1994 ANNUAL REPORT

AEC

Alberta Energy Company Ltd.

Corporate Profile

ALBERTA ENERGY COMPANY LTD. IS ONE OF THE 10 LARGEST OIL AND GAS COMPANIES IN CANADA, WITH MORE THAN 40,000 SHAREHOLDERS AND A YEAR-END STOCK MARKET VALUE IN EXCESS OF $1.3 BILLION. ABOUT 90 PERCENT OF THE COMPANY'S ASSETS ARE IN OIL AND GAS EXPLORATION, PRODUCTION, MARKETING, STORAGE AND PIPELINE TRANSPORTATION.

▼ AEC's technical expertise, combined with use of state-of-the-art fracture stimulation equipment, enabled the Company to successfully complete a new gas well near Grande Prairie. Cam Fehr, Geologist (right) consults with Joe Serio, a completions engineer assigned to AEC by the service contractor.

AEC

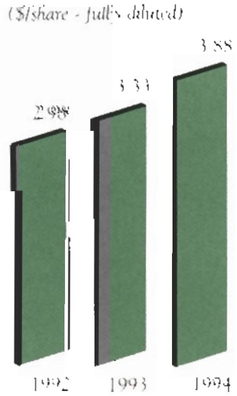
1994 Financial and Operating Highlights

highlights

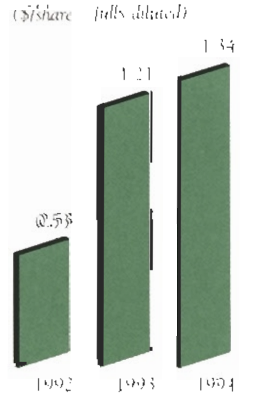
Financial	1994	1993	1992*	Annual Compound Growth Rate
Cash Flow from Operations *($ millions)*	294.8	251.4	219.9	16%
Per Share *($)* - Basic	4.07	3.52	3.11	14%
- Fully Diluted	3.88	3.33	2.98	14%
Net Earnings *($ millions)*	100.5	91.6	42.2	54%
Per Share *($)* - Basic	1.36	1.23	0.53	60%
- Fully Diluted	1.34	1.21	0.53	59%
Total Capital Investment *($ millions)*	371.7	261.6	99.9	93%
Year-End Long-Term Debt *($ millions)*	561.8	528.2	546.0	N/A
Debt-to-Equity Ratio				
- Corporate	35:65	35:65	38:62	N/A
- Oil and Gas	21:79	21:79	26:74	N/A
- Transportation, Storage and Processing	64:36	64:36	63:37	N/A
Debt-to-Cash Flow Ratio *(times)*				
- Oil and Gas	1.2	1.2	1.7	N/A
Average Interest Cost *(%)*	5.9	5.0	6.1	N/A
Return on Equity *(%)*	10.1	9.9	4.5	50%
Return on Capital *(%)*	6.8	5.5	3.4	41%
Operating				
Produced Natural Gas Sales *(MMcf/d)*	345	332	300	7%
Conventional Oil & Natural Gas Liquids Sales *(b/d)*	10,538	8,923	7,889	16%
Syncrude Sales *(b/d)*	26,282	22,118	17,870	21%
Gas Price *($/MMBtu)*	1.88	1.76	1.38	17%
Conventional Oil and Natural Gas Liquids Price *($/bbl)*	17.79	15.91	16.61	4%
Syncrude Price *($/bbl)*	21.76	20.97	22.79	-2%
Conventional Reserve Additions *(BCFE, 10:1)*	382	241	168	51%

* *Restated - See Note 2, Page 39*

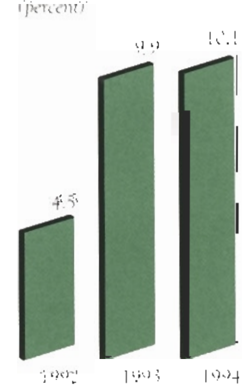
Cash Flow Per Share
($/share - fully diluted)



Earnings Per Share
($/share - fully diluted)



Return on Equity
(percent)



A list of abbreviations appears on the inside back cover.

AEC

results

Performance

- Earnings and cash flow from operations per share, fully diluted, were up by 11 percent and 17 percent, respectively, over 1993.
- AEC's long- and short-term debt ratings were reaffirmed at "A" and "A-1," with an even more positive outlook due to the Company's favourable financial performance.

Focus

- AEC now is focussed on core oil and gas activities.
- The Company intends to proceed with ownership restructuring of its forest products assets in 1995.
- The Company sold its interests in Chieftain International, Inc. and Pan-Alberta Gas Ltd. for total net proceeds of $65 million.

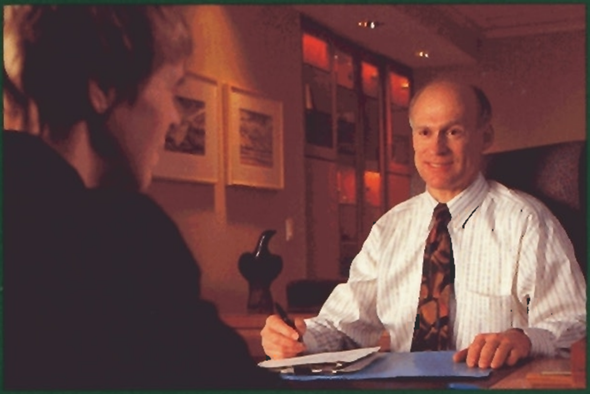
Growth

- Combined drilling and acquisitions achieved a 235 percent conventional reserves replacement.
- A new production centre was established in the Boyer area of northwestern Alberta.
- The 1994 capital investment program totalled $372 million, a 42 percent increase over 1993.
- Record sales were achieved for produced natural gas (345 MMcfd) and oil and natural gas liquids (36,820 b/d).
- The AECO C HUB™ gas storage facility was expanded to a withdrawal capacity of 1.6 BCFD and total working storage of 70 BCF.
- AEC purchased a 100 percent interest in a producing oil and gas property which increased landholdings in Argentina to 377,381 net acres.

Liquidity

- The Government of Alberta completed the divestiture of its AEC holdings in May.
- Following conversion of its outstanding Preferred Shares, AEC's Common Shares outstanding totalled 74.5 million and year-end stock market capitalization exceeded $1.3 billion.

To Our Shareholders



Gwyn Morgan has just completed his first year as President and Chief Executive Officer. With Gwyn is Executive Assistant Judy Mickelson.

Increasing the return to shareholders is Alberta Energy Company's primary objective. In 1994, AEC built on the record operational and financial results of 1993. AEC's new management team completed the execution of the Company's strategy of focussing on core oil and gas investments.

The AEC Distinction

AEC truly is an exceptional company. The Company has competitive advantages that make it stand out among other companies in the Canadian oil and gas industry. Key to current and future success are the following AEC distinguishing characteristics:

- Exploration success
- Reserve base integrity
- Production growth
- Gas marketing innovation
- Solid non-commodity-based income
- Performance credibility

Exploration Success

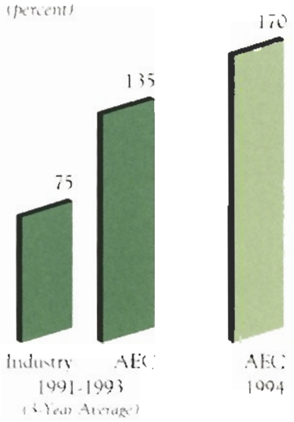
Throughout the recent era of asset trading in the oil and gas industry, AEC's exploration and development teams sustained their successful track record for adding reserves "through the drill bit" at attractive economic returns. Our teams' technical expertise and experience are supported by one million net acres of well-positioned exploration lands.

Through a combination of exploration and acquisition, AEC's natural gas production replacement during 1994 was 170 percent, while conventional oil production replacement was 450 percent. It is clear from the graphs on page 4 that AEC outperformed the competition in terms of this key benchmark.

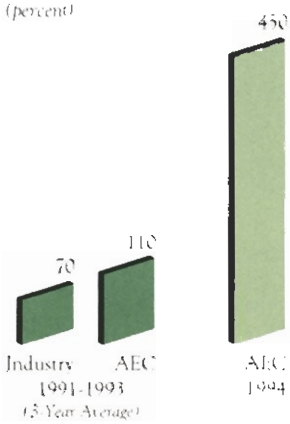
As well, we sustained a competitive finding and development cost, averaging $0.68 per thousand cubic feet equivalent over the 1992-94 period. This year, our finding and development cost increased marginally, as the entire industry incurred higher land, drilling, and seismic costs due to extremely high levels of activity.

One of AEC's exploration highlights in 1994 was our 100-percent-owned light oil discovery in the Ogston area of the East

Gas Production Replacement



Conventional Oil Production Replacement



Peace River Arch. Independent consultants McDaniel & Associates Consultants Ltd. have assigned 8 million barrels to this pool. This represents an increase equalling almost one-third of our 1993 conventional oil reserve base. Ogston-area production is expected to grow to 2,500 barrels per day during 1995, with further potential for growth.

Reserve Base Integrity

AEC has 1.9 trillion cubic feet of natural gas reserves with a 15-year proven and probable reserve life at current production levels. On a combined Syncrude and conventional oil basis, AEC's reserves total 310 million barrels, with a 23-year life at estimated 1995 production levels. The Company's conventional reserves have exceptionally high integrity in that they are independently and conservatively evaluated by McDaniel & Associates.

Production Growth

AEC's oil and gas production has grown steadily over the past three years, with records set in 1994. In concert with growing production, we have maintained the lowest operating costs and the highest unit net backs among the senior oil and gas producers. Large, focussed production centres combined with very high working interests, 90 percent for natural gas and 70 percent for conventional oil, are major reasons for this excellent cost performance.

During 1994, growth in natural gas production exceeded growth in sales. Our production and sales optimization strategy, which entails use of our own gas storage facility, has given AEC a unique ability to match its production to gas market conditions.

Gas Marketing Innovation

The Company is a recognized leader in the rapidly changing gas marketing business. The AECO C HUB™, Canada's dominant hub and market centre, is anchored by AEC's gas storage facility which underwent another major expansion during 1994. In addition to allowing AEC to store its own production when prices weaken, the storage facility also allows AEC to buy spot gas when the price is low for resale at higher prices.

This gas marketing strength is important to our success not only in periods of higher prices, such as during most of 1994, but also in times of price weakness. Late in 1994, gas markets deteriorated. The unusually mild winter throughout North America, combined with an Alberta deliverability surplus resulting from a 500 percent increase in gas wells drilled since 1992, led to weakened gas prices. Funded largely through equity capital raised by smaller companies, the increased drilling was focussed on accelerating gas production in western Canada. In spite of this increased drilling, current National Energy Board data indicates that natural gas reserves have continued to decline since 1990. This surge in natural gas deliverability, therefore, will likely be short-lived.

AEC's response to these temporarily lower 1995 gas prices will be, first, to reduce sales and optimize production using our storage capability and, second, to defer development of some natural gas reserves. Gas will be sold into AEC's diversified U.S. and Canadian markets where we hold gas purchase and transportation contracts. Since the Alberta spot market is particularly weak, AEC will be a net buyer rather than seller in that market.

Solid Non-Commodity-Based Income

AEC has over $400 million invested in highly profitable oil and gas transportation, storage and processing assets. These non-commodity-based, cost-of-service type of investments will generate more than $90 million of 1995 operating cash flow regardless of the price of oil or gas, giving AEC unique financial strength compared with its competitors.

Performance Credibility

AEC met its 1994 production commitments to shareholders. Sales of both natural gas and oil were right on target at 345 million cubic feet per day and 36.8 thousand barrels per day, respectively. We do not include potential exploration successes in our production outlook; our estimates are based solely on the development of existing reserves. Exploration results provide future upside.

Major Operating Accomplishments

Shareholders can see by our Highlights and Results on pages 1 and 2, as well as in the information throughout the report, that the Company has achieved a great deal during the past year. AEC people at all levels and locations can be justifiably proud of these results.

Financial Strength

AEC's key goal is to improve returns to the shareholder. While our share price declined in the fourth quarter of 1994 due to overall stock market malaise and falling gas prices, the stock outperformed the TSE Oil and Gas Producers Index by 7 percent during 1994. Since the beginning of 1992, AEC stock has gained over 40 percent and has consistently outperformed the Canadian producers index.

In terms of basic financial performance indicators, such as return on equity, AEC's performance is among the best in the Canadian oil and gas industry. In 1994, return on equity was over 10 percent. Earnings per share increased by 11 percent, while fully diluted cash flow per share rose by 17 percent. Our investment strategies are based on maximizing the full-cycle value and returns from our investments. As well, AEC is one of the few oil and gas companies which pays a dividend, which in 1994 was increased to $0.40 per share.

AEC has a very healthy balance sheet, which will be further strengthened when the Company completes the restructuring of its forest products assets.

With ownership restructuring of forest products, AEC will have completed its strategy of focussing on its two core business groups — oil and gas exploration, production and marketing; and oil and gas transportation, storage and processing. We have the financial and operational strength to continue to build these core businesses.

In order to further assist investors in evaluating AEC's oil and gas business, this report contains detailed segmented financial and operating disclosure for these two core business groups.

Employees

AEC employees continued to show creativity, skill and resourcefulness in their unique and very important contributions to the Company's success in 1994. One of the keys to continuing Company success will be to ensure that these employees are strong leaders, have excellent technical skills and are focussed on results.

AEC has implemented a new strategy, AEC LEAD, to facilitate creation of a corporate environment in which employees will continue to enhance their technical and

AEC VALUES

The following values, developed by AEC employees, have been integral to the growth and success of the Company since its inception:

Shareholder value

Decisions must be tested against their ability to add value for shareholders. The Company succeeds by creating more shareholder value than its competitors.

Entrepreneurship

Employees must be increasingly innovative, fast-moving, and focussed on action and results. Decision making must be at the level where there is the most knowledge, employees must have the authority to act, and new ideas must be encouraged.

Integrity

Employees must conduct their business activities honestly and with respect for their customers, partners, suppliers and each other. The Company fulfills its commitments.

Open communication

Employees must foster direct and concise communication with customers, business partners and each other. Direct access to data ensures fewer intermediaries and speedier decision making.

Employee development

Growth and development of expertise is the responsibility of each employee. AEC will grow through the development of increased technical depth and strong leadership and business skills at all levels.

business leadership skills in the highly competitive and changing world of the nineties. AEC also is implementing other new programs such as results-based compensation, which ties employees' financial rewards to both corporate and individual results. All employees have a shareholder stake in the Company. Listed above are the values which we feel are essential to AEC's continuing success.

Significant Future Opportunities

AEC's strategic plan identifies very substantial growth investment opportunities which will result in further profitable progress for our Company. AEC's forecast capital expenditure program for 1995 includes approximately $140 million directed toward conventional exploration and development. Approximately two-thirds of that amount will be dedicated to natural gas exploration and development with the balance invested in conventional oil. In addition, about $25 million will be invested in Syncrude. The Company also will actively seek opportunities to expand its reserve base through acquisitions. About $25 million will be dedicated to higher-potential plays in Argentina. In addition, opportunities will be sought to increase pipeline assets.

AEC's strategic advantages in the oil and gas business, its solid non-commodity-based cash flow, and its healthy balance sheet put the Company in a position to sustain strong results for shareholders.

