ALBERTA GAS TRUNK LINE ANNUAL REPORT 1979

Cover Story

In August 1979 The Alberta Gas Ethylene Company Ltd., a wholly-owned subsidiary of The Alberta Gas Trunk Line Company Limited, started up its first world-scale ethylene plant in Joffre, Alberta. This is a significant stage in the development of the Alberta Petrochemical Complex, a $1.5 billion project involving 12 major corporations. The Company has played a central role in this Complex since its inception in 1974.

The cover image on this year's annual report is a photograph of the Joffre plant rendered by the technique of posterization and is printed on a petrochemical-based synthetic material.

The Company

The Alberta Gas Trunk Line Company Limited (AGTL) is a Canadian-owned independent company working within the natural gas pipeline, petrochemical, petroleum and manufacturing sectors. The Company's headquarters are in Calgary, Alberta. AGTL is the province's major gas transmission company. In 1979, with 10 836 km (6,733 miles) of pipeline in service, the Alberta system transported 85 per cent of the province's marketed natural gas production and more than 70 per cent of marketed Canadian production.

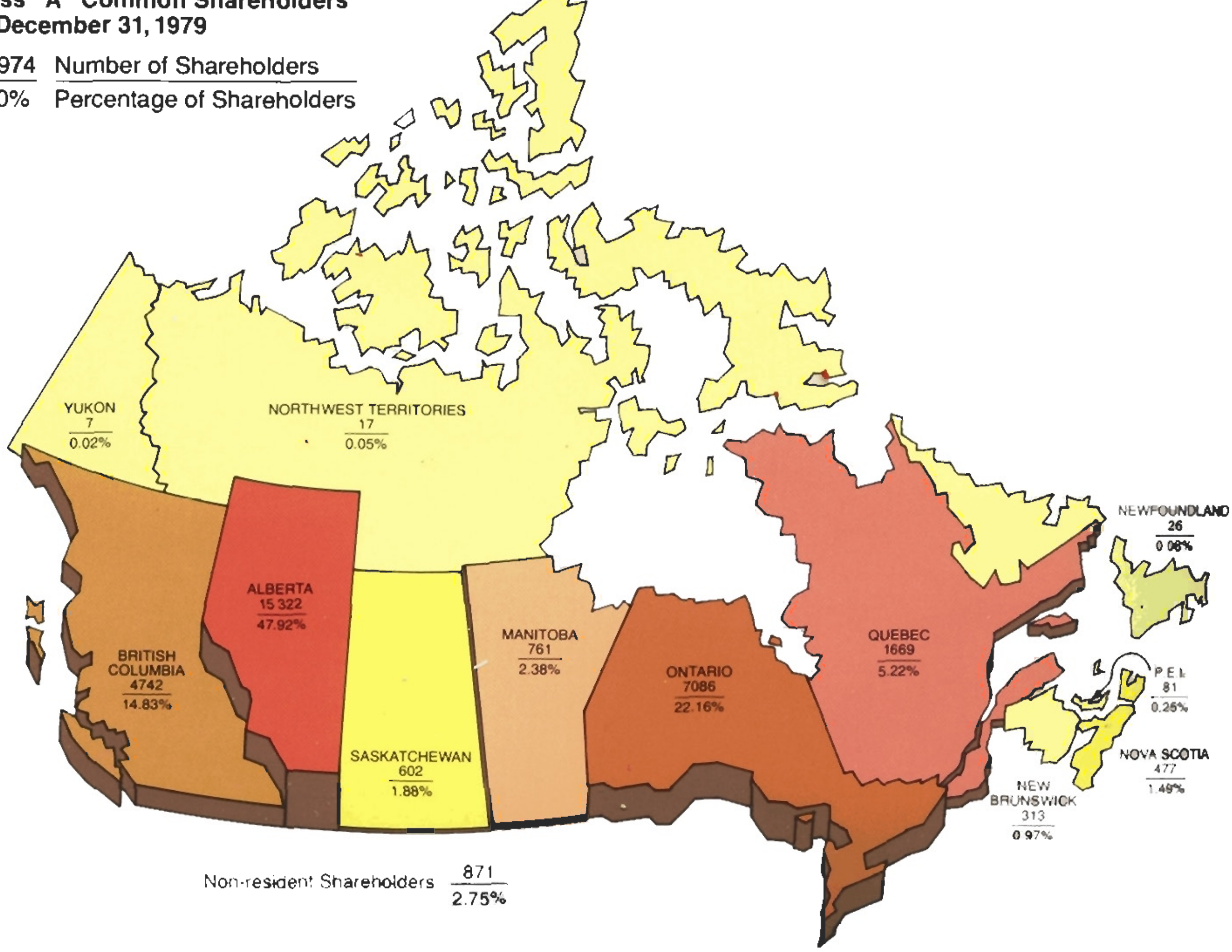
The Company has played a major role in the development of the Alberta Petrochemical Complex. It is also the majority shareholder in Husky Oil Ltd., a fully-integrated oil company with holdings in Canada and the U.S. and exploration activities internationally.

The Company is co-sponsor of Foothills Pipe Lines (Yukon) Ltd. which is responsible for co-ordination and direction of the Canadian portion of the Alaska Highway Gas Pipeline Project. The Company's wholly-owned subsidiary, Q & M Pipe Lines Ltd., has proposed a joint venture for the construction and operation of a natural gas pipeline system in Quebec and the Maritimes. AGTL is involved with other companies in a project to determine the feasibility of liquefaction of natural gas in the Arctic Islands.

The Company is a public company. As of December 31, 1979, 31 974 Class "A" common shareholder accounts and 22 534 preferred shareholder accounts were maintained. Approximately 97 per cent of the Company's common shareholders and 99 per cent of its preferred shareholders reside in Canada.

Number and Percentage of Alberta Gas Trunk Line Class "A" Common Shareholders At December 31, 1979

31 974	Number of Shareholders
100%	Percentage of Shareholders



Non-resident Shareholders 871 / 2.75%

Alberta Gas Trunk Line Principal Operations

Petrochemicals Division	Petroleum Division	Gas Transmission Division	Manufacturing Division	Pipeline Development Division
The Alberta Gas Ethylene Company Ltd. (100%)	Husky Oil Ltd. (69.1%)	Alberta Gas Transmission Facilities	Grove Valve and Regulator Company (100%)	Foothills Pipe Lines (Yukon) Ltd. (50%)
A.G. Pipe Lines (Canada) Ltd. (100%)	Algas Mineral Enterprises Ltd. (100%)	Algas Engineering Services Ltd. (100%)	WAGI International S.p.A. (66.7%)	Alaska Project Division
A.G. Pipe Lines Inc. (100%)	Pan-Alberta Gas Ltd. (50.005%)		Algas Resources Ltd. (100%)	Q & M Pipe Lines Ltd. (100%)
Diamond Shamrock Alberta Gas (50%)			Steel Alberta Ltd. (50%)	Arctic Pilot Project
Alberta Gas Chemicals Ltd. (50%)				

Consolidated Financial Highlights

	1979	1978	% Increase
Total revenue	$1,243,972,000	$ 464,131,000	168.02
Consolidated net operating income	$ 273,020,000	$ 139,454,000	95.78
Net income	$ 116,398,000	$ 85,631,000	35.93
Net income per common share			
Basic	$ 2.97	$ 2.31	28.57
Fully diluted	$ 2.43	$ 2.14	13.55
Dividends paid per common share	$ 0.925	$ 0.7772	19.02
Average number of common shares outstanding	29,774,255	28,361,000	4.98
Additions to plant, property and equipment	$ 313,905,000	$ 233,154,000	34.63
Investment in plant, property and equipment	$2,428,515,000	$1,368,054,000	77.52
Investment in plant, property and equipment (net)	$2,110,332,000	$1,137,411,000	85.54

Board of Directors

Robin J. Abercrombie

S. Robert Blair

Arthur J. E. Child

Donald R. Getty

J. Joseph Healy

Harley N. Hotchkiss

William A. Howard

Peter L. P. Macdonnell

John R. McCaig

Frederick A. McKinnon

A. Ernest Pallister

H. J. Sanders Pearson

Robert L. Pierce

Daryl K. Seaman

Ronald D. Southern

Officers of the Board

H. J. Sanders Pearson
Chairman of the Board

Dianne I. Narvik
Secretary to the Board

Corporate Officers

S. Robert Blair
President and Chief Executive Officer

Joan A. Dennis
Assistant to the President and Assistent Secretary

Robert L. Pierce
Executive Vice President

Robin J. Abercrombie
Senior Vice President and Division Executive Officer, Gas Transmission Division

Dianne I. Narvik
Senior Vice President

George L. Bastin
Vice President and Corporate Secretary

H. Clive Chalkley
Vice President

Joseph A. Macaluso
Vice President

William C. Rankin
Senior Vice President and Controller

Ronald D. Dooley
Vicc Prcsidcnt and Treasurer

James D. Hinks
Assistant Treasurer

Barry E. Harper
Vice President

Bruce G. Hartwick
Vice President

Richard C. Milner
Vice President and Assistant Controller

Robert W. Schmidt
Vice President

Bruce W. Simpson
Vice President

John E. Feick
Vice President

Division Officers

Gas Transmission Division

Donald G. Olafson
Division Vice President and General Manager

Terence N. Befus
Division Vice President

Douglas R. Hagerman
Division Vice President

V. Bent Kromand
Division Vice President

C. Dale Richards
Division Vice President

Alaska Project Division

William J. Deyell
Division Vice President and General Manager

Murray L. Peterson
Division Vice President

Robert B. Snyder
Division Vice President

Petrochemicals Division

John P. Sutherland
Division Vice President and General Manager

G. L. W. Clark
Division Vice President

Board of Directors

Top photo, from left:
S. Robert Blair
H. J. Sanders Pearson
Robert L. Pierce

Middle photos, from left:
Peter L. P. Macdonnell
Harley N. Hotchkiss
Donald R. Getty
J. Joseph Healy
Frederick A. McKinnon
John R. McCaig

Bottom photos, from left:
Robin J. Abercrombie
Arthur J. E. Child
Ronald D. Southern
A. Ernest Pallister
William A. Howard
Daryl K. Seaman

Report to Shareholders

On October 22, 1979, the Alberta Gas Ethylene plant near Joffre, Alberta, was officially opened by Alberta Premier Peter Lougheed. With the completion of this plant the first stage of the Alberta Petrochemical Complex is in place with the Company holding a central position through its ownership of the ethylene plant and partnership with others in various components of the Complex.

The Company again experienced a record year in 1979 as particular growth occurred in the Petroleum and Petrochemicals Divisions. With the full consolidation of the financial statements of Husky Oil Ltd. commencing July 1, 1979, revenue and asset growth dramatically increased.

In January 1980 the Company issued a final prospectus for the sale of eight million 6½% Cumulative Redeemable Convertible Second Preferred Shares, which issue was successfully sold throughout Canada and produced several thousand new shareholders. As many existing shareholders do not always have the opportunity to read a prospectus, we decided this year to reprint some interesting information contained in that one in respect to variations in operating results since 1975. The information here has been updated to include year-end 1979 results, which were not available at the time the prospectus was issued.

Through the years 1975 to 1979, the net income of the Company has increased in each of those years by 46%, 52%, 46%, 49% and 36% respectively. Prior to 1975 the trend of such increases was 20% or less. The primary reasons for these increases in net income are:

- the increasing significance of diversified activities in petroleum, petrochemicals and manufacturing;
- the continued growth of the rate base of the Gas Transmission Division from $441,200,000 at January 1, 1975, to $708,400,000 at December 31, 1979, representing a compound annual growth rate of 10% per year over the five-year period.

In 1975 Gas Transmission accounted for 90% of the Company's net operating income; by the end of 1979 that Division accounted for 46% of total net operating income while Petroleum, Petrochemicals and Manufacturing accounted for 40%, 9% and 5% respectively. These figures clearly demonstrate the changes that have taken place since the Company embarked on its diversification policy.

Financial Highlights

Assets of the Company on a consolidated basis were $3.1 billion as of December 31, 1979, up $1.0 billion from last year. Net income was $116.4 million or $2.97 per common share, compared to $85.6 million or $2.31 per common share for last year, representing an increase of 36% and 29% respectively.

Total consolidated operating revenues for 1979 were $1.2 billion, an increase of 168% over 1978.

The major growth areas in 1979 were within the Petrochemicals and Petroleum Divisions. Because of the lack of development of new markets for surplus Alberta-produced natural gas, expansion to the provincial gas transmission system was very small and the 1979 capital expenditure program (including interest during construction) amounted to $58 million, of which $35 million was actually spent at year end and the balance carried over into 1980. With the December National Energy Board approval of additional gas exports to the United States, it is expected the 1980 capital budget for gas transmission facilities will increase to around $110 million and several years of better growth in this area are anticipated.

The Company paid out $28.8 million in common share dividends to its shareholders during 1979 and a further $28.1 million to preferred shareholders. Through the 10 years ended December 31, 1979, a total of $131.3 million in common dividends has been paid.

It is anticipated that substantial capital expenditures will continue to be made each year in developing the assets of the Company within its existing scope of activities.

Major Developments in 1979

— On June 19, 1979, the Company acquired just over two million common shares of Husky Oil Ltd. from the Nielson interests at $48 (U.S.) per share, bringing the total interest in Husky at June 30, 1979, to approximately 68%. Pursuant to its agreement with the Nielsons, the Company followed up this acquisition with a formal offer to purchase all remaining outstanding common shares of Husky at $48 (U.S.) and all outstanding warrants at $48 (U.S.) less $21 (Cdn.). As a result of this offer, the Company's ownership in Husky increased marginally and now stands at approximately 69%. During the period the tender offer was open, the shares of Husky traded consistently above the price being offered.

— In October 1978 the Company's subsidiary, Q & M Pipe Lines Ltd., filed an application with the National Energy Board for approval to construct and operate a natural gas pipeline extending eastward from Montreal through Quebec, New Brunswick and Nova Scotia. Hearings commenced on September 25, 1979, with a competitive application by TransCanada Pipe Lines Limited also being examined. In November 1979 Q & M and TransCanada advised the Board it was their intention to form an equal joint venture for the construction and operation of a new pipeline system in Quebec and the Maritimes. The two applicants also agreed to proceed with a feasibility study in connection with new gas discoveries offshore eastern Canada to ensure proper account was taken of the commerciality of that new supply and its future impact on design of the Maritime system. The Board agreed to a short adjournment of the hearing in order to allow the two parties to combine their respective applications. The reconvened hearing commenced on December 23, 1979, and ended in early February 1980 with the decision still pending.

— During 1979 a number of important regulatory decisions were made in Canada and the United States in respect to the Alaska Highway Gas Pipeline Project. Foothills Pipe Lines (Yukon) Ltd., the company responsible for the Canadian sections of the pipeline, considers that some aspects of the decisions made by the National Energy Board are beneficial and should allow private financing of the Canadian sections. However, the decision with respect to new additional exports of gas to the United States has caused many problems for Pan-Alberta Gas Ltd., its producers and customers, and their plan to move new volumes of gas through pre-built sections of the Alaska Highway Gas Pipeline. As the decision currently stands, it does not appear that financing of the pre-built sections could be arranged and therefore it has been necessary for Pan-Alberta to go back to the National Energy Board with a new application.

— In addition to obtaining several regulatory approvals for the Alaska Highway Gas Pipeline Project during 1979, some progress was made in the United States in respect to participation in the financing of the project by the Alaska North Slope producers. It is anticipated that project sponsors in both Canada and the United States will be able to go to lenders in the first few months of 1980 with the preliminary financing plan and receive initial reactions to it.

— During 1979 several phases of the Alberta Petrochemical Complex came on stream, culminated by the official opening of the ethylene plant at Joffre, Alberta. Also early in 1980 the last of the derivative plants in this first stage of the Complex commenced operation. That derivative plant, owned by Diamond Shamrock Alberta Gas, produces polyvinyl chloride out of feedstock provided by Dow Chemical of Canada Limited from its vinyl chloride monomer plant at Fort Saskatchewan. Also in late 1979 the Energy Resources Conservation Board of Alberta recommended a permit for the construction of a second ethylene plant at the Joffre site, and the company is currently awaiting approval by the Alberta cabinet. Construction of that plant is presently expected to commence in the fall of 1980.

General Matters

During 1979 several new division and corporate officer appointments were made as the Company continued to expand and strengthen its management to ensure continued success for its shareholders.

As is usual at this time of year, we wish to thank our dedicated and loyal employees for their assistance in making the Company one of the leaders in the Canadian corporate community. We would also like to include in this vote of thanks all those employees who work for subsidiaries and affiliates and sometimes appear not to receive the recognition very richly deserved.

Further in this report, there is comment on some contributions made to volunteer organizations. One deserves singling out as being a unique effort by our employees. The Company financially sponsored 20 Vietnamese refugee families to Alberta, and was only able to do so with the dedication and help of some 100 employee volunteers and their families. We are very proud of this effort and wish to record our thanks publicly to that special group of people.

Respectfully submitted on behalf of the Board of Directors:

Chairman

President

March 7, 1980

Message from the President

In this part of last year's report, I concentrated on reviewing the evolution in our Company of basic business objectives developed in the early 1970s. The overall objective has been to continue aggressively the development of this independent Alberta-headquartered, Canadian-owned Company working within the natural gas pipeline, petrochemical, petroleum and manufacturing sectors.

Reflecting back on the 1970s, we achieved the hoped-for growth. Production and transportation assets were increased from \$0.3 billion to over \$3 billion; consolidated operating income from \$24 million to \$273 million; and annual net income from \$10 million to \$116 million. The other main trend was that the percentage of total revenues contributed by our provincial gas transmission franchise declined from 100% in 1970 to 17% in 1979, the other 83% now being contributed by petroleum, petrochemicals and manufacturing operations.

Starting into a new decade I am sure our assets and income will again be increased by very large factors, for these reasons:

1. The management of this Company is starting 1980 trying harder than in 1970.
2. In western Canada there is much more excitement in the air. Recently Canadian companies based here have shown fully that they can market local production internationally, win leadership of new national projects and finance in hundreds of millions of dollars very successfully. While the challenges are tougher, the opportunities are much greater than in the past.
3. The management of our Company is younger now. The average age of the 27 officers at the start of 1980 was 42. My point here is that this is a relatively youthful corporation with corresponding mental energy and also future stability in people who are developing long personal experience with our policies and projects.
4. The Company has obviously far more depth in its executives and derivative companies, and has correspondingly much more expertise.
5. The pure size of operation now, with projected revenues in 1980 exceeding \$2 billion per year and projected consolidated net operating income \$350 million, enables us to attack opportunities not previously available. We have lately obtained the financial strength to put this Company at the front of new business and technological development.

It is probably more important to emphasize these general features of the Company than to try to prophesy exactly the future of each of the industries in which we are established. Nevertheless, the natural gas transmission business should grow faster in the 1980s. Gas is more abundant in Canada and the alternate sources of energy for heating homes, business and industry are either getting scarcer or more expensive, or both. Natural gas production and consumption should grow much more quickly in the 1980s and our pipeline system will continue to transport approximately three-quarters of it at the start of its delivery routes.

The natural gas based petrochemical industry in Alberta is being developed on one of the most competitive feedstock supply sources in the world. The quality, scale of production and cost competitiveness of Alberta petrochemicals have become superior in international rating. The Company is now a sizeable petrochemical operator and producer, and all the signs are that this role will accelerate.

In petroleum we now have an interesting role mainly through the purchase of Husky Oil shares in 1978/79. This year Husky is working toward greatly increased development of Lloydminster heavy oil on a scale not envisaged before.

Manufacturing will probably always be part of our business, whenever we can acquire or develop the right technical and production expertise and make both work. With this goes our continuous evaluation of new technologies, product development and related engineering.

Despite this fortunate operating base, we remain sharply aware of world conditions which are restless but full of opportunities in 1980. My own opinion is that there will be large and sustained interruptions of the patterns of crude oil supply movement to the western world. If that should happen, we will be part of a North American continental economy having to endure extreme shortages of petroleum supply. Whether or not there are such interruptions of supply in the early 1980s, I also believe that by about the end of the decade it will be hard to obtain import of large crude oil quantities for North America anyway. If that is true, or even where there is a good possibility that it might be true, there is everything to be said for increasing Canadian capability to produce equivalent refinery oil chargestock and substitutes. Our Company is certainly part of that effort.

There will be downs as well as ups. We have had some experience lately that a company is welcomed widely to take the front end in work and expense for the creation of wholly new energy projects, and continue those risks when projects are delayed, but can encounter much less encouraging regulatory intervention as the projects succeed. This makes us more watchful, but not so as to deter us from being always ready to help do the jobs needed.

Besides having working knowledge from our continuing operations in several industries, the main expertise in house is the financing, management and execution of large projects to create additional production plant and transportation assets. It can be applied to good account in Canada in the 1980s.

The end message is that there is a great deal more to be done, and I report happily that this Company is in good order to do much more than its share.

Bob Blair

Petrochemicals Division

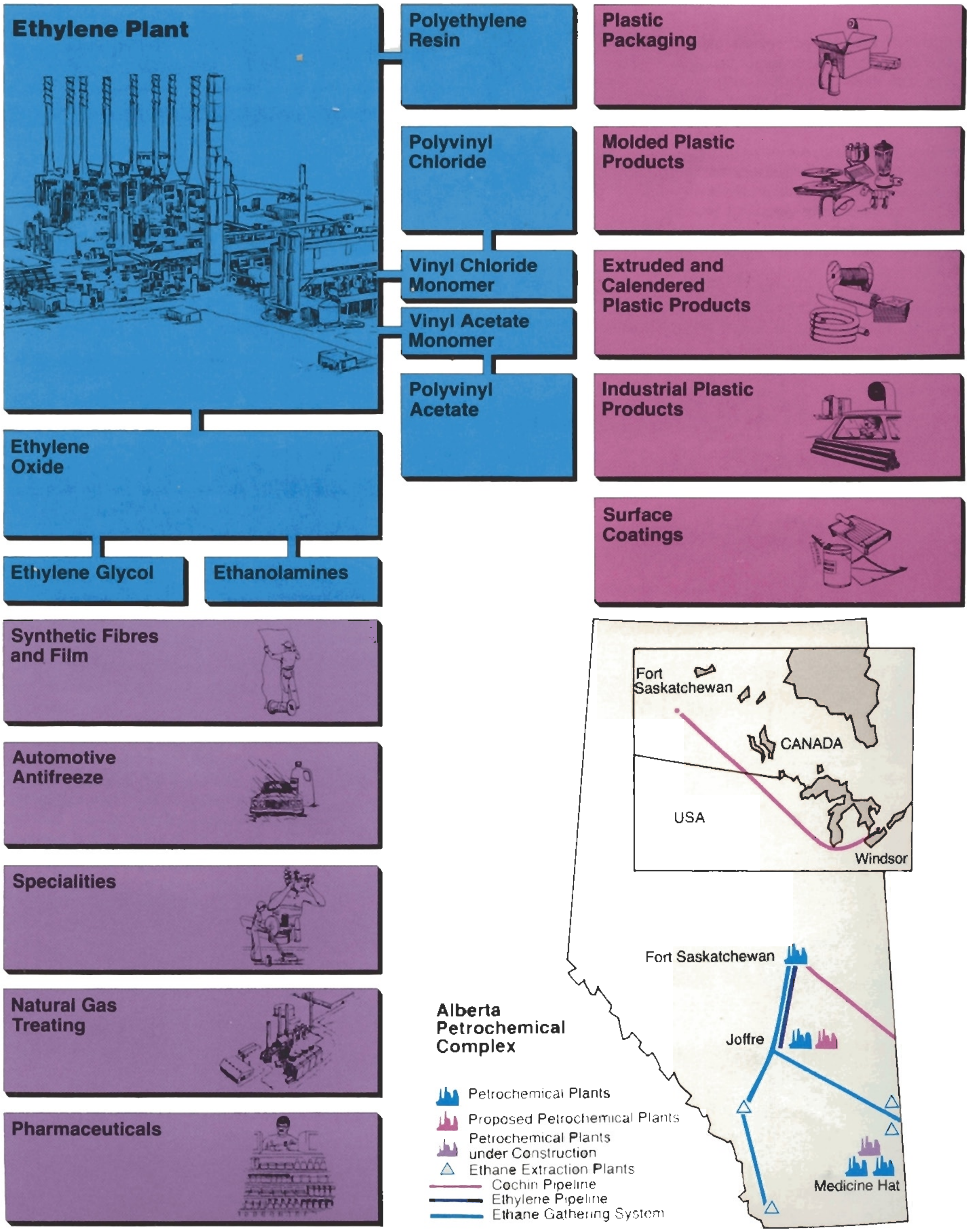
The Alberta Gas Ethylene Company Ltd. (100%)

A.G. Pipe Lines (Canada) Ltd. (100%)

A.G. Pipe Lines Inc. (100%)

Diamond Shamrock Alberta Gas (50%)

Alberta Gas Chemicals Ltd. (50%)


Ethylene Plant
Polyethylene Resin
Polyvinyl Chloride
Vinyl Chloride Monomer
Vinyl Acetate Monomer
Polyvinyl Acetate
Ethylene Oxide
Ethylene Glycol
Ethanolamines
Plastic Packaging
Molded Plastic Products
Extruded and Calendered Plastic Products
Industrial Plastic Products
Surface Coatings
Synthetic Fibres and Film
Automotive Antifreeze
Specialities
Natural Gas Treating
Pharmaceuticals
Fort Saskatchewan
CANADA
USA
Windsor
Fort Saskatchewan
Joffre
Medicine Hat
Alberta Petrochemical Complex
Petrochemical Plants
Proposed Petrochemical Plants
Petrochemical Plants under Construction
Ethane Extraction Plants
Cochin Pipeline
Ethylene Pipeline
Ethane Gathering System

From left:
G. L. W. Clark
John P. Sutherland

Alberta Petrochemical Complex

The year 1979 marked a very significant stage in the development of the Alberta Petrochemical Complex, a $1.5 billion project involving 12 major corporations, in which the Company has played a central role since its inception in 1974. At this time, the first phase of the project is essentially complete, on schedule and on budget.

