. Substantially all of these costs are amortized using the unit-of-production method based on estimated proven developed reserves applicable to each project. Project expenditures during the exploratory and pilot phases are depreciated using a straight-line method over terms up to five years.

Pipelines

Property, plant and equipment related to pipelines is carried at cost and is depreciated using a straight-line method over the remaining term of each applicable pipeline service agreement.

Other

Other property, plant and equipment is carried at cost and is depreciated over the useful life of the assets.

(TABULAR AMOUNTS IN $ MILLIONS, UNLESS OTHERWISE INDICATED)

(c) Foreign currency translation

The accounts of self-sustaining foreign subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at year-end exchange rates while revenues and expenses are converted using average annual rates. Translation gains and losses relating to these subsidiaries are deferred and included in shareholders' equity.

Long-term debt payable in U.S. dollars is translated into Canadian dollars at the year-end exchange rate, with any resulting adjustment amortized using a straight-line method over the remaining life of the debt.

(d) Project investigation costs

Project investigation costs for new business opportunities are charged to earnings as incurred until such time as the commercial viability of the project is established. Subsequent expenditures are capitalized and amortized on a basis appropriate for the project.

(e) Inventories

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

(f) Interest capitalization

Interest is capitalized during the construction phase of large capital projects.

(g) Comparative figures

Certain 1991 figures have been reclassified for comparative purposes.

2. Interest, Net

	1992	1991
Interest expense - long-term debt	$ **34.4**	$ 51.9
Foreign exchange loss (gain)	**5.7**	(0.3)
Interest income	**(2.8)**	(1.7)
	$ **37.3**	$ 49.9

3. Non-Recurring Items

Non-recurring items include the pre-tax impact of additional depreciation and amortization related to certain non-strategic assets and the loss on sale of Tri-City Drilling assets less the gain on exchange of convertible debentures and on the sale of Chieftain shares and Coal Valley assets. In addition, the carrying value of the fertilizer assets has been reduced to an estimated realizable amount.

4. Income Taxes

	1992	1991
Current	$ **1.5**	$ 4.5
Deferred	**5.6**	(3.9)
Alberta royalty tax credit	**(1.8)**	(1.5)
Large corporations tax	**3.9**	3.7
	$ **9.2**	$ 2.8

		1992		1991
The following table reconciles income taxes calculated at statutory rates with actual income taxes:				
Earnings before income taxes and equity earnings after partnership earnings (losses)	$	**39.7**	$	5.8
Income taxes at statutory rate of 44.3% (1991 - 44.2%)	$	**17.6**	$	2.6
Effect on taxes resulting from:				
Nondeductibility of:				
Crown royalties and lease rentals		**10.9**		9.8
Depreciation, depletion and amortization		**5.1**		5.4
Federal resource allowance		**(16.1)**		(15.1)
Utilization of capital losses		**(9.4)**		-
Utilization of U.S. tax losses		**(1.6)**		(1.1)
Alberta royalty tax credit		**(1.8)**		(1.5)
Large corporations tax		**3.9**		3.7
Other, net		**0.6**		(1.0)
Income taxes (Effective rate: 1992 - 23.2 %; 1991 - 48.3%)	$	**9.2**	$	2.8

The Corporation's U.S. subsidiaries have approximately U.S. $15 million of tax losses available which can be applied, with certain restrictions, against future taxable income earned in the U.S. The benefit of these tax losses, which will expire between 2001 and 2003, has not been recorded.