Gwyn Morgan
President and Chief Executive Officer

February 15, 1995

AEC had a significant light oil discovery in the Ogston area.
C Vice-President Bill Oliver (right) leads the exploration and
roduction team, which includes Guy James, Oil and Gas Vice-
resident, Exploration (left) and David Pyke, Land Manager.

▼ The latest technology is used to offset technical risk and optimize existing reservoirs. President Gwyn Morgan (centre) is briefed by two members of the West Peace River Arch reserves additions team, Andy Mah, Staff Geophysicist (left) and Mike Doherty, Staff Engineer.

exploration

Operational Review

EXPLORATION AND PRODUCTION

THE AEC DISTINCTION

- Substantial high-quality reserves
  Gas: 15-year life
  Conventional oil and NGLs: 11-year life
- High net backs
- Conventional reserves replacement of 235 percent
- Solid production growth
- Large exploration land base

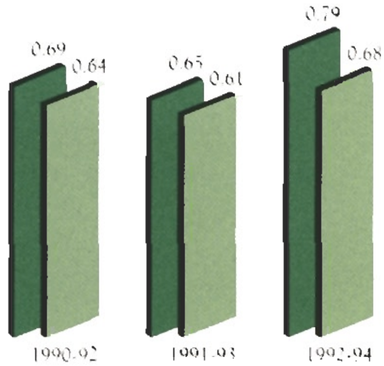
Income Statement *Unaudited ($ millions)*	Gas and NGLs 1994	1993	1992	Conventional Oil 1994	1993	1992	Syncrude 1994	1993	1992	Total Exploration and Production 1994	1993	1992
Revenue	**245.4**	231.8	157.6	**61.2**	46.2	43.0	**214.1**	174.6	157.8	**520.7**	452.6	358.4
Royalties	**33.4**	30.7	17.7	**8.9**	5.9	6.4	**9.8**	5.1	–	**52.1**	41.7	24.1
Net Revenue	**212.0**	201.1	139.9	**52.3**	40.3	36.6	**204.3**	169.5	157.8	**468.6**	410.9	334.3
Operating Costs	**34.5**	29.4	26.9	**13.2**	11.9	11.6	**142.2**	126.9	101.4	**189.9**	168.2	139.9
Operating G & A	**21.9**	18.2	14.2	**5.5**	5.0	3.8	–	–	–	**27.4**	23.2	18.0
Operating Cash Flow	**155.6**	153.5	98.8	**33.6**	23.4	21.2	**62.1**	42.6	56.4	**251.3**	219.5	176.4
Depreciation, Depletion and Amortization	**93.6**	86.5	79.8	**14.4**	11.7	13.1	**14.9**	13.4	12.4	**122.9**	111.6	105.3
Future Site Restoration and Other	**1.8**	1.8	1.4	**0.3**	0.3	0.5	**1.0**	0.6	(0.1)	**3.1**	2.7	1.8
Operating Income	**60.2**	65.2	17.6	**18.9**	11.4	7.6	**46.2**	28.6	44.1	**125.3**	105.2	69.3
Equity Earnings	–	3.2	2.6	–	–	–	–	–	–	–	3.2	2.6
Divisional Income	**60.2**	68.4	20.2	**18.9**	11.4	7.6	**46.2**	28.6	44.1	**125.3**	108.4	71.9

Balance Sheet *Unaudited ($ millions)*	Oil and Gas 1994	1993		Oil and Gas 1994	1993
Assets			**Liabilities**		
Current Assets	**154.3**	170.3	Current Liabilities	**155.3**	154.0
Investments	–	49.8	Long-Term Debt	**232.8**	223.8
Capital Assets	**1,489.1**	1,343.4	Other Liabilities	**43.3**	38.6
Deferred Charges and Other Assets	**13.7**	28.9	Deferred Income Taxes	**363.1**	369.6
			Capital Employed	**862.6**	806.4
	1,657.1	1,592.4		**1,657.1**	1,592.4

Debt-to-Cash Flow Ratio *(times)*	1994	1993	1992	1991	1990
Oil and Gas	**1.2**	1.2	1.7	3.8	2.6

Finding and Development Costs Three-Year Average

($/thousand cubic feet of gas equivalent)



($/barrel of oil equivalent)	1990-92	1991-93	1992-94
6:1	4.15	3.90	4.75
10:1	6.40	6.10	6.80

6:1

10:1

Strategy

- Replace annual production through the drilling program
- Grow the reserves base through acquisitions
- Explore in the East and West Peace River Arch areas and exploit in the East Central, Suffield and Boyer areas of Alberta
- Direct two-thirds of capital to natural gas activities and one-third to oil
- Remain an industry leader in sustaining low operating costs and product net backs
- Use multi-discipline teams to find new pools and develop existing properties
- Maintain solid, steady production growth
- Dedicate 25 percent of technical staff to development of large exploration plays outside the Company's core areas
- Maintain one million net acres of undeveloped land to support the drilling program
- Employ the latest technology to offset technical risk and optimize existing reservoirs

Major Accomplishments

Using this strategy, AEC had the following major achievements during the past year:

- More than doubled combined conventional oil and gas equivalent proven plus probable reserves replacement through a combination of drilling and reserve acquisition
- Held three-year finding and development costs to an 11 percent increase, despite higher industry land and service costs
- Achieved record produced gas sales averaging 345 MMcfd compared with 332 MMcfd in 1993
- Achieved record western Canadian conventional liquids production of 10,278 b/d, up from 8,923 b/d in 1993
- Increased light oil component of total conventional liquids production to 58 percent from 49 percent
- Drilled 106 net successful wells for a success rate of 77 percent
- Invested record capital of $237 million in conventional oil and gas projects
- Held produced gas operating expenses to $0.27/Mcf compared with $0.24/Mcf in 1993, among the lowest in the industry
- Decreased conventional oil operating expenses to $3.87 from $4.06/bbl

Reserves Reconciliation *(Western Canada)*	Natural Gas *(billion cubic feet)*			Conventional Oil and Natural Gas Liquids *(million barrels)*			Syncrude *(million barrels)*
	Proven	Probable	Total	Proven	Probable	Total	Proven
1992							
Balance at December 31, 1991	1,485	254	1,739	14.2	8.2	22.4	193
Revisions of Established Pools	35	4	39	2.2	(0.9)	1.3	–
Discoveries and Extensions	23	8	31	2.3	(0.4)	1.9	–
Acquisition of Reserves - Net	28	13	41	1.1	1.5	2.6	–
Production	(110)	–	(110)	(2.9)	–	(2.9)	(7)
Balance at December 31, 1992	1,461	279	1,740	16.9	8.4	25.3	186
1993							
Revisions of Established Pools	1	(1)	–	(0.7)	(0.5)	(1.2)	–
Discoveries and Extensions	73	12	85	4.9	0.8	5.7	–
Acquisition of Reserves - Net	68	31	99	1.0	0.2	1.2	69
Production	(121)	–	(121)	(3.3)	–	(3.3)	(9)
Balance at December 31, 1993	1,482	321	1,803	18.8	8.9	27.7	246
1994							
Revisions of Established Pools	18	(4)	14	3.5	2.5	6.0	33
Discoveries and Extensions	75	19	94	8.5	4.1	12.6	–
Acquisition of Reserves - Net	73	33	106	(1.0)	(0.7)	(1.7)	–
Production	(126)	–	(126)	(3.8)	–	(3.8)	(10)
Balance at December 31, 1994	**1,522**	**369**	**1,891**	**26.0**	**14.8**	**40.8**	**269**

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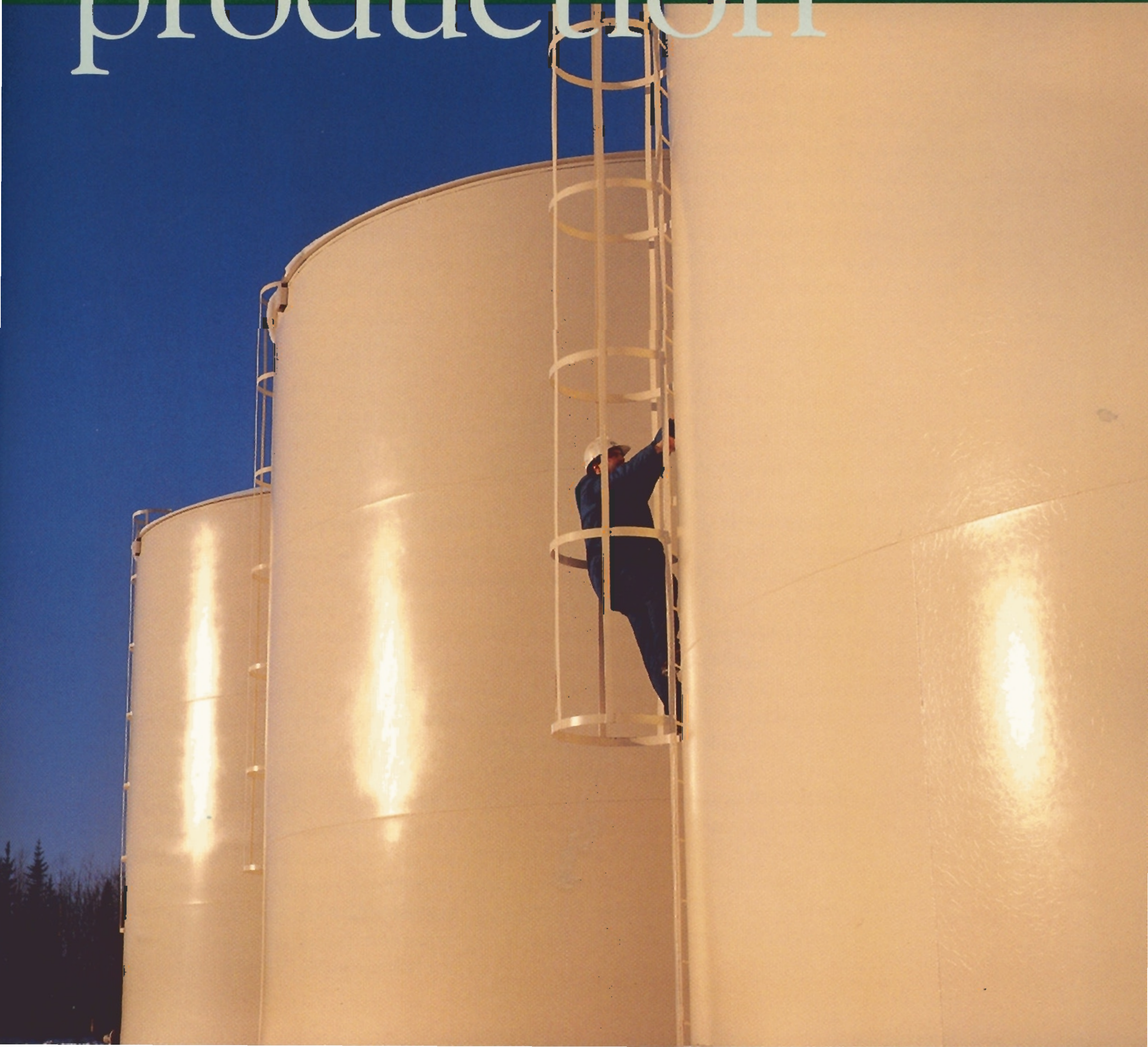
Landholdings *(thousand acres)*	Total		Undeveloped		Developed	
	Gross	Net	Gross	Net	Gross	Net
Alberta	4,029	3,195	972	794	3,057	2,401
Saskatchewan	92	25	45	24	47	1
British Columbia	287	198	203	158	84	40
Western Canada	4,408	3,418	1,220	976	3,188	2,442
Beaufort	452	12	452	12	–	–
Argentina	377	377	376	376	1	1
Total	**5,237**	**3,807**	**2,048**	**1,364**	**3,189**	**2,443**

Wells Drilled *(Western Canada)*	1994		1993		1992	
	Gross	Net	Gross	Net	Gross	Net
Exploration						
Gas	21	12	30	20	17	5
Oil	10	8	18	11	5	2
Cased	10	7	3	3	1	–
Dry and Abandoned	30	18	26	15	13	8
Total	71	45	77	49	36	15
Success Rate *(percent)*	58	60	66	69	64	47
Development						
Gas	65	50	39	38	6	5
Oil	38	22	31	18	22	9
Cased	9	7	1	1	–	–
Dry and Abandoned	19	14	5	2	1	–
Total	131	93	76	59	29	14
Success Rate *(percent)*	85	85	93	97	97	100
Depth						
Shallow *(less than 2,000 feet)*	52	37	20	19	13	4
Medium *(2,000-9,000 feet)*	142	94	130	87	50	24
Deep *(more than 9,000 feet)*	8	7	3	2	2	1

▶ A new natural gas plant came onstream in the Bigstone area. Al Kiernan, Oil and Gas Senior Vice-President Production (2nd from right), leads the oil and gas production team, which includes (from left) Alan Drew-Brook, Manager Edmonton District; Don Harfield, Chief Facilities Engineer, and Alex Braun, Manager Petroleum Engineering.

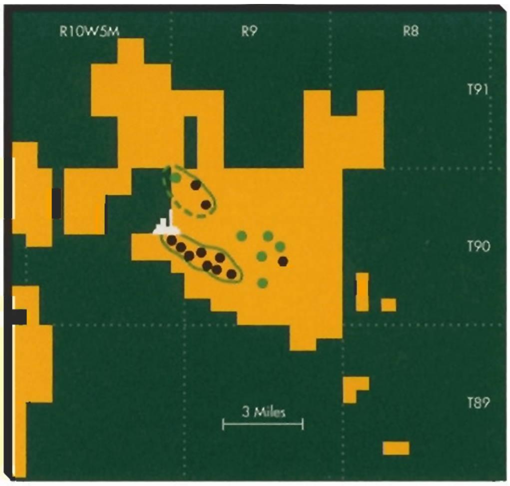
▼ A new light oil battery will be onstream at Ogston in the first quarter 1995 to accommodate growing production. Shown is Ogston area Operator Vaughn Veillet.

production

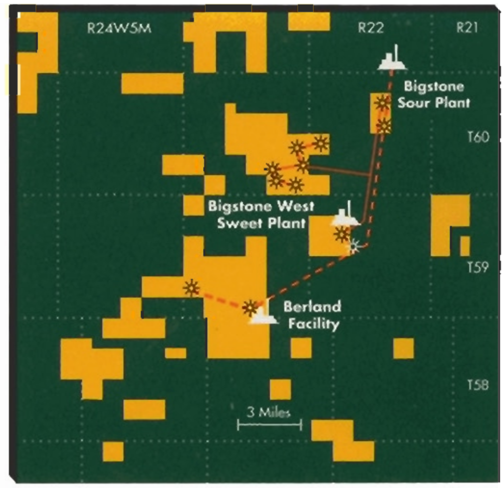


AEC Interest Land
Pool
1995 Oil Well Location
Oil Well
Gas Well
Processing Facility
Sour Pipeline
Sweet Pipeline

Ogston



Bigstone/Berlond River



Growth Opportunities

To meet 1995 production targets, AEC will focus on the following exploration and production objectives:

- Drill 150 gross (130 net) wells
- Tie in and continue infill drilling in the Primrose and Boyer areas
- Benefit from a full year's production at the Bigstone natural gas and liquids recovery plant
- Benefit from a full year's production at Ogston
- Further exploit the existing Ogston land base

The Company will continue to seek opportunities for acquisitions to expand the reserves base.