In August 1979 The Alberta Gas Ethylene Company Ltd., a wholly-owned subsidiary of the Company, successfully started up its first world-scale ethylene plant, a 544 kt/a (1.2 billion pounds per year) ethane-fed unit located at Joffre, Alberta. The bringing on stream of this plant approximately one month ahead of schedule and $25 million below budget (estimated total cost of $345 million) is a tribute to the efforts of all who worked to convert the idea into an operating reality.

Dow Chemical of Canada Limited has agreed to purchase the plant's design output of 544 kt/a (1.2 billion pounds per year) under a long-term cost of service, take or pay contract. This contract, guaranteed by The Dow Chemical Company, has served as the basis of the financing of the plant. Shipments of ethylene to Dow commenced in August 1979. During 1979 Dow's vinyl chloride monomer unit and Celanese Canada's vinyl acetate unit have successfully been brought on stream and are being supplied with ethylene produced by Alberta Gas Ethylene through the ethylene delivery system.

The company is confident of its competitive position in ethylene production and the Energy Resources Conservation Board of Alberta has recommended approval of its application for a second 544 kt/a (1.2 billion pounds per year) ethylene unit at Joffre, presently envisioned to come on stream late in 1983. Based on the success with the first unit, a great deal of active interest is being shown by prospective customers in the output of this next plant. The Company is satisfied that its strong position in ethylene manufacture will form the basis for expanding the scope of its petrochemical activities.

During the year the ethane feedstock supply system was completed with the bringing on stream of the Petro-Canada (Pacific Petroleums) ethane extraction plant at Empress, Alberta. When this plant achieves full operating rates the capacity of the system will be approximately 13 500 m^3/d (85,000 barrels per day) with the quantity surplus to the requirements of Alberta Gas Ethylene being shipped down the Cochin Pipeline. The ethane gathering system is operated by a joint venture equally owned by a subsidiary of the Company, A.G. Pipe Lines (Canada) Ltd., Dome Petroleum Limited and Alberta Energy Company Ltd.

The Cochin Pipeline, in which the Company holds a 20% interest through wholly-owned subsidiaries, attained throughput rates in 1979 (its first full year of operation) of 10 100 m^3/d (64,000 barrels per day). The first shipments of ethylene from Fort Saskatchewan, Alberta, to Sarnia, Ontario, were made in November 1979.

The polyvinyl chloride (PVC) plant, jointly owned by the Company and Diamond Shamrock Canada Ltd., went into production late in the year. Vinyl chloride monomer feedstock is supplied by pipeline from Dow Canada's Fort Saskatchewan facility. The outlook for this venture for the coming year depends on the margins between monomer costs and product price, which margins have been at higher than normal levels during 1979, and the rate at which the plant production approaches full capacity. In conjunction with the Vinyl Council the venture will pursue an aggressive marketing program directed towards increasing per capita consumption of PVC, particularly in western Canada. The venture is also supporting a major research and development activity aimed at increasing production capacity.

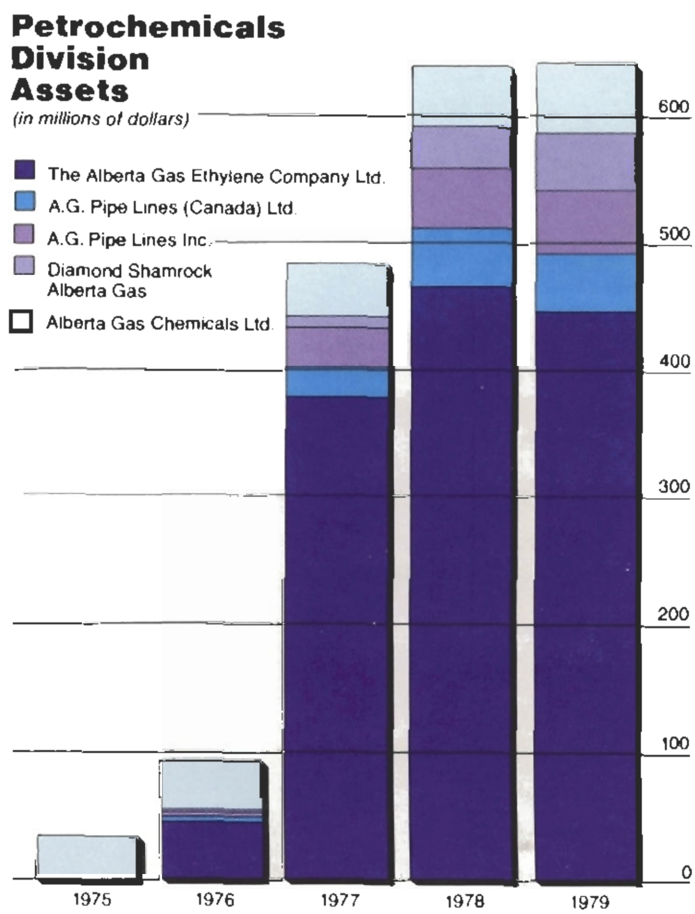
It is expected that significant growth will take place in the Petrochemicals Division during the 1980s, and that area will be a major contributor to future income of the Company.

Alberta Gas Chemicals Ltd.

This first venture by the Company into the manufacture of basic petrochemicals has successfully completed its fifth year of producing a quality product. Alberta Gas Chemicals Ltd. (AGCL) is equally owned by the Company and by Allarco Developments Ltd., Edmonton, Alberta.

The two side-by-side, world-scale methanol plants at Medicine Hat, Alberta, continue to operate at capacity and with a minimum of technical problems. The fleet of 300 company-owned jumbo tank cars distributes methanol to all corners of the continent for consumption in the United States and Canada. The balance of production is delivered to other export markets.

The Company has not been able to keep up with the demand even at the sustained high rates of production. Construction has commenced on an adjacent site in Medicine Hat to double capacity to 2177 tonnes (2,400 tons) per day. These new facilities will be completed and on stream by the end of the second quarter of 1982 at an estimated capital cost of $140 million. Financing will be



AGTL's percentage interest in the gross assets of subsidiaries and affiliates accomplished from cash generated by existing plants and bank borrowings arranged by AGCL.

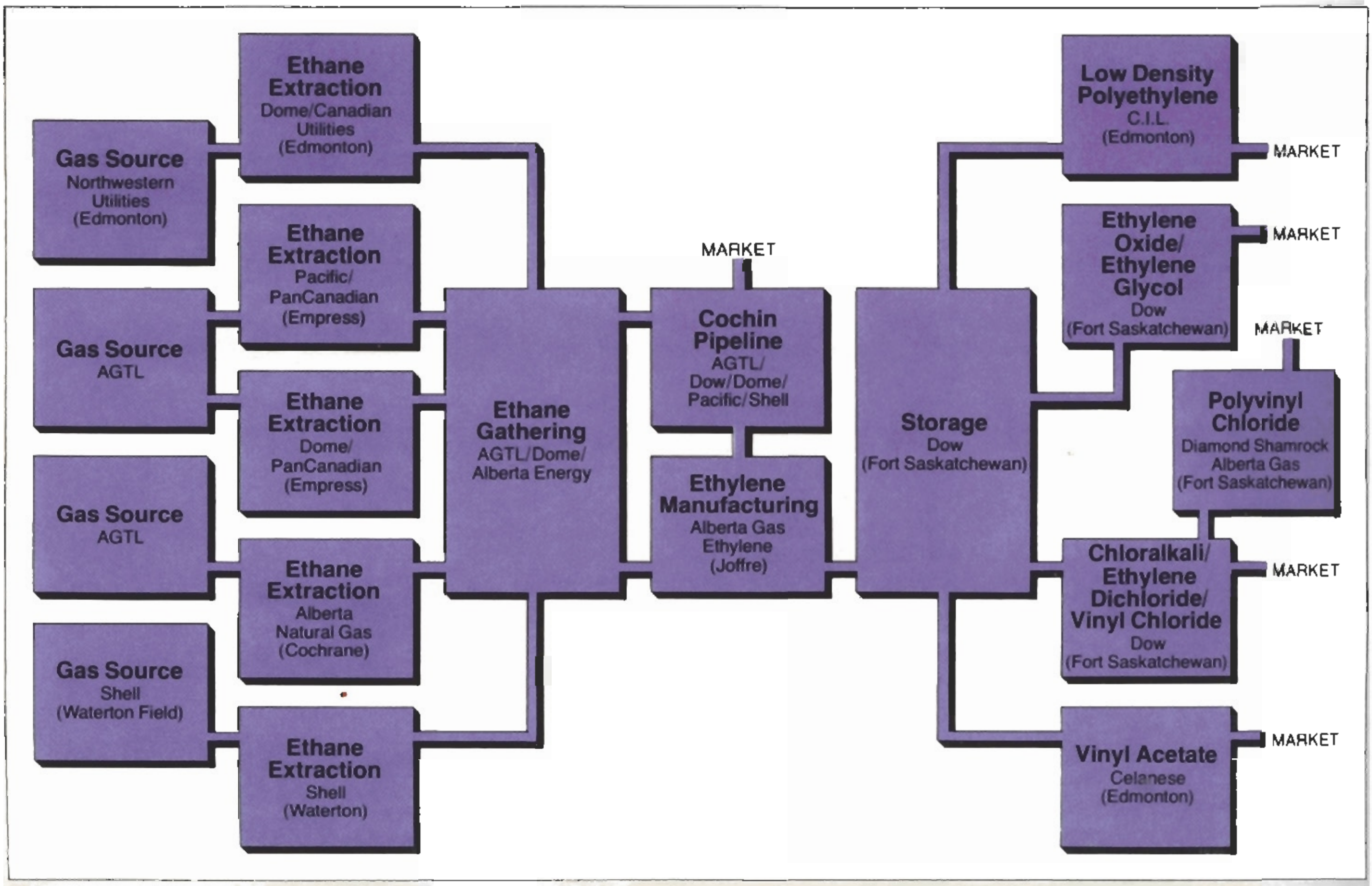
Natural gas, the feedstock for methanol production, is the critical cost component. The company has been able to control this cost through successful efforts in acquiring economically priced reserves, for its own account, and by purchasing gas from a number of Alberta producers. Feedstock acquisition programs will be expanded in 1980.

The company operates a malic and fumaric acid plant in Duluth, Minnesota. This plant experienced a good technical operating record in 1979.

Alberta Gas Chemicals, with its prominent technical and marketing expertise, will continue to assess potential new petrochemical opportunities in North American markets and abroad.

Alberta Gas Ethylene plant near Joffre, Alberta

Alberta Petrochemical Complex

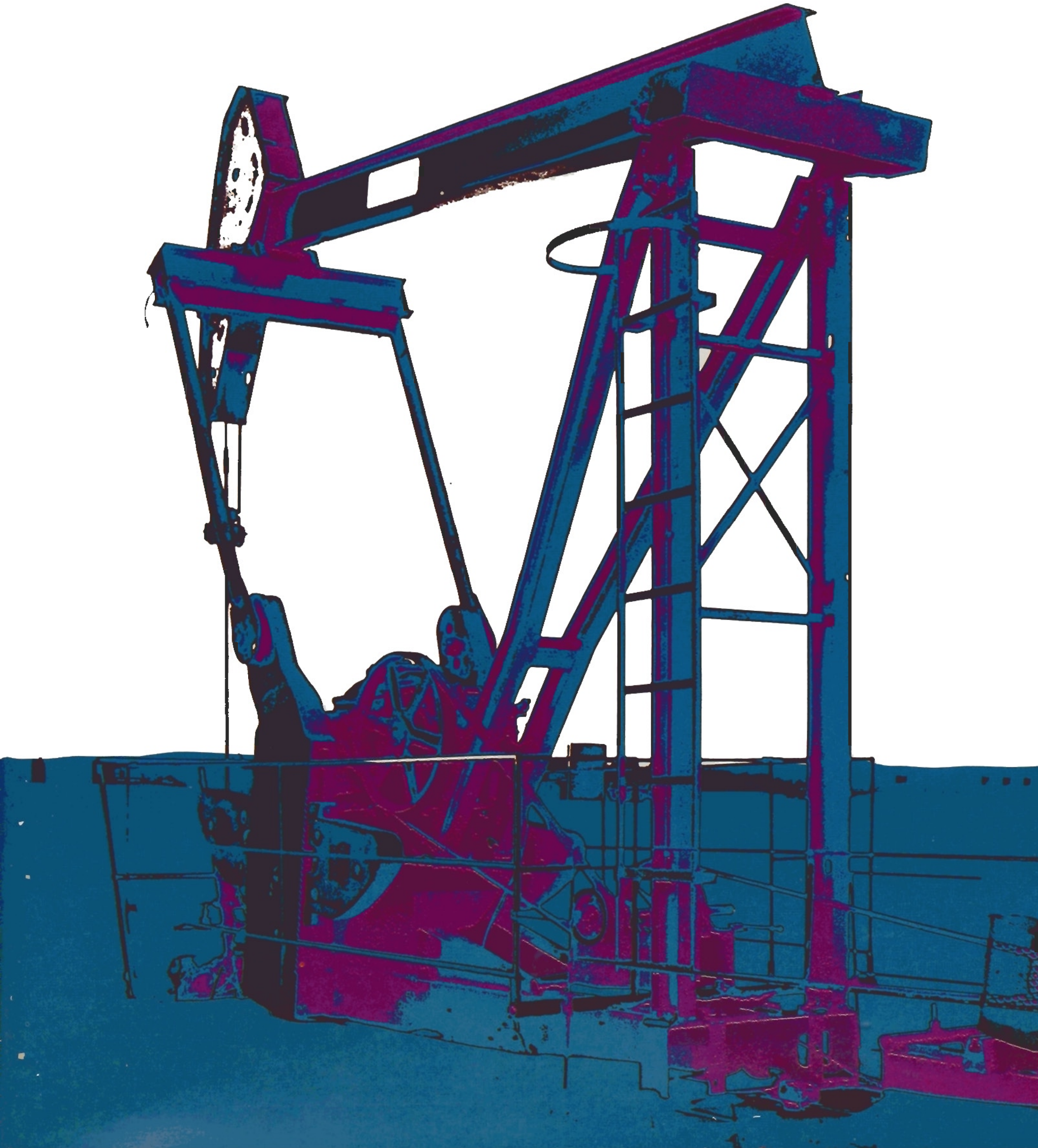


Petroleum Division

Husky Oil Ltd. (69.1%)

Algas Mineral Enterprises Ltd. (100%)

Pan-Alberta Gas Ltd. (50.005%)



Husky Oil Ltd.

On June 19, 1979, the Company increased its ownership of Husky Oil Ltd. to 67.7% through the acquisition of 18.2% of the outstanding shares from the Nielson family at a purchase price of $48 (U.S.) per share. In July 1979 the Company made a tender offer for the balance of the outstanding shares of Husky at a price of $48 (U.S.) and all outstanding warrants at $48 (U.S.) less $21 (Cdn.). Approximately 1.4% of the outstanding shares were tendered pursuant to the offer, which expired on August 9, 1979.

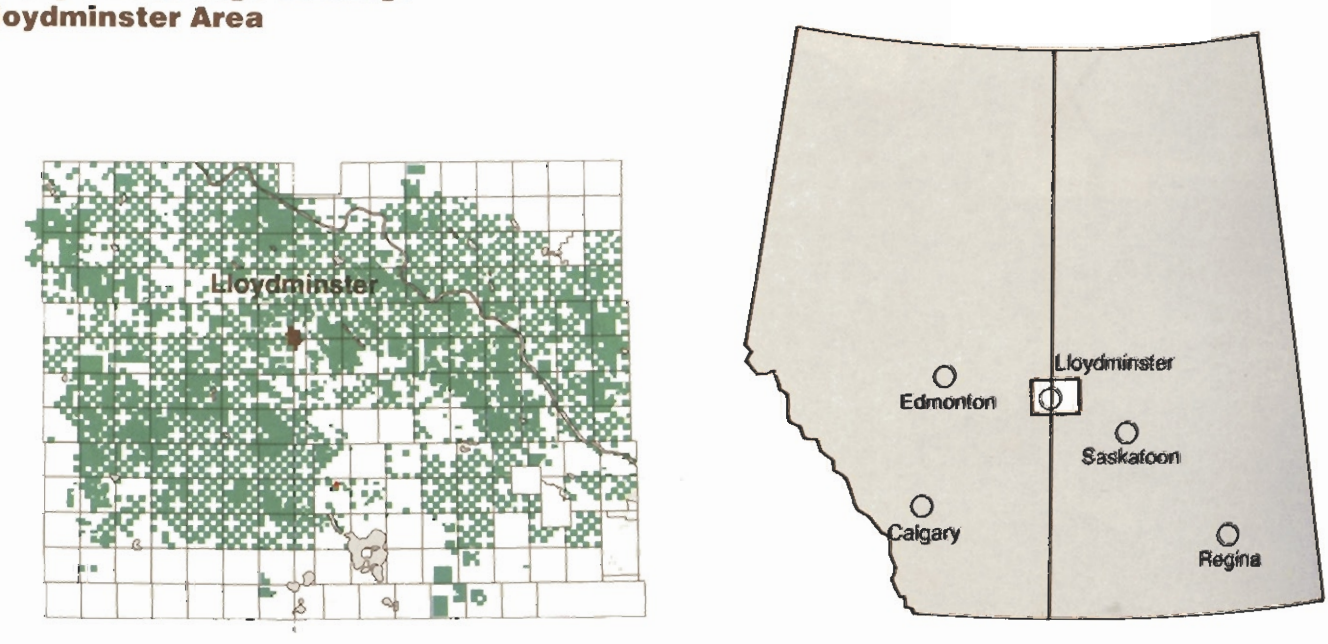
The Company is now the beneficial owner of approximately 7 600 000 shares, or approximately 69% of the outstanding shares of Husky, and has announced it has no current plans to make another tender offer to minority shareholders.

The Husky organization was restructured late in the second quarter to separate the managements of the Canadian and U.S. companies. A number of senior management appointments were made in Husky Oil Operations Ltd., which now directs all Canadian and overseas activities from Calgary headquarters, and in Husky Oil Company, which directs U.S. petroleum operations from headquarters in Cody, Wyoming. At the same time, a separate division was established within Husky Oil Operations Ltd. for heavy oil operations, research and development.

On May 24, 1979, James E. Nielson resigned as President of Husky Oil Company and was succeeded by L. Merrill Rasmussen. On October 1, 1979, Mr. Nielson also resigned as President of Husky Oil Ltd. and Husky Oil Operations Ltd. He will retain responsibility for Husky's Alaskan operations, conducted through Husky NPR Operations Ltd. Prior to these changes, Robert Blair was elected Chairman of the Board of Husky Oil Ltd. and its petroleum subsidiaries. Mr. Blair has acted as chief executive of Husky's Canadian business since James Nielson left that position.

Derrick floor, Husky drilling rig

**Husky Oil Acreage Holdings
Lloydminster Area**



From left:
Andre Rynsburger
Vice President and General Manager, Algas Mineral Enterprises Ltd.
Robert R. Bagby
Senior Vice President, Husky Oil Operations Ltd.
James A. Williams
Vice President, Husky Oil Ltd.

Canadian Petroleum Operations

In continuing activity to accelerate the development of heavy oil in western Canada, Husky drilled more than 300 wells and completed a substantial construction program in the Lloydminster area of Alberta/Saskatchewan in 1979.

Husky also initiated two steam flood pilot projects for enhanced oil recovery in the Lloydminster area during the year. Both projects are expected to be in operation by the last half of 1980.

New initiative was taken in the second quarter to expand land holdings in areas of conventional hydrocarbon potential. As a result, Husky increased its land position in western Alberta and northeastern British Columbia, particularly in the Elmworth, Cutbank and Lethbridge areas.

In 1979 Husky drilled 56 exploratory wells in the Lloydminster area and participated in 36 other western Canadian exploratory wells including 14 significant tests in the Deep Basin area of western Alberta and eastern British Columbia. As a result, 36 wells were cased in Lloydminster as potential oil, oil/natural gas or natural gas producers. Four of the Deep Basin tests were cased for production testing following encouraging natural gas shows during drilling and three Deep Basin tests were continuing to drill at year end.

Refining throughput and marketing volumes increased substantially in 1979 owing to the completion of an upgrading and expansion of Husky's Prince George, B.C., refinery and to firm demand for gasolines and other refined products throughout the year. Asphalt inventories, built up at full refinery capacity in the preceding winter and spring, were fully depleted by the end of the third quarter of 1979 owing to warm fall weather creating exceptionally heavy demand for asphalt in western Canada.

CanOcean Resources Ltd., a 1979 acquisition (formerly operating as Lockheed Petroleum Services), is engaged in the development, production and service of subsea systems for the exploration of hydrocarbons offshore. Its principal operations include the design and manufacture of one-atmosphere subsea oil and gas production equipment and project co-ordination for the offshore installation and commissioning of subsea production systems.

U.S. Petroleum Operations

Early in 1979 Husky discovered natural gas in the Baxter Siding area of the Green River Basin in Wyoming. Ten wells have been drilled in continuing exploration and development of the discovery. Five of these wells are currently being put into production. Other successful exploratory activity includes natural gas wells east of the city of Cody, near Sacramento, California, and in southeast New Mexico.

Husky participated in the drilling of a total of 28 exploratory wells in the United States in 1979, principally in the intermountain area and New Mexico, which activity resulted in two oil and nine natural gas wells and three suspended natural gas wells.

The deregulation of the price of heavy oil has beneficially affected all Husky production operations in California and part of its production operations in Wyoming. The company's capital expenditure program has been increased for the drilling and completion of several additional wells in California. New incentives by government to encourage additional heavy oil recovery through enhanced recovery methods are being assessed for possible application to all Husky's U.S. heavy oil holdings.

In the Gulf of Mexico, production of natural gas from the company's offshore platform started early in 1979 and was increased in the third quarter to 1.2 $10^6 m^3$ (44 million cubic feet) per day. Husky has a 73 per cent working interest in the producing block off Louisiana subject to a royalty which reflects the acquisition of the block on a royalty bid basis as an alternative to the more traditional cash bonus bid system.

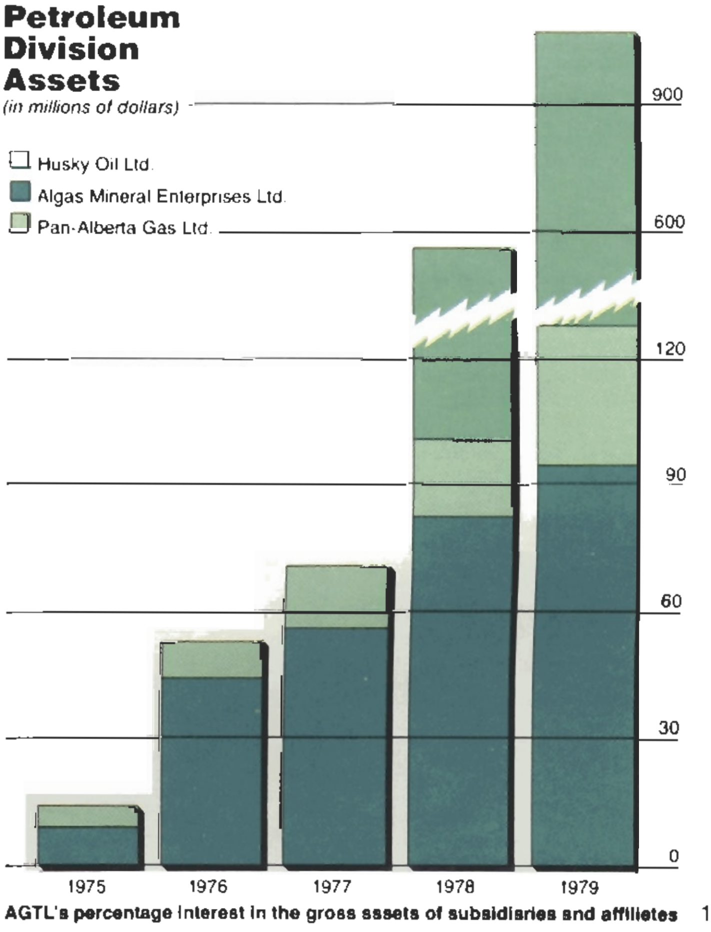
Total net crude oil production in the U.S. increased slightly in 1979 while net natural gas volumes increased approximately 45 per cent.