5. Inventories

		1992		1991
Parts and supplies	$	**14.9**	$	15.9
Raw materials		**8.6**		6.5
Finished goods		**4.4**		7.5
Gas in storage		**3.4**		7.2
	$	**31.3**	$	37.1

6. Investments

	Percent Interest		1992		1991
All of the following investments are accounted for using the equity method.					
Corporations:					
AEC Power Ltd. (50% voting)	66.67	$	**31.4**	$	31.4
Chieftain International, Inc.	21.6		**39.2**		75.6
Pacific Coast Energy Corporation	50		**17.1**		15.9
Pan-Alberta Gas Ltd. (40% voting)	49.995		**9.5**		8.7
Pan-Alberta Resources Inc. (40% voting)	49.995		**6.6**		5.0
Partnerships:					
Cominco Fertilizers Partnership	25		**18.1**		16.2
Iroquois Gas Transmission System	6		**14.3**		10.7
Slave Lake Pulp Partnership	75		**58.0**		68.1
		$	**194.2**	$	231.6

Notes to Consolidated Financial Statements
(TABULAR AMOUNTS IN $ MILLIONS, UNLESS OTHERWISE INDICATED)

7. Property, Plant and Equipment

	1992			1991
	Cost	Accumulated depreciation, depletion and amortization	Net	Net
Oil and gas	$ 2,088.7	$ 825.1	$ 1,263.6	$ 1,306.8
Pipelines	359.3	144.8	214.5	228.4
Forest products	93.9	52.5	41.4	39.4
Other	144.8	87.4	57.4	112.7
	$ 2,686.7	$ 1,109.8	$ 1,576.9	$ 1,687.3

8. Deferred Charges and Other Assets

	1992	1991
Unrealized foreign exchange loss, net of amortization	$ 22.0	$ 2.2
Deferred pension assets	10.4	4.1
Investment tax credit	5.0	4.0
Other	1.3	10.1
	$ 38.7	$ 20.4

9. Long-Term Debt

	1992	1991
Canadian dollar debt:		
Revolving credit and term loan borrowings		
Term loans	$ 105.0	$ 10.0
Notes payable	58.4	83.6
First Mortgage Sinking Fund Bonds		
Series A, 9 5/8%, due June 1997	9.8	11.1
Series B, 9 3/4%, due June 1997	11.6	13.1
Mortgage, 11.75%, due September 2000	4.9	5.0
Unsecured debentures		
6.75% convertible subordinated	-	125.0
7.25% convertible subordinated	-	150.0
Other	-	2.6
U.S. dollar debt:		
Revolving credit and term loan borrowings		
Notes payable (U.S. $119.2 million; 1991 - U.S. $98.8 million)	151.5	114.1
U.S. swap agreement, due June 1996 (U.S. $87.6 million)	111.3	101.2
	452.5	615.7
Current portion of long-term debt	2.9	3.5
Unamortized portion of debt discount	-	2.6
	$ 449.6	$ 609.6

(a) Mandatory five-year debt repayments	The minimum annual repayments of long-term debt required over each of the next five years are as follows:

1993	-	$ 2.9
1994	-	2.9
1995	-	2.9
1996	-	114.2
1997	-	10.5

(b) Revolving credit and term loan borrowings

The Corporation has $375 million of revolving credit and term loan facilities available with three banks of which $136 million was unutilized at year-end. One facility is fully revolving for a 364 day period with provision for extensions at the option of the lender and upon notice from the Corporation. If not extended, the facility converts to a non-revolving reducing loan for a term of 6.5 years. The other two facilities are fully revolving for two year periods, with provisions for yearly extensions at the option of the lenders following notice from the Corporation. If not extended, the two facilities convert to revolving reducing facilities over seven years.

All three loan facilities are unsecured and are available in Canadian and/or U.S. dollar equivalent amounts and currently bear interest at the lenders' rates for Canadian prime commercial or U.S. base rate loans, or at Bankers' Acceptance rates or LIBOR plus applicable margins.

The Corporation also has a $75 million unsecured revolving credit facility which was fully utilized at year-end. This facility is fully revolving until 1998 and provides for an extension to 1999 and successive anniversaries thereafter, at the option of the lender following notice from the Corporation. If not extended, the facility is repayable in full on expiry of the term. The facility may be drawn in U.S. dollars to a maximum of U.S. $25 million. Amounts advanced under this facility bear interest at prime commercial lending rates minus 0.5% or at Bankers' Acceptance rates or LIBOR plus an applicable margin.