Major Exploration and Production Regions

East Peace River Arch (EPRA)

The significance of the Ogston play was confirmed in 1994. Ogston currently is producing 1,630 b/d, with further production increases expected. In 1994, McDaniel & Associates assigned 7.2 million barrels of light oil reserves to the initial pool in addition to the 1 million barrels previously assigned.

Production from the Ogston play is from the Granite Wash zone at a 5,000-foot depth. A new oil battery is expected to be onstream during the first quarter of 1995, allowing year-round production at operating costs of less than $3/bbl. A total of 8 wells are tied in to the Ogston battery. The battery will be connected to the Wabasca River Pipeline, of which AEC owns 19 percent.

Plans for 1995 are to further explore AEC's 40,640 net acres of 100 percent-owned Ogston lands. Another 3-D seismic program will be completed and 6 Granite Wash wells are planned for this winter.

The EPRA is AEC's major conventional light oil exploration area. Over the years 1993 through 1995 production will have grown from 2,362 b/d to an expected 4,200 b/d. McDaniel & Associates has assigned 15 million barrels of proven and probable AEC reserves to the EPRA.

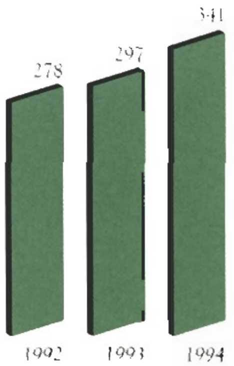
West Peace River Arch (WPRA)

The new 34-percent AEC-owned Bigstone West gas plant came onstream in December 1994. The ten 100-percent AEC-owned wells connected to the plant have an initial production capability of 20 MMcfd of gas and 800 b/d of natural gas liquids. This field was placed on production within 20 months of the initial discovery. AEC continues to evaluate Cretaceous, Triassic and Devonian prospects on its 39,360 net acres of undeveloped land in the Bigstone/Berland River area. The potential value of this gas is enhanced by the Company's access to the area's processing capacity for both sweet and sour gas.

In the Hythe field, 4 new Halfway wells added production of 6 MMcfd, bringing total Hythe field production to 32 MMcfd. Through two large farm-ins AEC doubled its land base in the area without incurring high land sale costs. AEC continues to explore for Halfway gas on both sides of the Alberta/British Columbia border.

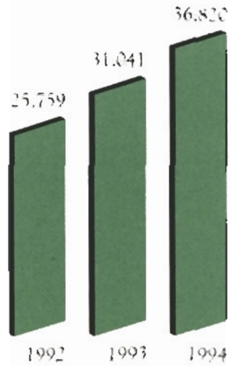
Natural Gas Production

(million cubic feet per day)



Oil and NGL Production

(barrels per day)



In Valhalla, a 10-well drilling program achieved a 70 percent success rate, resulting in 5 net oil wells and 27 BCFE of proven and probable gas, light oil and liquids reserves. Production from these new wells will increase when gas conservation facilities are operational in mid-1995.

Total natural gas production from AEC's properties in the WPRA is forecast to grow from 56 MMcfd in 1993 to 95 MMcfd in 1995, while oil and liquids production will have grown from 1,701 b/d to an expected 2,600 b/d. The WPRA is an important region for continuing exploration because of its multi-zone, liquids-rich gas potential, as well as the Company's extensive landholdings and existing infrastructure which facilitate rapid development and low operating costs.

East Central Alberta

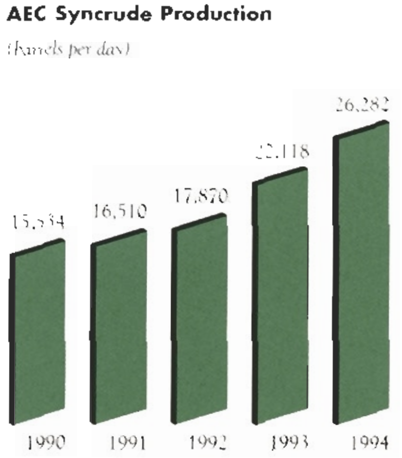
Natural gas production from East Central Alberta is expected to double from 58 MMcfd in 1993 to 115 MMcfd in 1995. The growth has resulted primarily from the December 1993 start-up of the 55 MMcfd Caribou Lake plant on the Primrose Range. The cost efficiencies associated with the Company having two large central natural gas compression facilities on the Range resulted in average operating costs of only $0.11/Mcf. Three horizontal gas wells were drilled at Primrose during 1994, which proved the applicability of the technology to shallow gas development.

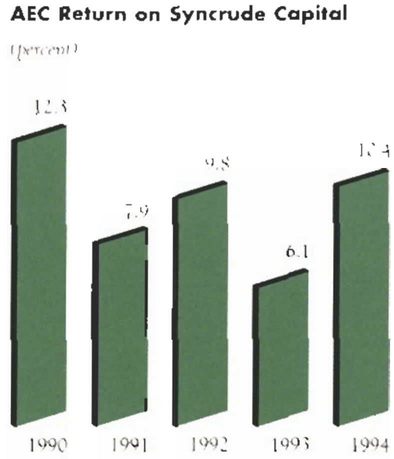
Outside the Range, AEC maintained an active 1994 exploration program. A 20-well drilling program had a 90 percent success rate, resulting in 18 net wells and the addition of 12 BCFE of proven and probable reserves.

East Central Alberta has both development and exploration potential, with the main target being shallow, multi-zone Cretaceous gas reservoirs. AEC's second largest natural gas property, the Primrose Range has numerous development prospects. AEC controls all oil and gas access to the Alberta portion of the Range and has the rights to 500,000 net acres of land yet to be exploited.

Northwest Alberta Shallow Gas

The purchase of Stealth Resources in 1994 established a new AEC production centre in the Boyer area. Boyer gas production is expected to grow from 5 MMcfd in 1993 to 20 MMcfd in 1995 due to this acquisition of reserves as well as additional development of existing properties. Development in 1995 will comprise a 40-well winter drilling program and a 20-well tie-in program. The Company believes this property, comprised of 480,000 gross acres (320,000 net), has further development potential. Exploration in this area will benefit from the infrastructure provided by AEC's five operated plants.





Suffield

A solid base of gas and oil production is provided by the Suffield area in southeastern Alberta. This long-life shallow gas area, which is AEC's largest producing property, accounted for 169 MMcfd, or 50 percent, of 1994 natural gas production. By using horizontal drilling technology to achieve high recoveries of heavy oil, Suffield contributed 3,806 b/d, or 37 percent, of 1994 Canadian conventional liquids production. Natural gas operating costs were $0.20/Mcf, and oil operating costs were $2.72/bbl.

A 15-well drilling program had an 87 percent success rate resulting in 8 net oil wells and 2 net gas wells. Oil and gas proven and probable reserves increased by 5 million barrels and 8 billion cubic feet, respectively, as a result of drilling recompletions and improved reservoir performance. Drilling for deeper gas and further exploitation of heavy oil resources are planned for 1995.

SYNCRUDE

THE AEC DISTINCTION

- 28-year proven light oil reserve life
- Most profitable Syncrude owner due to overriding royalty

AEC's investment in Syncrude is comprised of a 13.75 percent working interest, plus an average 5.8 percent overriding royalty on another 6.25 percent of Syncrude revenue. AEC's share of Syncrude production increased by 19 percent, making a significant contribution to AEC's record total oil production and profits.

Strategy

- Improve productivity
- Use new technology to reduce costs
- Acquire new leases
- Develop financially and technically sound, staged investment opportunities

Major Accomplishments

- Increased average daily production (AEC share) by 4,164 b/d to 26,282 b/d
- Reduced unit operating costs by $0.20 to $15/bbl
- Realigned the work force in order to reduce staff count by 500 employees to 3,600 by 1997
- Received Alberta Energy Resources Conservation Board approval to extend Syncrude operating permit by 7 years to 2025 and to increase annual production by 25 percent to 217,100 b/d
- Increased AEC reserves by 23 million barrels of light oil to 269 million barrels
- Acquired two high-quality surface mineable oil sands leases, with potential to add about 240 million barrels of light oil to AEC reserves

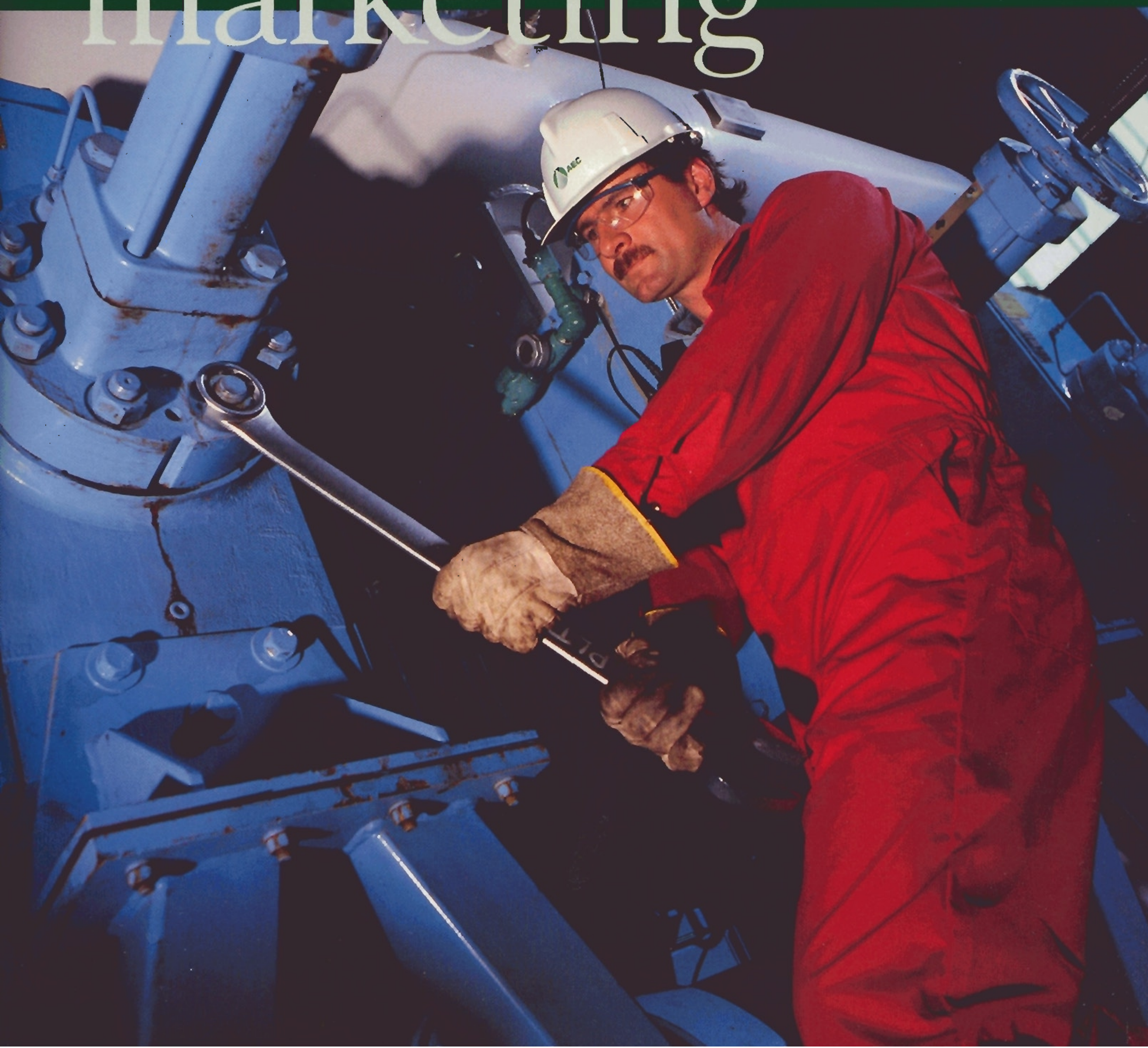
Growth Opportunities

During 1995, Syncrude expects to further increase production by 3 percent, which will increase AEC's share to 27,200 b/d. Cost reduction initiatives will continue with the goal of decreasing unit costs by $0.35/bbl to $14.65/bbl.

▶ Dennis Cornelson, Oil and Gas Senior Vice-President Marketing (centre) leads the marketing team which includes Rick Daniel, Manager Natural Gas Hub Services and Development, and Colleen McBain, Manager Natural Gas Supply and Trading.

▼ Gas storage at the AECO C HUB™ – Canada's dominant storage facility – was expanded to 1.6 billion cubic feet per day of daily deliverability. Robert Schmunk is an Operator at the facility.

marketing



MARKETING

THE AEC DISTINCTION

- Trading capabilities focussed on optimizing oil and gas assets
- Leading position in Alberta gas storage and transportation control
- Largest non-utility, lowest-cost, state-of-the-art gas market centre in North America
- Integrated marketing, storage, pipeline, and production team approach to developing business opportunities

Natural Gas

AEC is a leader in providing innovative marketing services and reliable gas supply to North American markets.

Strategy

- Increase the amount of produced gas marketed directly to achieve higher prices and to reduce marketing costs
- Trade to optimize the value of the Company's natural gas assets and realize price arbitrage opportunities
- Develop storage and transportation capacity to add value to AEC's own production and to profit from providing storage and other marketing services

Major Accomplishments

- The proportion of AEC's gas marketed directly grew from 25 percent to 40 percent, resulting in higher gas prices and reduced marketing costs.
- AEC's average produced gas price increased to $1.88/MMBtu from $1.76/MMBtu in 1993.

The resale of stored purchased gas rose from 42 MMcfd to 76 MMcfd. Unit margins declined due to the general decline in gas prices during 1994. Declining margins for gas purchased for immediate resale were more than offset by volume increases from 9 MMcfd to 34 MMcfd.

Growth Opportunities

During 1995, AEC's productive capacity will be increased to 385 MMcfd. AEC plans to increase its proportion of direct sales to almost 55 percent through further contract restructuring. Should weak markets continue, AEC is prepared to reduce its sales to as low as 335 MMcfd to avoid spot prices, while shutting in or injecting into storage an average of 50 MMcfd. About 70 percent of these reduced 1995 sales have been indexed to U.S. prices. Of the remaining sales, 17 percent reflect Canadian prices and 13 percent are fixed.

Crude Oil

Strategy

- Market directly 100 percent of crude oil production to take advantage of pipeline expansions and low marketing costs
- Optimize the value of the Company's crude oil assets through trading
- Develop new market, transportation and processing opportunities

Major Accomplishments

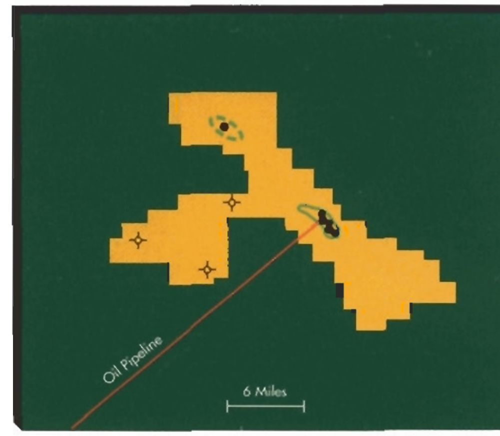
- AEC increased its sales of Syncrude and conventional crude oil and NGLs, with a more diversified portfolio.
- The Company's average price for crude oil and natural gas liquids increased from $19.51/bbl to $20.64/bbl.
- AEC negotiated a natural gas liquids marketing agreement with Kinetic Resources to improve NGL net backs.