Refining throughput increased marginally during the year and refined product sales showed small increases owing to shortages of gasolines and diesel fuel in the industry generally.

An extensive expansion and upgrading project at the Cheyenne, Wyoming, refinery is near completion. The refinery will have more flexibility in feedstock selection and improved capability to convert heavy residuals and asphalt to gasolines and diesel fuel.

Overseas Operations

Husky has added to its overseas exploration land positions with the acquisition of an exploration permit respecting 1 999 149 ha (4,940,000 acres) offshore Senegal, Africa. A 1500 km (937-mile) marine seismic survey on the tract is scheduled for the first quarter of 1980. Offshore the Philippines, where Husky has a dominant land position on the northwestern Palawan Island shelf, explora-



AGTL's percentage interest in the gross assets of subsidiaries and affiliates tory activity included an extensive marine seismic program in the Matinloc area, an exploration well in the Nido area which encountered oil in non-commercial quantities and a successful follow-up to an earlier oil discovery in the Cadlao area.

Algas Mineral Enterprises Ltd.

Algas Mineral Enterprises Ltd. (AMEL), a wholly-owned subsidiary of the Company, is primarily engaged in oil and gas exploration and production in Alberta. AMEL's share of gross sales before royalty during 1979 amounted to 197.9 10^6m^3 (7,024 million cubic feet) of gas (including the gas equivalents of oil and natural gas liquids) as compared to 207.9 10^6m^3 (7,379 million cubic feet) in 1978. A substantial part of AMEL's proven gas reserves is currently shut in waiting for improved market conditions. Drilling activity during 1979 is reflected in the following table showing the number of wells drilled during the past year:

WELLS DRILLED	GAS		OIL		DRY		TOTAL	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory	18	6.7	2	0.63	13	6.06	33	13.39
Development	19	4.8	8	2.76	3	0.76	30	8.32
Total	37	11.5	10	3.39	16	6.82	63	21.71

An additional 28 farmout wells were drilled during the year at no cost to AMEL, resulting in 23 gas wells, one oil well and four dry holes.

AMEL participated in extensive seismic surveys during 1979 and added 20 400 ha (51,000 acres) gross, 8540 ha (21,350 acres) net, to its existing land position to bring land holdings at year end to 481 260 ha (1,203,150 acres) gross, 210 150 ha (525,373 acres) net.

Expenditures for petroleum and natural gas rights, geophysical surveys, exploration and development drilling, and surface facilities amounted to $12 million in 1979.

Pan-Alberta Gas Ltd.

Pan-Alberta Gas Ltd., 50.005% owned, recorded revenues of $95 million during 1979, an increase of 18% over 1978. Sales of 1.9 10^9m^3 (67.7 billion cubic feet) were 0.319 10^9m^3 (11.3 billion cubic feet), or 20%, over 1978. As a result of regulation, the company continues to experience an extremely low profit margin of less than one-half of one per cent of revenue. This regulation, and particularly the net income allowed, is currently under appeal to the Public Utilities Board of Alberta.

During the past two and one-half years, one of Pan-Alberta's major activities has been a project to export natural gas from Canada to the United States. The proposal provided for the sale of 138.1 10^9m^3 (4.9 trillion cubic feet) over a term of 12 years to Northwest Alaskan Pipeline Company of Salt Lake City, Utah. Transportation of the gas, to be supplied by more than 400 producers, would be facilitated by early construction of the southern portions of the Alaska Highway Gas Pipeline System.

In December 1979 Pan-Alberta received approval from the National Energy Board to export 51.01 10^9m^3 (1.8 trillion cubic feet) of gas over a term of seven years. The term and volumes granted are substantially less than applied for, and the project companies feel the decision does not recognize the practical requirements necessary to finance major pipelines and producer facilities. Notwithstanding this setback, Pan-Alberta believes this project is of paramount importance to the Canadian producing industry and is therefore, together with the other participants in the project, continuing its efforts to develop a workable plan.

In addition to the Northwest Alaskan export sale, Pan-Alberta continues to pursue markets for natural gas, both domestically and through export.

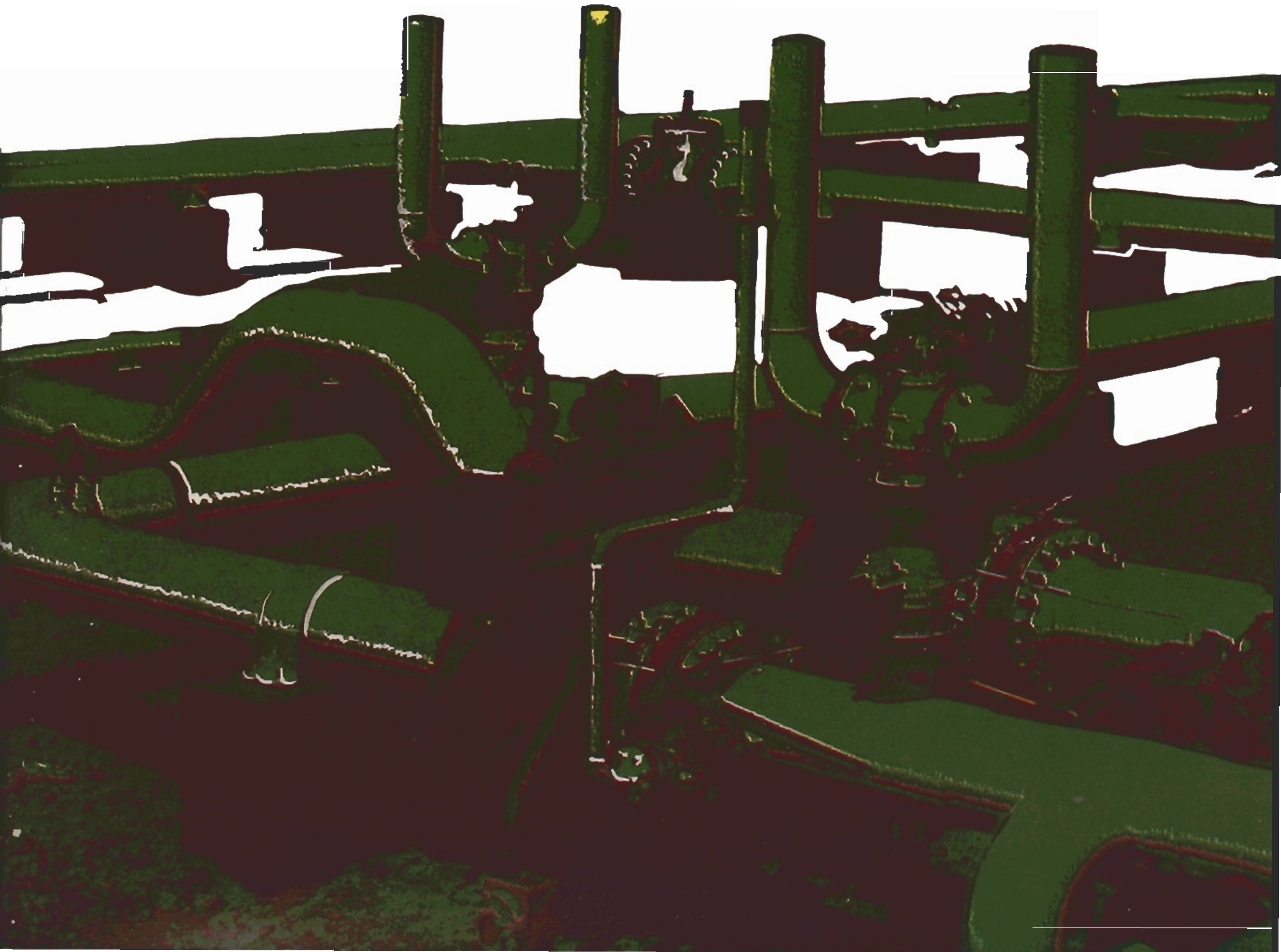
Husky Car/Truck Stop

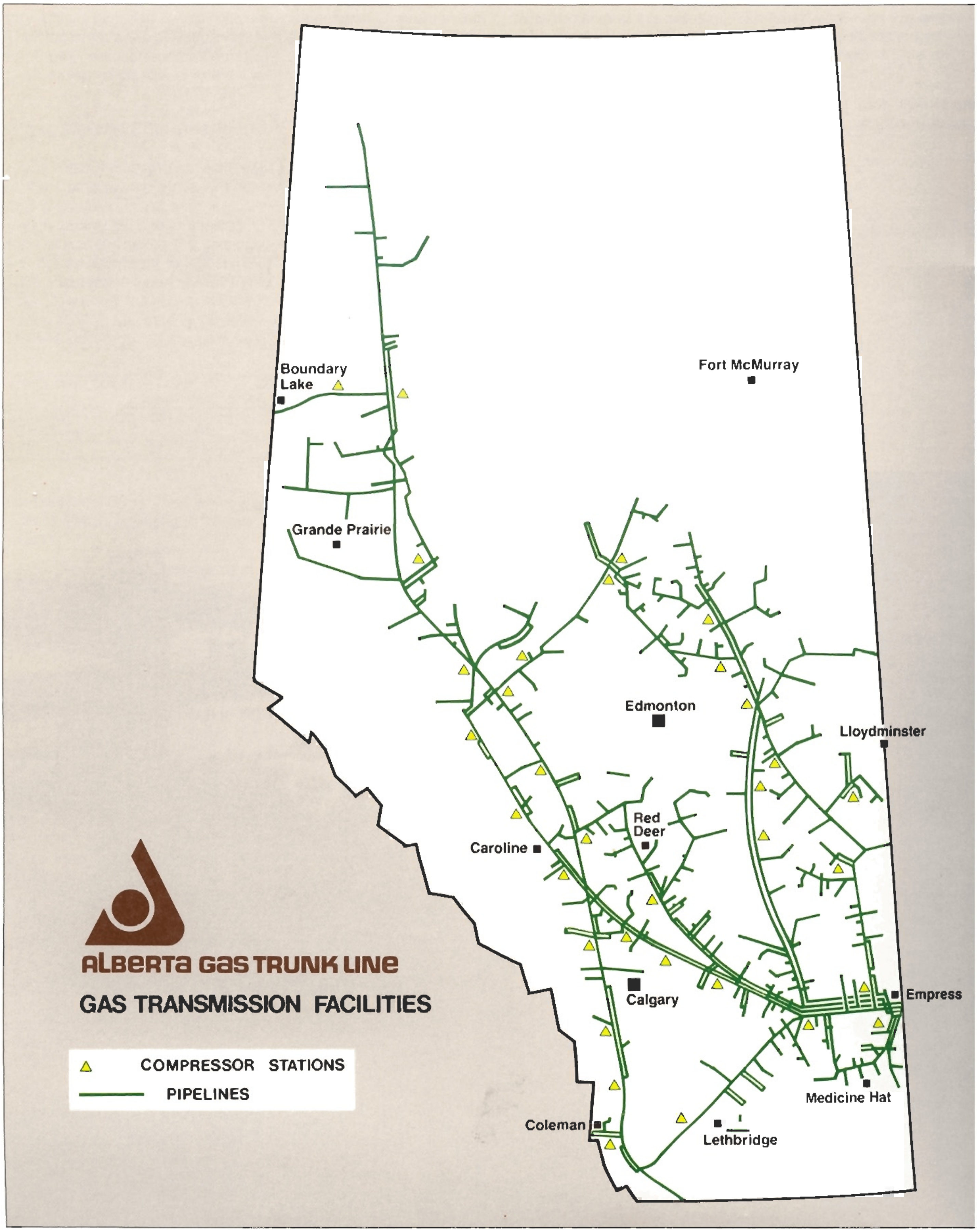

Husky drill ship, Palawan Island area, the Philippines

Gas Transmission Division

Alberta Gas Transmission Facilities

Algas Engineering Services Ltd. (100%)





Boundary Lake
Fort McMurray
Grande Prairie
Edmonton
Lloydminster
Red Deer
Caroline
Calgary
Empress
Medicine Hat
Coleman
Lethbridge
ALBERTA GAS TRUNK LINE
GAS TRANSMISSION FACILITIES
COMPRESSOR STATIONS
PIPELINES

From left
Douglas R. Hagerman
V. Bent Kromand
C. Dale Richards
Donald G. Olafson
Terence N. Befus

The Gas Transmission Division is responsible for all activities relating to the ownership, construction and operation of the Company's Alberta-based gas transmission system. This consists of approximately 10 836 km (6,733 miles) of main transmission lines and laterals ranging in diameter from 88.9 mm to 1067 mm (3 to 42 inches), 33 compressor stations with a combined site power rating of approximately 364 000 kW (490,000 horsepower), 499 receipt meter stations and 50 major delivery stations.

There are approximately 1200 employees in the Division working in five groups — system development, engineering and construction, operations, materials administration and financial services.

System Development

This group performs a role of liaison and co-ordination with industry and government on matters pertaining to system expansion, contracts and cost of service. Related responsibilities include monitoring of current and forecasted gas supply, long-range planning of facilities, monitoring and evaluating of billing methods, and co-ordinating of regulatory matters.

In 1979 a gas supply demand forecasting model was fully implemented. It was used extensively to support submissions to the National Energy Board on gas exports and pipeline extensions to eastern Canada.

Also during the year, the group's planning staff placed major emphasis on the design of extensions into the much-publicized Elmworth field in northwestern Alberta and the southern part of the Suffield block near Medicine Hat. Both of these facilities were the subject of Energy Resources Conservation Board hearings and were subsequently approved and constructed.

Engineering and Construction

The engineering and construction group provides professional and technical services associated with the engineering of gas transmission and related facilities. Responsibilities include detailed design, project control, construction and quality control management, land and drafting.

During 1979 the detailed design and construction of approximately 175 km (110 miles) of pipeline and the construction or modification of 50 meter stations were completed. The most significant project was a 406 mm (16-inch) lateral into northwestern Alberta's Deep Basin area.

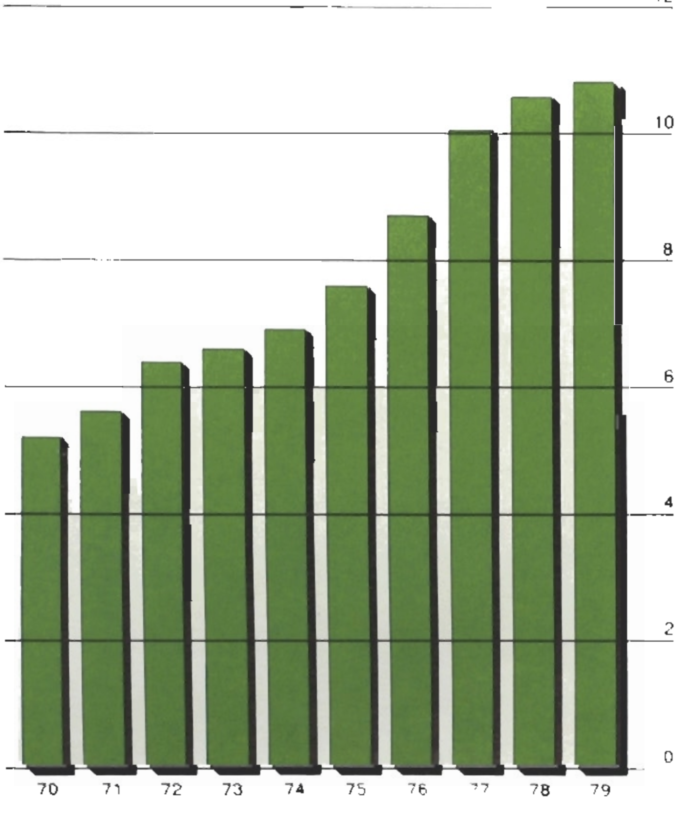
Engineering efforts were also directed towards standardizing design procedures. This will have a positive effect on the accelerated construction activities forecast for the early 1980s.

Significant progress was made in the area of energy conservation. A program was implemented to increase employee awareness of energy conservation practices and a combined cycle compressor application was designed to conserve fuel gas at existing compressor stations.

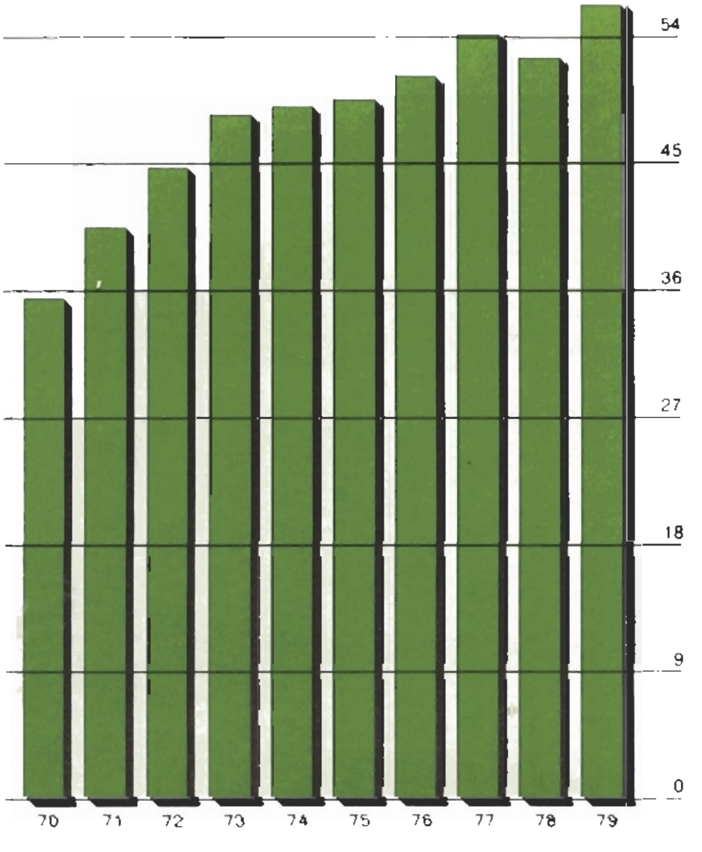
Operations

This group is responsible for the safe and efficient day-to-day operation and maintenance of the pipeline system, including

Kilometres of Pipeline in Service
(thousands of kilometres)



Total System Receipts
(billions of m³)



compressor stations, meter stations and associated right-of-way considerations with landowners. Tasks are accomplished through personnel located at district headquarters, subdistrict shops, numerous Alberta community locations and the Calgary and Edmonton service facilities.

The system recorded gas receipts of 56.2 10^9m^3 (1.995 billion cubic feet) in 1979, slightly above the 1978 volumes. The maximum day receipts of 196.5 10^6m^3 (6.975 million cubic feet) on December 16 were the highest recorded in the Company's history.

The Company's gas measurement department achieved soft conversion to the SI system of metric units on January 1, 1979, in accordance with industry schedules. Hard conversion of all metering equipment will be phased in over the next five years.

In 1979 plans were finalized for relocation of the operations group from Calgary to Edmonton. The move is to be accomplished in stages over the next two years with the major portion to be completed in 1980.

On February 26, 1980, explosions and fire seriously damaged facilities at the Company's Princess Compressor Station site. Temporary interruption in the flow of gas to destinations in eastern Canada resulted, but service was restored the afternoon of February 29. Extensive investigations are being conducted to determine the cause of the incident. The facilities at Princess were fully insured.

Materials Administration

This department is responsible for materials requisitioning, procurement, inventory control and logistics for the Company's capital construction projects and maintenance programs. In 1979 more than 1040 Canadian vendors participated in supplying material valued at over $26 million.

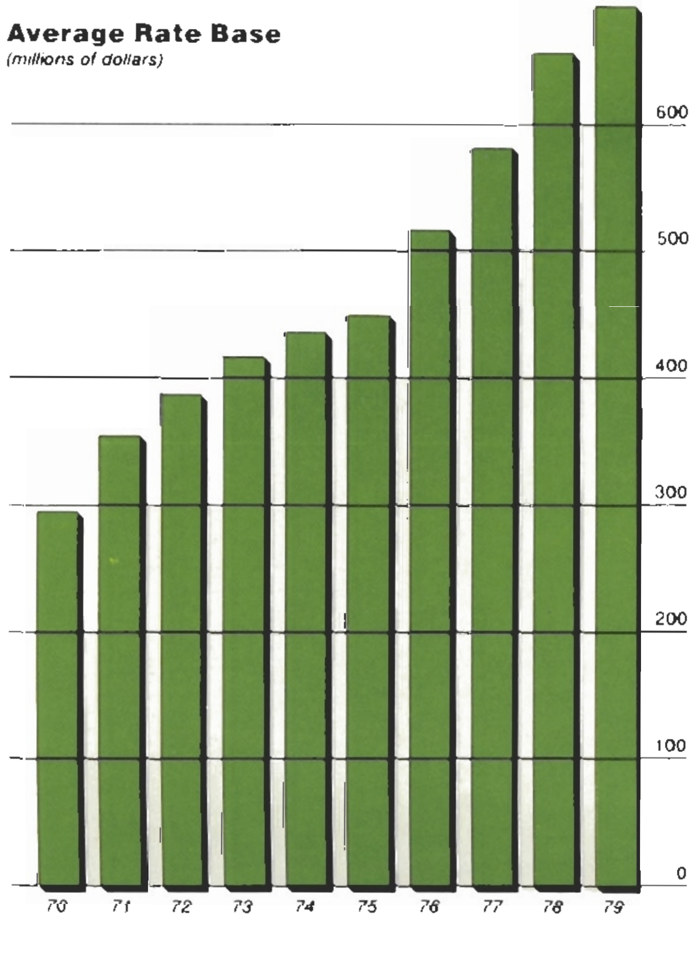
Materials are administered through the use of a sophisticated computer-based materials management system. This system automatically generates material and purchase requisitions, purchase orders and statistical reports. It also performs logistic and material inventory control functions for all phases of construction and operation activities. Improvements under way will make this two-year-old system one of the most flexible and comprehensive material management systems in North America.

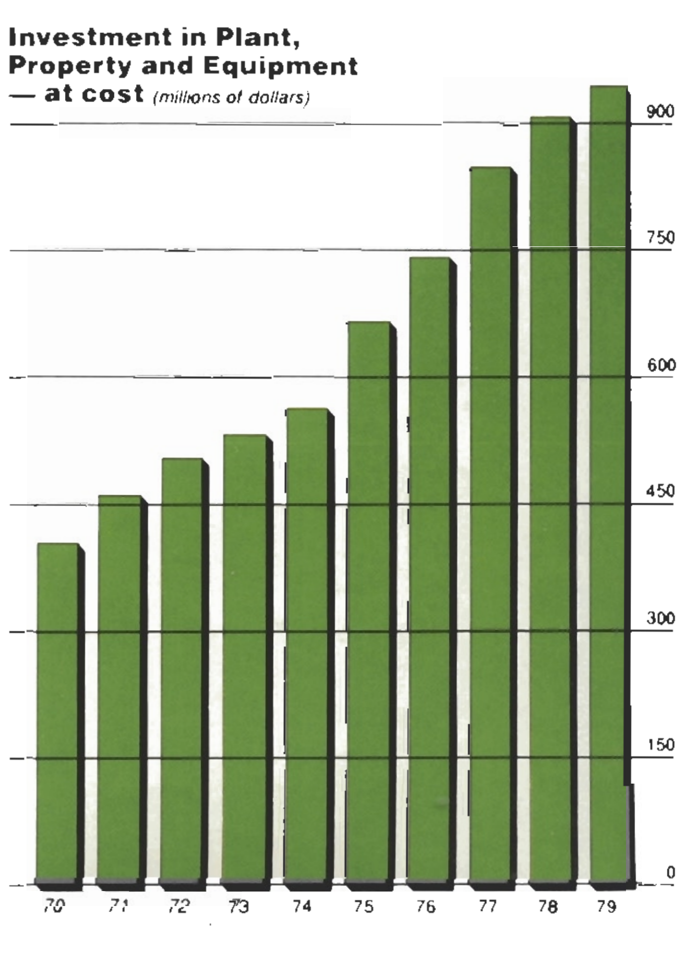
Financial Services

All financial and accounting services for the Gas Transmission Division are provided by this group. Services include financial advice and assistance on regulatory matters and accounting functions for cost of service, accounts payable, payroll, general accounting and information systems development. Functional responsibilities are also included for some similar activities to be carried out in the Edmonton office.