Alenco Inc., a subsidiary of the Corporation, has a U.S. $20 million unsecured revolving credit and term loan facility available of which U.S. $19 million was unutilized at year-end. This facility is guaranteed by the Corporation and is fully revolving until 1994 with provision for yearly extensions at the option of the lender upon 14 months' notice from Alenco Inc. If not extended, the facility converts to a revolving reducing facility to be repayable in full by the end of seven years.

Notes payable consist of U.S. and Canadian dollar Commercial Paper, LIBOR notes and Bankers' Acceptances maturing at various dates to June 18, 1993 with a weighted average interest rate of 5.59% (1991 - 6.49%). Notes payable shown as long-term debt represent amounts which are not expected to require the use of working capital during the year and are fully supported by the availability of term loans under the revolving credit facilities.

(c) First Mortgage Sinking Fund Bonds

Alberta Oil Sands Pipeline Ltd. ("AOSPL"), a subsidiary of the Corporation, 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 which at December 31, 1992 had a carrying value of $66.3 million. The participants in the Syncrude project, including the Corporation to the extent of 10%, are committed to provide funds for the repayment of these bonds.

(TABULAR AMOUNTS IN $ MILLIONS, UNLESS OTHERWISE INDICATED)

(d) Convertible debentures - 6.75% and 7.25%

Pursuant to an extraordinary resolution passed by debentureholders, all the convertible debentures aggregating $275 million of principal were exchanged, effective July 31, 1992, for an 8% promissory note representing $245 million for the principal amount plus accrued interest of $4.4 million to July 31, 1992. The promissory note was paid in full on August 31, 1992 from cash flow from operations and by utilizing existing credit and term loan facilities.

(e) U.S. swap agreement

The Corporation has entered into a U.S. dollar swap agreement which effectively converted Canadian $100 million unsecured debentures, which bear interest at 10.50%, into U.S. dollar debt of $87.6 million bearing interest at a rate set semi-annually. The average rate for 1992 was 4.68%.

10. Share Capital

Authorized

20,000,000	First Preferred Shares
20,000,000	Second Preferred Shares
20,000,000	Third Preferred Shares
300,000,000	Common Shares
5,000,000	Non-Voting Shares

	1992		1991	
	Number of Shares	Amount	Number of Shares	Amount
Issued and Outstanding				
Second Preferred Shares, Series 2				
7.75% Deferred Convertible Redeemable with a paid up amount of $25 per share	**2,999,700**	**$ 75.0**	2,999,700	$ 75.0
Common Shares				
Balance, beginning of year	**68,026,490**	**560.3**	66,785,038	544.8
Issued for Cash				
Shareholder Investment Plan	**1,214,888**	**14.7**	1,126,403	13.9
Employee Savings Plan	**95,533**	**1.2**	89,774	1.3
Employee Share Option Plan	**51,950**	**0.6**	25,275	0.3
Balance, end of year	**69,388,861**	**576.8**	68,026,490	560.3
		$ 651.8		$ 635.3

(a) Second Preferred Shares, Series 2

Subject to certain conditions, the shares are redeemable at the option of the Corporation at prices varying from $25.75 to $25.00 per share. Dividends relating to these shares are cumulative.

The Series 2 Preferred Shares are convertible, at the option of the holder, into 1.28 Common Shares until May 16, 1995.

(b) *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 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.

At December 31, 1992, employee share options, exercisable between 1993 and 1999, were outstanding to purchase 1,315,375 Common Shares at prices ranging from $9.79 to $18.38 per share.

(c) *Common Shares Reserved*

At December 31, 1992, a total of 8,077,689 Common Shares were reserved for issuance, primarily relating to conversion of Second Preferred Shares and to the Employee Share Option Plan and Shareholder Investment Plan.

