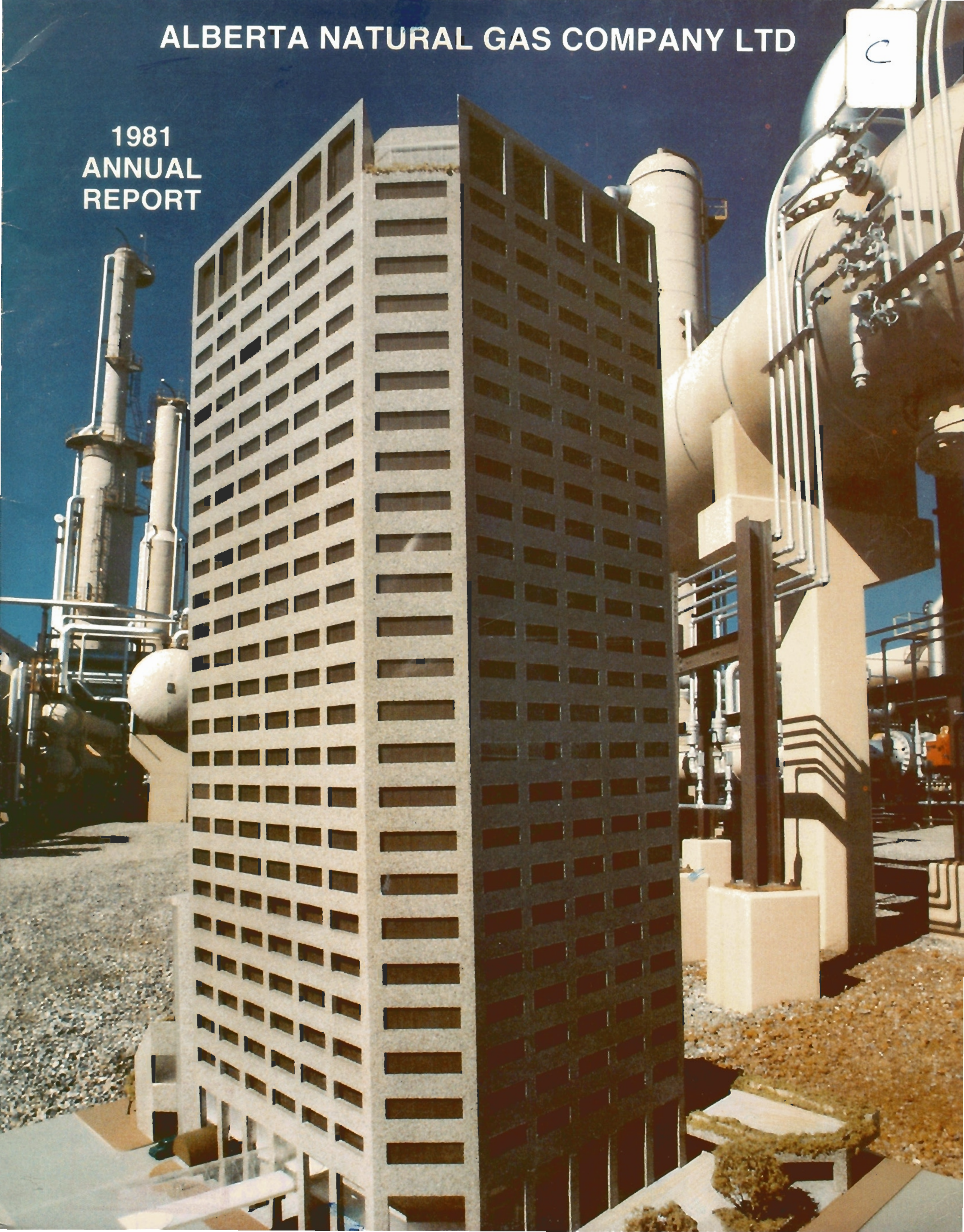
ALBERTA NATURAL GAS COMPANY LTD

C

1981 ANNUAL REPORT



Corporate Information

CORPORATE OFFICE

East Tower, Esso Plaza
24th Floor, 425 - 1st Street S W
Calgary, Alberta T2P 3L8

ANNUAL MEETING

THE ANNUAL MEETING of Shareholders will be held in the Lake Louise Room, Westin Hotel, Calgary, Alberta, on Friday the 30th day of April, 1982 at 9:30 a.m.