Growth Opportunities

During 1995, sales of crude oil and NGLs are expected to increase to 38,100 b/d, with a larger proportion marketed directly to further enhance net backs and realize price arbitrage opportunities.

Covunco

Estancia Vieja/Puesto Prado



ARGENTINA

THE AEC DISTINCTION

- Control of large exploration land blocks
- Exposure to high-potential discoveries in on underdeveloped sedimentary basin
- Acquisition of producing oil properties with enhanced recovery potential

Strategy

AEC's strategy is to invest approximately 10 percent of annual capital expenditures in international oil and gas activities, with an initial concentration on Argentina. The Company's current Argentine focus is on the Neuquén Basin. The objective is to add to AEC's oil and gas reserves through acquisition, development and exploration. The Company will acquire large blocks of exploration land which have good lease tenure and fiscal terms.

AEC is investing about 10 percent of its annual capital budget on international oil and gas activity, with a current focus on Argentina. Roger Dunn, Vice-President (left) leads the international team which also includes Bob Potter, Manager International Exploration (right) and Glen Younghusband, Senior Advisor.

Major Accomplishments

- Acquired 100 percent interest in the Estancia Vieja and Puesto Prado properties. The acquisition will add 1,300 b/d to AEC's 1995 light oil production and 95,760 acres of exploration land with 25-year lease tenure. The Company's share of reserves from these AEC-operated properties is estimated to be 4.2 million barrels.
- Completed reprocessing and interpretation of 633 miles of seismic data on the 281,621-acre Covunco exploration property which was acquired in December 1993.
- Concluded negotiations to acquire an additional oil and gas property, with closing expected by the end of February 1995.
- Increased total petroleum and natural gas rights under lease to 377,381 acres.

Growth Opportunities

During 1995, the Company's goal will be to create growth in exploration lands, reserves and production. Acquisition, development and exploration are expected to double reserves. Additional seismic will be done on the Covunco property to determine drilling locations. Four wells will be drilled – one exploration well on each of the Covunco and Puesto Prado lands and two development wells at Estancia Vieja. A suspended Covunco gas well will be tested to prove reserves.

Supplemental Oil and Gas Operating Statistics

(unaudited)

SALES	Year	1994 Q4	Q3	Q2	Q1	1993	1992	1991	1990
Produced Gas *(million cubic feet per day)*	**345**	372	303	324	381	332	300	273	272
Oil and Natural Gas Liquids *(barrels per day)*									
Syncrude	**26,282**	26,724	29,690	22,915	25,753	22,118	17,870	16,510	15,534
Conventional	**9,267**	10,056	9,611	8,805	8,577	7,939	6,886	5,419	6,148
Natural Gas Liquids	**1,011**	1,038	1,152	1,100	749	984	1,003	1,051	732
Total Canada	**36,560**	37,818	40,453	32,820	35,079	31,041	25,759	22,980	22,414
Argentina	**260**	1,032	–	–	–	–	–	–	–
Total	**36,820**	38,850	40,453	32,820	35,079	31,041	25,759	22,980	22,414
PER-UNIT RESULTS *(Western Canada)*									
Produced Gas *($ per thousand cubic feet)*									
Price	**1.88**	1.71	1.77	1.90	2.17	1.75	1.37	1.35	1.52
Royalties	**0.25**	0.19	0.25	0.27	0.30	0.24	0.15	0.14	0.17
Operating Costs	**0.27**	0.27	0.29	0.30	0.23	0.24	0.25	0.23	0.22
Net Back	**1.36**	1.25	1.23	1.33	1.64	1.27	0.97	0.98	1.13
Conventional Oil *($ per barrel)*									
Price	**18.09**	18.67	20.43	19.56	13.19	15.93	16.88	15.73	21.87
Royalties	**2.63**	2.76	3.72	2.43	1.43	2.01	2.53	2.73	3.30
Operating Costs	**3.87**	4.85	3.89	3.46	3.10	4.06	3.60	5.20	3.84
Net Back	**11.59**	11.06	12.82	13.67	8.66	9.86	10.75	7.80	14.73
Natural Gas Liquids *($ per barrel)*									
Price	**15.05**	15.65	17.42	13.68	12.51	15.71	14.79	14.52	16.09
Royalties	**3.98**	5.17	2.74	4.99	2.75	4.04	4.12	3.94	1.74
Net Back	**11.07**	10.48	14.68	8.69	9.76	11.67	10.67	10.58	14.35
Syncrude *($ per barrel)*									
Price, Net of Tariff	**21.76**	22.60	23.26	23.62	17.43	20.97	22.79	22.67	26.85
Gross Overriding Royalty	**0.56**	0.12	0.75	0.79	0.60	0.86	1.37	1.44	1.72
Sulphur and Other Revenue	–	–	–	–	–	(0.19)	(0.04)	0.17	0.33
Royalties	**1.03**	0.48	2.27	1.14	0.03	0.64	–	–	–
Cash Operating Costs	**14.99**	12.15	11.74	21.37*	16.08	15.20	15.39	16.48	17.53
Net Back	**6.30**	10.09	10.00	1.90	1.92	5.80	8.73	7.80	11.37

* *Due to coker 8-1 turnaround*

Supplemental Oil and Gas Operating Statistics

(unaudited)

GAS PRODUCTION BY AREA *(million cubic feet per day)*	Forecast 1995	1994	1993	1992	1991	1990
Suffield	155	169	178	189	200	214
West Peace River Arch	95	68	56	46	38	21
East Central Alberta	115	92	58	38	33	16
Northwest Shallow Gas	20	9	5	3	3	3
Other	–	3	–	2	4	19
Total Field Capability	385	341	297	278	278	273
Storage (Injection) Withdrawal	(30–0)	(7)	14	22	(5)	(1)
Discretionary Sales Shut In	(20–0)	–	–	–	–	–
Native Gas from Storage	–	11	21	–	–	–
Total Produced Gas Sales	335–385	345	332	300	273	272

Note: 1995 sales levels will depend on market conditions and will range between 335 and 385 million cubic feet per day.

PRODUCED GAS SALES BY CONTRACT *(million cubic feet per day)*	1995	1994	1993	1992	1991	1990
Western Gas Marketing	120	146	168	178	158	157
Pan-Alberta Gas	35	38	38	44	37	37
Progas	25	11	6	7	6	–
Long-Term Direct	75	72	49	19	19	24
Alberta and Southern/Pacific Gas and Electric	–	8	44	27	12	6
Other	80–130	70	27	25	41	48
Total	335–385	345	332	300	273	272

PURCHASED GAS TRANSACTIONS *(million cubic feet per day)*	1995	1994	1993	1992	1991	1990
Through Storage	70	76	42	77	46	6
Immediate Resale	100	34	9	–	–	–

OIL AND NGL PRODUCTION BY AREA *(barrels per day)*	1995	1994	1993	1992	1991	1990
Syncrude	27,200	26,282	22,118	17,870	16,510	15,534
Suffield	3,600	3,806	4,186	4,036	3,062	3,411
East Peace River Arch	4,200	3,917	2,362	1,700	1,591	1,622
West Peace River Arch	2,600	1,800	1,701	1,827	1,591	1,154
East Central Alberta	500	477	372	–	–	–
Other	–	278	302	326	226	693
Total Canada	38,100	36,560	31,041	25,759	22,980	22,414
Argentina	1,300	260	–	–	–	–
Total	39,400	36,820	31,041	25,759	22,980	22,414

Supplemental Oil and Gas Operating Statistics

(unaudited)

UNDEVELOPED ACREAGE *(thousand acres)*	1994	1993	1992	1991	1990
Gross	**2,048**	2,025	1,975	2,317	2,772
Net	**1,364**	1,260	1,084	1,286	1,183
RESERVES *(before royalties)*					
Gas *(billion cubic feet)*					
Proven	**1,522**	1,482	1,461	1,485	1,398
Probable	**369**	321	279	254	282
Total	**1,891**	1,803	1,740	1,739	1,680
Conventional Oil and Natural Gas Liquids *(million barrels)*					
Proven	**26.0**	18.8	16.9	14.2	20.0
Probable	**14.8**	8.9	8.4	8.2	6.8
Total	**40.8**	27.7	25.3	22.4	26.8
Syncrude *(million barrels)*	**269**	246	186	193	199
Argentina Oil *(million barrels)*	**4.2**	–			–
FINDING AND DEVELOPMENT COST CALCULATION *(Western Canada)*					
Conventional Oil and Gas Investment *($ millions)*					
Exploration (gross)	**66.1**	53.8	22.9	45.5	52.0
Development	**101.7**	56.8	25.1	41.5	52.9
Maintenance	**3.3**	12.1	8.7	8.4	18.1
Acquisitions	**66.3**	17.6	11.1	3.2	7.0
Total Finding and Development Costs	**237.4**	140.3	67.8	98.6	130.0
Less Incentives	–			(0.8)	(1.0)
Net Conventional Oil and Gas Capital Investment	**237.4**	140.3	67.8	97.8	129.0
Proven Reserves Added					
Gas *(billion cubic feet)*					
Exploration Discoveries and Extensions	**75.1**	73.1	23.0	63.9	54.6
Revisions	**17.4**	1.0	35.0	113.7	22.8
Acquisitions	**95.1**	67.9	39.1	9.5	12.8
Total	**187.6**	142.0	97.1	187.1	90.2
Conventional Oil and Natural Gas Liquids *(million barrels)*					
Exploration Discoveries and Extensions	**8.5**	4.9	2.3	1.0	1.5
Revisions	**3.5**	(0.7)	2.2	(4.6)	5.1
Acquisitions	**0.1**	1.0	1.1	0.1	0.1
Total	**12.1**	5.2	5.6	(3.5)	6.7
Total Reserve Additions 10:1 *(billion cubic feet of gas equivalent)*	**308.6**	194.0	153.0	152.0	157.0
Finding and Development Costs *($ per thousand cubic feet equivalent)* – 10:1	**0.77**	0.72	0.44	0.65	0.83
– 6:1	**0.91**	0.81	0.52	0.59	1.00

▶ AEC's pipeline investments provide a stable source of cash flow and earnings and the Company continues to seek new pipeline opportunities. Three members of the pipeline division are (from left) John Starratt, Manager Business Development; Bob Towler, Senior Vice-President Business Development, and Bernie Bradley, Senior Vice-President.

▼ Employees Bob Waldroff, Construction Inspector (left) and Rick Watters, Senior Engineer, work to ensure the safety and reliability of AEC's pipelines by the testing of pipeline welding procedures.

pipelines

TRANSPORTATION, STORAGE AND PROCESSING

THE AEC DISTINCTION

- Generates long-term contractual revenue providing 20 percent of operating cash flow
- Will yield about $90 million of 1995 operating cash flow, exceeding AEC's annual dividends, interest, and debt repayments
- Provides unique financial strength

Income Statement	Pipelines			Gas Storage			Straddle Plants			Syncrude Utility Operation			Total Transportation, Storage and Processing		
Unaudited ($ millions)	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992
Revenue	**81.3**	82.3	84.2	**21.6**	4.5	0.9	**61.9**	52.1	39.4	–	–	–	**164.8**	138.9	124.5
Operating Costs	**19.0**	18.0	17.9	**5.9**	2.4	0.7	**52.3**	41.9	29.2	–	–	–	**77.2**	62.3	47.8
Operating G & A	**4.1**	9.0	2.3	**0.7**	0.3	–	–	–	–	–	–	–	**4.8**	9.3	2.3
Operating Cash Flow	**58.2**	55.3	64.0	**15.0**	1.8	0.2	**9.6**	10.2	10.2	–		–	**82.8**	67.3	74.4
Depreciation, Depletion and Amortization	**13.5**	15.0	16.1	**4.1**	0.9	0.1	**1.7**	1.7	1.7	–	–	–	**19.3**	17.6	17.9
Operating Income	**44.7**	40.3	47.9	**10.9**	0.9	0.1	**7.9**	8.5	8.5	–	–	–	**63.5**	49.7	56.5
Equity Earnings	**2.9**	2.8	2.3	–	–		–	–	–	**3.1**	4.2	4.2	**6.0**	7.0	6.5
Divisional Income	**47.6**	43.1	50.2	**10.9**	0.9	0.1	**7.9**	8.5	8.5	**3.1**	4.2	4.2	**69.5**	56.7	63.0

Balance Sheet	Pipelines		Gas Storage		Straddle Plants		Syncrude Utility Operation		Total Transportation, Storage and Processing	
Unaudited ($ millions)	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993
Assets										
Current Assets	**21.0**	24.0	**2.7**	3.9	**5.6**	7.3	–		**29.3**	35.2
Investments	**32.7**	30.4	–		–	–	**30.5**	31.0	**63.2**	61.4
Capital Assets	**207.4**	213.9	**109.3**	63.9	**16.7**	18.4	–	–	**333.4**	296.2
Deferred Charges and Other Assets	**2.3**	5.0	**1.2**	1.5	**0.3**	0.4	–	–	**3.8**	6.9
	263.4	273.3	**113.2**	69.3	**22.6**	26.1	**30.5**	31.0	**429.7**	399.7
Liabilities										
Current Liabilities	**16.8**	17.1	**6.3**	11.4	**6.7**	8.3	–	–	**29.8**	36.8
Long-Term Debt	**148.9**	153.6	**67.8**	39.6	**12.9**	14.3	–		**229.6**	207.5
Other Liabilities	**1.2**	1.5	**0.1**	0.2	–		–	–	**1.3**	1.7
Deferred Income Taxes	**26.3**	31.2	**15.1**	3.8	–	–	–	–	**41.4**	35.0
Capital Employed	**70.2**	69.9	**23.9**	14.3	**3.0**	3.5	**30.5**	31.0	**127.6**	118.7
	263.4	273.3	**113.2**	69.3	**22.6**	26.1	**30.5**	31.0	**429.7**	399.7

Debt-to-Equity Ratio	1994	1993	1992	1991	1990
Transportation, Storage and Processing	**64:36**	64:36	63:37	62:38	64:36

Pipelines

THE AEC DISTINCTION

- Stable source of cash flow and earnings
- Rate base – 90 percent non-regulated
- Owner and operator of three intra-Alberta oil pipeline systems, with interests in several other oil and gas pipelines
- Largest intra-Alberta oil pipeline operator

Strategy

Throughout 1994, AEC provided consistent, cost-effective service to its customers.

AEC's main pipeline business strategies are:

- Maintain and expand cost-effective pipeline transportation services to existing and potential customers serviced by the Company's currently owned and operated systems
- Expand AEC's ownership and operatorship position into newly developed or acquired pipeline systems

Major Accomplishments

- Additional capacity was added to the wholly owned Alberta Oil Sands Pipeline (AOSPL) to ensure continuing reliable service to the Syncrude oil sands facility.
- The AOSPL agreement with Syncrude owners was renegotiated. The new agreement is consistent with the recently approved Alberta Energy Resources Conservation Board (ERCB) extension of the Syncrude operating agreement.
- A novel, in-line blending process was implemented on the AEC-owned Cold Lake Pipeline system. This new process reduces the overall cost to shippers of heavy oil while providing greater flexibility to meet market needs.