Regulatory Activities

In January 1979 the Company appealed certain decisions of the Public Utilities Board of Alberta (PUB) to the Alberta Court of Appeal and requested and received an order suspending the operation of the decisions until judgment of the Court issued. The decisions, which were issued by the PUB in late 1978, required





the Company to include in its cost of service for the 12-month period ending December 31, 1978, depreciation charges calculated in the same manner used by the Company immediately prior to November 1, 1975 (resulting in a depreciation rate of approximately 3.7%), and only income taxes payable in respect of that year calculated on a "flow-through" basis. The appeal was heard in June of 1979 and on January 17, 1980, the Alberta Court of Appeal dismissed the appeal. On March 17, 1980, the Supreme Court of Canada granted the Company leave to appeal the judgment of the Alberta Court of Appeal.

Also in January 1979 the Company fixed its rate of return on net rate base at 10.55%, continued the billing of income tax on a normalized basis and adopted the depreciation treatment that the PUB had ordered for 1978. Several natural gas producers filed a further complaint with the PUB in mid-January respecting the Company's depreciation rates and treatment of income taxes and also applied for an interim order from the PUB which would require the Company to calculate income taxes on a "flow-through" basis. The hearing was held on January 26, 1979. The PUB granted the application and issued an interim order effective until February 5, 1980. The Company appealed the interim order to the Alberta Court of Appeal and asked the Court to suspend the operation of the PUB's decision until judgment of the Court issued. The application for the interim order suspending the operation of the Board's interim decision was granted. The appeal was heard in June of 1979 and on January 17, 1980, the Alberta Court of Appeal dismissed the appeal. On March 17, 1980, the Supreme Court of Canada granted the Company leave to appeal the judgment of the Alberta Court of Appeal. The PUB has scheduled a hearing to commence on July 21, 1980, with respect to that part of this complaint relating to depreciation.

Recognizing that the PUB's 1979 interim order expired February 5, 1980, the natural gas producers on January 18, 1980, filed a further complaint with the PUB respecting the Company's depreciation rates and treatment of income taxes and also requested an interim order from the PUB which would require the Company to calculate income taxes on a "flow-through" basis. Subsequent to a hearing of the application on February 1, 1980, the PUB issued an interim order dated February 6, 1980, which required the Company to

Coat and wrap, 406.4 mm (16-inch) pipeline construction near Elmworth, Alberta

Transient wave monitoring, line break detection study

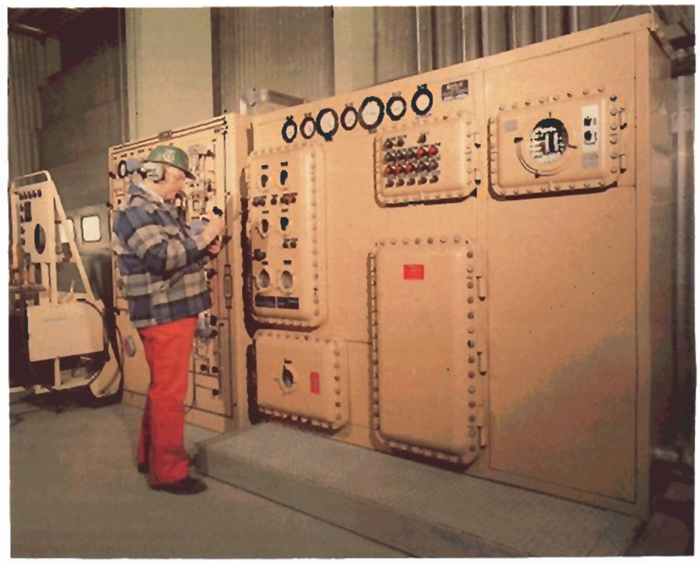
Wapiti River Crossing, 406.4 mm (16-inch) pipeline construction near Elmworth, Alberta calculate income taxes on a "flow-through" basis. The above order will be in effect for a 12-month period pursuant to Section 30 of The Alberta Gas Trunk Line Company Act unless replaced at an earlier date by a further or final order.

Algas Engineering Services Ltd.

This wholly-owned subsidiary of the Company provides project management, engineering, construction supervision, training and consulting services for others with respect to natural gas gathering and transmission.

During the year Algas completed a preliminary design proposal for a packaged compressor station and the supervision and construction of 24.1 km (15 miles) of 305 mm (12-inch) ethylene pipeline and 32.2 km (20 miles) of delivery system, in addition to providing engineering and technical assistance to various clients.

In addition to its domestic activities Algas Engineering is actively engaged in identifying opportunities for its participation in international projects.



Bens Lake compressor station

Gas Transmission Operating Highlights

	1979	1978	% Increase
Average rate base (thousands of dollars)	693,975	657,946	5.5
Average rate of return (%)	10.55	10.55	—
Length of pipeline (km)	10 836	10 686	1.4
(mi.)	6,733	6,640	
Compression (kW)	363 632	363 632	—
(hp.)	487,634	487,634	—
Receipts ($10^9 m^3$)	56.228	52.504	7.1
(MMcf)	1,995,743	1,863,557	
Maximum day receipts ($10^3 m^3/d$)	196 470	187 526	4.8
(MMcf/d)	6,973	6,656	
Average day receipts ($10^3 m^3/d$)	154 049	143 856	7.1
(MMcf/d)	5,468	5,106	

Metric Conversion Table

Imperial Units	SI Units	Conversion Factor
miles (mi.)	kilometres (km)	1.609 344 km/mi.
thousand cubic feet (Mcf) million cubic feet (MMcf) billion cubic feet (Bcf) trillion cubic feet (Tcf)	cubic metres (m^3) 10^3 cubic metres ($10^3 m^3$) 10^6 cubic metres ($10^6 m^3$) 10^9 cubic metres ($10^9 m^3$)	.028 173 99 $10^3 m^3$/Mcf at 15°C + 101.325 kPa
pounds (lbs.)	kilograms (kg) megagrams (Mg)	.453 592 kg/lb.
barrels (bbls.)	cubic metres (m^3)	.158 987 m^3/bbl.
short tons (2,000 lbs.)	tonnes (t) kilotonnes (kt) megatonnes (Mt)	.907 185 t/ton
acres	hectares (ha)	.404 686 ha/acre
horsepower (hp.)	kilowatts (kW)	.745 700 kW/hp.

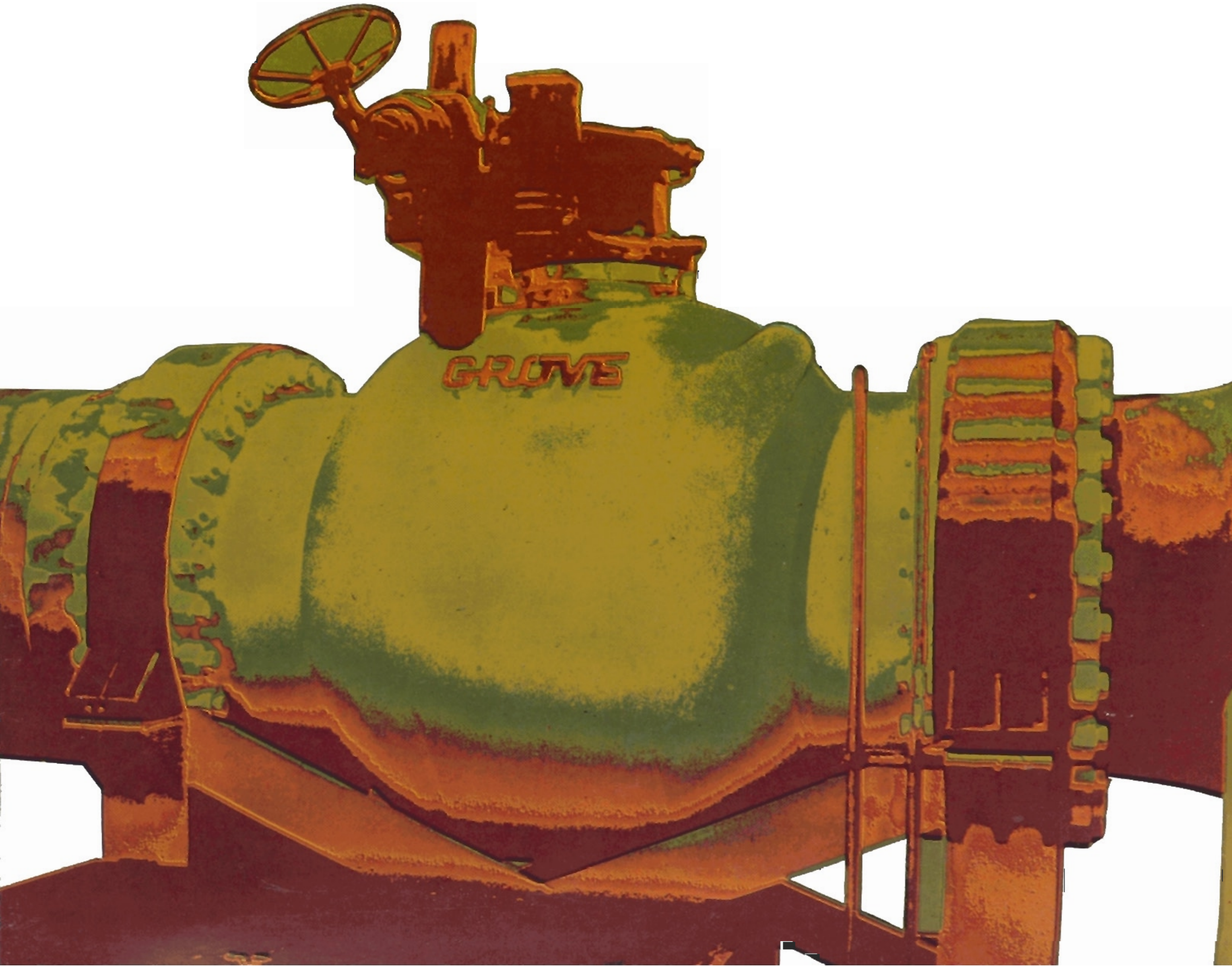
Manufacturing Division

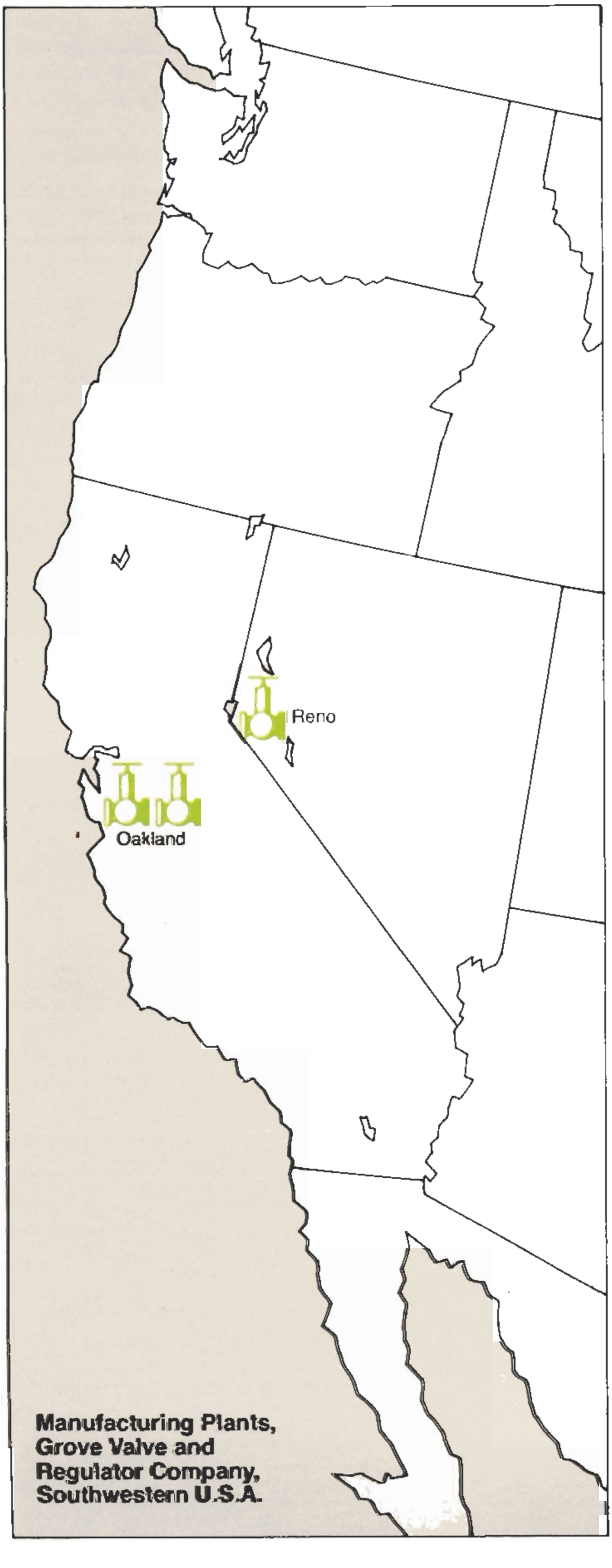
Grove Valve and Regulator Company (100%)

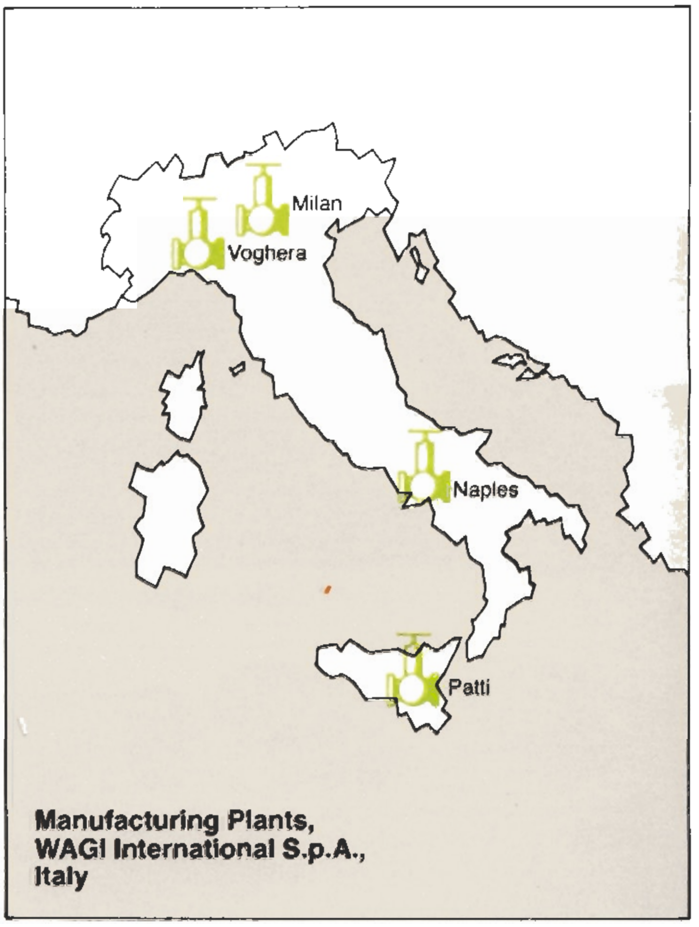
WAGI International S.p.A. (66.7%)

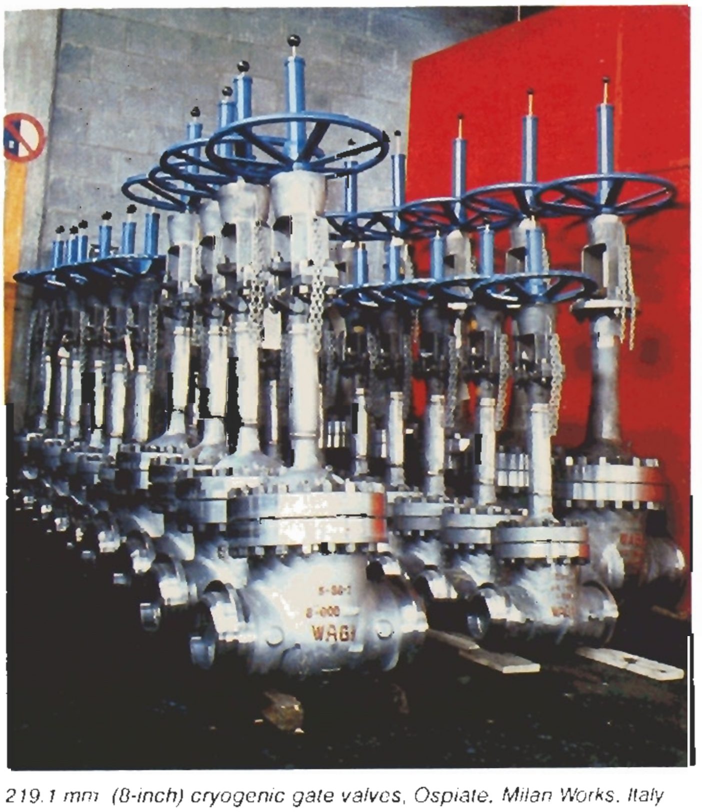
Algas Resources Ltd. (100%)

Steel Alberta Ltd. (50%)









219.1 mm (8-inch) cryogenic gate valves, Ospiate, Milan Works, Italy

From left:
William J. Beamer
Executive Vice President and General Manager, Algas Resources Ltd.
J. Jack Watson
President and Chief Executive Officer, Grove Valve and Regulator Company

The Manufacturing Division of the Company covers the activities of Energy Equipment & Systems, Inc. (EESI) (100% owned) and its two subsidiaries, Grove Valve and Regulator Company (Grove) of Oakland, California (100% owned), and WAGI International S.p.A. (WAGI) of Rome, Italy (66⅔% owned). In addition, the activities of two other subsidiaries, Algas Resources Ltd., wholly owned by the Company, and Steel Alberta Ltd., 50% owned by the Company, are reported in this Division.

Energy Equipment & Systems, Inc.

In 1979 the sales and earnings performances of Grove and WAGI were reversed in comparison to their respective 1978 performances. WAGI's earnings were substantially below budget due to several months of strikes and continuing political unrest in Italy generally. Late in the year, satisfactory settlements were negotiated with the Italian unions and production returned to normal. WAGI was able to maintain good customer relations during the period and ended the year with a large backlog of orders. In the case of Grove, 1979 was very satisfactory with earnings substantially above budget. The major factors contributing to this improvement were higher efficiencies and cost reductions in most areas of operations, improved price levels and an effective management team. A strengthening of the North American valve and regulator market forecasts continuing good results for Grove in 1980.

During the latter part of the year, a large dividend was received by EESI from WAGI, and it will be applied to retirement of long-term debt and new capital investments by EESI.

Large capital investments are budgeted by Grove to expand and improve facilities at its existing plants and by EESI for establishment and acquisition of integrated flow control products and services companies. These expenditures will continue the development of new products utilizing recent advances in technology and product integration and further penetrate the flow control system market by the manufacture of subsystems and automatic supervisory control devices. As part of this objective in late 1979 a new company was established to perform consulting work in the areas of liquid pipeline flow and surge through an agreement with Hydraulic Analysis Ltd. of Leeds, England, a company with expertise in these areas.

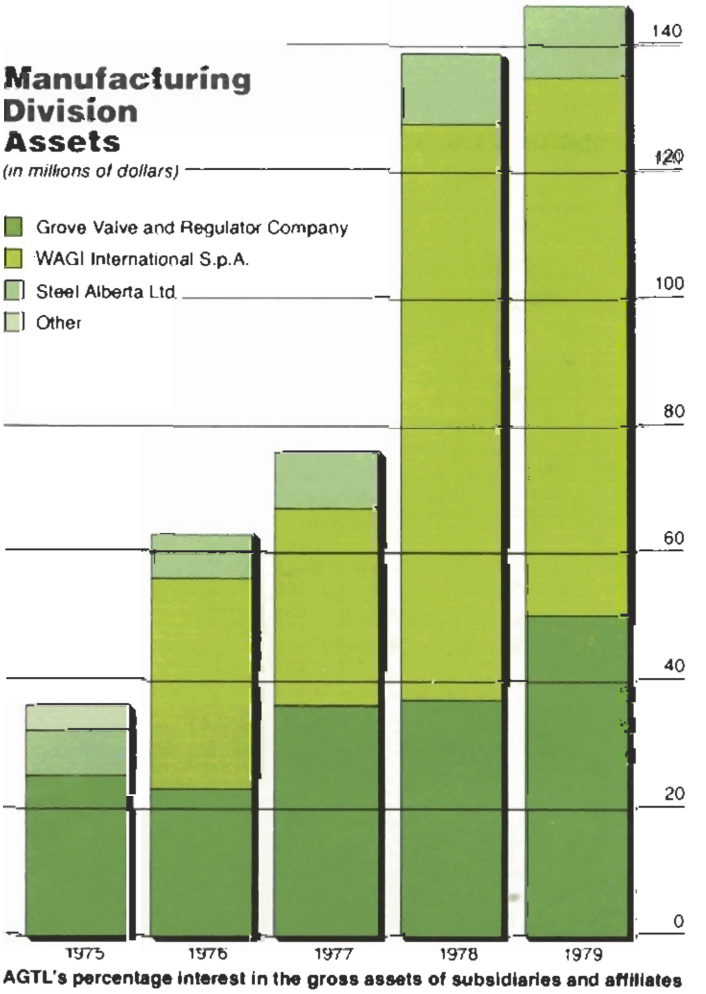
As the worldwide demand for energy continues, the 1980s will see much new pipeline construction in every major continent and the market will demand products which embody the latest in technology. U.S. and Canadian activity for the next five years looks very promising for the pipeline valve and flow control industry in general.

Steel Alberta Ltd.

Steel Alberta continued with marketing and other evaluations of various steel-related projects for western Canada. These included studies for the technical and economic viability of developing the iron ore reserves it holds in the Peace River area of Alberta and Carter Creek area of Montana. Steel Alberta owns 20.2% of the shares of Interprovincial Steel and Pipe Corporation Ltd. of Regina.

Algas Resources Ltd.

This wholly-owned subsidiary of the Company is engaged primarily in the study and development of new energy sources that offer viable supplements to conventionally-produced crude oil and natural gas. Its activities also include the identification and evaluation of potential investment opportunities in the manufacturing field.



AGTL's percentage interest in the gross assets of subsidiaries and affiliates

Algas is continuing with development work towards technical and economic evaluations of coal conversion, principally liquefaction processes, and coal demethanation. For the initial demethanation evaluation, several wells have been drilled in Alberta's mountain coal areas. The wells are being monitored for production rates and subjected to innovative drilling and stimulation techniques. A second coal demethanation project was initiated in the Pictou area of Nova Scotia during the fall of 1979. Algas is also participating in a fuel peat demonstration project near Corner Brook, Newfoundland.

The Company's one-acre waste heat greenhouse near Princess, Alberta, managed by Algas, was marketing its production of tomatoes in southern Alberta prior to being partially destroyed by fire at the compressor station in February 1980. It is the Company's intention that this greenhouse facility be rebuilt using state-of-the-art technology. Other commercial-scale waste heat applications are being evaluated, including an aquaculture project which would also be situated near a Company compressor facility in Alberta.

Several research and technology assessment projects are being managed by Algas. These include some renewable energy technologies as well as technologies offering commercial potential in energy-related areas.