(d) *Alberta Energy Company Act*

Pursuant to the Alberta Energy Company Act, aggregate beneficial ownership of voting shares in the Corporation by non-residents of Canada is limited to 10% and the maximum beneficial ownership of any one shareholder is limited to 5% of the total number of issued and outstanding voting shares of each class of the Corporation. The Government of Alberta is the only exception, and it can acquire or hold up to 50% of the total number of issued and outstanding voting shares of the Corporation.

11. Supplementary Information

(a) *Unincorporated joint ventures*

The Corporation has included in its accounts the following aggregate amounts in respect of major unincorporated joint ventures:

	1992	1991
Assets	**$ 360.5**	$ 418.2
Liabilities	**34.4**	39.6
Revenues, net of royalties	**208.5**	197.0
Expenses	**162.4**	156.6

(b) *Partnerships*

The Corporation accounts for partnerships using the equity method. Following are the aggregate amounts of the Corporation's interest in the partnerships:

	1992	1991
Assets	**$ 245.6**	$ 224.7
Liabilities	**155.8**	129.6
Revenues	**50.8**	26.2
Expenses	**60.8**	43.8

(c) *Capitalized general and administrative expenses*

General and administrative expenses capitalized to oil and gas properties during the year amounted to $6.5 million (1991 - $7.6 million).

(TABULAR AMOUNTS IN $ MILLIONS, UNLESS OTHERWISE INDICATED)

(d) Ceiling test prices

The prices used in the ceiling test evaluation of the Corporation's conventional reserves at December 31, 1992 were as follows:

Natural gas	$1.61 per million BTU
Oil and natural gas liquids	$16.66 per barrel

(e) Pension plans

At December 31, 1992, the market value of pension fund assets was $53.2 million (1991 - $35.9 million) and the accrued pension liability, as estimated by the Corporation's actuaries, was $38.0 million (1991 - $30.4 million).

(f) Related party transactions

During the year, the Corporation sold approximately $38.9 million (1991 - $36.3 million) of natural gas to affiliates at market prices of which $2.3 million (1991 - $2.8 million) is included in accounts receivable at year-end.

12. Segmented Information

	Oil and Gas		Pipelines		Forest Products		Other		Total	
	1992	1991	**1992**	1991	**1992**	1991	**1992**	1991	**1992**	1991
Revenues, net of royalties	**$ 342.9**	$ 300.7	**$ 84.2**	$ 85.7	**$ 82.9**	$ 68.7	**$ 57.5**	$ 62.5	**$ 567.5**	$ 517.6
Operating costs	**156.8**	150.0	**20.2**	19.1	**69.2**	65.7	**42.0**	49.2	**288.2**	284.0
Depreciation, depletion & amortization	**107.2**	99.3	**16.1**	17.2	**5.6**	6.0	**10.9**	11.3	**139.8**	133.8
Operating income (loss)	**78.9**	51.4	**47.9**	49.4	**8.1**	(3.0)	**4.6**	2.0	**139.5**	99.8
Equity earnings (loss)	**6.3**	3.2	**2.3**	3.4	**(14.1)**	(21.1)	**7.1**	6.6	**1.6**	(7.9)
Divisional income (loss)	**$ 85.2**	$ 54.6	**$ 50.2**	$ 52.8	**$ (6.0)**	$ (24.1)	**$ 11.7**	$ 8.6	**141.1**	91.9
Less:										
Corporate G&A									**20.6**	21.3
Corporate DD&A									**2.6**	4.1
Interest, net									**37.3**	49.9
Non-recurring items									**29.2**	-
Income taxes									**9.2**	2.8
Net earnings									**$ 42.2**	$ 13.8
Identifiable assets	**$1,384.4**	$1,455.1	**$ 255.4**	$ 271.8	**$ 120.3**	$ 124.2	**$ 172.8**	$ 212.0	**$1,932.9**	$2,063.1
Additions to property, plant & equipment and investments	**$ 75.7**	$ 113.5	**$ 4.4**	$ 6.2	**$ 11.6**	$ 38.2	**$ 11.0**	$ 8.9	**$ 102.7**	$ 166.8