Growth Opportunities

More AOSPL capacity will be needed during 1995 to ensure that Syncrude's pipeline transportation needs are well served as plant production continues to grow.

AEC has filed an application with the ERCB for construction of a $5 million extension to the Cold Lake Pipeline diluent system. This extension will service the expected expansion of the heavy oil business in the Cold Lake region of northeastern Alberta.

The Company will continue to seek new opportunities either to acquire or construct oil and gas pipelines.

Pipeline Rate Base Summary *Unaudited ($ millions)*

	AEC Interest	Rate Base 1994	1993	1992	1991	1990	Operating Income 1994	1993	1992	1991	1990
Alberta Oil Sands Pipeline	100%	71	69	57	63	69	6.6	4.6	9.0	10.4	11.2
Cold Lake Pipeline	100%	206	205	205	203	203	36.3	33.7	36.9	36.7	35.0
Other	Various	6	7	9	10	11	1.8	2.0	2.0	2.3	2.5
Total		283	281	271	276	283	44.7	40.3	47.9	49.4	48.7

	AEC Interest	Equity Investment 1994	1993	1992	1991	1990	Equity Earnings 1994	1993	1992	1991	1990
Iroquois Gas Transmission	6%	15.6	13.3	14.3	10.7	4.2	2.9	2.8	1.1	2.0	–
Pacific Coast Energy Corporation	50%	17.1	17.1	17.1	15.8	14.5	–	-	1.2	1.4	1.5
Total		32.7	30.4	31.4	26.5	18.7	2.9	2.8	2.3	3.4	1.5

Pipeline Throughput *(million barrels)*

1994	1993	1992	1991	1990
189	183	175	171	174

Gas Storage

THE AEC DISTINCTION

- Solid long-term contractual revenue
- Dominant gas storage facility in Canada
- Strategic location on NOVA mainline
- Low-cost storage operator
- State-of-the-art electronic information systems

Strategy

- Provide a full range of hub and storage services
- Maintain dominant market share
- Use information technology to ensure rapid, efficient customer service
- Maintain the lowest costs among all storage facilities

Major Accomplishments

- AECO C HUB™ gas storage was expanded from 1.3 BCFD and 66 BCF of working gas to 1.6 BCFD and 70 BCF of working gas. The incremental investment for this latest expansion was approximately $30 million. About three-quarters of the total capacity will be used for third-party services, with the balance used for AEC trading and storage of produced gas.
- Operating cash flow from third-party services increased to $15.0 million from $1.8 million in 1993 and is expected to grow to approximately $22 million in 1995. Over 90 percent of the fees from storage services are from firm contracts with terms of up to 20 years.

During the past year, AEC faced increased competition in the area of hub services. In response to both the competition and customer needs, AEC expanded its range of hub services to include the following:

- short-term and long-term firm storage
- platinum, gold, silver and bronze gas "parking" and "loaned gas" services
- free title exchange
- transportation exchange
- direct connection to NOVA delivery points
- supply backstopping

Growth Opportunities

During 1995, AEC will continue to pursue new gas storage investment opportunities to take advantage of changing natural gas and electric power markets. Work is underway to expand AEC's hub services and trading activity to a North American market, including hub-to-hub services.

Straddle Plants

AEC owns one-half of Pan-Alberta Resources Inc. (PARI) which has a 50 percent interest in the Empress II natural gas liquids extraction plant that operates on a cost-of-service basis. As well, PARI profits from a share of natural gas liquids extracted from the Pan-Alberta gas stream processed by the Empress and Cochrane plants.

AEC entered into a joint venture with PanCanadian and Home Oil to develop a 1 BCFD reprocessing plant at Empress, Alberta to extract 9,600 b/d of natural gas liquids. This plant will capitalize on the following: AEC's substantial transportation, production and storage infrastructure near Empress; PanCanadian's ownership of Kinetic Resources, a major natural gas liquids marketing company, and the substantial combined gas supply of the partners. Efforts to secure additional gas supply and/or partners are continuing.

Syncrude Utility Operation

AEC owns a two-thirds interest in the AEC Power Ltd. 260-megawatt cogeneration facility which supplies steam and electricity to Syncrude.

AECO C HUB™ Gas Storage Capacity	Estimate 1995	1994	1993	1992	1991	1990
Working Gas *(billion cubic feet)*	85	70	53			
Withdrawal *(million cubic feet per day)*	1,800	1,600	1,060	180	180	120

ENVIRONMENT AND SAFETY

AEC is committed to the principle of sustainable development, with concurrent goals of economic growth and environmental protection. AEC believes that environmental protection must be a priority in all of its operations. The Company meets, and strives to exceed, all applicable environmental laws and regulations.

Within the Company's oil and gas and pipeline operations employees have well-established safety procedures. These include procedures for training, auditing, reporting of accidents and responding to emergencies. During 1994, the oil and gas division achieved a favourable Workers' Compensation rating which exceeded the oil and gas industry average.

CORPORATE SERVICES

THE AEC DISTINCTION

- Results-based compensation throughout
- Highly skilled employees
- Stable work force
- State-of-the-art information technology

AEC will be increasingly successful through having strong leaders, depth of technical expertise and creative employees who are action-oriented and focussed on results.

The Company's performance management system has been revised, aligning the interests of the employee with the shareholder. The new results-based system ensures:

- corporate goals are translated into meaningful objectives for each employee;
- employee results are assessed by both management and co-workers, based on those objectives, and
- employee rewards are based on both corporate and individual results.

AEC focuses on developing the very best leaders and highly skilled professionals, as well as effective systems to support them.

The Company has a sustained emphasis on managing costs in all areas. During 1994, AEC consolidated its corporate offices, significantly reducing future administrative costs. Organizing for effectiveness will be ongoing.

Fundamental to its cost reduction program is AEC's strategic use of information technology in critical areas of the oil and gas business. New ways to gain productivity from existing investment are being found. Systems activities during 1995 will focus on building on the state-of-the-art infrastructure already in place to increase success in the exploration, production and marketing areas.

Computer literacy is expected at all levels of the organization, giving a tremendous boost to efficiency and the ability to communicate rapidly and effectively. Drude Rimell, Vice-President Corporate Services (right) leads AEC's Information Technology team. She and Hayward Walls, Manager Applications Services (left) and Art Tweten, Manager Technical Services, participated in a weekend session to update and train AEC management on current and future uses of technology within the Company.

Don Smallwood, Manager Human Resources (left) and Marcel Preteau, Director Information Technology Services, teamed up to complete AEC's new results-based performance management system.

Management Discussion and Analysis

The Management Discussion and Analysis on pages 26 through 29 is to be read in conjunction with the Audited Consolidated Financial Statements.

During 1994, AEC increased its focus on core oil and gas investments. John Watson, Vice-President, Finance and Chief Financial Officer (second from left) led the team that completed the sale of Chieftain International, Inc. and Pan-Alberta Gas Ltd. Other team members included (from left) Ron Westcott, Comptroller; Derek Bwint, Treasurer; Brian Fergusan, Director Corporate Relations and Corporate Secretary, and Wayne Halt, General Counsel.

New Accounting Policy

Effective December 31, 1994, the Company changed its method of accounting for jointly controlled companies and partnerships from the equity method to the proportionate consolidation method as recommended by the Canadian Institute of Chartered Accountants' (CICA) accounting standard on Interests in Joint Ventures. This change has been applied on a retroactive basis and has resulted in no change to net earnings. The change added $92.2 million of non-recourse long-term debt to the balance sheet and increased the debt-to-equity ratio to 35:65 from 31:69.

Summary

1994 Compared with 1993

Net earnings of $100.5 million in 1994 were 10 percent higher than in 1993. This improvement was due to gains on the sale of investments and higher prices (partially a result of the lower Canadian dollar) for natural gas, pulp, and lumber which more than offset higher foreign exchange and interest expense and lower lumber volumes. Cash flow from operations was up 17 percent to $294.8 million. This figure reflects the payment of cash income taxes in the amount of $59.1 million (1993: $51.2 million).

On a consolidated basis, revenues were up $185.9 million to $922.9 million. Operating expenses increased to $423.6 million from $370.1 million. The changes in revenue and operating costs primarily reflect increases from Syncrude, natural gas and forest products. In addition, revenue included $14.7 million from the gain on the sale of Pan-Alberta Gas Ltd. and Chieftain International, Inc. The cost of gas purchased of $84.5 million (1993: $35.4 million) reflects increased marketing activity related to sales of purchased gas.

General and administrative expenses of $18.9 million included $1.7 million of office consolidation expenses. Interest expense, which increased by 43 percent to $33.6 million, reflects a higher AEC average interest cost (1994: 5.9 percent, 1993: 5.0 percent), increased debt levels (1994: $561.8 million, 1993: $528.2 million) and lower interest income. Foreign exchange expense increased substantially to $36.0 million from the 1993 amount of $6.6 million. The 1994 amount includes $22.3 million from the repatriation of $118.3 million of U.S. dollar debt. The balance of the increase results from the erosion of the U.S./Canadian exchange rate during 1994. Depreciation, depletion and amortization totalled $161.7 million, compared with $144.1 million, the increase related to higher volumes of natural gas and oil. Application of the ceiling test under the CICA guideline on full cost accounting resulted in an excess of more than $300 million. Equity earnings for 1994 were $6.0 million, down $4.2 million from 1993, reflecting the sale of Pan-Alberta Gas in 1994. Income taxes increased by $12.1 million to $70.1 million and reflected the higher level of operating income in 1994 and an increase in non-deductible Crown royalties.

1993 Compared with 1992

Record earnings and cash flow from operations were achieved in 1993, with net earnings increasing 117 percent to $91.6 million and cash flow from operations increasing 14 percent to

$251.4 million. Revenues increased 11 percent to $737.0 million, with gains in oil and gas and forest products revenues more than offsetting the reduction in revenues from the sale of fertilizer, coal and drilling operations.

Operating expenses increased by 6 percent because the reduction attributable to the sale of fertilizer, coal and drilling was offset by an increase in oil and gas expenses resulting from volume gains and increased operating activities. The cost of natural gas purchased for resale totalled $35.4 million, a 22 percent increase over 1992. Interest expense decreased by $15.3 million reflecting lower debt balances and a lower average interest rate. Depreciation, depletion and amortization was reduced by $4.8 million, primarily a result of the sale of assets. Income taxes increased from $12.4 million to $58.0 million reflecting the higher level of operating income in 1993. Cash flow from operations of $251.4 million was reduced by cash income taxes, which increased to $51.2 million from $7.1 million in 1992, and did not include cash flow from assets which were sold in early 1993.

Oil and Gas

1994 Compared with 1993

Oil and gas revenues, net of royalties, for 1994 increased by $98.6 million to $559.4 million. The accompanying table shows this increase on a product basis.

Natural gas prices increased to $1.88/MMBtu from $1.76/MMBtu as markets improved in the first part of 1994. Natural gas prices declined over the second and third quarters of 1994 as a surplus of natural gas developed in Western Canada. Natural gas prices improved towards the end of the year as the winter heating season commenced.

Natural gas revenue in 1993 included arbitration and decontracting settlements. Oil prices for Syncrude averaged $21.76/bbl (1993: $20.97/bbl) and prices for conventional oil averaged $18.09/bbl (1993: $15.93/bbl). The lower Canadian dollar led to improved oil prices despite the lower West Texas Intermediate (WTI) crude oil average of U.S. $17.19/bbl in 1994 (1993: $18.48/ bbl). Volume increases for natural gas and conventional oil reflected new production from exploration and development activity. The Syncrude volume increase resulted from the inclusion of a full year of production from the additional 3.75 percent interest in Syncrude which AEC acquired on July 1, 1993. Purchased gas sales were higher as marketing trading activities increased.

The majority of produced natural gas was sold under short- and long-term contracts. Approximately 60 percent of the produced gas sales in 1994 were indexed to U.S. prices. At December 31, 1994, contracts were in place to resell 34 BCF of purchased natural gas during 1995 and 1996. The gas to complete the sales will be comprised of 24 BCF purchased under contracts in place and 10 BCF withdrawn from gas storage.

1993 Compared with 1992

Oil and gas revenues, net of royalties, of $460.8 million for 1993 were $90.0 million higher than in 1992. The accompanying table shows the increase on a product basis.

Natural gas prices increased to $1.76/MMBtu in 1993 from $1.38/MMBtu as the surplus of supply eroded. Natural gas revenue in 1993 included $15.2 million related to the settlement of a gas pricing arbitration and the decontracting of certain gas volumes. Oil prices declined; WTI averaged U.S. $18.48/bbl in 1993 compared with U.S. $20.57/bbl in 1992. Syncrude volumes increased by 24 percent, a result of record Syncrude production and the additional 3.75 percent interest in Syncrude. Purchased gas sales reflect increased trading activity.

Oil and gas total operating costs increased to $221.1 million in 1994 from $193.3 million in

Oil and Gas Revenue Increase by Product 1994 Compared with 1993 *($ millions)*

	Price	Volume	Royalties and Other	Total
Natural Gas	16.4	8.3	(13.8)	10.9
Oil				
Conventional	7.3	7.7	(3.0)	12.0
Syncrude	7.6	31.9	(4.7)	34.8
Purchased Gas Sales	(15.3)	54.6	–	39.3
Other	–	–	1.6	1.6
	16.0	102.5	(19.9)	98.6

Oil and Gas Revenue Increase by Product 1993 Compared with 1992 *($ millions)*

	Price	Volume	Royalties and Other	Total
Natural Gas	46.0	16.0	(0.8)	61.2
Oil				
Conventional	(2.8)	6.5	0.3	4.0
Syncrude	(14.7)	35.3	(8.9)	11.7
Purchased Gas Sales	24.1	(11.9)	–	12.2
Other	–	–	0.9	0.9
	52.6	45.9	(8.5)	90.0

1993 and $158.7 million in 1992. A substantial portion of the increase over the three-year period reflects the acquisition of the additional 3.75 percent interest in Syncrude. Natural gas per-unit operating costs averaged $0.27/Mcf in 1994, a small increase over the 1993 and 1992 levels, as new fields came onto production. The Syncrude per-unit cash operating cost decreased from 1992 and 1993 levels to $14.99/bbl in 1994, as Syncrude continued to focus on cost reduction.

Transportation, Storage and Processing

Revenue increased to $164.8 million in 1994 from $138.9 million in 1993 and $124.5 million in 1992. Contributing to this increase was higher revenue from natural gas storage in 1994 as AEC expanded its storage capacity and customer base. The increase reflects storage revenue of $21.6 million in 1994, compared with $4.5 million in 1993 and $0.9 million in 1992. Revenue from the natural gas extraction plant was higher due to increased throughput. Operating costs over the three-year period also were higher, reflecting the increased activity.

During 1994, the 25-year agreement signed in 1978 between Alberta Oil Sands Pipeline Ltd. (AOSPL) and the owners of Syncrude was replaced by a new agreement. The new agreement, which is retroactive to July 1, 1993, has an extended term equal to that of Syncrude's production permit (currently December 31, 2025). It also allows AOSPL to recover all operating costs, depreciation, current income taxes and interest charges on deemed debt and provides for an after-tax rate of return on deemed equity.