The notice of meeting and proxy form are being mailed with this report to all shareholders of record

Cover Photo

Model of the new office tower photographed against the background of the Cochrane plant

Facing Page

Erecting steel for the new Cochrane ethane plant expansion. The existing plant is seen in background

DIRECTORS

John F. Bonner,
San Francisco, California
Executive Consultant, Director, former President and Chief Executive Officer, Pacific Gas and Electric Company

Harry Booth,
Calgary, Alberta
President and Chief Executive Officer, Alberta and Southern Gas Co. Ltd

D. R. Fenton,
Calgary, Alberta
Executive Vice-President, Alberta and Southern Gas Co. Ltd.

J. E. Goudie,
Calgary, Alberta
Executive Vice-President, Alberta and Southern Gas Co. Ltd

R. A. MacKimmie, Q.C.,
Calgary, Alberta
Counsel, MacKimmie Matthews

Frederick W. Mielke, Jr.,
San Francisco, California
Chairman of the Board and Chief Executive Officer, Pacific Gas and Electric Company

C. Q. Nickle,
Calgary, Alberta
President, Conventures Limited

R. H. Peterson,
San Francisco, California
Utility Consultant, Lawyer, Director, former Chairman of the Board, Pacific Gas and Electric Company

J. S. Poyen,
Calgary, Alberta
Oil and Gas Management Consultant

B. W. Shackelford,
San Francisco, California
President and Chief Operating Officer, Pacific Gas and Electric Company

John A. Sproul,
San Francisco, California
Executive Vice President, Pacific Gas and Electric Company