Historical Review
Unaudited

Financial ($ millions)	1992	1991	1990	1989	1988
Earnings before extraordinary items	$ **42.2**	$ 13.8	$ 53.6	$ 37.3	$ 36.1
Net earnings	**42.2**	13.8	53.6	37.3	51.4
Cash flow from operations	**225.3**	165.8	205.5	187.1	196.2
Revenues, net of royalties	**567.5**	517.6	562.5	505.9	477.2
Property, plant and equipment	**1,576.9**	1,687.3	1,704.2	1,683.5	1,726.6
Long-term debt	**449.6**	609.6	595.9	538.2	597.8
Share capital	**651.8**	635.3	619.8	605.8	494.5
Total assets	**1,932.9**	2,063.1	2,082.2	2,003.4	1,931.3
Per Share Data					
Earnings before extraordinary items	$ **0.53**	$ 0.12	$ 0.72	$ 0.52	$ 0.52
Net earnings	**0.53**	0.12	0.72	0.52	0.79
Cash flow from operations - Basic	**3.19**	2.37	3.01	2.99	3.24
- Fully Diluted	**3.06**	2.23	2.75	2.71	2.90
Common shareholders' equity	**11.99**	11.74	11.94	11.49	10.68
Common dividend	**0.35**	0.33	0.33	0.33	0.30
Shares					
Registered shareholders	**41,751**	42,699	43,920	45,326	45,339
Common Shares outstanding	**69,388,861**	68,026,490	66,785,038	65,849,537	59,773,585
Total volume of Common Shares traded	**16,600,250**	15,767,013	17,424,979	17,275,199	12,014,918
Common Share price range *(TSE)*					
High	$ **17.00**	$ 16.88	$ 20.25	$ 22.75	$ 19.50
Low	**9.75**	11.50	15.50	15.63	13.63
Close	**16.25**	12.50	16.88	19.88	15.75
Operating Data					
Gas sales *(billion cubic feet)*	**138.0**	116.4	101.5	99.3	102.3
Produced gas	**109.8**	99.6	99.3	99.3	102.3
Purchased gas - Long-term	**18.7**	11.3	2.2	-	-
- Short-term	**9.5**	5.5	-	-	-
Synthetic oil sales *(million barrels)*	**6.5**	6.0	5.7	5.4	5.5
Conventional oil sales *(million barrels)*	**2.5**	2.0	2.2	2.1	2.2
Natural gas liquid sales *(million barrels)*	**0.4**	0.4	0.3	0.2	0.2
Lumber sales *(million board feet)*	**217**	209	196	201	173
Medium density fibreboard sales *(million square measure)*	**59**	60	59	63	55
Pulp sales *(thousand air dried tonnes)*	**82**	29	-	-	-
Nitrogen fertilizer sales *(thousand tonnes)*	**393**	345	355	349	292
Coal sales *(thousand tons)*	**503**	542	544	548	544
Pipeline throughput - all systems *(million barrels)*	**175.1**	171.4	173.6	166.8	173.0

Resources
1992 YEAR-END

Reserves	Proven	Probable	Total	Life*
Natural gas *(billion cubic feet)*	1,461	279	1,740	16
Crude oil and NGLs *(million barrels)*	16.9	8.4	25.3	9
Synthetic oil *(million barrels)*	186	-	186	29

* Remaining years based on 1992 production rates

Net Primrose heavy oil in place .... 25 billion barrels
Net petroleum and natural gas rights .... 3.3 million acres
Net timberlands .... 1.8 million acres
Pipelines *(in 7 pipelines)* .... 2,189 miles

Directors and Officers

Board of Directors

Mathew M. Baldwin
President
Embee Consulting Ltd
Edmonton, Alberta

Richard F. Haskayne
Chairman of the Board
NOVA Corporation of Alberta
Calgary, Alberta