Forest Products Revenue Increase by Product
1994 Compared with 1993 *($ millions)*

	Price	Volume	Total
Lumber	16.1	(7.9)	8.2
MDF	5.4	10.1	15.5
Pulp	19.1	3.8	22.9
Other	–	0.1	0.1
	40.6	6.1	46.7

Forest Products Revenue Increase by Product
1993 Compared with 1992 *($ millions)*

	Price	Volume	Total
Lumber	25.5	(1.2)	24.3
MDF	5.6	2.6	8.2
Pulp	(6.3)	2.3	(4.0)
Other	–	(0.9)	(0.9)
	24.8	2.8	27.6

Forest Products

Revenues increased to $184.0 million in 1994 from $109.7 million in 1992. The accompanying tables show the increase on a product basis.

As lumber industry capacity decreased and supply tightened over the 1992-1994 period, lumber prices recovered from a low in 1991. Medium density fibreboard (MDF) prices increased as world demand exceeded supply. Pulp prices rose as markets for newsprint and paper improved. Lumber volumes were lower in 1994 due to downtime associated with the installation of new equipment.

Operating costs over the three-year period are shown in the table below.

Operating Costs

($ millions)	1994	1993	1992
Lumber	57.3	52.8	49.4
MDF	28.4	20.2	19.8
Pulp	34.8	32.2	29.5
	120.5	105.2	98.7

Lumber costs increased in 1994 primarily as a result of increased timber dues of $4.3 million (1993: $0.5 million), which reflected the change introduced by the Alberta Government in January 1994. MDF costs increased, a result of higher volumes and higher costs for raw materials. Pulp costs reflected higher volumes and chemical and energy cost increases.

The Company is entitled to U.S. Government refunds of countervailing duties on softwood lumber of Canadian $1.5 million which were paid during the period July 14, 1992 to July 31, 1994. The refunds will be recorded as income when the cash is received.

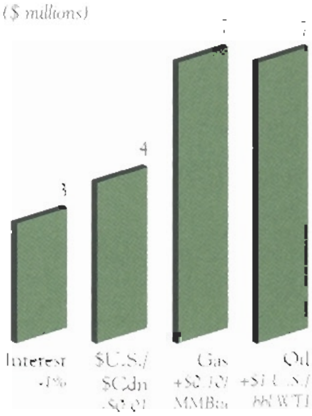
Capital Resources and Liquidity

Capital investment of $371.7 million was 42 percent higher than in 1993.

Oil and gas capital investment increased by 54 percent to $283.5 million and included $64.8 million for the acquisition of Stealth Resources Limited. Exploration capital investment totalled $66.1 million, including $14.6 million for land acquisition (1993: $11.9 million). Expenditures for development were $101.7 million, $44.9 million more than in 1993. Expenditures in 1994 included costs related to the construction of the Bigstone West gas plant and additional drilling and well

1995 Sensitivities — Net Earnings and Cash Flow from Operatians

($ millions)



completions at Hythe, Red Earth and Ogston. Expenditures in Argentina totalled $22.6 million including the acquisition of a 1,300 b/d producing property.

Capital investment in transportation, storage and processing was $58.6 million in 1994, including $48.7 million for the expansion of gas storage.

Forest products capital investment of $29.6 million included $16.9 million for the expansion of the MDF plant. The expansion commenced in 1994 and is expected to be completed by mid-year 1995. Total cost for the expansion, which will increase the annual capacity of the MDF plant by 57 percent to 110 million square feet, is estimated to be $36 million. A total of $9.5 million was spent on the lumber mill, primarily for the installation of computer-controlled cutting equipment and a portal crane.

In January 1995, the Company acquired the rights to purchase until January 1996 its partner's 25 percent interest in the Slave Lake Pulp Partnership. The partner has certain rights to require the Company to purchase its interest in January 1996.

Long-term debt of $561.8 million was $33.6 million higher than in 1993. A portion of this increase reflects the lower Canadian dollar at year-end. The 1994 capital program was funded through cash flow from operations, cash received on sale of investments and debt. The loss of approximately $5 million associated with the termination of the $87.6 million U.S. Swap Agreement in early January 1995 was provided for in 1994. The average term to maturity of long-term debt is now 7 years with 84 percent unsecured. At year-end, approximately Canadian $153 million and U.S. $20 million were available in unused long-term lines of credit. Debt-to-cash flow for the oil and gas division was 1.2 times, unchanged from 1993.

The Company maintained its environmental programs to ensure compliance with environmental regulations.

Outlook

Results for 1995 are dependent, as noted in the sensitivities graph, on product prices, the U.S./Canadian exchange rate and interest rates, as well as ongoing operating activities. Gas prices are expected to decrease from the 1994 average due to extraordinarily mild winter weather, and sales may be reduced below productive capacity due to market conditions. Approximately 70 percent of produced gas sales will be indexed to U.S. prices. Oil prices should remain at 1994 levels. Interest rates are expected to increase from the 1994 average. Prices for wood products are expected to be comparable to 1994 prices, while pulp prices, on the other hand, are expected to increase. 29

Approximately $90 million of the Company's 1995 operating cash flow will be generated from non-commodity-based investments in transportation, storage and processing. Although total 1995 capital investment will be dependent on cash flow, the majority of investment will be in oil and gas projects. The Company intends to complete the restructuring of its ownership in forest products in 1995.

February 15, 1995

Supplemental Financial Information

Unaudited (Restated - See Note 2, Page 39)

FINANCIAL STATISTICS	1994 Year	1994 Q4	1994 Q3	1994 Q2	1994 Q1	1993	1992	1991	1990
Net Earnings *($ millions)*	**100.5**	19.4	41.6	22.3	17.2	91.6	42.2	13.8	53.6
Per Share ($) – Basic	**1.36**	0.25	0.59	0.29	0.23	1.23	0.53	0.12	0.72
– Fully diluted	**1.34**	0.23	0.59	0.29	0.23	1.21	0.53	0.12	0.72
Cash Flow From Operations *($ millions)*	**294.8**	71.6	83.3	65.0	74.9	251.4	219.9	151.0	205.3
Per Share ($) – Basic	**4.07**	0.95	1.17	0.90	1.05	3.52	3.11	2.15	3.00
– Fully diluted	**3.88**	0.93	1.10	0.86	0.99	3.33	2.98	2.04	2.92
Shares									
Common Shares Outstanding *(millions)*	**74.5**	74.5	74.4	70.7	70.1	70.0	69.4	68.0	66.8
Average Common Shares Outstanding *(millions)*	**71.7**	72.4	71.8	70.4	70.0	69.7	68.8	67.4	66.3
Price Range, TSE *($ per share)*									
High	**22.75**	20.75	22.75	21.75	21.63	23.63	17.00	16.88	20.25
Low	**17.50**	17.50	20.13	18.50	18.13	15.50	9.75	11.50	15.50
Close	**17.88**	17.88	20.75	20.50	19.00	18.50	16.25	12.50	16.88
Share Volume Traded *(millions)*	**48.5**	7.0	11.5	18.4	11.6	26.1	16.6	15.8	17.4
Ratios									
Debt-to-Equity									
Corporate	**35:65**					35:65	38:62	44:56	44:56
Oil and Gas	**21:79**					21:79	26:74	37:63	36:64
Transportation, Storage and Processing	**64:36**					64:36	63:37	62:38	64:36
Debt-to-Cash Flow – Oil and Gas	**1.2x**					1.2x	1.7x	3.8x	2.6x
Interest Coverage	**4.8x**					5.3x	2.1x	1.3x	2.3x
Return on Equity	**10.1%**					9.9%	4.5%	1.0%	6.1%
Return on Capital	**6.8%**					5.5%	3.4%	2.3%	4.4%
Dividend *($ per common share)*	**0.40**					0.35	0.35	0.33	0.33

Supplemental Financial Information

Unaudited (Restated - See Note 2, Page 39)

SEGMENTED INFORMATION

($ millions)	Gas and NGLs			Conventional Oil			Syncrude			Marketing and International			Total Oil and Gas		
	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992
Revenue	**245.4**	231.8	157.6	**61.2**	46.2	43.0	**214.1**	174.6	157.8	**90.8**	49.9	36.5	**611.5**	502.5	394.9
Royalties	**33.4**	30.7	17.7	**8.9**	5.9	6.4	**9.8**	5.1		–			**52.1**	41.7	24.1
Net Revenue	**212.0**	201.1	139.9	**52.3**	40.3	36.6	**204.3**	169.5	157.8	**90.8**	49.9	36.5	**559.4**	460.8	370.8
Operating Costs	**34.5**	29.4	26.9	**13.2**	11.9	11.6	**142.2**	126.9	101.4	**1.9**	–	–	**191.8**	168.2	139.9
Cost of Gas Purchased	–	–	–	–	–	–	–	–	–	**84.5**	35.4	29.0	**84.5**	35.4	29.0
Operating G&A	**21.9**	18.2	14.2	**5.5**	5.0	3.8	–	–	–	**1.9**	1.9	0.8	**29.3**	25.1	18.8
Operating Cash Flow	**155.6**	153.5	98.8	**33.6**	23.4	21.2	**62.1**	42.6	56.4	**2.5**	12.6	6.7	**253.8**	232.1	183.1
Depreciation, Depletion and Amortization	**93.6**	86.5	79.8	**14.4**	11.7	13.1	**14.9**	13.4	12.4	**0.7**	–		**123.6**	111.6	105.3
Future Site Restoration and Other	**1.8**	1.8	1.4	**0.3**	0.3	0.5	**1.0**	0.6	(0.1)	–			**3.1**	2.7	1.8
Operating Income	**60.2**	65.2	17.6	**18.9**	11.4	7.6	**46.2**	28.6	44.1	**1.8**	12.6	6.7	**127.1**	117.8	76.0
Equity Earnings	–	3.2	2.6	–	–	–	–	–	–	–	–	–	–	3.2	2.6
Divisional Income	**60.2**	68.4	20.2	**18.9**	11.4	7.6	**46.2**	28.6	44.1	**1.8**	12.6	6.7	**127.1**	121.0	78.6

	Oil and Gas			Transportation, Storage and Processing			Forest Products			Other			Total		
	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992
Revenue	**611.5**	502.5	394.9	**164.8**	138.9	124.5	**184.0**	137.3	109.7	**14.7**		58.8	**975.0**	778.7	687.9
Royalties	**52.1**	41.7	24.1	–		–	–	–	–	–	–	1.3	**52.1**	41.7	25.4
Net Revenue	**559.4**	460.8	370.8	**164.8**	138.9	124.5	**184.0**	137.3	109.7	**14.7**		57.5	**922.9**	737.0	662.5
Operating Costs	**191.8**	168.2	139.9	**77.2**	62.3	47.8	**113.9**	100.6	94.3	–		41.3	**382.9**	331.1	323.3
Cost of Gas Purchased	**84.5**	35.4	29.0	–	–	–	–	–	–	–	–	–	**84.5**	35.4	29.0
Operating G&A	**29.3**	25.1	18.8	**4.8**	9.3	2.3	**6.6**	4.6	4.4	–	–	0.7	**40.7**	39.0	26.2
Operating Cash Flow	**253.8**	232.1	183.1	**82.8**	67.3	74.4	**63.5**	32.1	11.0	**14.7**	–	15.5	**414.8**	331.5	284.0
Depreciation, Depletion and Amortization	**126.7**	114.3	107.1	**19.3**	17.6	17.9	**9.5**	9.8	10.4	–		10.9	**155.5**	141.7	146.3
Operating Income	**127.1**	117.8	76.0	**63.5**	49.7	56.5	**54.0**	22.3	0.6	**14.7**		4.6	**259.3**	189.8	137.7
Equity Earnings	–	3.2	2.6	**6.0**	7.0	6.5	–	–	–	–	–	2.9	**6.0**	10.2	12.0
Divisional Income	**127.1**	121.0	78.6	**69.5**	56.7	63.0	**54.0**	22.3	0.6	**14.7**		7.5	**265.3**	200.0	149.7
Less:															
Corporate G&A*													**18.9**	17.9	18.0
Corporate DD&A													**6.2**	2.4	2.6
Interest, Net													**33.6**	23.5	38.8
Foreign Exchange†													**36.0**	6.6	6.5
Non-Recurring Items													–		29.2
Income Taxes													**70.1**	58.0	12.4
Net Earnings													**100.5**	91.6	42.2
Property, Plant and Equipment	**283.5**	183.7	73.5	**56.3**	68.3	7.0	**29.6**	8.6	8.7	–		2.3	**369.4**	260.6	91.5
Investments	–	–	–	**2.3**	1.0	2.0	–	–	–	–		6.4	**2.3**	1.0	8.4
Capital Additions	**283.5**	183.7	73.5	**58.6**	69.3	9.0	**29.6**	8.6	8.7	–	–	8.7	**371.7**	261.6	99.9
Capital Assets	**1,489.1**	1,393.2	1,320.2	**396.6**	357.6	307.9	**195.2**	175.7	177.0	–		57.1	**2,080.9**	1,926.5	1,862.2
Other	**168.0**	199.2	111.9	**33.1**	42.1	27.6	**75.6**	57.7	53.6	–	–	10.1	**276.7**	299.0	203.2
Identifiable Assets	**1,657.1**	1,592.4	1,432.1	**429.7**	399.7	335.5	**270.8**	233.4	230.6	–	–	67.2	**2,357.6**	2,225.5	2,065.4

* *Includes office consolidation*

† *Foreign exchange includes $22.3 million related to the partial repatriation of $U.S. debt.*

Supplemental Financial Information

Unaudited (Restated - See Note 2, Page 39)

DIVISIONAL BALANCE SHEETS ($ millions)	Oil and Gas 1994	Oil and Gas 1993	Transportation, Storage and Processing 1994	Transportation, Storage and Processing 1993	Forest Products 1994	Forest Products 1993	Total 1994	Total 1993
Assets								
Current Assets	**154.3**	170.3	**29.3**	35.2	**61.6**	46.2	**245.2**	251.7
Investments	**–**	49.8	**63.2**	61.4	**–**	–	**63.2**	111.2
Capital Assets	**1,489.1**	1,343.4	**333.4**	296.2	**195.2**	175.7	**2,017.7**	1,815.3
Deferred Charges and Other Assets	**13.7**	28.9	**3.8**	6.9	**14.0**	11.5	**31.5**	47.3
	1,657.1	1,592.4	**429.7**	399.7	**270.8**	233.4	**2,357.6**	2,225.5
Liabilities								
Current Liabilities	**155.3**	154.0	**29.8**	36.8	**55.4**	41.4	**240.5**	232.2
Long-Term Debt	**232.8**	223.8	**229.6**	207.5	**99.4**	96.9	**561.8**	528.2
Other Liabilities	**43.3**	38.6	**1.3**	1.7	**–**	–	**44.6**	40.3
Deferred Income Taxes	**363.1**	369.6	**41.4**	35.0	**44.3**	40.5	**448.8**	445.1
Capital Employed	**862.6**	806.4	**127.6**	118.7	**71.7**	54.6	**1,061.9**	979.7
	1,657.1	1,592.4	**429.7**	399.7	**270.8**	233.4	**2,357.6**	2,225.5

Note: Corporate assets have been allocated to the divisions.