OFFICERS

R. A. MacKimmie,
Chairman of the Board

Harry Booth,
President and Chief Executive Officer

D. R. Fenton,
Executive Vice-President

J. E. Goudie,
Executive Vice-President

D. McMorland,
Vice-President, Regulatory Affairs

E. W. Mychaluk,
Vice-President, Engineering and Construction

G. T. Noland,
Vice-President, Planning and Development

G. R. Walsh,
Vice-President, Operations

F. G. Homer,
Secretary and General Counsel

H. B. Sanderson,
Treasurer

G. J. Clark,
Comptroller

COMMON SHARES LISTED

Alberta, Montreal, Toronto and Vancouver Stock Exchanges

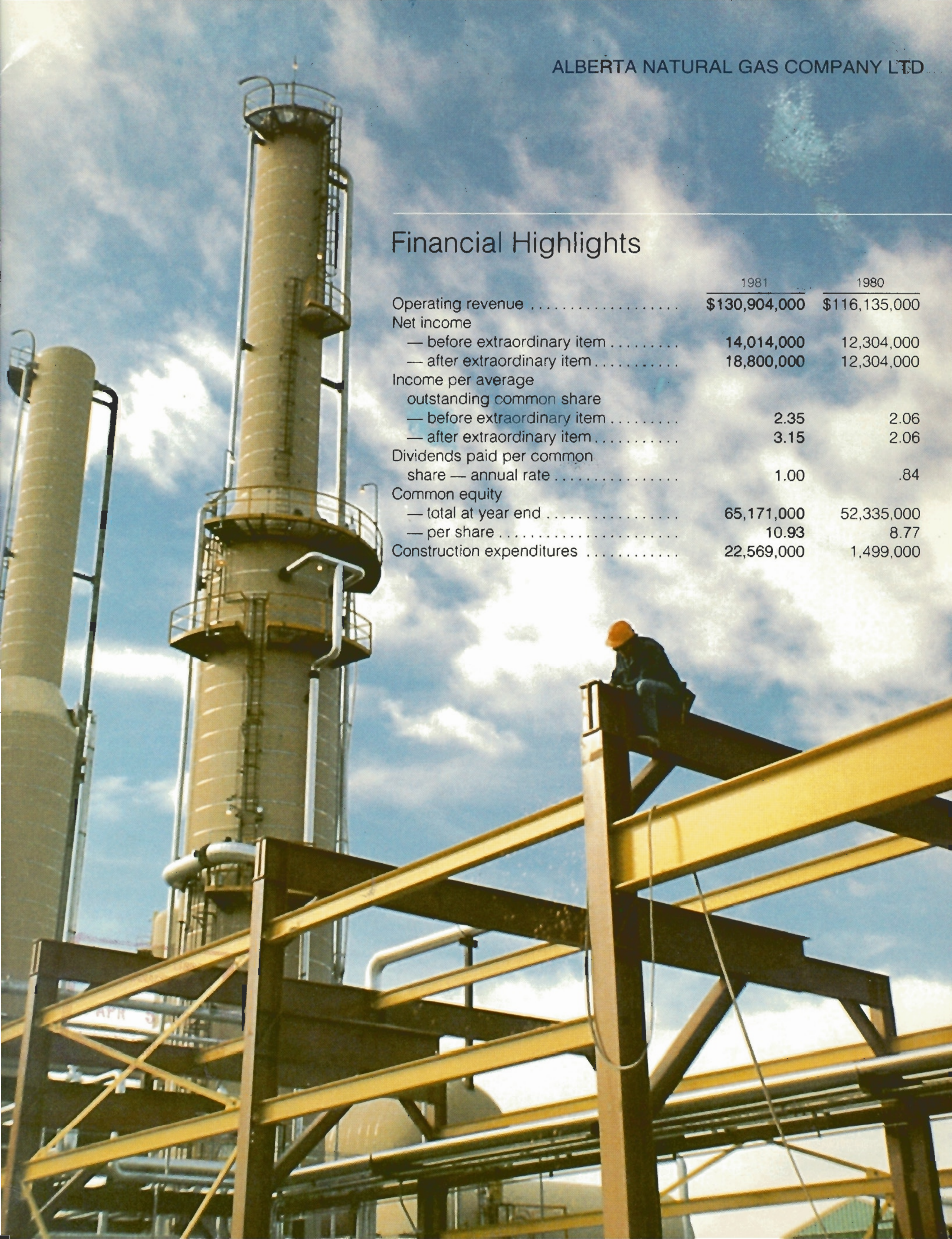
TRANSFER AGENT AND REGISTRAR

(Capital Stock and 8⅞% First Mortgage Pipe Line Bonds, Series C)
Montreal Trust Company,
Calgary, Montreal, Regina, Toronto, Vancouver, Winnipeg

Notice of change of address should be sent to the Transfer Agent.

AUDITORS

Deloitte Haskins + Sells
Chartered Accountants,
Calgary, Alberta



Financial Highlights

	1981	1980
Operating revenue	**$130,904,000**	$116,135,000
Net income		
— before extraordinary item	**14,014,000**	12,304,000
— after extraordinary item	**18,800,000**	12,304,000
Income per average outstanding common share		
— before extraordinary item	**2.35**	2.06
— after extraordinary item	**3.15**	2.06
Dividends paid per common share — annual rate	1.00	.84
Common equity		
— total at year end	**65,171,000**	52,335,000
— per share	10.93	8.77
Construction expenditures	22,569,000	1,499,000

R. A. MacKimmie, Q.C.,
Chairman of the Board.

To Our Shareholders

It is with pleasure that your Directors submit the 22nd Annual Report of Alberta Natural, covering the year 1981, which was a year of both expansion and record earnings. Earnings per share increased to $3.15 from $2.06 per share in 1980.

1981 was an active year at Alberta Natural. During the year we:

- celebrated completion of 20 years of operation of the Alberta-California Pipeline System, which extends through two provinces and four states. This system began operations in December, 1961, and has provided reliable service in the transmission of natural gas to the northern and central California market.
- completed construction for Foothills Pipe Lines (South B.C.) Ltd. of a portion of Phase I of the Alaska Highway Pipeline Project in southeastern British Columbia which parallels Alberta Natural's pipeline. (Alberta Natural has a 49% interest in Foothills Pipe Lines (South B.C.) Ltd.).
- began the construction of facilities for the recovery of additional ethane at the Cochrane plant and for the removal of carbon dioxide from the ethane product. This project is expected to be completed in the fall of 1982 at a cost of approximately $70 million.
- moved our head office to the East Tower of Esso Plaza in order that an office tower, to be owned jointly by Alberta Natural and Olympia & York Developments Limited, could be developed on our Calgary property. This 30-storey building is expected to be completed in the third quarter of 1983 at a cost of approximately $76 million. Our 50% share of the cost is funded by Olympia & York during the construction period.
- filed an application with the National Energy Board to increase the rate of return permitted to be earned on our pipeline rate base.