Algas Resources drilling, Nova Scotia

 1422 mm (56-inch) B5 ball valve assembly, Voghera, Italy

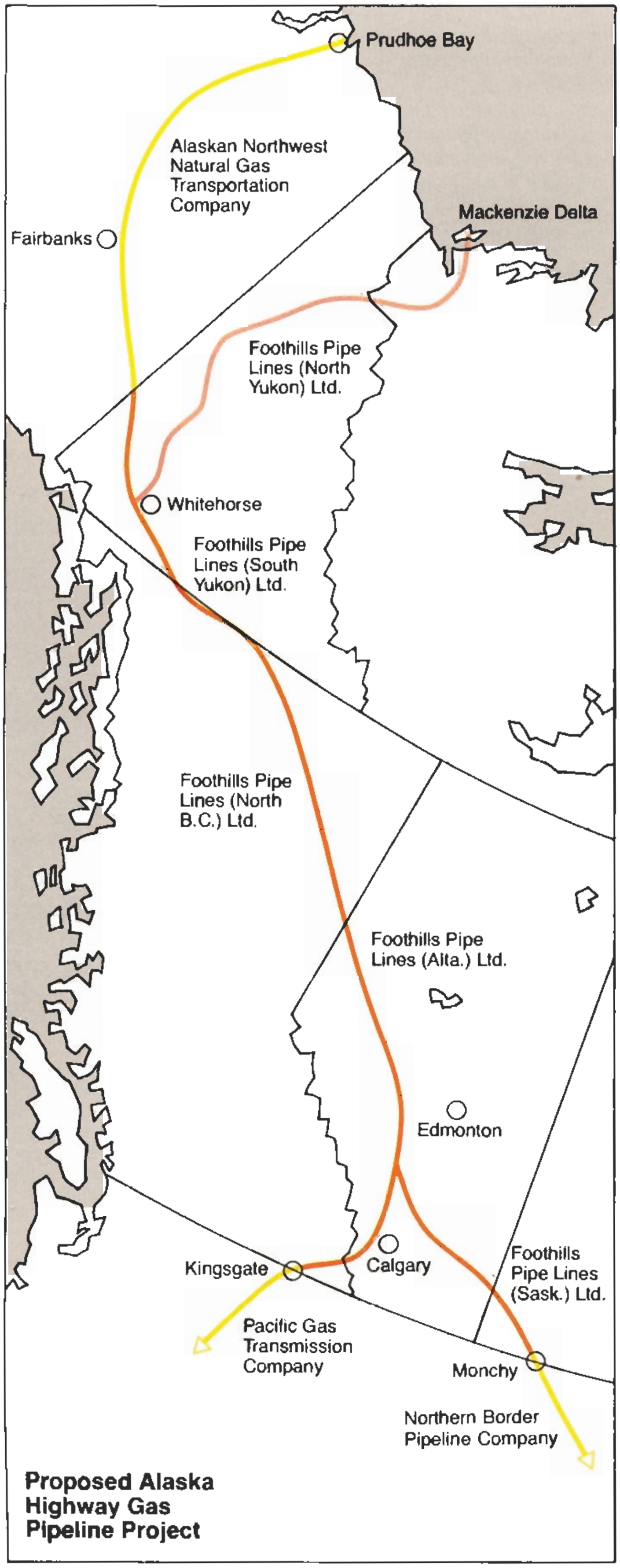
Pipeline Development Division

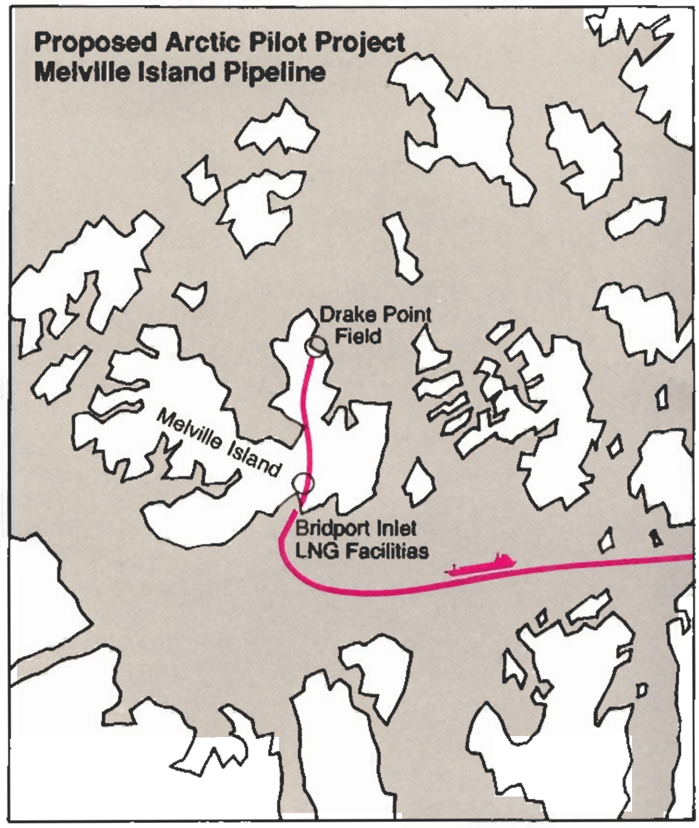
Foothills Pipe Lines (Yukon) Ltd. (50%)

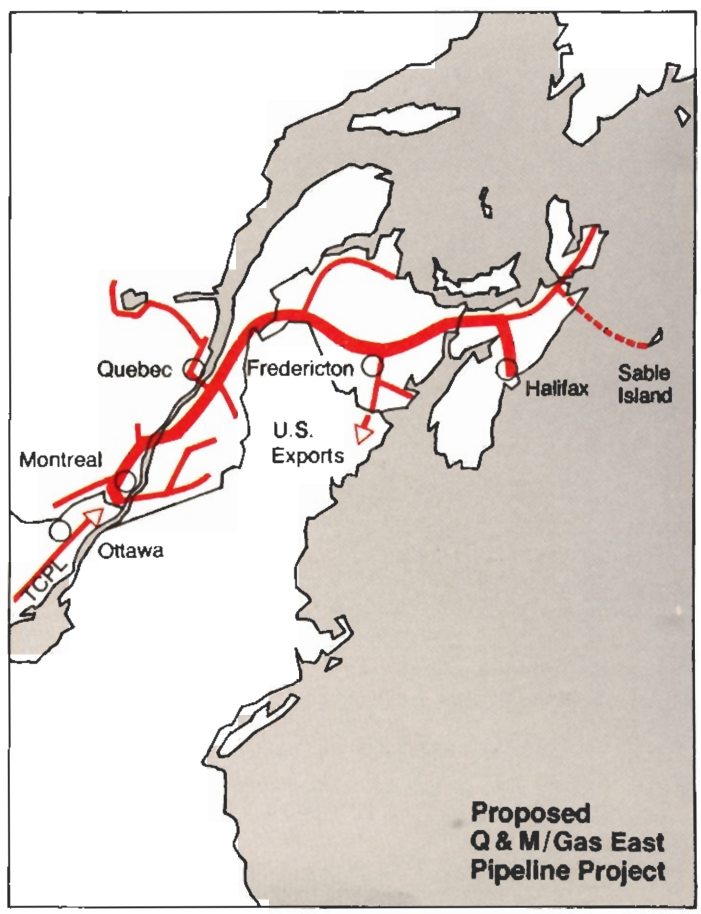
Alaska Project Division

Q & M Pipe Lines Ltd. (100%)

Arctic Pilot Project


Prudhoe Bay
Alaskan Northwest Natural Gas Transportation Company
Fairbanks
Mackenzie Delta
Foothills Pipe Lines (North Yukon) Ltd.
Whitehorse
Foothills Pipe Lines (South Yukon) Ltd.
Foothills Pipe Lines (North B.C.) Ltd.
Foothills Pipe Lines (Alta.) Ltd.
Edmonton
Calgary
Kingsgate
Foothills Pipe Lines (Sask.) Ltd.
Pacific Gas Transmission Company
Monchy
Northern Border Pipeline Company
Proposed Alaska Highway Gas Pipeline Project


Proposed Arctic Pilot Project Melville Island Pipeline
Drake Point Field
Melville Island
Bridport Inlet LNG Facilitias


Quebec
Fredericton
Halifax
Sable Island
U.S. Exports
Montreal
Ottawa
TCPL
Proposed Q & M/Gas East Pipeline Project

From left:
Murray L. Peterson
William J. Deyell
Robert B. Snyder

Alaska Highway Gas Pipeline Project

The Company and Westcoast Transmission Company Limited are equal sponsors of Foothills Pipe Lines (Yukon) Ltd., the organization responsible under Canadian legislation for co-ordination and direction of the Canadian sections of the Alaska Highway Gas Pipeline Project. Original National Energy Board approval of the Foothills application was received on July 4, 1977, and subsequently varied as to routing and scope by negotiation between the Canadian and U.S. governments. On April 4, 1978, the Parliament of Canada enacted the Northern Pipeline Act to establish the Northern Pipeline Agency, to facilitate planning and construction of the project and to give effect to the Canada/U.S. Pipeline Agreement. The Northern Pipeline Act requires the participating companies to meet general terms and conditions relating to such matters as the input of Canadian manpower, goods and services; the design, specifications and routing of the system; and the avoidance and minimization of adverse socio-economic and environmental impacts. In addition, the companies are obliged to submit extensive information and, in many cases, to obtain federal approval with regard to such factors as costs, financing plans, shipper and producer contracts, operating and safety manuals and collective agreements. The Northern Pipeline Agency is also required to give formal approval to, among other documents, a manpower plan and terms and conditions relating to environmental and socio-economic matters for each segment of the project in Canada.

The original Canada/U.S. agreement called for a January 1, 1983, completion date of the total project; however, due primarily to regulatory delays in the U.S. beyond the control of the sponsors, that date has been deferred to November of 1984. Also, since original approval was received in 1977, the sponsors developed the concept of "pre-building" certain parts of the Alaska Highway Gas Pipeline in southern Canada and the U.S. In conjunction with that concept, Pan-Alberta Gas Ltd. has contracted the necessary gas supply and subsequently contracted the supply for export to Northwest Alaskan Pipeline Company of Salt Lake City, Utah (the main participant in the U.S. group of companies sponsoring the Alaska Highway Gas Pipeline in that country). It was proposed that small volumes of this new export gas would start flowing to the California market by November 1, 1980, through the pre-built "western leg" and would be followed by the much larger volumes for the eastern U.S. market in November of 1981 through additional construction of pre-build facilities in Alberta and Saskatchewan and the "eastern leg" Northern Border Pipeline in the United States. With the December 1979 National Energy Board decision on gas exports, Pan-Alberta received only 36 per cent of those volumes applied for and considered necessary to finance the pre-build facilities. For this reason the sponsors are in the process of redesigning their plans in order to proceed. It is uncertain if the original schedule will be able to be met as any restructuring or amending of permit volumes require further regulatory hearings in Canada. Such hearings are now ongoing.

During 1979 some progress was made on the project generally and specifically in respect to regulatory matters in both Canada and the United States. One of the major decisions critical to financing of the project was the Incentive Rate of Return on investment allowed to the pipeline sponsors. In the U.S. the Federal Energy Regulatory Commission set the Incentive Rate of Return for the U.S. portion of the pipeline at 17.5% if the project is completed within final approved estimated costs. In Canada the National Energy Board varied the return allowable on various segments within the country; however, the overall effect is a rate of return on equity investment of approximately 18.25%, assuming costs do not overrun 30% of filed estimates as agreed under the Canada/U.S. agreement, with the provision the penalty associated with overruns will not cause the return on the project equity to fall below 14.5%.

Other important developments in 1979 were:

— Foothills announced it would enter negotiations with The Steel Company of Canada Limited and Interprovincial Steel and Pipe Corporation Ltd. for the supply of 1.4 million tonnes (1.5 million tons) of line pipe required for the Canadian portions of the project and the 317 515 tonnes (350,000 tons) required for the Dempster Lateral. During the year, these negotiations took place and should be finalized in early 1980.

— On July 16, 1979, President Carter outlined his nation's energy priorities and restated emphatically his support of the Alaska Highway Gas Pipeline and its importance to the United States. He also advised the Secretary of Energy had been instructed to meet with the North Slope producers to discuss their assistance in the financing of the line.

— The Company, Dome Petroleum Limited and TransCanada PipeLines Limited reached agreement to join in a maximum effort to support early construction of the pre-build. With this agreement all major natural gas transmission companies in Canada are now in support of the project. It was also agreed that the Company would negotiate a 49% interest in the Saskatchewan segment for TransCanada and support TransCanada's negotiations to acquire a 35% interest in the Northern Border Pipeline. TransCanada subsequently was able to negotiate a 30% interest in that pipeline with its U.S. participants.

— New capital cost estimates were published early in 1979 for the Canadian section, based on 1978 dollars and escalated to the year of construction. Such estimates showed an increase in cost from $4.3 billion to $5.8 billion, due primarily to delays originating in the U.S., higher interest rates, project scope changes and estimating refinement. The revised estimate did not include regulatory costs which are beyond the control of the sponsors and estimated at over $200 million to construction completion. A further update to these cost estimates is in progress and is again expected to show a substantial increase as further delays are encountered.

— In the U.S. the office of the Federal Pipeline Inspector was established and the Federal Inspector appointed. This office is the equivalent to Canada's Northern Pipeline Agency.

— Contracts for the sale and purchase of Alaskan gas were negotiated by the North Slope producers and several U.S. gas transmission companies.

— The U.S. Department of the Interior approved in principle the proposed general routing of the Alaskan section of the project.

— The Northern Pipeline Agency released for public review drafts of the Socio-Economic Terms and Conditions which will apply to the Saskatchewan, Alberta, southern British Columbia and northern British Columbia segments of the project.

— Public hearings were held in the Yukon by the Northern Pipeline Agency and the Federal Environmental Assessment Review Office. The hearing panel concluded it would require more detailed, site-specific information to complete its review and set out the terms and conditions for the Yukon. Foothills undertook to provide more specific information, which was not available at the time of the original hearing, and a new public hearing will be reconvened in due course to complete the review.

— On June 29 Foothills filed an application with the National Energy Board and the Department of Indian Affairs and Northern Development for the construction and operation of the Dempster Lateral as required by the July 4, 1977, decision of the National Energy Board. No date for the hearing has been established.

— During the year Foothills constructed and put into operation the Northern Alberta Burst Test Facility which has now run its first test on 1422 mm (56-inch) diameter pipe. The facility will be employed to test pipe to be used on both the Canadian and American segments of the project. As well, during the year the U.S. sponsors constructed a frost heave test facility in Alaska which will also be used by Foothills in respect to intermittent permafrost located in the northern Yukon.

— The U.S. Federal Energy Regulatory Commission approved the pipe specifications, size and operating pressure for the Alaska section of the pipeline in accordance with the design determined originally by Northwest Alaskan Pipeline Company.

— A draft of the Foothills Manpower Plan was submitted to the Northern Pipeline Agency and is being circulated to interested parties and government departments for review and comment. This important document deals with Foothills' plan for providing workers for the project and is supported by appendices which outline job entry requirements, available labour supply and manpower requirements and includes a comprehensive labour supply analysis.

— The U.S. Federal Energy Regulatory Commission convened hearings on pre-build and in late December issued tentative approval for construction of the western leg from Kingsgate, B.C., to Stansfield, Oregon. A decision on the eastern leg of pre-build is expected during the first quarter of 1980.

— Meetings were held between the U.S. Department of Energy (DOE) and the North Slope producers and some progress made in the last quarter of the year in respect to those producers' financial participation in the project. The Exxon Corporation has filed a plan with the Department of Energy which outlines a proposed financial involvement by the North Slope producers (the other producers are Atlantic Richfield Company and Standard Oil Company (Ohio)). The DOE, project sponsors and producers are presently reviewing the proposal in an effort to negotiate a workable package.

— Public hearings were conducted late in the year in northern British Columbia in respect to the proposed Socio-Economic and Environmental Terms and Conditions as drafted by the Northern Pipeline Agency.

— During the year several community workshops and industry briefings were conducted by Foothills in order to keep the public informed of the project and its potential benefits and impacts.

Alaska Project Division

This Division of the Company is providing project management, design and construction services for the Alberta and Saskatchewan sections of the Alaska Highway Gas Pipeline Project. The Division is acting as agent for Foothills Pipe Lines (Alta.) Ltd. and Foothills Pipe Lines (Sask.) Ltd., owners of the pipeline in their respective provinces. The Alaska Project Division has developed on behalf of the Foothills group of companies project control systems, reporting formats, information systems, quality control procedures and stress analysis for the Canadian sections of the Alaska Highway Gas Pipeline Project.

Front-end engineering and construction planning were initiated on the Saskatchewan segment to meet the 1981 construction schedule. Engineering design and construction planning for pre-build have not progressed as rapidly as anticipated due to regulatory delays in the United States. However, it is expected that decisions arising from the regulatory processes in the United States and Canada will be resolved by mid-1980 and construction could then commence.

The Division is currently submitting documentation on behalf of Foothills Pipe Lines (Alta.) Ltd. to a number of regulatory bodies required to comply with terms and conditions and to obtain permits and approvals which are required to commence the five-year construction program. Effective working relationships have been established between the Alaska Project Division and Northern Pipeline Agency staff. It is expected that a smooth submission and approval process will be established early in 1980 in order to start building the western leg pre-build section of the pipeline from Caroline, Alberta, to the Coleman, Alberta, area and some looping of existing facilities by Alberta Natural Gas Company Ltd. in southeast British Columbia.

Q & M Pipeline Project

Plans to extend natural gas service to eastern Quebec and the Maritimes underwent changes in late 1979 when Q & M Pipe Lines Ltd., wholly owned by the Company, agreed to form a joint venture with TransCanada PipeLines Limited.

Welding test pipe, Rainbow Lake burst test facility, Alberta

The hearing by the National Energy Board on certificate applications for an eastern pipeline commenced on September 25, 1979. Two applications — that of Q & M for its Quebec and Maritimes Pipeline Project and that of TransCanada for its Gas East proposal — were under consideration. The hearing was adjourned following the merger announcement on November 5 and reconvened on December 3 to consider the amended applications. The hearing was completed in early February and a decision is expected sometime in late March or April.

According to terms of the agreement, the two applicants will assign to a new company any certificates granted by the National Energy Board. Q & M and TransCanada will participate equally in initial ownership and operation of all new gas transmission facilities in Quebec, New Brunswick and Nova Scotia. The facilities applied for have the design capacity to carry additional volumes of gas for export to the northeastern United States through a point on the New Brunswick/U.S. border.

It was further agreed by the two parties that if they were successful in obtaining the necessary certificates they would, prior to proceeding with the Maritime portion, undertake a feasibility study to ensure proper account is taken of the commerciality of new gas discoveries offshore eastern Canada and of the future impact of these supplies on design of the Maritime system.

TransCanada and Pan-Alberta Gas Ltd. (50.005% owned by the Company) will share in supply arrangements for natural gas in the new markets to be served.

The capital cost of the Quebec and Maritimes mainline system is estimated at $1.1 billion. As of December 31, 1979, costs to the Company associated with the planning, optimizing and preparation of the application to the National Energy Board totalled approximately $8 million.

The Company believes that proceeding with the eastern pipeline project jointly and cooperatively holds major advantages with respect to achieving national energy goals. It will make possible timely construction and marketing of domestic natural gas in areas of Canada where service is not available at present. Making natural gas available to this additional 30 per cent of the Canadian population will aid in the declared government policy of achieving energy security.

Arctic Pilot Project

The Arctic Pilot Project is a joint proposal by the Company, Petro-Canada and Melville Shipping Ltd., to liquefy natural gas in the Canadian Arctic Islands and transport it south by tanker for regasification in eastern Canada and/or the United States. A gas export application was filed in January 1979 with the National Energy Board and it is expected a hearing will be called in 1980.

The proposal contemplates that supply will be obtained from eight onshore natural gas wells drilled at Drake Point on the northeast shore of Melville Island's Sabine Peninsula. The gas would be gathered in the field, fed to a central dew point control facility and transported via pipeline to Bridport Inlet, a natural harbour on the Island's southern coast. The pipeline component, comprising 160 km (99 miles) of 559 mm (22-inch) pipe, would be constructed and operated by the Company.

Liquefaction and storage facilities at Bridport are to be mounted on barges, and the plant has a design capacity of 7.04 $10^6 m^3/d$ (250 million cubic feet per day) and the gas storage facility a capacity of 200 $10^3 m^3$ (7.1 million cubic feet).

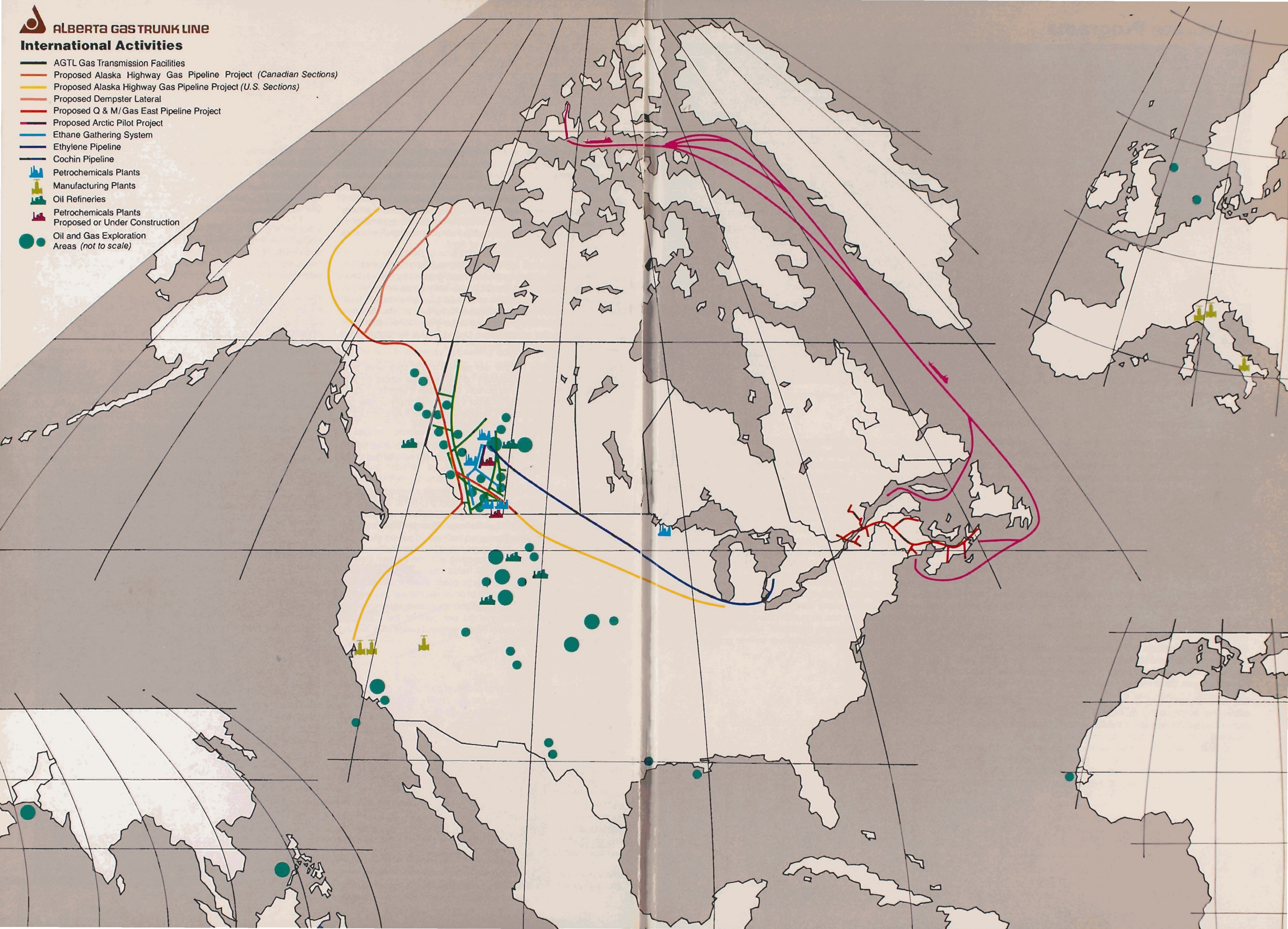
Transportation south from Bridport to the regasification plant site would be carried out on a year-round basis by two liquefied natural gas tankers.

While initial gas production comes from onshore sites, preliminary studies have indicated that gas could also be produced, gathered and delivered from offshore wells in the Arctic. Production and flow tests, with gas from an offshore test well flowing through a submarine flow line, were successfully conducted in 1978.

The Arctic Pilot Project introduces an effective and year-round means of connecting the vast arctic areas and the potential resources located there. More specifically, the project would develop for Canada a leading position in technology and expertise attendant to arctic gas production and shipping.

The estimated capital cost of the project is $1.9 billion. As at December 31, 1979, costs of approximately $37 million had been incurred and the Company's share of these costs is approximately $12.9 million.

Alaska Highway, Smart Swift, Yukon Territory



ALBERTA GAS TRUNK LINE
International Activities
AGTL Gas Transmission Facilities
Proposed Alaska Highway Gas Pipeline Project (Canadian Sections)
Proposed Alaska Highway Gas Pipeline Project (U.S. Sections)
Proposed Dempster Lateral
Proposed Q & M/Gas East Pipeline Project
Proposed Arctic Pilot Project
Ethane Gathering System
Ethylene Pipeline
Cochin Pipeline
Petrochemicals Plants
Manufacturing Plants
Oil Refineries
Petrochemicals Plants Proposed or Under Construction
Oil and Gas Exploration Areas (not to scale)

Corporate Programs

Calgary Youth Orchestra

Corporate Contributions

In 1979 the Company contributed approximately $700,000 to 233 non-profit organizations and institutions throughout Alberta and the rest of Canada. The major categories contributed to were health and welfare, arts and culture, and education.