CAPITAL INVESTMENT ($ millions)	1994	1993	1992	1991	1990
Conventional Oil and Gas					
Western Canada	**237.4**	140.3	63.5	94.7	128.6
Argentina	**22.6**	–	–	–	–
Syncrude	**18.9**	36.0	8.3	15.8	13.9
Transportation, Storage and Processing	**58.6**	69.3	9.0	10.0	12.8
Forest Products	**29.6**	8.6	8.7	12.4	89.6
Other	**4.6**	7.4	10.4	8.1	23.9
	371.7	261.6	99.9	141.0	268.8

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 judgements. 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 Company's operating and financial results and that the Company's assets are safeguarded. The Company's Internal Audit department reviews and evaluates the adequacy of and compliance with the Company's internal controls. As well, it is the policy of the Company 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 Company's last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.

G. Morgan
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, 1994 and December 31, 1993 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1994. These financial statements are the responsibility of the Company'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 Company as at December 31, 1994 and December 31, 1993, and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1994, in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Calgary, Alberta
February 7, 1995

Consolidated Statement of Earnings

($ millions, except per share amounts)

Year ended December 31	Note Reference	1994	1993	1992*
Revenues, Net of Royalties		$ 922.9	$ 737.0	$ 662.5
Costs and Expenses				
Operating		423.6	370.1	349.5
Cost of gas purchased		84.5	35.4	29.0
General and administrative†		18.9	17.9	18.0
Interest, net	3	33.6	23.5	38.8
Foreign exchange		36.0	6.6	6.5
Depreciation, depletion and amortization		161.7	144.1	148.9
Non-recurring items	4	–	–	29.2
Earnings Before the Undernoted		164.6	139.4	42.6
Equity earnings		6.0	10.2	12.0
Income taxes	5	(70.1)	(58.0)	(12.4)
Net Earnings		$ 100.5	$ 91.6	$ 42.2
Earnings per Common Share				
Basic		$ 1.36	$ 1.23	$ 0.53
Fully diluted		$ 1.34	$ 1.21	$ 0.53

† *Includes office consolidation expenses.*

* *Restated - See Note 2*

Consolidated Statement of Retained Earnings

($ millions)

Year ended December 31	1994	1993	1992
Balance, Beginning of Year	$ 314.9	$ 253.4	$ 240.8
Net Earnings	100.5	91.6	42.2
	415.4	345.0	283.0
Dividends – Preferred shares	3.0	5.8	5.8
– Common shares	28.1	24.3	23.8
	31.1	30.1	29.6
Balance, End of Year	$ 384.3	$ 314.9	$ 253.4

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheet

($ millions)

As at December 31	Note Reference	1994	1993*
Assets			
Current Assets			
Cash and short-term investments, at cost which approximates market		$ 23.7	$ 81.4
Accounts receivable and accrued revenue		154.0	121.5
Inventories	6	67.5	48.8
		245.2	251.7
Investments	7	63.2	111.2
Capital Assets	8	2,017.7	1,815.3
Deferred Charges and Other Assets	9	31.5	47.3
		$ 2,357.6	$ 2,225.5

	Note Reference	1994	1993*
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank indebtedness	10	$ 23.2	$ 23.7
Accounts payable and accrued liabilities		201.9	164.9
Income taxes payable		4.4	39.2
Current portion of long-term debt		11.0	4.4
		240.5	232.2
Long-Term Debt	11	561.8	528.2
Other Liabilities	12	44.6	40.3
Deferred Income Taxes		448.8	445.1
		1,295.7	1,245.8
Shareholders' Equity			
Share capital	13	673.3	662.5
Retained earnings		384.3	314.9
Foreign currency translation adjustment		4.3	2.3
		1,061.9	979.7
		$ 2,357.6	$ 2,225.5

* *Restated - See Note 2*

Approved by the Board:

Director R. F. Haskayne Director

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Financial Position

($ millions, except per share amounts)

Year ended December 31	1994	1993*	1992*
Operating Activities			
Net earnings	$ 100.5	$ 91.6	$ 42.2
Depreciation, depletion and amortization	161.7	144.1	148.9
Deferred income taxes	11.0	6.8	5.3
Dividends in excess of equity earnings	0.2	(1.2)	(2.2)
Other	21.4	10.1	25.7
Cash Flow from Operations	294.8	251.4	219.9
Net change in non-cash working capital	(57.4)	59.6	(5.8)
	237.4	311.0	214.1
Investing Activities			
Capital investment	(304.6)	(260.6)	(91.5)
Acquisition of Stealth Resources Limited	(64.8)	–	–
Additions to equity investments	(2.3)	(1.0)	(8.4)
Proceeds on disposal of assets and investments	75.2	61.3	53.1
Repayment of advances from affiliates	1.1	3.0	6.7
Investments and other	(0.2)	4.1	(3.4)
	(295.6)	(193.2)	(43.5)
Dividends			
Preferred share dividends	(3.0)	(5.8)	(5.8)
Common share dividends	(28.1)	(24.3)	(23.8)
	(31.1)	(30.1)	(29.6)
(Decrease) Increase in Cash before Financing Activities	(89.3)	87.7	141.0
Financing Activities			
Issue of long-term debt	215.0	111.9	116.8
Repayment of long-term debt	(193.7)	(144.9)	(276.9)
Preferred share conversion and redemption	(75.0)	–	–
Issue of common shares	85.8	10.7	16.5
	32.1	(22.3)	(143.6)
(Decrease) increase in cash and short-term investments less bank indebtedness	$ (57.2)	$ 65.4	$ (2.6)
Cash and short-term investments less bank indebtedness, end of year	$ 0.5	$ 57.7	$ (7.7)
Cash Flow from Operations per Common Share			
Basic	$ 4.07	$ 3.52	$ 3.11
Fully diluted	$ 3.88	$ 3.33	$ 2.98

* *Restated - See Note 2*

See accompanying notes to the 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 "Company") and its subsidiaries, all of which are wholly owned.

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

Investments in companies and partnerships over which the Company has significant influence are accounted for using the equity method.

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

(B) CAPITAL ASSETS

Oil and Gas

Conventional

The Company 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 costs are estimated and recorded over approximately 20 years.

Tabular amounts in $ millions, unless otherwise indicated

A ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted, unescalated future net revenues from proven reserves less the cost incurred or estimated to develop those reserves; related production, interest and general and administration costs; and an estimate for restoration costs and applicable taxes. The calculations are based on sales prices and costs at the end of the year. The Company has never taken a write down of capital assets as a result of the ceiling test.

Oil sands

Capital assets associated with surface mineable 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.

Transportation, Storage and Processing

Capital assets related to pipelines are carried at cost and depreciated using a straight-line method over the remaining term of each applicable pipeline service agreement.

Capital assets related to NGL extraction plant operations are carried at cost and depreciated using a straight-line method over the initial term of the cost-of-service contracts.

Capital assets related to gas storage facilities are recorded at cost and depreciated on a straight-line basis over 20 years.

Forest Products

Capital assets are depreciated on a straight-line basis over the useful life of the assets, which averages approximately 10 years for the lumber and medium-density fibreboard plant and 27 years for the pulp mill.

Reforestation costs are expensed as incurred.

Other

Capital assets are carried at cost and depreciated on a straight-line basis over the useful life of the assets.

(C) FOREIGN CURRENCY TRANSLATION

Operations outside Canada are considered to be self-sustaining and to use their primary currency for recording substantially all transactions. 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.

Tabular amounts in $ millions, unless otherwise indicated

(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 1993 and 1992 figures have been reclassified for comparative purposes.

2. CHANGE IN ACCOUNTING POLICY

Effective December 31, 1994, the Company changed its method of accounting for jointly controlled companies and partnerships from the equity method to the proportionate consolidation method as recommended by the Canadian Institute of Chartered Accountants' accounting standard on Interests in Joint Ventures. This change has been applied on a retroactive basis and has resulted in no change to net earnings.

3. INTEREST, NET

	1994	1993	1992
Interest expense – long-term debt	$ 34.8	$ 26.5	$ 40.0
Interest expense – other	1.5	1.4	1.6
Interest income	(2.7)	(4.4)	(2.8)
	$ 33.6	$ 23.5	$ 38.8

4. NON-RECURRING ITEMS

The 1992 non-recurring items include the pre-tax impact of additional depreciation and amortization related to certain non-strategic assets less the gain on exchange of convertible debentures and on the sale of Chieftain International, Inc. shares and Coal Valley assets. In addition, the carrying value of the fertilizer assets was reduced to an estimated realizable amount.

Tabular amounts in $ millions, unless otherwise indicated

5. INCOME TAXES

	1994	1993	1992
Current	$ 57.1	$ 49.4	$ 5.0
Deferred	11.0	6.8	5.3
Alberta royalty tax credit	(1.9)	(1.8)	(1.8)
Large corporations tax	3.9	3.6	3.9
Income taxes	$ 70.1	$ 58.0	$ 12.4

The following table reconciles income taxes calculated at statutory rates with actual income taxes:

	1994	1993	1992
Earnings before income taxes	$ 170.6	$ 149.6	$ 54.6
Income taxes at statutory rate of 44.3%	$ 75.6	$ 66.3	$ 24.2
Effect on taxes resulting from:			
Non-deductibility of crown payments and DD&A*	25.5	21.9	16.0
Federal resource allowance	(25.0)	(23.0)	(16.1)
Utilization of tax losses	(6.4)	(4.2)	(11.0)
Alberta royalty tax credit	(1.9)	(1.8)	(1.8)
Large corporations tax	3.9	3.6	3.9
Equity earnings and other, net	(1.6)	(4.8)	(2.8)
Income taxes *(Effective rate: 1994 - 41.1%, 1993 - 38.8%)*	$ 70.1	$ 58.0	$ 12.4

* *Depreciation, depletion and amortization*

The Company's U.S. subsidiaries have approximately U.S. $6.9 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. The amount of capital assets without a tax base is $162.4 million (1993 - $128.3 million).

6. INVENTORIES

	1994 Oil and Gas	1994 Forest Products	1994 Total	1993 Total
Parts and supplies	$ 13.9	$ 8.6	$ 22.5	$ 19.7
Raw materials	–	13.8	13.8	10.4
Finished goods	0.5	10.3	10.8	8.4
Gas in storage	20.4	–	20.4	10.3
	$ 34.8	$ 32.7	$ 67.5	$ 48.8

Tabular amounts in $ millions, unless otherwise indicated

7. INVESTMENTS

The following investments are accounted for using the equity method:

	Percent Interest	1994	1993
AEC Power Ltd. *(50% voting)*	66.67	$ **30.5**	$ 31.0
Chieftain International, Inc. *(1993 - 21.6%)*	–	–	39.0
Pacific Coasr Energy Corporation	50	**17.1**	17.1
Pan-Alberta Gas Ltd. *(1993 - 49.995%)*	–	–	10.9
Iroquois Gas Transmission System, L. P.	6	**15.6**	13.2
		$ **63.2**	$ 111.2

8. CAPITAL ASSETS

Property, Plant and Equipment	1994 Cost	1994 Accumulated DD&A*	1994 Net	1993 Cost	1993 Accumulated DD&A*	1993 Net
Oil and gas	**$2,462.7**	**$ 990.6**	**$1,472.1**	$ 2,248.7	$ 924.3	$ 1,324.4
Transportation, storage and processing	**525.8**	**197.0**	**328.8**	470.2	178.2	292.0
Forest products	**273.6**	**78.4**	**195.2**	245.2	69.5	175.7
Other	**50.2**	**28.6**	**21.6**	45.6	22.4	23.2
	$3,312.3	**$1,294.6**	**$2,017.7**	$ 3,009.7	$ 1,194.4	$ 1,815.3

* *Depreciation, depletion and amortization*

General and administrative expenses capitalized to oil and gas properties during the year amounted to $6.6 million (1993 - $6.7 million).

The prices used in the ceiling test evaluation at December 31, 1994, of the Company's Canadian conventional reserves were as follows:

Natural gas	$ 1.88 per million Btu
Oil and natural gas liquids	$18.44 per barrel

Effective July 1, 1994, the Company acquired all of the outstanding shares of Stealth Resources Limited, a company engaged in the exploration and developmenr of oil and natural gas, for a total consideration of $64.8 million. The acquisition has been accounted for using the purchase method with the results of operations being included in these financial statements from the date of acquisition. The cost of net assets acquired consists of:

Capital assets	$ 63.2
Orher assets	4.3
Other liabilities	(2.7)
	$ 64.8

The acquisition was financed through the assumption of debr of $13.7 million and cash of $51.1 million.

9. DEFERRED CHARGES AND OTHER ASSETS

	1994	1993
Unrealized foreign exchange loss, net of amortization	$ **20.0**	$ 37.3
Deferred pension assets	**10.0**	8.1
Other	**1.5**	1.9
	$ **31.5**	$ 47.3

Tabular amounts in $ millions, unless otherwise indicated

10. BANK INDEBTEDNESS

Slave Lake Pulp Partnership, a 75 percent proportionately consolidated affiliate, has a working capital credit facility in the amount of $37.5 million (75 percent) which is secured by a general assignment of accounts receivable and inventories. This facility is available, at the option of the borrower, in Canadian or U.S. dollars, LIBOR loans, Bankers' Acceptances, Letters of Credit or Letters of Guarantee, each with specified interest rates and fees where applicable. At December 31, 1994, the Company's share of the facility was drawn down by $21.9 million (December 31, 1993 - $23.2 million), which is included in bank indebtedness.

11. LONG-TERM DEBT

		1994	1993
Alberta Energy Company Ltd.			
Canadian dollar debt			
Revolving credit and term loan borrowings	B		
Term loans		$ 15.0	$ –
Notes payable		206.8	36.9
First Mortgage Sinking Fund Bonds	C		
Series A, 9 7/8%, due June 1997		–	8.4
Series B, 9 3/4%, due June 1997		–	10.2
Mortgage, 11.75%, due September 2000		–	4.8
Unsecured debentures, 8.15%, due July 2003		100.0	100.0
Unsecured debentures, 9.50%, due February 2000	D	25.0	–
U.S. dollar debt			
Revolving credit and term loan borrowings			
Notes payable *(1993 - U.S. $118.3 million)*		–	156.7
U.S. Swap Agreement, due June 1996 *(U.S. $87.6 million)*	E	122.8	115.9
		469.6	432.9
Non-Recourse Long-Term Debt*			
Canadian dollar debt			
Term loans	F	14.3	15.8
U.S. dollar debt			
Project financing - notes payable *(U.S. $63.4 million)*	G	88.9	83.9
		103.2	99.7
Total long-term debt		572.8	532.6
Current portion of long-term debt		11.0	4.4
		$ 561.8	$ 528.2

* *Amounts stated are AEC's proportionate share of debt of other entities*

(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:

1995	1996	1997	1998	1999
$ 11.0	$105.7	$ 5.7	$ 5.7	$ 5.7

Tabular amounts in $ millions, unless otherwise indicated

(B) REVOLVING CREDIT AND TERM LOAN BORROWINGS

The Company has $375 million of revolving credit and term loan facilities available with three banks, of which $153 million was unutilized at year-end. Two facilities are fully revolving for a 364-day period with provision for extensions at the option of the lenders and upon notice from the Company. If not extended, one facility converts to a non-revolving reducing loan for a term of 6.5 years and the second for a term of 8 years. The third faciliry also is fully revolving, for a 2-year period, wirh provisions for yearly extensions at the option of the lender following notice from the Company. If not extended, it converts to a revolving reducing facility over seven years.