These major undertakings will contribute to higher earnings and cash flows in the future, which can be reinvested together with additional sums raised in the capital markets, if required, in new facilities as future opportunities for diversification and expansion are identified.

One such project which was actively pursued during 1981 was a Methanol/MTBE project. A softening in the markets for both methanol and MTBE led to the withdrawal of an application previously filed with the Alberta Energy Resources Conservation Board seeking permission to construct a plant in the Province. The sponsoring group suspended further work on the project, but intends to continue to monitor the market place so that future marketing and investment opportunities may be identified and evaluated.

Historically high interest rates, virtually a worldwide phenomenon, continuing double-digit inflation and a wide range of economic uncertainties have resulted in a difficult business climate during this past year. In addition to softening petrochemical markets as previously noted, these conditions have continued to depress the demand for natural gas in the California market.

Harry Booth,
President and Chief Executive Officer

This situation with respect to Canadian gas is aggravated by the disparity between the export price of Canadian gas and the comparatively low regulated price of U.S.-produced gas. As a result of the reduced demand for Canadian gas, production of natural gas liquids (NGL) and ethane at the Cochrane plant was reduced. However, since market prices for NGL continued at higher levels during 1981, earnings from the sale of the NGL showed a modest improvement. The high interest rates being experienced on both short and long term borrowings, together with a required change in the rate of return on equity, led Alberta Natural to file an application with the National Energy Board to increase the rate of return permitted to be earned on rate base associated with gas transmission operations. This application will be heard by the Board commencing March 8, 1982.

Economic uncertainty continues to prevail in the petroleum industry. While the energy pricing and taxation agreements between the federal government and the producing provinces, together with the November federal budget, were put into place in 1981, levels of activity well below the capability of the industry continue. Investment and operating budgets have been cut, major projects have been shelved and an exodus of manpower, equipment and capital reduced 1981 industry activity in Canada. Your Directors continue to be concerned as to the prospects of Canadian energy self-sufficiency goals being achieved given the current economic climate and the apparent reduction in exploration activity.

October 1, 1981 marked the first flow of natural gas from Canada to southern California markets through the completed Phase I facilities of the Alaska Highway Pipeline Project. The Phase II aspects of this project progressed further during 1981 as the United States Congress approved amendments to existing legislation which will permit the major producing companies to participate in the financing of the Alaskan segment of this project, and will materially improve the prospects for the additional financing that must be obtained as a prerequisite to final United States certification. Phase II of the pipeline system will allow for completion of the looping, paralleling Alberta Natural's pipeline, by Foothills Pipe Lines (South B.C.) Ltd.

At the Annual Meeting of Shareholders in April 1981, Mr. Barton W. Shackelford, President and Chief Operating Officer of Pacific Gas and Electric Company and Mr. John E. Goudie, Executive Vice-President of Alberta Natural and Alberta and Southern Gas Co. Ltd., were elected to the Board of Directors of Alberta Natural. Following the Annual Meeting, Mr. G. R. Walsh was appointed to the position of Vice-President Operations. Once again, the Board of Directors wish to take this opportunity to express their sincere thanks to the employees of Alberta Natural, whose skill and dedication have contributed significantly to the continued success of the Company during the past year.

For the Board of Directors

RAMacKinnie

Chairman of the Board

H Booth

President and Chief
Executive Officer

March 3, 1982

J. E. Goudie,
Executive Vice-President

Financial

The net income of Alberta Natural for 1981, was $18,800,000 or $3.15 per outstanding common share. In 1980, net income was $12,304,000, or $2.06 per outstanding common share. The graphs below illustrate the increase in both earnings per share and shareholders' equity over the past ten years of operation.