Hon. Donald S. Macdonald, P.C.
Counsel
McCarthy Tétrault
Barristers and Solicitors
Toronto, Ontario

John E. Maybin
Corporate Director
Calgary, Alberta

Stanley A. Milner
President & CEO
Chieftain International, Inc.
Edmonton, Alberta

David E. Mitchell, O.C.
President & CEO
Alberta Energy Company Ltd
Calgary, Alberta

Raymond J. Nelson
President
Nelson Lumber Company Ltd
Lloydminster, Alberta

Valerie A. A. Nielsen
Oil & Gas Consultant
Calgary, Alberta

J. Harry Tims
President & General Manager
McTavish McKay & Company Limited
Calgary, Alberta

H. Richard Whittall
Corporate Director
Vancouver, British Columbia

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

Hector J. McFadyen
Vice-President

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

Derek S. Bwint
Treasurer

David W. Richardson
Assistant Treasurer

Barry D. Gilchrist
Corporate Secretary

Brian C. Ferguson
Secretary to the Board and
Assistant Corporate Secretary

Keith O. Fowler
Director, Tax & Risk Management

Robert A. Towler
Director, Petrochemicals

Wayne G. Holt
General Counsel

Ronald H. Westcott
Comptroller

Drude Rimell
Director, Computer Services

Richard H. Wilson
Director, Public Affairs

Principal Officers of Divisions

AEC Oil and Gas

Gwyn Morgan
President

Roger D. Dunn
Senior Vice-President

Dennis W. Cornelson
Vice-President, Marketing

Allan E. Kiernan
Vice-President, Production

R. William Oliver
Vice-President

AEC Pipelines

Frank W. Proto
President

Bernie J. Bradley
Senior Vice-President

Wallace W. Scott
Vice-President, Engineering

John D. Watson
Vice-President, Finance

AEC Forest Products

Hector J. McFadyen
President

Richard E. Huff
Vice-President

John D. Watson
Vice-President, Finance

Corporate Information

Offices

Executive Office
#2400, 639 - 5 Avenue S.W.
Calgary, Alberta T2P 0M9
(403) 266-8111

After May 1, 1993
#3900, 421 - 7 Avenue S.W.
Calgary, Alberta T2P 4K9
(403) 266-8111

Registered Office
#1200, 10707 - 100 Avenue
Edmonton, Alberta T5J 3M1
(403) 423-8333

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

The R-M Trust Company
Calgary, Vancouver, Regina, Winnipeg, Toronto, Montreal, Halifax

Transfer Agent, Registrar and Trustee
(10.50% Debentures)

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

Auditors

Price Waterhouse
Chartered Accountants
Edmonton, Alberta

Major Subsidiaries, Affiliates and Partnerships

AEC Power Ltd. (50% voting)	[illegible]
Alberta Oil Sands Pipeline Ltd.	100%
Alenco Inc.	100%
Alenco Iroquois Pipelines Inc.	100%
Alenco Petrochemicals Inc.	100%
Alenco Pipelines Inc.	100%
Alenco Resources Inc.	100%
Blue Ridge Lumber (1981) Ltd.	100%
Chieftain International, Inc.	21[illegible]
Cominco Fertilizers Partnership	25%
Iroquois Gas Transmission System, L.P.	6%
Pacific Coast Energy Corporation	50%
Pan-Alberta Gas Ltd. (40% voting)	49.9%
Pan-Alberta Resources Inc. (40% voting)	49.9%
Ranger Forest Products Ltd.	100%
Slave Lake Pulp Partnership	75%

Major Joint Ventures

Ethane Gathering System	33.3%
Nitrogen Fertilizer	25%
Syncrude	10%

Annual Meeting

The Annual Meeting of Shareholders of Alberta Energy Company Ltd. will be held in the Britannia and Bel-Aire rooms, Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta, at 3:00 p.m. local time on Wednesday, April 14, 1993.

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