In the health and welfare field, support was continued to such traditional agencies as the United Way and the Canadian Cancer Society. In addition to other less-known organizations, a special contribution was made to a centre in Edmonton which provides meaningful employment to mentally handicapped persons who have the capability of doing more than what is provided in other rehabilitation centres. The centre is a pilot project and includes a greenhouse and other agricultural facilities.

In the area of arts and culture, a major contribution was made to the Calgary Centre for Performing Arts which will include concert and theatre facilities.

The Company also contributed to the Arctic Institute of North America which conducts multidisciplinary research. The Institute's facility located in the Yukon Territory is available to any college, university or government agency in Canada and the United States interested in northern research.

The Gas Transmission Division of the Company continued to administer contributions to various rural and small community associations in Alberta where the Company has operations or staff.

Refugee Project

In response to the Indochinese refugee situation, the Compan sponsored 20 Vietnamese families for resettlement in Alberta Sponsorship includes a commitment of financial support to th refugee families for a maximum period of one year and the pro vision of accommodation, clothing, food and other necessities The Company also assisted the refugees in obtaining languag training, employment and some medical care.

A group of more than 100 employees and their families volunteere to assist the refugees in settlement in their new homes an communities and offered general orientation to Canada along wit moral support.

AGTL head office building (under construction)

Refugees arriving in Calgary, Alberta

Human Resources

The Company plays a non-discriminatory role in the hiring, training and development of all employees, recognizing that employee performance is the key to corporate development.

The Company's human resources department has a number of activities under way to contribute to corporate growth and diversification. These include constant review of compensation programs, improvement of student programs, expansion of services to northern area operations, and upgrading of occupational health and safety services. The department is placing more emphasis on the important employee-employer relationship. Employment programs for Alberta Indians and Metis continue to progress.

With a dwindling pool of human resources and increasing competition for available manpower in today's market, future needs have been analysed and a program implemented to review and develop existing manpower resources and plan for their effective deployment. The human resources department acts as an "in-house" consulting service to management in these functions.

The Environment

During 1979 the Company's environmental group emphasized improved reclamation techniques on both new and old pipeline rights-of-way. Applied research plots were established in six different climatic-soils locations in the province, and the success of the regrowth there will be monitored for several years. An Environmental Code has been completed for use in construction and maintenance of facilities. Also, with the aim of maintaining the quality of air around Company compressor stations, assistance was provided for two research groups investigating the oxidation rate of nitrogen oxide emitted from the compressors. The Company strives to maintain good liaison with the provincial and federal legislative and regulatory bodies in all environmentally related matters.

New Buildings

Construction of a new corporate head office complex commenced on July 9, 1979, with occupancy scheduled for mid-1982. The complex will include two interconnected structures and will be located on an unusual split site in downtown Calgary. The 37-storey main office tower will be flanked by a tiered garden court structure opening onto a public park. To the north, across a major avenue, will be a three-storey service and meeting facility with over-the-street walkways linking the buildings.

In May of 1979 the Company leased several floors of a new 16-storey office building being constructed in Edmonton. The site is in the heart of the downtown redevelopment area. When completed this spring, the Edmonton building will house about 150 operations employees of the Company's Gas Transmission Division and the Edmonton executive offices.

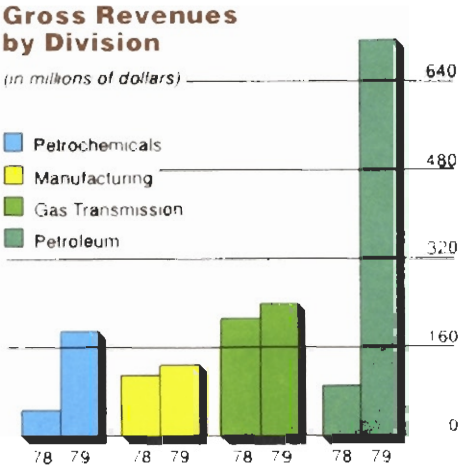
Corporate Officers

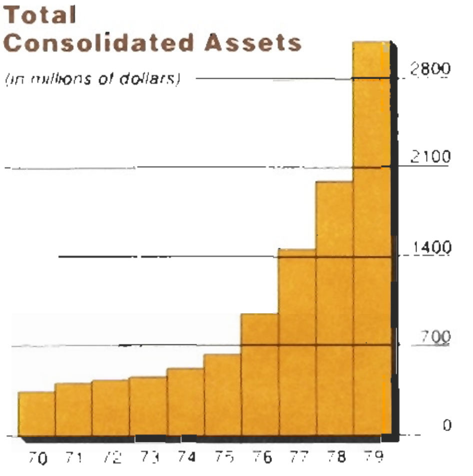
Top photo, from left:
George L. Bastin
Barry E. Harper
Robert W. Schmidt
Bruce G. Hartwick
Joseph A. Macaluso
Dianne I. Narvik

Bottom photos, from left:
Ronald D. Dooley
Bruce W. Simpson
H. Clive Chalkley
Joan A. Dennis
Richard C. Milner
John E. Feick
William C. Rankin
James D. Hinks

ALBERTA GAS TRUNK LINE

Financial Review





The financial results of the Company for 1979 continue a five year trend of large scale increases in revenues, assets and net income. One of the principal reasons for such growth in 1979 arises from the consolidation of the accounts of Husky Oil Ltd. for the last six months of the year. For the first six months of 1979, the Company's appropriate share of Husky earnings is reported under the item "Equity in earnings of affiliated companies".

The format for the Consolidated Statement of Income has been changed slightly from 1978. Revenue now reflects only operating revenues and divisional operating results include all items except interest, taxes and minority interest.

Revenue

Total consolidated operating revenue of $1.244 billion increased $780 million or 168% over 1978 operating revenue of $464 million. All divisions showed improvement over 1978 with the petroleum division up by $622 million and petrochemicals by $135 million. Diversified activities now account for 83% of total consolidated revenue as opposed to 57% in 1978, and 25% in 1975.

Costs

Total costs and expenses of $971 million increased by $646 million or 199% from $325 million in 1978. This was due primarily to an increase in cost of sales and operating expenses of $590 million or 210%. Two divisions, petroleum ($465 million) and petrochemicals ($104 million), accounted for the bulk of the increase. Provision for depreciation and depletion increased $51 million or 111% from $46 million to $97 million. This primarily reflects increased depletion from the consolidation of Husky accounts combined with a $9 million increase in petrochemical depreciation of new plant. The loss on foreign currency translation of $231 thousand compares to a gain of $6.2 million in 1978. Exchange losses in the manufacturing division ($0.4 million) and petrochemicals division ($1.2 million) were offset by exchange gains in petroleum of $1.4 million.

Operating Income

Net operating income of $273 million shows an increase of $134 million or 96% over the $139 million achieved in 1978. The petroleum division accounted for $106 million or 79% of this increase and petrochemicals contributed $21 million or 16% of the total. Operating income from Gas Transmission increased $7 million or 5% of the total increase. Net operating income components now indicate a contribution from diversified activities of 54% as opposed to 15% in 1978.

Other Income Items

Equity in earnings of affiliated companies of $18.6 million is up $1.7 million from the $16.9 million recorded in 1978. The share of Husky earnings for the first six months of 1979 exceeded the share of the last six months of 1978 by $0.5 million and petrochemical affiliates improved by $1.2 million.

Allowance for funds used during construction was reduced from $23.8 million in 1978 to $16.2 million in 1979. This decrease of $7.6 million reflects smaller capital expenditures in the construction of gas transmission plant and the completion of construction of the ethylene plant in the fall of 1979. A further allowance for funds in the amount of $4.9 million was capitalized in 1979 and taken into income in respect of expenditures on the Alaska Highway Gas Pipeline Project.

Income (before interest expense, income taxes and minority interest) of $312.8 million increased by $132.6 million or 73.6% over the 1978 level of $180.2 million.

Interest

Interest expense (net of interest income) of $64.7 million increased by $23.6 million or 57% over the comparable figure of $41.1 million in 1978. Net interest expense of Husky accounted for $20 million of this increase and the balance of the $3.6 million increase is primarily interest expense of A.G. Pipe Lines (Canada) Ltd.

Income Tax

Income, before income taxes and minority interest, of $248 million is up $109 million or 78% over 1978 income of $139 million.

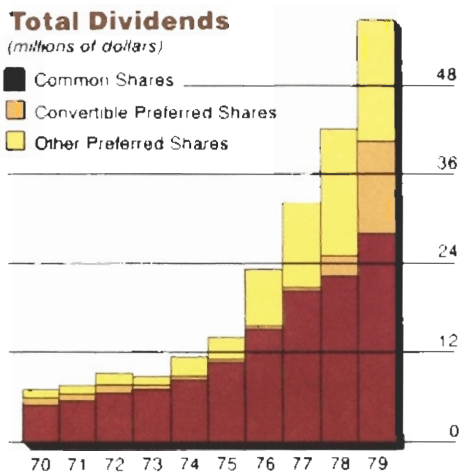
Total income taxes for 1979 represent 36.9% of income before income taxes and minority interest as compared to 34.3% in 1978. Such income taxes at $91.5 million are up $43.8 million from $47.7 million in 1978. The principal reasons for an effective tax rate below the expected tax rate are the after tax income arising from equity in earnings of affiliates; the effect of resource allowances, earned depletion and investment tax credits on petroleum and natural resources earnings; and the method of collecting income taxes in cost of service operations.

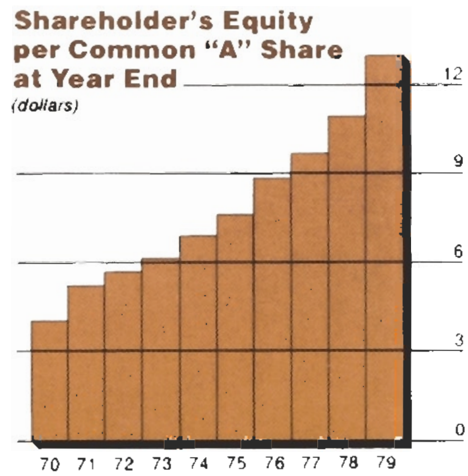
Minority Interest

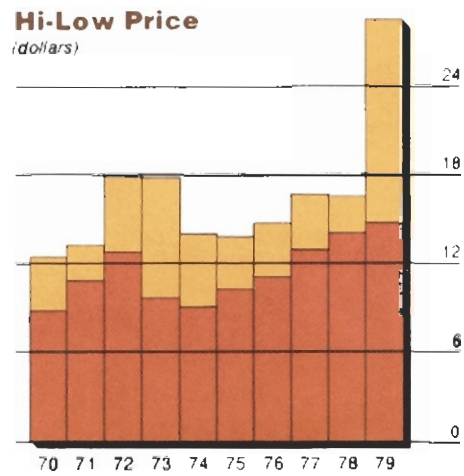
Minority interest of $40.2 million is up $34.5 million from $5.7 million in 1978. The 31% interest of the other Husky shareholders in the net income of Husky for the last six months of 1979 is $20.5 million.

In addition the minority interest in A.G. Investments (the financing vehicle used to acquire most of the Husky common shares held by the Company) received $15.9 million more in dividends in 1979 than in 1978.

The minority interest in the earnings of WAGI S.p.A. were down $1.9 million as a result of lower net income in WAGI arising from prolonged strikes during the year.







Net Income

Net income of $116.4 million for the year increased by $30.8 million or 36%. After providing for dividends of $28.1 million on all preferred shares outstanding the basic earnings per common share for the year were $2.97, an increase of 66¢ per share or 29% over the $2.31 recorded in 1978. The average number of common shares outstanding during the year was 29.8 million, an increase of 1.4 million over the average outstanding in 1978 of 28.4 million. On a fully diluted basis, earnings per common share were $2.43, an increase of 29¢ or 14% over the 1978 figure of $2.14.

Assets

Consolidated assets of the Company increased from $2.1 billion at December 31, 1978 to slightly over $3.1 billion at December 31, 1979. This growth in assets of approximately 52% principally reflects the consolidation of Husky's accounts and the continued asset growth in petrochemicals, gas transmission, manufacturing and pipeline projects. Over the past three years, the assets of the Company have more than tripled, which illustrates the magnitude of the growth momentum of the Company. As of December 31, 1979 non-gas transmission activities accounted for 76% of consolidated assets.

Husky Interest

At December 31, 1979 the Company held 7.6 million shares or approximately 69% of the issued common shares of Husky Oil Ltd. as compared to 48% or 5.3 million shares at the end of 1978. The increase resulted from the acquisition of over 2.0 million shares from the Nielson interests in June of 1979 and a further acquisition by tender offer in July of 1979 of 157 thousand shares. The price paid for all shares acquired in 1979 was $48 (U.S.) per share and the average cost to the Company of its current 69% interest is approximately $52 (Cdn.) per share.

Regulatory Matters

The Company's appeal to the Court of Appeal of Alberta in respect of the Public Utilities Board of Alberta interim order to render charges on a taxes payable ("flow-through") basis was heard in June of 1979, and on January 17, 1980 the appeal was dismissed. On March 17, 1980, the Company obtained Leave to Appeal from the Supreme Court of Canada. The 1979 transportation charges based on a tax allocation ("normalized") basis are estimated to exceed the charges if calculated on a tax payable ("flow-through") basis by approximately $16 million. If the Company were required to refund this amount, the effect would be a reduction in working capital and no material impact on net income.

As a result of a further complaint the Public Utilities Board issued an interim order on February 6, 1980 which required the Company to calculate income taxes on a taxes payable ("flow-through") basis for a twelve month period unless amended by another order.

Dividends

Dividends paid or payable for 1979 totalled $56.9 million, an increase of $12.6 million or 28% over the $44.3 million for 1978. Common share dividends were $28.8 million ($22.8 million in 1978); convertible preferred share dividends were $11.5 million ($4.2 million in 1978) and preferred share dividends were $16.6 million ($17.3 million in 1978). The quarterly dividend on common shares was increased with the May dividend by 17%. In 1979 shareholders received a dividend of $.925 per common share compared to $.7772 in 1978 for an increase of 19% in 1979.

New Funds

In 1979 a total of $640 million of new funds was obtained by the Company. Cash flow from operations generated $283 million ($126 million in 1978). Other funds amounting to $357 million were derived primarily from funds on deposit for construction expenditures of $148 million, the majority of which was drawn against petrochemical construction expenditures, and $152 million through the issue of long term debt.

Capital Expenditures

Cash capital expenditures for capital assets and deferred charges in 1979 totalled $348 million, compared to $259 million the previous year. This increase of $89 million consists principally of an increase of $129 million of expenditures in petroleum properties, refining and marketing facilities (chiefly Husky) offset by reductions of expenditures of $31 million in gas transmission plant and $24 million in petrochemical facilities.

Share Capital

Class A common shares outstanding at December 31, 1979 totalled 30.8 million compared to 29.1 million a year previous. The increase in the number of Class A common shares occurred primarily from the conversion of 6 3/8% Cumulative Redeemable Convertible Second Preferred Shares. The Class A shares are owned by 31,974 shareholders of whom 15,322 or 48% were registered in Alberta.

In February, 1980, the Company closed a public issue of 6 1/2% Cumulative Redeemable Convertible Second Preferred Shares of $25 par value in the amount of $200 million. Approximately 94% or over 7.5 million of the new shares were taken up by non-institutional investors.

ALBERTA GAS TRUNK LINE

Supplementary Divisional Information

Financial information relating to specific Divisions is included both in the narrative section of this Annual Report and in the Financial Statements and Notes thereto. A summary of operations by Divisions together with selected financial tables is set out below.

1) Operations by Division

a) Gas Transmission

The gas transmission division consists primarily of facilities for the transmission of gas owned by TransCanada PipeLines Limited, Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited, Westcoast Transmission Company (Alberta) Ltd., Consolidated Natural Gas Limited and Pan-Alberta Gas Ltd.

The transportation contracts with the above-named owners provide that the Company will be paid transportation charges on a cost of service basis which includes operating expenses, income taxes and depreciation of its facilities together with an annual return on rate base of 10.55% for 1979 and 1978.

b) Petrochemicals

The petrochemical division consists of the Company's investments (either directly or through subsidiaries) in the following interests:

i) 100% ownership of a 1.2 billion pound per year ethylene plant at Joffre, Alberta with all production being sold to Dow Chemical of Canada, Limited on a take or pay basis. The ethylene plant and related ethylene pipeline were constructed at a cost of approximately $345,000,000 including post start-up costs and production of ethylene commenced in August, 1979. The ethylene is paid for by Dow on a cost of service basis including cost of feedstock (ethane) and fuel, operating expenses, depreciation, amortization, income taxes, return to capital and foreign exchange gains or losses in respect of debt service;

ii) 33⅓% interest in a joint venture formed to own and operate an ethane gathering pipeline and related storage facilities to transport ethane from the extraction plants to the Joffre ethylene plant and to the western terminus of the Cochin pipeline at a point near Edmonton. The ethane gathering system consists of approximately 550 miles of pipeline together with storage facilities of approximately 500,000 barrels and was completed in 1979 at a cost of approximately $50,000,000. Alberta Gas Ethylene has agreed to pay the joint venture on a cost of service basis for such transportation and storage;

iii) 20% interest in the ownership and operation of the Cochin pipeline to transport ethane, ethylene and other products from Alberta to markets in Eastern Canada and the United States. The Cochin pipeline was completed in the fall of 1978 at an estimated cost of $340,000,000 including related storage facilities;

iv) 50% interest in the ownership and operation of a polyvinyl chloride manufacturing plant near Fort Saskatchewan, Alberta. The cost of the plant, having an annual capacity of 220 million pounds of polyvinyl chloride, is estimated to be $110,000,000 including interest, pre-startup and startup costs. The plant commenced startup operations in December 1979 and uses vinyl chloride monomer feedstock purchased from Dow Canada. Dow Canada manufactures vinyl chloride monomer from ethylene purchased from the Joffre ethylene plant. It is anticipated that most of the polyvinyl chloride will be marketed in Canada with the balance sold in export markets;

v) 50% interest in Alberta Gas Chemicals Ltd. which owns and operates two methanol plants constructed for approximately $48,000,000 at Medicine Hat, Alberta. Natural gas provides the feedstock for the production of methanol which is currently being produced at approximately the total name plate capacity of 1,200 short tons per day. Methanol is sold either on the open market or under contracts for various periods. In addition, a subsidiary of Alberta Gas Chemicals owns and operates a malic and fumaric acid plant in Duluth, Minnesota.

c) Petroleum

The petroleum division consists of the Company's investments (either directly or through subsidiaries) in the following interests:

i) 69.1% ownership of Husky Oil Ltd.; a fully integrated Canadian oil and gas company engaged in the exploration for, and the production and transportation of, crude oil and natural gas, the refining of crude oil and the wholesale and retail marketing of petroleum products as well as warehousing distribution and the distribution of steel and steel products and the marketing of charcoal briquets and industrial and activated carbons. For further details regarding the nature of Husky Oil Ltd. operations refer to the Husky 1979 Annual Report;

ii) 100% ownership of Algas Mineral Enterprises Ltd.; a company engaged in the acquisition, development and production of crude oil and natural gas reserves;

iii) 50.005% ownership of Pan-Alberta Gas Ltd.; a company which contracts for the purchase of natural gas at field delivery points throughout Alberta and for the sale of such gas to purchasers primarily outside Alberta.

d) **Manufacturing**

The manufacturing division consists of the Company's investment through subsidiaries in the design, manufacture, distribution and licensed production of valves on a worldwide basis for use primarily in the oil and gas industry. This investment is represented by the 100% ownership of Grove Valve and Regulator Company and 66.7% ownership of WAGI International S.p.A.

In addition, the Company owns 50% of Steel Alberta Ltd. Steel Alberta in turn owns 20.2% of the issued shares of Interprovincial Steel and Pipe Corporation Ltd., an integrated steel company which manufactures pipe, casing, structural tubing and sheet metal.

e) **Pipeline Development and Other**

Other activities consist principally of the Pipeline Development Division which is involved in a variety of new projects; principally the Alaska Highway Gas Pipeline Project, the Q & M Pipeline Project and the Arctic Pilot Project. The Company is also engaged in a variety of other energy related projects.

2) **Financial Information by Division**
(thousands of dollars)

	Gas Transmission	Petroleum	Petro-chemicals	Manu-facturing	Other	Total
Revenue:						
1979	$208,836	$ 716,324	$189,675	$129,137	$ —	$1,243,972
	16.8%	*57.6%*	*15.2%*	*10.4%*	–	*100%*
1978	$198,931	$ 94,473	$ 54,519	$116,208	$ —	$ 464,131
	42.9%	*20.4%*	*11.7%*	*25.0%*	–	*100%*
Net Operating Income:						
1979	$125,099	$ 110,931	$ 24,686	$ 14,380	$ (2,076)	$ 273,020
	45.8%	*40.6%*	*9.0%*	*5.3%*	*(0.7%)*	*100%*
1978	$118,556	$ 5,338	$ 3,291	$ 16,239	$ (3,970)	$ 139,454
	85.0%	*3.8%*	*2.4%*	*11.6%*	*(2.8%)*	*100%*
Identifiable Assets:						
1979	$761,162	$1,412,085	$602,901	$181,719	$182,678	$3,140,545
	24.2%	*45.0%*	*19.2%*	*5.8%*	*5.8%*	*100%*
1978	$738,400	$ 377,377	$613,872	$183,801	$148,371	$2,061,821
	35.8%	*18.3%*	*29.8%*	*8.9%*	*7.2%*	*100%*

3) **Financial Information by Geographic Area**
(thousands of dollars)

	Canada	United States	Other	Total
Revenue:				
1979	$ 668,236	$502,699	$ 73,037	$1,243,972
	53.7%	*40.4%*	*5.9%*	*100%*
1978	$ 345,809	$ 52,233	$ 66,089	$ 464,131
	74.5%	*11.3%*	*14.2%*	*100%*
Net Operating Income:				
1979	$ 199,240	$ 64,941	$ 8,839	$ 273,020
	73.0%	*23.8%*	*3.2%*	*100%*
1978	$ 121,563	$ 6,963	$ 10,926	$ 139,454
	87.2%	*5.0%*	*7.8%*	*100%*
Identifiable Assets:				
1979	$2,271,490	$731,690	$137,365	$3,140,545
	72.3%	*23.3%*	*4.4%*	*100%*
1978	$1,837,227	$ 95,895	$128,699	$2,061,821
	89.1%	*4.7%*	*6.2%*	*100%*

ALBERTA GAS TRUNK LINE

Consolidated Statement of Income

(thousands of dollars except for per share data)

	Year Ended December 31									
	Total		Gas Transmission		Petroleum		Petrochemicals		Manufacturing	
	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978
Revenue:										
Operating revenue	$1,243,972	$464,131	$208,836	$198,931	$716,324	$94,473	$189,675	$54,519	$129,137	$116,208
Intersegment revenue	—	—	23,376	20,967	—	—	—	—	—	—
	1,243,972	464,131	232,212	219,898	716,324	94,473	189,675	54,519	129,137	116,208
Costs and expenses:										
Costs of sales and operating expenses	871,241	280,802	74,743	63,030	532,501	67,382	154,009	50,499	109,988	99,891
Intersegment expenses	—	—	—	—	23,376	20,967	—	—	—	—
Depreciation and depletion (Note 1)	97,404	46,073	32,370	38,312	50,852	2,398	9,763	919	4,399	4,444
Loss (gain) on foreign currency translation	231	(6,168)	—	—	(1,336)	(1,612)	1,197	(190)	370	(4,366)
Other unallocated expenses	2,076	3,970	—	—	—	—	—	—	—	—
	970,952	324,677	107,113	101,342	605,393	89,135	164,989	51,228	114,757	99,969
Net operating income	273,020	139,454	125,099	118,556	110,931	5,338	24,686	3,291	14,380	16,239
Equity in earnings of affiliated companies	18,580	16,924	—	—	11,248	10,741	5,557	4,336	1,775	1,847
Allowance for funds —										
Used during construction	16,218	23,777	1,244	3,643	—	—	14,974	20,134	—	—
Capitalized on Alaska Highway Gas Pipeline Project	4,947	—	—	—	—	—	—	—	—	—
	39,745	40,701	1,244	3,643	11,248	10,741	20,531	24,470	1,775	1,847
Income before the undernoted items	312,765	180,155	$126,343	$122,199	$122,179	$16,079	$ 45,217	$27,761	$ 16,155	$ 18,086
Interest and expense on long term debt (Net of interest income: 1979 – $31,164; 1978 – $23,353)	64,658	41,113								
Income before income taxes and minority interest	248,107	139,042								
Income taxes (Notes 1 and 8)										
Current	3,532	18,542								
Deferred	87,957	29,126								
	91,489	47,668								
Income before minority interest	156,618	91,374								
Minority interest	40,220	5,743								
Net income (Notes 1 and 8)	$ 116,398	$ 85,631								
Earnings per common share:										
Basic	$ 2.97	$ 2.31								
Fully diluted	$ 2.43	$ 2.14								