Net income was enhanced in 1981 by an $.80 per share extraordinary item during the third quarter. This gain resulted from the sale to Olympia & York Developments Limited, of a one-half interest in the Company's downtown Calgary property. The addition of Alberta Natural's share of the earnings of Foothills Pipe Lines (South B.C.) Ltd. also contributed to the increase in earnings.

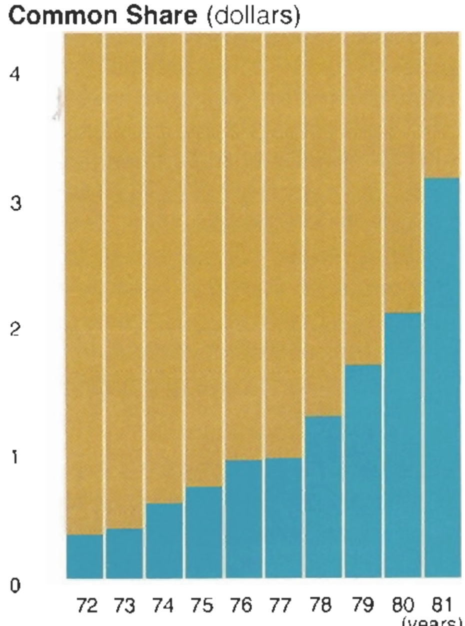
The annual dividend rate on the Company's common shares was increased to $1.00 per share, from the previous $.84 per share, effective with the quarterly payment in March, 1981, and was further increased to $1.32 per share effective with the quarterly payment in March, 1982.

Liquids Extraction Operations

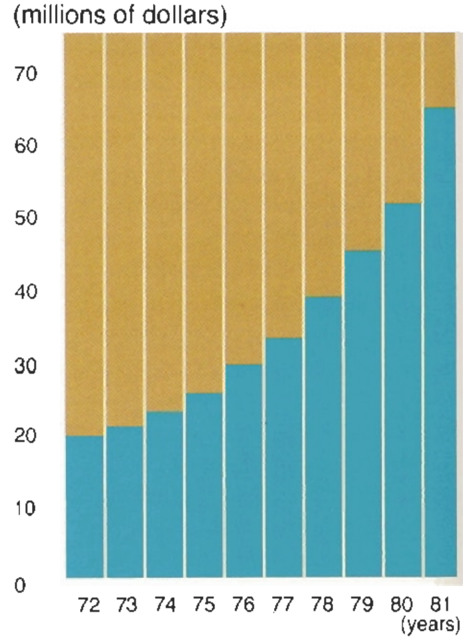
Production at the Cochrane plant during 1981 averaged 1 600 m^3 (10,110 barrels) per day of NGL, and 3 370 m^3 (21,220 barrels) per day of ethane. Total production in 1981 was approximately 1½% less than that in 1980. The plant operated at an average of 73% capacity for the year compared to 75% in 1980.

The volume of feed gas available to the plant in 1981 was less than in 1980 due to the reduced demand for Canadian gas in the California market caused by increased consumer conservation and the availability of cheaper gas and alternative fuels within the United States. The reduction was offset in the last quarter with the introduction of an average of approximately 90 MMcfd of gas into the system on October 1 for Pan-Alberta Gas Ltd. Pan-Alberta has been authorized to export natural gas through the Phase I portion of the Alaska Highway Pipeline Project.

Earnings per Outstanding Common Share (dollars)



Common Shareholders' Equity (millions of dollars)



Review of Operations

D R Fenton,
Executive Vice-President

The level of ethane production was maintained in 1981, despite reduced volumes of feed gas, due to the relaxation by the buyer throughout the year of the carbon dioxide specification of ethane product.

To facilitate the looping tie-ins with Foothills Pipe Lines (South B.C.) Ltd. and to allow for similar tie-ins to the Pacific Gas Transmission system at the British Columbia-Idaho international border, the plant was shut down for a total of 13 days for the two concurrent operations.

On December 15, a minor fire occurred in the lean oil absorption section of the plant, resulting in reduced plant processing capacity, while two pumps and ancillary equipment were repaired. No injuries resulted from the fire. Production of ethane and NGL averaged approximately 70% of normal until the plant returned to full processing capacity on December 31, 1981.