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

Alenco Inc., a subsidiary of the Company, has a U.S. $20 million unsecured revolving credit and term loan facility, none of which was utilized ar year-end. This facility is guaranteed by the Company and is fully revolving until 1996 with provision for yearly extensions at the option of the lender following norice from Alenco Inc. If not extended, the facility converts to a revolving reducing facility to be repayable in full by the end of seven yeats.

Notes payable consist of Canadian dollar Commercial Papet and Bankers' Acceptances maturing at various dates with a weighted average interest rate of 5.96% (1993 - 3.85%). 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. Mortgage Sinking Fund Bonds were redeemed effecrive March 31, 1994.

(D) UNSECURED DEBENTURES

In August 1994, the Company established a Medium Term Note program for an aggregate offering of up to $300 million under a shelf prospectus. During the year, the Company issued $25 million in unsecured debentures bearing interest at 9.50% payable semi-annually. The debentures mature on February 15, 2000.

(E) U.S. SWAP AGREEMENT

The Company entered into a U.S. dollar swap agreement in 1991 which effectively converted Canadian $100 million unsecured debentures, bearing 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 1994 was 4.73% (1993 - 3.68%). Effective January 6, 1995, this agreement was terminated, and Canadian $100 million unsecured debentures remain outstanding bearing interest at 10.50% payable semi-annually until maturity at June 30, 1996.

Tabular amounts in $ millions, unless otherwise indicated

(F) TERM LOANS

AEC has a 49.995 percent interest in Pan-Alberta Resources Inc. ("PARI") which has a non-recourse secured term credit facility which finances its investment in its natural gas liquids extraction plant joint venture. The term credit facility is secured by PARI's interest in the joint venture assets and certain related agreements. The debt is repayable over the initial term of the related joint venture contracts in equal monthly installments totalling $1.5 million (49.995 percent) per year.

Canadian dollar loans bear interest at the lenders' rates for Canadian prime commercial loans or at Bankers' Acceptance rates plus applicable margins.

At year-end, outstanding obligations under the facility included Bankers' Acceptances (Canadian) and Canadian dollar loans of $14.3 million (49.995 percent) ($15.8 million in 1993).

(G) PROJECT FINANCING

AEC has a 75 percent interest in Slave Lake Pulp Partnership ("SLPP") which has project financing comprised of bank loans arranged with a syndicate of banks in the principal amount of U.S. $63.4 million (75 percent). The credit agreement provides for quarterly principal repayments of $1.1 million (75 percent) to June 30, 2006. In addition, commencing in 1999 and ending in 2006, SLPP must repay annually on account of outstanding principal an amount equal to 15 percent of the previous year's cash flow available for distribution. The balance of the loan becomes due on September 30, 2006. The borrower deferred mandatory principal repayments until December 31, 1994, in accordance with the provisions of the credit agreement.

The Province of Alberta (the "Guarantor") has guaranteed the repayment of the principal amount outstanding, to a maximum of Canadian $72.0 million (75 percent), together with unpaid interest. In accordance with the terms of the Completion Agreement dated December 16, 1992, the Guarantor shall have no recourse to SLPP or the partners for any deficiency. The credit facility is secured by a fixed and floating charge over certain project assets. The financing is available, at the option of the borrower, in Canadian or U.S. dollar loans, LIBOR loans, Bankers' Acceptances or Letters of Credit, each with specified interest rates and fees where applicable. At December 31, 1994, the total principal amount consisted of U.S. $63.4 million (75 percent) in LIBOR loans at a weighted average interest rate of 6.54% compared with an average rate of 5.21% in 1993.

12. OTHER LIABILITIES

	1994	1993
Future removal and site restoration costs	$ 21.5	$ 17.7
Long-term liabilities related to Syncrude	13.8	12.9
Deferred acquisition payable	5.0	5.0
Other	4.3	4.7
	$ 44.6	$ 40.3

Tabular amounts in $ millions, unless otherwise indicated

13. SHARE CAPITAL

AUTHORIZED

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

ISSUED AND OUTSTANDING	1994 Number of Shares	1994 Amount	1993 Number of Shares	1993 Amount
Second Preferred Shares, Series 2				
7.75% Deferred Convertible Redeemable				
with a paid up amounr of $25 per share	**2,999,700**	**$ 75.0**	2,999,700	$ 75.0
Preferred shares redeemed for cash	**(161,793)**	**(4.1)**	–	–
Preferred shares converted to common shares	**(2,837,907)**	**(70.9)**	–	–
	–	**–**	2,999,700	75.0
Common Shares				
Balance, beginning of year	**69,993,447**	**587.5**	69,388,861	576.8
Issued on conversion of preferred shares	**3,632,437**	**70.9**	–	–
Shareholder Investment Plan	**662,842**	**12.5**	358,783	7.3
Employee Savings Plan	**23,111**	**0.5**	52,034	1.0
Employee Share Option Plan	**152,277**	**1.9**	193,769	2.4
Balance, end of year	**74,464,114**	**673.3**	69,993,447	587.5
		$673.3		$ 662.5

The Employee Share Option Plan provides for granting to employees of the Company and its subsidiaries options to purchase Common Shares of the Company. Each option granted under the plan expires after seven years and may be exercised in cumulative annual amounts of 25 percent on or after each of the first four anniversary dates of the grant.

At December 31, 1994, employee share options, exercisable between 1995 and 2001 were outstanding to purchase 2,469,079 (1993 - 2,265,356) Common Shares at prices ranging from $12.04 to $20.75 per share.

Tabular amounts in $ millions, unless otherwise indicated

14. SUPPLEMENTARY INFORMATION

(A) INVESTMENTS PROPORTIONATELY CONSOLIDATED

The Company conducts a substantial portion of its conventional oil and gas activity through unincorporated joint ventures which are accounted for using the proportionate consolidation method. In addition, the following investments are also accounted for using the proportionate consolidation method:

Percent interest	1994	1993	1992
Pan-Alberta Resources Inc.	**49.995**	49.995	49.995
Slave Lake Pulp Partnership	**75**	75	75
Syncrude Joint Venture	**10**	10	10
AEC Oil Sands Ltd. *(75% of AEC Oil Sands Limited Partnership)*	**3.75**	3.75	3.75
Ethane Gathering System Joint Venture	**33.3**	33.3	33.3
Nitrogen Fertilizer	**–**	–	25

The Company has included in its accounts the following aggregate amounts in respect of the above-listed jointly controlled companies, unincorporated joint ventures and jointly controlled partnerships:

	1994	1993	1992
Assets	**$ 551.9**	$ 540.1	$ 578.8
Liabilities	**217.5**	193.9	172.0
Revenues, net of royalties	**315.5**	248.6	277.3
Operating expenses	**230.8**	202.6	199.5

(B) PENSION PLANS

The Company has both a defined benefit pension plan and a defined contribution plan which cover substantially all employees. The defined benefit pension plan provides pension benefits upon retirement based on length of service and final average earnings. Defined contribution benefits are determined by the value of contributions and the return on investment of these contributions.

The cost of pension benefits earned by employees is determined using the projected unit credit method and is expensed as services are rendered. This cost is actuarially determined and reflects management's best estimate of the pension plan's expected investment yields and the expected salary escalations, mortality rates, termination dates and retirement ages of pension plan members. The plan is funded as actuarially determined in accordance with regulatory requirements through contributions to a trust fund. The costs of defined contribution pension benefits are based on a percentage of salary.

Tabular amounts in $ millions, unless otherwise indicated

The cumulative difference between the amounts funded and expensed is reflected as a deferred asset in the consolidated balance sheet.

At December 31, 1994, the market value of defined pension fund assets was $57.8 million (1993 - $64.0 million) and the accrued pension liability, as estimated by the Company's actuaries, was $36.4 million (1993 - $43.3 million).

In addition, one of the Company's unincorporated joint ventures has a defined benefit pension plan. At December 31, 1994, the market value of the Company's share of pension fund assets was $53.6 million and the Company's share of accrued pension liability, as estimated by the joint venture's actuaries, was $54.9 million.

(C) RELATED PARTY TRANSACTIONS

During the year, the Company sold approximately $11.8 million (1993 - $27.7 million) of natural gas to affiliates at market prices of which $0.6 million (1993 - $2.8 million) is included in accounts receivable at year end.

15. SEGMENTED INFORMATION

	Oil and Gas			Transportation, Storage and Processing			Forest Products			Other			Total		
($ millions)	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992	1994	1993	1992
Revenue	611.5	502.5	394.9	164.8	138.9	124.5	184.0	137.3	109.7	14.7	–	58.8	975.0	778.7	687.9
Royalties	52.1	41.7	24.1	–	–	–	–	–	–	–	–	1.3	52.1	41.7	25.4
Revenue, net of royalties	559.4	460.8	370.8	164.8	138.9	124.5	184.0	137.3	109.7	14.7	–	57.5	922.9	737.0	662.5
Operating costs	221.1	193.3	158.7	82.0	71.6	50.1	120.5	105.2	98.7	–	–	42.0	423.6	370.1	349.5
Cost of gas purchased	84.5	35.4	29.0	–	–	–	–	–	–	–	–	–	84.5	35.4	29.0
DD&A	126.7	114.3	107.1	19.3	17.6	17.9	9.5	9.8	10.4	–	–	10.9	155.5	141.7	146.3
Operating income	127.1	117.8	76.0	63.5	49.7	56.5	54.0	22.3	0.6	14.7	–	4.6	259.3	189.8	137.7
Equity earnings	–	3.2	2.6	6.0	7.0	6.5	–	–	–	–	–	2.9	6.0	10.2	12.0
Divisional income	127.1	121.0	78.6	69.5	56.7	63.0	54.0	22.3	0.6	14.7	–	7.5	265.3	200.0	149.7
Less:															
Corporate G&A*													18.9	17.9	18.0
Corporate DD&A													6.2	2.4	2.6
Interest, net													33.6	23.5	38.8
Foreign exchange													36.0	6.6	6.5
Non-recurring items													–	–	29.2
Income taxes													70.1	58.0	12.4
Net earnings													100.5	91.6	42.2
Identifiable assets	1,657.1	1,592.4	1,432.1	429.7	399.7	335.5	270.8	233.4	230.6	–	–	67.2	2,357.6	2,225.5	2,065.4
Additions to capital assets and investments	283.5	183.7	73.5	58.6	69.3	9.0	29.6	8.6	8.7	–	–	8.7	371.7	261.6	99.9

Note: Corporate assets have been allocated to the divisions.

* *Includes office consolidation expenses.*

"Oil and Gas" includes conventional oil and gas production and marketing, Argentina and Syncrude.
"Transportation, Storage and Processing" includes pipelines, gas storage, straddle plants, and Syncrude utility operation.
"Forest Products" includes lumber, medium density fibreboard and pulp.

Corporate Information

Board of Directors

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President
Embee Consulting Ltd.
Edmonton, Alberta

Joan M. Donald
Director and Officer
Parkland Industries Ltd.
Red Deer, Alberta

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

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

John E. Maybin
Corporate Director
Calgary, Alberta

Stanley A. Milner
President and Chief Executive Officer
Chieftain International, Inc.
Edmonton, Alberta

David E. Mitchell, O.C.
Chairman
Alberta Energy Company Ltd.
Calgary, Alberta

Gwyn Morgan
President and Chief Executive Officer
Alberta Energy Company Ltd.
Calgary, Alberta

Valerie A.A. Nielsen, P.Geoph.
Oil and Gas Consultant
Calgary, Alberta

J. Harry Tims
President and Chief Executive Officer
McTavish, McKay and Company Limited
Calgary, Alberta

H. Richard Whittall
Corporate Director
Vancouver, British Columbia

Senior Management

Gwyn Morgan
President and Chief Executive Officer

Roger D. Dunn
Vice-President

Hector J. McFadyen
Senior Vice-President

R. William Oliver
Vice-President

Drude Rimell
Vice-President, Corporate Services

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

Kenneth S. Aberle
Director, Taxation

Derek S. Bwint
Treasurer

Brian C. Ferguson
Director, Corporate Relations and Corporate Secretary

Wayne G. Holt
General Counsel

Marcel F. Preteau
Director, Information Technology Services

Ronald H. Wesrcott
Comptroller

Richard H. Wilson
Director, Public Affairs

Officers of Divisions

AEC Oil and Gas

Dennis W. Cornelson
Senior Vice-President, Marketing

Roger D. Dunn
Senior Vice-President

Guy C.L. James
Vice-President, Exploration

Allan F. Kiernan
Senior Vice-President, Production

R. William Oliver
Senior Vice-President

AEC Pipelines

Bernie J. Bradley
Senior Vice-President

Robert A. Towler
Senior Vice-President, Business Development

Executive Office
#3900, 421 - 7 Avenue S.W.
Calgary, Alberta T2P 4K9
Phone: (403) 266-8111

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

Transfer Agent and Registrar (Trustee)
Common Shares
10.50% Debentures (Trustee)
8.15% Debentures (Trustee)
Medium Term Note Debentures (Trustee)
The R-M Trust Company
Calgary, Vancouver, Regina, Winnipeg, Toronto, Montreal, Halifax

Questions relating to share certificates, estate settlements, duplicate mailings, the dividend reinvestment and share purchase plan, or other account information should be directed to R-M Trust's corporate trust offices in Calgary:

The R-M Trust Company
600 Dome Tower
333 - 7 Avenue S.W.
Calgary, Alberta T2P 2Z1
Phone: 1-800-387-0825
(toll free in Canada and Continental U.S.A.)

Auditors (Financial)
Price Waterhouse
Chartered Accountants
Calgary, Alberta

Auditors (Oil and Gas Reserves)
McDaniel & Associates Consultants Ltd.
Calgary, Alberta

Stock Listing Symbol
AEC

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

Major Subsidiaries, Affiliates and Partnerships

A.E.C. Argentina S.A.	100%
AEC Energy Resources Ltd.	100%
AEC Power Ltd. *(50% voting)*	66.7%
Alberta Oil Sands Pipeline Ltd.	100%
Alenco Gas Services Inc.	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%
Iroquois Gas Transmission System, L.P.	6%
Pacific Coast Energy Corporation	50%
Pan-Alberta Resources Inc. *(40% voting)*	49.9%
Ranger Forest Products Ltd.	100%
Slave Lake Pulp Partnership	75%
Stealth Resources Limited	100%

Major Joint Ventures

Ethane Gathering System		33.3%
Syncrude		13.75%
Alberta Energy Company Ltd.	10%	
AEC Oil Sands Ltd.	3.75%	

(75% of AEC Oil Sands Limited Partnership's 5%)

Annual Meeting of Shareholders
Tuesday, April 4, 1995, at 3:00 P.M. local time
Crystal Ballroom, Palliser Hotel
133 - 9 Avenue S.W.
Calgary, Alberta

Shareholders of Alberta Energy Company Ltd. are encouraged to attend. Those unable to do so are asked to sign and return the form of proxy mailed with this report.

Additional Information
For additional investor relations information please contact Brian C. Ferguson, Director, Corporate Relations and Corporate Secretary, at the above Executive Office address.

Abbreviations

bbl	*barrel(s)*
BCF	*billion cubic feet*
BCFD	*billion cubic feet per day*
BCFE	*billion cubic feet equivalent*
b/d	*barrels per day*
Btu	*British thermal unit*
Mcf	*thousand cubic feet*
Mcf/d	*thousand cubic feet per day*
MMBtu	*million British thermal units*
MMcf	*million cubic feet*
MMcf/d	*million cubic feet per day*
NGLs	*natural gas liquids*

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