See accompanying summary of accounting policies and notes

ALBERTA GAS TRUNK LINE

Consolidated Balance Sheet

(thousands of dollars)

Assets

	December 31 1979	December 31 1978
Current Assets:		
Cash and short term deposits	$ 115,177	$ 149,449
Accounts receivable	438,529	140,016
Inventories (Note 2)	240,926	53,878
Prepaid expenses	6,566	3,293
	801,198	346,636
Funds on Deposit for Construction Expenditures (Note 3)	74,418	222,108
Investments and Advances (Note 4)	44,019	287,245
Plant, Property and Equipment (Note 5)	2,428,515	1,368,054
Less accumulated depreciation and depletion	(318,183)	(230,643)
	2,110,332	1,137,411
Deferred Costs (Note 6)	110,578	68,421
	$3,140,545	$2,061,821

On behalf of the Board:

, Director

, Director

See accompanying summary of accounting policies and notes

Liabilities and Shareholders' Equity

	December 31 1979	December 31 1978
Current Liabilities:		
Bank loans (Note 7)	$ 208,825	$ 68,234
Accounts payable and accrued liabilities	309,028	100,828
Deferred income taxes	65,106	—
Dividends payable	14,127	14,392
Interest accrued on long term debt	12,388	7,570
Long term debt instalments due within one year	59,525	30,181
	668,999	221,205
Long Term Debt (Note 7)	1,038,193	821,091
Deferred Income Taxes (Note 8)	256,192	90,754
Minority Interest in Subsidiary Companies (Note 9)	410,679	218,208
Shareholders' Equity:		
Capital stock (Note 10) –		
Preferred shares	363,581	392,593
Common shares	38,446	36,405
Contributed surplus	170,127	146,680
Reinvested earnings	194,328	134,885
	766,482	710,563
Contingencies and Commitments (Note 14)		
	$3,140,545	$2,061,821

ALBERTA GAS TRUNK LINE

Consolidated Statement of Contributed Surplus

(thousands of dollars)

	Year Ended December 31	
	1979	1978
Balance at beginning of year	$146,680	$142,181
Premium on issue of common shares	23,000	11,205
Gain on purchase of preferred shares for cancellation	447	266
Capital stock issue expenses written off	—	(6,972)
Balance at end of year	$170,127	$146,680

Consolidated Statement of Reinvested Earnings

(thousands of dollars)

	Year Ended December 31	
	1979	1978
Balance at beginning of year	$134,885	$ 93,577
Net income	116,398	85,631
	251,283	179,208
Less dividends paid or payable:		
Preferred shares	28,115	21,543
Common shares	28,840	22,780
	56,955	44,323
Balance at end of year	$194,328	$134,885

See accompanying summary of accounting policies and notes

Alberta Gas Trunk Line

Consolidated Statement of Changes in Financial Position

(thousands of dollars)

	Year Ended December 31	
	1979	1978
Source of funds:		
Operations	$282,605	$125,756
Preferred shares	—	189,000
Common shares	25,041	12,822
Less common shares issued on conversion of —		
Preferred shares	(19,211)	(252)
Debentures	(3,666)	(12,359)
Minority interest — Issue of preferred shares by a subsidiary (A.G. Investments Ltd.)	50,000	205,000
Long term debt	152,262	197,594
Funds on deposit for construction expenditures	147,690	29,525
Other	4,902	3,060
	$639,623	$750,146
Use of funds:		
Plant, property and equipment —		
Gas transmission plant	$ 33,611	$ 64,111
Petrochemical facilities	118,921	142,747
Petroleum and mineral resource properties	117,409	10,236
Refining and marketing facilities	21,884	—
Manufacturing and other facilities	22,080	16,060
	313,905	233,154
Acquisition of Husky Oil Ltd. shares (net of working capital of $42,728 at June 30, 1979)	94,872	254,816
Other investments	14,720	—
Purchase of minority interests — Energy Equipment & Systems Inc.	—	2,961
Deferred costs	33,636	26,020
Retirement of long term debt	87,781	108,399
Dividends to —		
Shareholders	56,955	44,323
Minority shareholders of subsidiaries	21,632	5,889
Cost of issuing securities	—	6,972
Purchase of preferred shares for cancellation	9,354	6,486
Working capital increase	6,768	61,126
	$639,623	$750,146

See accompanying summary of accounting policies and notes

Summary of Accounting Policies

December 31, 1979

The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries, principally:

100% Owned
- The Alberta Gas Ethylene Company Ltd.
- AGEC Security Corporation
- A.G. Industries International, Inc.
- A.G. Investments Ltd. (see Note 9)
- A.G. Pipe Lines Inc.
- A.G. Pipe Lines (Canada) Ltd.
- Algas Engineering Services Ltd.
- Algas Properties Ltd.
- Algas Mineral Enterprises Ltd.
- Algas Resources Ltd.
- Energy Equipment & Systems Inc.
- Grove Valve and Regulator Company
- Q & M Pipe Lines Ltd.

Partially Owned
- Pan-Alberta Gas Ltd. (50.005% owned)
- WAGI International, S.p.A. (66.7% owned)
- Husky Oil Ltd. (69.1% owned; 48% at December 31, 1978 — see Note 13)

Companies acquired have been accounted for using the purchase method.

Investments in unincorporated petrochemical joint ventures are accounted for by the proportionate consolidation method. The companies' share of aggregate assets, liabilities, revenues and expenses accounted for by this method as at December 31, 1979 is $153,067,000, $51,141,000, $41,941,000 and $28,386,000 respectively ($126,400,000, $34,700,000, $9,800,000 and $5,600,000 respectively at December 31, 1978). The difference between assets and liabilities represents the investment in the joint ventures financed by the Company and its subsidiaries.

Substantially all of the companies' exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the companies' proportionate interest in such activities.

Foreign currency translation

Accounts in foreign currencies have been translated to Canadian dollars using current rates of exchange for current assets and current liabilities, historical rates of exchange for non-current assets and non-current liabilities and average rates for the year for revenue and expenses, except depreciation which is translated at the rate of exchange applicable to the related assets. Gains or losses resulting from exchange adjustments are included in income.

Inventories

Refining and manufacturing inventories are carried at the lower of cost and net realizable value on a first-in, first-out basis. Other materials and supplies are carried at cost.

Investments and advances

The Company accounts for its investment in Alberta Gas Chemicals Ltd. and Steel Alberta Ltd. (both 50% owned) by the equity method. The Company's investment in Husky Oil Ltd. (69.1% owned at December 31, 1979) has been accounted for by the equity method from July 1, 1978 (effective date of acquisition of a significant holding) to June 30, 1979 (effective date of acquisition of controlling interest) and thereafter consolidated with the accounts of the Company (see Note 13).

Other investments are carried at cost.

Plant, property and equipment

Plant, property and equipment are carried at cost.

An allowance for funds used during construction is capitalized when recoverable under cost of service contracts. For gas transmission plant under construction the rate is equivalent to the annual rate of return and for petrochemical facilities the rate is the agreed cost of capital. For plant, property and equipment not subject to cost of service contracts, related interest incurred during the construction phase is capitalized.

Plant, property and equipment (except for gas transmission and certain petroleum production equipment) are depreciated on a straight line basis at annual rates varying from 2.5% to 50% which rates are designed to write these assets off over their estimated useful lives.

Depreciation of gas transmission plant approximates a composite annual rate of 3.6% on cost in 1979 (1978 – 4.6%) (see Note 1).

Petroleum production equipment is depreciated by the unit of production method.

The companies employ the full cost method of accounting and capitalize all North American exploration and reserve development costs into three cost centers: the United States, the Lloydminster area of Canada and all other areas in Canada. These costs are depleted, by cost center, on a composite unit-of-production method based upon proved developed reserves as estimated by companies' engineers.

The cost of acquiring, exploring and developing oil and gas interests outside of North America has been capitalized pending the outcome of exploration in each area of interest. These costs are being amortized on a straight-line method at an annual rate of 20% pending reserve development. Unamortized costs will be depleted by the method set forth in the preceding paragraph if sufficient reserves are developed. The unamortized costs of an abandoned area are charged against earnings at the time of abandonment.

Unamortized debt discount and expense

These amounts are being amortized over the terms of the respective issues.

Deferred costs

Costs relating to the Alaska Highway Gas Pipeline Project and other projects which may benefit future periods are being deferred pending evaluation and completion of the projects. Deferred costs applicable to projects which have been terminated are expensed.

Commencing January 1, 1979, the Company began to capitalize an allowance for funds on expenditures incurred to date for the Alaska Highway Gas Pipeline Project (see Note 6).

The cost of license agreements and patents is amortized on a straight line basis over their estimated lives.

Long term debt

Short term borrowings which are expected to be repaid from the proceeds of long term financing are included in long term debt.

Capital lease obligations which relate to transactions which are similar in nature to a purchase have been capitalized and included in long term debt.

Income taxes

The companies follow the tax allocation basis of recording income taxes on all income except for gas transmission and certain petrochemical operations which are subject to cost of service contracts. Income taxes are provided on these sources of income only to the extent that they are included in allowable costs of service under such contracts (see Note 8).

Earnings per common share

Earnings per common share are calculated using the weighted average number of shares outstanding during the period. The calculation of earnings per common share on a fully diluted basis assumes conversion of all securities and exercise of all stock options which would have a dilutive effect on earnings per share.

Notes to Consolidated Financial Statements

December 31, 1979

1. Regulatory matters

The Public Utilities Board of Alberta (as a result of complaints by certain natural gas producers) issued an order to the Company on November 8, 1978 in respect of its depreciation rates and its treatment of income tax. Following application by the Company for review and variance of the decision, the Board provided clarification in written rulings on December 21, 1978 ordering the Company, for the twelve month period ending December 31, 1978 to calculate depreciation in accordance with the rates, methods and manner in effect immediately prior to November 1, 1975 and to charge income taxes on a taxes payable ("flow-through") basis for gas transmission. The Company applied and obtained leave to appeal and a suspension of the decision. The appeal was heard in June 1979.

The Company's 1978 financial statements reflected no adjustment to depreciation charges as a result of the Public Utilities Board decision and, as well, reflected charges for income taxes on a tax allocation ("normalized") basis for gas transmission. If the Company were required to refund an amount determined by recalculating all the 1978 monthly cost of service billings, the effect could be a reduction of working capital of approximately $20 million and no material impact on net income.

Commencing January 1, 1979 the Company charged depreciation in accordance with the decision of the Public Utilities Board but continued to charge income taxes on a tax allocation ("normalized") basis for gas transmission. For the month of December, 1979 the Company charged income taxes on a taxes payable ("flow-through") basis.

As a result of a 1979 complaint, the Public Utilities Board issued an interim order which would have had the effect of placing the gas transmission operations on a taxes payable ("flow-through") basis until final determination. The Company was granted leave to appeal and also obtained a suspension of this interim order. The appeal was heard in June, 1979. On January 17, 1980 this appeal together with that referred to in the first paragraph was dismissed. For the year 1979 the charges on a tax allocation ("normalized") basis are estimated to exceed the charges if calculated on a tax payable ("flow-through") basis by approximately $16 million. If the Company were required to refund this amount, the effect would be an equivalent reduction of working capital and no material impact on net income. The Public Utilities Board has scheduled a hearing to commence July 21, 1980 with respect to that part of the complaint referred to in the preceding paragraph relating to depreciation.

With the expiration of the 1979 interim order, referred to in the previous paragraph, certain natural gas producers filed a further complaint on January 18, 1980 respecting the Company's depreciation rates and treatment of income taxes. On February 6, 1980 the Public Utilities Board issued an interim order which required the Company to calculate income taxes on a taxes payable ("flow-through") basis. This order will be in effect for a 12-month period unless replaced at an earlier date by a further or final order.

2. Inventories

	December 31 1979	December 31 1978
	(thousands of dollars)	
Gas transmission division	$ 13,135	$10,936
Petrochemical division	8,280	3,407
Petroleum division	177,988	6,409
Manufacturing division and other	41,523	33,126
	$240,926	$53,878

3. Funds on deposit for construction expenditures

The proceeds from certain project financings are held on deposit to be drawn down against petrochemical construction expenditures. The funds on deposit at December 31, 1979 and December 31, 1978 include deposits of U.S. $65,000,000 (Cdn. $71,589,000) and U.S. $174,426,000 (Cdn. $192,108,000) respectively and Canadian deposits of $2,829,000 and $30,000,000 respectively.

4. Investments and advances

	December 31 1979	December 31 1978
	(thousands of dollars)	
Husky Oil Ltd. (Note 13)	$ —	$263,088
Alberta Gas Chemicals Ltd.	16,615	12,776
Steel Alberta Ltd.	11,832	10,529
Other	15,572	852
	$44,019	$287,245

5. Plant, property and equipment

	December 31 1979			1978
	(thousands of dollars)			
	Cost	Accumulated Depreciation and Depletion	Net	Net
Gas transmission division				
Plant in service	$ 937,066	$244,469	$ 692,597	$ 680,737
Plant under construction	7,772	—	7,772	16,784
Petrochemical division				
Plant in service	432,954	10,702	422,252	88,144
Plant under construction	54,129	—	54,129	264,125
Petroleum division (Note 13)				
Petroleum and mineral resource properties	663,594	38,110	625,484	54,981
Refining and marketing facilities	224,264	7,045	217,219	—
Other facilities	47,514	2,060	45,454	—
Manufacturing division and other facilities	61,222	15,797	45,425	32,640
	$2,428,515	$318,183	$2,110,332	$1,137,411

6. Deferred costs

	December 31 1979	December 31 1978
	(thousands of dollars)	
Alaska Highway Gas Pipeline Project	$ 66,900	$41,706
Arctic Pilot Project	12,896	10,463
Q & M Project	7,957	3,227
Unamortized debt discount and expense	5,334	3,968
Other	17,491	9,057
	$110,578	$68,421

Alaska Highway Gas Pipeline Project —

The Company is one of the principal sponsors of the Alaska Highway Gas Pipeline Project which has as its objective the transportation of natural gas from Alaska through Canada to the United States of America. In July 1979, the National Energy Board approved the inclusion of the expenditures incurred prior to December 31, 1978 in the project rate base at the time Alaska gas is transported. Upon commencement of construction the Company may incur or be responsible for large expenditures in respect of this project.

Arctic Pilot Project —

The Company, Petro-Canada and Melville Shipping Ltd. have formed a joint venture (Arctic Pilot Project) for the purpose of determining the economic feasibility of producing, processing and transporting natural gas by LNG tanker from the Arctic Islands. The costs of the project through the regulatory stage are estimated to be $44,000,000 of which the Company's share would be $14,800,000.

Q & M Project —

In 1977 the Company initiated the Q & M Project relating to the construction and operation of a major gas transmission system to transport Alberta natural gas to Quebec, New Brunswick and Nova Scotia. On November 5, 1979 Q & M Pipe Lines Ltd. and TransCanada PipeLines Limited advised the National Energy Board of their intention to merge their competing applications and form a joint venture whereby each party will own a 50% undivided interest in all facilities to be constructed. The capital cost of the Quebec and Maritimes mainline is estimated at $1.1 billion.

7. Long Term Debt
(thousands of dollars)

	Maturity	December 31 1979	December 31 1978
Alberta Gas Trunk Line			
First Mortgage Bonds			
5¼% Series A	1981	$ 4,499	$ 6,536
5¾% Series B (1979 – U.S. $12,191; 1978 – U.S. $16,899)	1981	12,191	16,899
5½% Series C	1985	7,548	8,870
8¾% Series D (1979 – U.S. $43,100; 1978 – U.S. $45,900)	1989	46,257	49,262
Secured Debentures			
6½% Series A	1981	8,995	9,539
5¾% Series B	1985	18,118	18,727
Unsecured Debentures			
7½% Series 1 (convertible)	1990	3,094	6,760
9¾% Series 2	1990	17,607	18,198
9¼% Series 3	1990	15,708	16,315
8% Series 4	1991	44,463	45,735
8⅛% Series 5	1992	32,073	32,705
11⅜% Series 6	1995	56,430	58,240
		266,983	287,786
Bank Financing on purchase of Husky Oil Ltd. Shares (Note 13)			
Canadian		46,808	—
United States (1979 – U.S. $39,980)		46,820	—
		93,628	—
		360,611	287,786
Alberta Gas Ethylene			
Ethylene Plant Financing			
8¼% Secured Notes (1979 – U.S. $319,397; 1978 – U.S. $325,000)	1998	360,314	361,143
5⅜% First Income Debentures (1979 – U.S. $319,397; 1978 – U.S. $325,000)	1987	360,314	361,143
Second Income Debentures		—	30,000
Less certificates of deposit (1979 – U.S. $319,397; 1978 – U.S. $325,000) pledged as security against the First Income Debentures		(360,314)	(361,143)
		360,314	391,143
Husky Oil Ltd. and Subsidiaries			
Sinking Fund Debentures, Series A, B and C with interest rates varying from 6% to 8½%		33,699	—
Notes Payable and other Loans — secured and unsecured with interest rates varying from 4½% to 17⅓%			
Canadian		28,131	—
United States (U.S. $122,196)		131,176	—
Capital Lease Obligations		13,421	—
		206,427	—
Algas Mineral Enterprises Ltd. — Income Debentures (1979 – U.S. $55,814; 1978 – U.S. $58,365)		63,224	66,070
Cochin Pipe Line and Ethane Gathering System A.G. Pipe Lines (Canada) Ltd.		33,250	35,000
Polyvinyl Chloride Plant Financing (1979 – U.S. $36,340; 1978 – U.S. $15,500)		42,095	17,515
Other Bank Loans		21,716	41,698
Other Loans		5,143	6,337
Other Capital Lease Obligations		4,938	5,723
		1,097,718	851,272
Less instalments due within one year shown as current liability		59,525	30,181
		$1,038,193	$821,091

First Mortgage Bonds and Secured Debentures —

The First Mortgage Bonds are secured by a first fixed and specific mortgage, pledge and charge and a first floating charge on the assets of the Company. The Secured Debentures are secured in the same manner, subject to the prior charge of the First Mortgage Bonds.

The First Mortgage Bonds, Series B and Series D, are payable in U.S. dollars and have been converted into Canadian dollars at par and 1.07325 respectively. Certain customers of the Company have agreed that the foreign exchange gain or loss relative to the principal and interest on these bonds is for their account.

Husky Acquisition Financing —

The Company financed a substantial portion of the purchase price of the Nielson shares and all the shares and warrants acquired pursuant to a tender offer through a credit arrangement with two Canadian Banks (see Note 13). The loans are on an unsecured basis with interest at the bank's base lending rate for U.S. dollar loans to Canadian companies, and loans made in Canadian funds will bear interest at the bank's prime lending rate for Canadian dollar loans to Canadian companies. The Company repaid such loans from the proceeds of a preferred share issue (see Note 15).

Ethylene Plant Financing —

The proceeds from the issuance of the 8¼% Secured Notes are invested in certificates of deposit which bear interest equivalent to that due on the Secured Notes. The Secured Notes are guaranteed by a first fixed and floating charge on the ethylene plant, the ethylene pipeline, related assets of The Alberta Gas Ethylene Company Ltd. and by the assignment of certain related contracts.

The First Income Debentures were issued simultaneously with the issuance of the Secured Notes and are secured by the certificates of deposit referred to in the previous paragraph.

Under the take or pay contract with Dow Chemical of Canada Limited, all exchange gains and losses are for the account of Dow.

Husky Oil Ltd. and Subsidiaries —

The Series A, B, and C Sinking Fund Debentures are secured by the common shares of certain wholly-owned subsidiaries of Husky and a first floating charge on all other assets of Husky and certain of its subsidiaries. Certain notes payable and other loans of $36,370,000 are secured by certain assets and properties.

Algas Minerals Financing —

Security for the Algas Minerals' income debentures includes natural gas properties and a general assignment of book debts. Interest on these income debentures varies with the London Inter Bank Offering Rate and was approximately 8% at December 31, 1979 (7% at December 31, 1978). The income debentures mature on various dates between 1986 and 1989.

Cochin Pipe Line and Ethane Gathering System Financing —

A.G. Pipe Lines (Canada) Ltd. in connection with the long term financing of its share of the cost of the Canadian segment of the Cochin Pipe Line and of the Ethane Gathering System, pursuant to a loan agreement, issued $35,000,000 secured income debentures convertible to secured term notes. The income debentures or term notes will mature on December 31, 1987 and are secured by a first floating charge upon a portion of the assets of A.G. Pipe Lines (Canada) Ltd. and a first fixed charge on certain agreements (insofar as they relate to the Canadian segment of the Cochin Pipe Line). In October 1979, the income debentures were converted to term notes. The interest rate on the term notes was approximately 16.25% at December 31, 1979 (7% on the income debentures at December 31, 1978).

A.G. Pipe Lines Inc., in connection with the long term financing of its share of the cost of the United States segment of the Cochin Pipe Line, has entered into a revolving credit and term loan agreement which provided for the issuance of promissory notes of up to U.S. $45,000,000 of which no amounts were outstanding at December 31, 1979 and December 31, 1978. The notes would mature on December 31, 1980 with provision for extension, at the option of A.G. Pipe Lines Inc., to December 31, 1987. Promissory notes issued under such agreement will be secured by an assignment of the interest of A.G. Pipe Lines Inc. in certain agreements (insofar as they relate to the United States segment of the Cochin Pipe Line), by the guarantee of A.G. Pipe Lines (Canada) Ltd., and by a pledge of the outstanding shares of A.G. Pipe Lines Inc.

Polyvinyl Chloride Plant Financing —

The polyvinyl chloride plant was financed through the issuance of U.S. $72,680,000 8¾% secured notes Series A due December 15, 1999. These notes are secured by a first fixed and floating charge upon the property and assets relating to the project and by an assignment of certain related contracts. Repayment on the notes is required to commence in 1984 at an annual rate of 5.88% of the principal amount outstanding.

Other Bank Loans —

At December 31, 1979 other bank loans are secured by natural gas properties as to $238,000 ($317,000 at December 31, 1978) and manufacturing inventories, facilities and accounts receivable as to $10,697,000 ($12,105,000 at December 31, 1978) and mature by agreement to 1984. The interest rate will vary during the term of the loans and approximated 11.86% at December 31, 1979 (11¾% at December 31, 1978).

Other Loans —

Other loans of $3,312,000 ($3,966,000 at December 31, 1978) are secured by manufacturing facilities and mature by agreement to 1999. The effective interest on the other loans varies and approximated 6% at December 31, 1979 (5% at December 31, 1978).

Sinking Fund and Repayment Requirements —

Sinking fund and repayment requirements in respect of long term debt for the years 1980 to 1984 are: 1980 – $59.525.000; 1981 – $76,334,000; 1982 – $77,321,000; 1983 – $60,265,000; 1984 – $70,046,000.

Current Bank Loans —

Current bank loans of $139.529,000 ($67,138,000 at December 31, 1978) are secured by accounts receivable and inventories.

8. Income Taxes

For the gas transmission division (see Note 1) and certain of the petrochemical operations, charges to customers are on a cost of service basis. Because income taxes related to these operations are a component of the charges, the billing for such income taxes on a taxes payable or tax allocation basis does not affect net income.

Income tax expense varies from the amounts that would be computed by applying the Canadian federal and provincial income tax rates of 47% to income before income taxes as shown in the following table:

	1979		1978	
	Amount (thousands of dollars)	% of Pre-Tax Income	Amount (thousands of dollars)	% of Pre-Tax Income
Income before income taxes	$248,107		$139,042	
"Expected" income tax expense	$116,610	47.0%	$ 65,349	47.0%
Less adjustment of expected income taxes due to inclusion in pre-tax income of –				
Equity in earnings of affiliates	(8,732)	(3.5)	(7,954)	(5.7)
Income on which income taxes are recorded only to the extent they are included in cost of service:				
Gas Transmission	2,699	1.1	2,496	1.8
Petrochemical	(6,334)	(2.6)	(7,598)	(5.5)
Petroleum and natural resource activities	(5,978)	(2.4)	(855)	(0.6)
Other-net	(6,776)	(2.7)	(3,770)	(2.7)
Actual income tax expense	$ 91,489	36.9%	$ 47,668	34.3%

9. Minority interests

	December 31 1979	December 31 1978
	(thousands of dollars)	
Husky Oil Ltd	$142,641	$ —
Preferred share equity in A.G. Investments Ltd.	255,000	205,000
Other	13,038	13,208
	$410,679	$218,208

In connection with the acquisition of 5,959,500 shares of Husky (see Note 13) A.G. Investments Ltd. issued, through June 24, 1979, $255,000,000 (or U.S. dollar equivalent) of variable rate, cumulative, redeemable, senior preferred shares. The Preferred Shares are redeemable at the option of A.G. Investments Ltd. between 1982 and 1989 and are redeemable at the option of the holder in certain events. The variable dividend rate approximated 8.36% at December 31, 1979 (7.35% at December 31, 1978). The Husky Oil Ltd. shares have been pledged by A.G. Investments Ltd. as collateral security.

10. Capital Stock

	December 31 1979	December 31 1978
(a) Preferred Shares	(thousands of dollars)	
(i) Preferred shares of a par value of $100 each		
Authorized — 2,000,000 shares		
Issued — Cumulative and Redeemable		
4¾% Series C - 133,853 shares (1978 – 146,437)	**$ 13,385**	**$ 14,644**
5⅜% Convertible Series D - 6,913 shares (1978 – 8,250)	**691**	**825**
(ii) Preferred Shares of a par value of $25 each		
Authorized — 10,000,000 shares		
Issued — Cumulative and Redeemable		
7¾% – 913,571 shares (1978 – 916,971)	**22,839**	**22,924**
9¾% – 1,359,995 shares (1978 – 1,471,995)	**34,000**	**36,800**
9.76% – 1,968,000 shares (1978 – 2,136,000)	**49,200**	**53,400**
7.60% – 2,941,700 shares (1978 – 3,000,000)	73,543	**75,000**
(iii) Second preferred shares of a par value of $25 each		
Authorized — 7,560,000 shares		
Issued — Cumulative and Redeemable		
6⅞% Convertible – 6,796,920 shares (1978 – 7,560,000)	169,923	189,000
	$363,581	$392,593

The Company is required to set aside on its books as Purchase Funds $2,175,000 annually or such lesser amount as would increase the Funds to $4,350,000 for the purchase for cancellation, if and when available, of its 4¾% Cumulative Redeemable Preferred Shares Series C and 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D, at a price not in excess of $100 per share plus costs of purchase, and its 7¾% Cumulative Redeemable Preferred Shares, at a price not in excess of $25 per share plus accrued and unpaid dividends and costs of purchase.

The Preferred Shares Series C are redeemable at $103 per share on or before May 15, 1980, the Preferred Shares Series D at $106 per share on or before May 15, 1980 and the 7¾% Preferred Shares at $26.50 per share on or before May 15, 1984 and at reducing amounts after those dates.

The Company is required to call for redemption and redeem annually, through the operation of cumulative mandatory sinking funds, 64,000 9¾% Preferred Shares and 96,000 9.76% Preferred Shares at par value plus accrued and unpaid dividends. In addition, the Company may call for redemption and redeem annually, through the operation of non-cumulative optional sinking funds, 48,000 9¾% Preferred Shares and 72,000 9.76% Preferred Shares at par value plus accrued and unpaid dividends. Other than for sinking fund purposes the 9¾% Preferred Shares and the 9.76% Preferred Shares are not redeemable prior to May 15, 1981 and November 15, 1981, respectively, at which time they are redeemable to May 15, 1982 and November 15, 1982 at $27.00 per share and $26.25 per share, respectively, plus accrued and unpaid dividends and at reducing amounts thereafter.

The 7.60% Preferred Shares are not redeemable until on or after February 5, 1983 at which time they are redeemable to February 15, 1984 at $26.25 per share plus accrued and unpaid dividends and at reducing amounts thereafter. In addition, the Company shall annually use all reasonable efforts to purchase for cancellation 90,000 7.60% Preferred Shares at a price not in excess of $25 per share plus accrued and unpaid dividends and costs of purchase.

The 6⅜% Preferred Shares are redeemable on or after November 15, 1981 and prior to November 15, 1983 at $26.25 per share if the weighted average price at which the Class "A" common shares were traded was not less than 125% of the conversion price. These shares are redeemable from November 15, 1983 to November 15, 1984 at $26.25 per share plus accrued and unpaid dividends and at reducing amounts thereafter. In addition, the Company shall annually, commencing in 1982, use all reasonable efforts to purchase for cancellation 216,000 6⅜% Preferred Shares at a price not in excess of $25.00 per share plus accrued and unpaid dividends and costs of purchase.

During the year the Company purchased for cancellation 12,584 4¾% Preferred Shares, 3400 7¾% Preferred Shares and 58,300 7.60% Preferred Shares at a discount of $447,000 which has been credited to contributed surplus. In addition, 1,337 5⅜% Preferred Shares were converted into 14,944 Class "A" common shares and 763,080 6⅜% Preferred Shares were converted into 1,068,309 Class "A" common shares. 112,000 9¾% Preferred Shares and 168,000 9.76% Preferred Shares were redeemed at par.

(b) Common Shares

	December 31 1979	December 31 1978
	(thousands of dollars)	
(i) Class "A" common shares of the par value of $1.25 each (non-voting except for the election of seven directors)		
Authorized — 45,000,000 shares		
Issued — 30,750,305 shares (29,117,454 at December 31, 1978)	$ 38,438	$ 36,397
(ii) Class "B" common shares of the par value of $5.00 each		
Authorized — 2,004 shares		
Issued — 1,653 shares	8	8
	$ 38,446	$ 36,405

Class "A" common shares were issued during the year as follows:

	Shares	Consideration: Share Capital	Consideration: Contributed Surplus	Consideration: Total
		(thousands of dollars)		
On conversion of —				
5⅜% Preferred Shares Series D	14,944	$ 19	$ 115	$ 134
6⅜% Preferred Shares	1,068,309	1,335	17,742	19,077
7½% Sinking Fund Debentures Series 1	366,600	458	3,208	3,666
On exercise of options granted to officers and employees	182,998	229	1,935	2,164
	1,632,851	$2,041	$23,000	$25,041

(iii) Reserved:

Class "A" common shares were reserved at December 31, 1979 as follows:

	Shares
For conversion of the 5⅜% Cumulative Redeemable Convertible Preferred Shares, Series D until July 15, 1980, on a conversion basis of 11.20 common shares for each preferred share	77,426
For conversion of the 6⅜% Cumulative Redeemable Convertible Second Preferred Shares until November 15, 1986, on a conversion basis of 1.4 common shares for each preferred share	9,515,688
For conversion of the 7½% Convertible Sinking Fund Debentures, Series 1 until July 15, 1982, on a conversion basis of 100 common shares for each $1,000 principal amount of Series 1 Debentures	309,400
Under the incentive stock option plan, options are outstanding to officers and employees to purchase 415,000 common shares at prices ranging from $11.25 to $26.625 per share (506,100 shares at December 31, 1978 at prices ranging from $11.25 to $15.75) exercisable in annual instalments on a cumulative basis from 1980 to 1984 and 382,700 common shares are reserved but unallocated (267,300 at December 31, 1978)	797,700
Under the executive share option plan, options are outstanding to officers to purchase 560,000 common shares at $25.25 per share exercisable in annual instalments on a cumulative basis from 1980 to 1983 and thereafter the balance until 1989. At December 31, 1979 140,000 common shares were reserved but unallocated	700,000
	11,400,214

11. Remuneration of directors and senior officers

The aggregate remuneration paid during the year by the Company and its subsidiaries to directors of the Company, as such, was $204,000 (1978 – $150,000) and, directly or indirectly to senior officers of the Company, as such, was $1,468,000 (1978 – $919,000).

In 1979 the aggregate amount paid in respect of the year 1978 to the trustee of the Company's Profit Sharing Deferred Bonus Plan for the benefit of senior officers was $500,000 (in 1978 — $223,000).

12. Pension and retirement plans

The Company and its subsidiaries maintain pension and retirement plans for substantially all employees. At December 31, 1979 there were no significant unfunded liabilities with respect to any of the pension plans.

13. Acquisition of Husky Oil Ltd.

As at December 31, 1978 the Company had acquired 5,290,200 shares (48%) of the issued and outstanding common shares of Husky Oil Ltd. for $254,816,000 financed primarily through the issuance of $205,000,000 floating rate preferred shares (see Note 9) by A.G. Investments Ltd. Between January 1, 1979 and April 4, 1979 the Company purchased an additional 156,600 shares in the open market.

On June 19, 1979 the Company acquired 2,020,452 common shares of Husky (the Nielson shares) at U.S. $48 per share, bringing the Company's total interest in Husky at June 30, 1979 to approximately 68%. This acquisition was financed through a credit arrangement with two Canadian banks (see Note 7) and from proceeds on issuance of preferred share equity of A.G. Investments Ltd. (see Note 9). Effective June 30, 1979 the Company has accounted for Husky on a consolidated basis.

Pursuant to a tender offer dated July 12, 1979, the Company purchased 157,197 common shares and 500 Series E Stock Purchase Warrants for a consideration of approximately $8,900,000. The purchase of the common shares and warrants were financed through loans under the same credit arrangements used to acquire the Nielson shares.

The excess of the consideration paid over the book value of the assets acquired has been allocated to the carrying value of plant, property and equipment. The assets acquired and total consideration, including fees and other costs relating to the acquisition, are summarized as follows:

	(thousands of dollars except for per share data)
Working capital acquired	$ 42,728
Petroleum and mineral resource properties	486,026
Refining and marketing facilities	201,564
Manufacturing facilities	42,098
Other assets — net	4,951
	777,367
Less:	
Long term debt	156,287
Deferred income taxes	98,211
Minority interest	130,315
	384,813
	392,554
Less equity earnings net of dividends prior to June 30, 1979	16,794
Consideration to June 30, 1979	375,760
Purchase of minority interests from July 1, 1979 to December 31, 1979	16,656
Total consideration to December 31, 1979	$ 392,416

The following pro-forma information shows the Company's consolidated operating results for the twelve months ended December 31, 1979 as though the 69.1% interest in Husky at December 31, 1979 was held at January 1, 1979.

Revenue	$1,690,000
Net income	$ 116,000
Earnings per common share:	
Basic	$ 2.94
Fully diluted	$ 2.41

14. Contingencies and commitments

(a) The Company (to the extent of 20%), Dow Chemical of Canada, Limited, Dome Petroleum Limited, Pacific Petroleums Ltd. and Shell Canada Resources Ltd. have agreed on a cost of service basis under take or pay contracts to purchase, for a term extending to December 31, 1998, ethane acquired by Alberta Gas Ethylene in excess of its requirements for the ethylene plant but not exceeding 44,000 barrels per day. Dome has agreed to act as agent for the sale of the Company's 20% share of the surplus ethane.

(b) The Company and Diamond Shamrock Canada Ltd., as limited partners, and Diamond Shamrock Alberta Gas Ltd., as general partner, formed a limited partnership to construct, own and operate a polyvinyl chloride plant near Fort Saskatchewan, Alberta. The cost of the plant, having an annual capacity of 220 million pounds of polyvinyl chloride, is estimated to be $110,000,000 including interest, certain pre-start-up, and start-up costs. Under a completion agreement the Company is responsible for 50% of the limited partnership's cash requirements. Under a product purchase agreement the Company has agreed to make advance payments to the limited partnership in an amount equal to 50% of the limited partnership's cash requirements, such advances to be credited against future purchases of polyvinyl chloride. To December 31, 1979, the Company's share of the cost of this plant amounted to $52,215,000 ($31,073,000 to December 31, 1978).

(c) The Company will be responsible for costs relating to certain projects currently in the feasibility and development stages (see Note 6).

(d) In July 1979 the Company, through a subsidiary, Algas Properties Ltd., began construction of a corporate head office building in downtown Calgary with completion expected in the spring of 1982 at a cost of approximately $75,000,000.

(e) In the event that (a) the National Energy Board issues certificates of public convenience and necessity authorizing construction of the Dempster Highway Pipeline and of the additional capacity in the Alaska Highway Gas Pipeline and (b) the Board determines that these facilities can be financed without undue financial burden; the parties to the Dempster Link Agreement other than the Government of Canada have undertaken to cause construction of the Dempster Highway Pipeline as expeditiously as possible. On default by the parties other than the Government of Canada to the Dempster Link Agreement, the parties, including the Company and Westcoast, have jointly and severally undertaken to pay $50,000,000 to the Government of Canada and the Dempster Link Agreement would thereupon terminate. The Company has fulfilled its obligations to date under the Dempster Link Agreement. In the opinion of the Company, the costs incurred or to be incurred to comply with the provisions of the Dempster Link Agreement relating to the feasibility studies and the application for certificates of public convenience and necessity will not exceed $10,000,000.

15. **Subsequent events**

On January 21, 1980 the Company increased the authorized class of 45,000,000 Class "A" Common Shares of a par value of $1.25 each to 100,000,000 Common Shares and created a class of 8,000,000 6½% Cumulative Redeemable Convertible Second Preferred Shares of the par value of $25 each which upon issuance rank pari passu with the outstanding 6⅜% Cumulative Redeemable Convertible Second Preferred Shares.

On February 7, 1980 pursuant to an underwriting agreement dated January 21, 1980 the Company issued 8,000,000 of the 6½% Cumulative Redeemable Convertible Second Preferred Shares of the par value of $25 for a total consideration of $200,000,000.

16. **Summarized quarterly financial data (unaudited)**
(thousands of dollars except for per share data)

	Three Months Ended							
	March 31		June 30		September 30		December 31	
	1979	1978	1979	1978	1979	1978	1979	1978
Consolidated Revenue	141,424	101,786	140,627	110,434	451,783	115,468	510,138	136,443
Net income	20,350	18,000	24,208	15,120	34,134	23,216	37,706	29,295
Earnings per Common Share:								
Basic	0.45	0.49	0.58	0.38	0.91	0.67	1.03	0.77
Fully diluted	0.40	0.47	0.48	0.37	0.74	0.66	0.81	0.64

Auditors' Report

To the Shareholders of
The Alberta Gas Trunk Line Company Limited

We have examined the consolidated balance sheet of The Alberta Gas Trunk Line Company Limited as at December 31, 1979 and the consolidated statements of income, reinvested earnings, contributed surplus and changes in financial position for the year then ended. For The Alberta Gas Trunk Line Company Limited and for those other companies of which we are the auditors and which are consolidated in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies consolidated or accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Calgary, Canada
March 3, 1980

Chartered Accountants

ALBERTA GAS TRUNK LINE

Ten Year Financial Review
(thousands of dollars except net income and dividends per share data)

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
Operating revenue	$1,243,972	464,131	348,779	271,397	141,844	89,860	78,715	64,666	56,351	45,469
Costs of sales and operating expenses	$ 871,241	280,802	186,725	146,992	66,338	31,434	22,864	19,644	16,109	13,390
Depreciation and depletion	$ 97,404	46,073	38,599	29,493	20,861	13,112	12,408	11,227	10,282	8,090
Loss (gain) on foreign currency	$ 231	(6,168)	(2,184)	—	—	—	—	—	—	—
Other unallocated expenses	$ 2,076	3,970	—	904	—	—	104	20	53	19
Net operating income	$ 273,020	139,454	125,639	94,008	54,645	45,314	43,339	33,775	29,907	23,970
Equity in earnings of affiliated companies	$ 18,580	16,924	3,184	1,620	1,993	135	—	—	—	—
Allowance for funds used	$ 21,165	23,777	13,831	8,544	4,030	1,228	1,668	2,635	1,027	1,248
Interest and expense on long term debt (net of interest income)	$ 64,658	41,113	28,055	29,470	25,015	22,546	24,255	22,343	19,535	15,236
Income before income taxes and minority interest	$ 248,107	139,042	114,599	74,702	35,653	24,131	20,752	14,067	11,399	9,982
Income taxes	$ 91,489	47,668	49,372	30,338	9,188	6,321	5,884	—	—	—
Minority interest	$ 40,220	5,743	7,756	4,947	415	—	—	—	—	—
Net income	$ 116,398	85,631	57,471	39,417	26,050	17,810	14,868	14,067	11,399	9,982
Net income per common share										
Basic	$ 2.97	2.31	1.64	1.42	1.08	0.85	0.79	0.75	0.66	0.59
Fully diluted	$ 2.43	2.14	1.58	1.34	1.04	0.83	0.77	0.74	0.64	0.57
Dividends paid per common share	$ 0.925	0.7772	0.7344	0.6136	0.52	0.445	0.42	0.3975	0.375	0.375
Average common shares outstanding during year (thousands)	29,774	28,361	27,421	22,021	21,344	17,371	16,793	16,530	14,584	13,368
Working capital (deficiency) at year end	$ 132,199	125,431	64,305	87,279	6,614	15,179	(4,463)	2,716	5,590	(5,696)
Additions to plant, property and equipment	$ 313,905	233,154	233,988	152,244	108,306	44,255	26,804	44,604	60,892	82,808
Investment in plant, property and equipment (cost)	$2,428,515	1,368,054	1,110,991	863,007	680,009	578,448	535,009	507,903	463,761	404,003
Investment in plant, property and equipment (net)	$2,110,332	1,137,411	923,420	712,674	558,472	477,539	446,396	432,000	398,622	348,384
Average rate base	$ 693,975	657,946	583,673	516,627	449,067	438,411	416,167	386,000	355,169	294,766
Average rate return	10.55%	10.55%	10.406%	10.375%	9.66%	9.00%	9.00%	8.75%	8.42%	8.13%
Long term debt (less due within one year)	$1,038,193	821,091	744,255	411,311	377,369	305,370	315,113	315,329	292,013	251,316
Shareholders' equity										
Preferred shares	$ 363,581	392,593	210,597	142,254	45,413	47,982	30,547	32,142	33,888	41,607
Common shares	$ 402,901	317,970	270,546	239,936	162,674	146,190	103,455	95,694	86,508	54,331
Number of preferred shareholders	22,534	25,564	12,111	12,524	6,894	7,195	7,977	8,289	8,833	10,385
Number of common shareholders	31,974	31,798	29,555	26,405	23,508	23,184	22,148	21,374	22,277	21,838

Offices of Alberta Gas Trunk Line

Head Office

2800 Bow Valley Square 2
205 Fifth Avenue S.W.
P.O. Box 2535
CALGARY, Alberta
T2P 2N6 (403) 231-9100

Other Calgary Offices

Calgary Service Centre
7210 Blackfoot Trail S.E.
P.O. Box 2535
CALGARY, Alberta
T2P 2N6 (403) 252-8821

Works Department
2611 - 58 Avenue S.E
P.O. Box 2535
CALGARY, Alberta
T2C 0B4 (403) 279-0079

Edmonton Offices

Floor 10
9888 Jasper Avenue
P.O. Box 3240, Station 'D'
EDMONTON, Alberta
T5L 4J1 (403) 423-6111

Edmonton Service Centre
15810 - 114 Avenue
P.O. Box 3240, Station 'D'
EDMONTON, Alberta
T5L 4J1 (403) 451-0531

District Offices

District No. 1 Headquarters
9615 - 52 Street S.E.
P.O. Box 2535
CALGARY, Alberta
T2P 2N6 (403) 279-7201

District No. 2 Headquarters
P.O. Box 819
BROOKS, Alberta
T0L 0J0 (403) 362-2838

District No. 3 Headquarters
P.O. Box 1808
EDSON, Alberta
T0E 0P0 (403) 723-3371

District No. 4 Headquarters
P.O. Box 1650
VEGREVILLE, Alberta
T0B 4L0 (403) 632-3336

Offices of Principal Subsidiaries and Certain Affiliates

Alberta Gas Chemicals Ltd.
400 - 11456 Jasper Avenue
EDMONTON, Alberta
T5K 0M1 (403) 482-6361

P.O. Box 1100
MEDICINE HAT, Alberta
T1A 7H1 (403) 527-8141

Algas Engineering Services Ltd.
2800 Bow Valley Square 2
205 Fifth Avenue S.W
CALGARY, Alberta
T2P 2N6 (403) 231-9627

Algas Mineral Enterprises Ltd.
700 Home Oil Tower
324 Eighth Avenue S.W.
P.O. Box 2870
CALGARY, Alberta
T2P 2M7 (403) 261-3630

Algas Resources Ltd.
400 Bow Valley Square 2
205 Fifth Avenue S.W.
P.O. Box 9294
CALGARY, Alberta
T2P 2W5 (403) 231-9683

Foothills Pipe Lines (Yukon) Ltd.
1600 Bow Valley Square 2
205 Fifth Avenue S.W.
P.O. Box 9083
CALGARY, Alberta
T2P 2W4 (403) 237-1422

Suite 930, Metropolitan Life Bldg.
99 Bank Street,
OTTAWA, Ontario
K1P 6B9 (613) 236-7163

Foothills Pipe Lines (Alta.) Ltd.
Foothills Pipe Lines (North B.C.) Ltd.
Foothills Pipe Lines (Sask.) Ltd.
Foothills Pipe Lines (South B.C.) Ltd.
Foothills Pipe Lines (South Yukon) Ltd.
1600 Bow Valley Square 2
205 Fifth Avenue S.W.
P.O. Box 9083
CALGARY, Alberta
T2P 2W4 (403) 237-1422

Grove Valve and Regulator Company
6529 Hollis Street
OAKLAND, California
U.S.A.
94608 (415) 655-7700

Husky Oil Ltd.
Husky Oil Operations Ltd.
815 Sixth Street S.W.
CALGARY, Alberta
T2P 1Y1 (403) 267-6111

Husky Oil Company
P.O. Box 380
CODY, Wyoming
U.S.A.
82414 (307) 578-1000

Pan-Alberta Gas Ltd.
350 Bow Valley Square 1
202 Sixth Avenue S.W.
Box 9660
CALGARY, Alberta
T2P 2R9 (403) 265-1763

Q & M Pipe Lines Ltd.
1100 Bow Valley Square 1
202 Sixth Avenue S.W.
P.O. Box 2535
CALGARY, Alberta
T2P 2N6 (403) 231-9610

620 Crown Trust Company Building
1130 Sherbrooke Street West
MONTREAL, Quebec
H3A 2M8 (514) 284-9578

The Alberta Gas Ethylene Company Ltd.
Suite 500, BP House
333 Fifth Avenue S.W.
CALGARY, Alberta
T2P 3B6 (403) 263-8130

P.O. Box 5006
RED DEER, Alberta
T4N 6A1 (403) 343-8211

WAGI International S.p.A.
P. le del Caravaggio, I D 00147
ROME, Italy (6) 524-0241

ALBERTA GAS TRUNK LINE

Solicitors
Howard, Dixon & Mackie

Auditors
Clarkson Gordon

Stock Exchange Listings
CLASS "A" COMMON SHARES
- Alberta Stock Exchange
- Montreal Stock Exchange
- The Toronto Stock Exchange

PREFERRED SHARES
- Alberta Stock Exchange
- Montreal Stock Exchange for 7.60%, $6\frac{3}{8}$% and $6\frac{1}{2}$% Preferred Shares only.
- The Toronto Stock Exchange

Transfer Agents and Registrars
CLASS "A" COMMON SHARES
- National Trust Company, Limited in Vancouver, Calgary, Edmonton, Winnipeg, Toronto and Montreal.
- Canada Permanent Trust Company as agent for National Trust Company, Limited in Regina.

CLASS "B" COMMON SHARES
- National Trust Company, Limited in Calgary.

PREFERRED SHARES
- Crown Trust Company in Vancouver, Calgary, Edmonton, Winnipeg, Toronto and Montreal, except for $6\frac{3}{8}$% and $6\frac{1}{2}$% Preferred Shares.
- Canada Permanent Trust Company as agent for Crown Trust Company in Regina.
- Royal Trust Company as agent for Crown Trust Company in Halifax for 7.60% Preferred Shares only.
- The Canada Trust Company in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Montreal and Halifax for $6\frac{3}{8}$% and $6\frac{1}{2}$% Preferred Shares only

Annual Meeting
The Annual Meeting of the shareholders of the Company will be held at the Calgary Convention Centre, Calgary, Alberta, on May 2, 1980, at 10:00 a.m.

Annual Reports in French
Les personnes désirant des exemplaires en français du présent rapport sont priées de s'adresser au secrétaire de la Compagnie.

P.O. Box 2535, CALGARY,
ALBERTA T2P 2N6

Duplicate Annual Reports
Some holders of AGTL securities receive more than one copy of our annual report and other material mailed to shareholders. We make an effort to eliminate duplications of such mailings; however, if securities of the same class or series are registered in different names and addresses, multiple copies will be received. In those instances security holders should contact either the appropriate registrar or the Company to consolidate their holdings of each security under one name.

Contributors
PHOTOS — Bob Boyce, Ken Brandt, Les Courterelle, Bill Deyell, Patrick Landry, Peter Leon, Cliff Thompson, Bill Thurston, Algas Resources Ltd., Calgary Youth Orchestra, Husky Oil Ltd., WAGI International S.p.A.

PRODUCTION — Intercorp Marketing Ltd.; Mitchell Press Limited; AGTL — Senior Management, Accounting, Management Communications, Word Processing

Permanent Employees

	No. of Employees
Alberta Gas Trunk Line and wholly-owned subsidiaries	2709
Partially-owned subsidiaries and affiliates	3290