The Canadian Natural Gas Processors Association and the Workers' Compensation Board of Alberta each presented safety awards for the accident free year of operation at the Cochrane plant. The plant has the distinction of operating for 10 consecutive years without a lost-time injury.

Cochrane Plant Ethane Expansion

The necessary regulatory approvals for the ethane expansion were received during the second quarter of 1981 and construction began in July. The design required to produce increased volumes of ethane consists of two new turbo expander units to operate in parallel with the existing unit. All major equipment for the two turbo-expander units was ordered during 1981. Ethane production capacity will be increased from approximately 4 000 to 6 800 m^3 (25.000 to 43.000 barrels) per day.

All earthwork associated with site preparation has been completed and the building and equipment foundations have been placed. The piping and mechanical work commenced in early 1982, and the project is scheduled to be completed during the fourth quarter of 1982.

A view of Cochrane ethane expansion with the operating plant in the background

G. R. Walsh, Vice-President Operations viewing construction progress at Cochrane.

Top right shows the right-of-way revegetation. Final growth will take place during 1982.

Bottom right illustrates the joint crossing under the river bed and railway tracks.

E. W. Mychaluk, Vice-President Engineering and Construction with Cochrane plant manager Jerry Smith studying the model of the ethane expansion.

Pipeline Operations

Daily deliveries of natural gas during 1981 averaged 26.58 10^6m^3 (938 MMcf) compared with 27.82 10^6m^3 (982 MMcf) in 1980.

Installation of a 10,000 horsepower centrifugal compressor unit to replace the four original reciprocating compressors at the Crowsnest compressor station, was completed in January, 1982 and the unit is now being commissioned for service.

A new maintenance facility was constructed at the Cranbrook base, encompassing an instrument and electrical shop, a measurement shop, a welding, machine and fabrication shop and a general equipment repair shop.

Capital expenditures in 1981 including the new compressor unit, the maintenance shops, modifications to the telemetry systems at several compressor stations, the upgrading of the radio communications system and other items amounted to $6,646,000.

Foothills Pipeline Project

Construction of the pipeline section of Phase I of the Alaska Highway Pipeline Project was completed in May, 1981 and gas began flowing through the new line on October 1, 1981. Additional meter station facilities at Kingsgate were completed and operational in November. The total cost of the southeastern British Columbia section of the prebuild project was slightly under the final design cost estimate.

The contract for the revegetation of the pipeline right-of-way was completed in September, one month ahead of schedule, by Kootenay Indian Enterprises, a firm consisting of members of the Kootenay Indian Area Council which represents the five bands in the vicinity. The work consisted of regrading, fertilization and seeding with native grasses, on all land which had been disturbed by construction.

Planning and Development

The application filed with the Alberta Energy Resources Conservation Board in 1981 seeking permission to construct a combined methanol/MTBE (methyl tertiary butyl ether) facility in the province, at a projected cost of $600 million, was subsequently withdrawn later in the year.

As with many other world scale petrochemical projects, the Canadian market is not sufficiently large to absorb the new production. Thus, it is necessary to obtain export markets. In the case of methanol, export sales are predominantly priced on the basis of prevailing United States Gulf Coast prices, and those prices have become progressively softer over the past several months. As a result, potential major export customers have been unwilling to commit to the project at prices which are needed to provide a satisfactory return on investment.

Similarly, the MTBE portion of the project suffered from an apparent (and recent) oversupply of the high octane component of the U.S. gasoline pool. This oversupply situation developed from an overall lessening in demand for gasoline which left refiners operating at less than full capacity. These reduced operating rates, in turn, provided the refiners with an economic means of increasing their octane supply through refinery runs, thus lessening the need for an external supply of octane boosters such as MTBE.

While the sponsoring group has decided to suspend further work on the project, the Company intends to remain up to date with the market situation so that future opportunities may be identified and acted upon should they arise.

D. McMorland,
Vice-President Regulatory Affairs

Regulatory Affairs

In December, Alberta Natural filed an application with the National Energy Board requesting an increase in the rate of return on transmission rate base. The application reflects the higher rates of return on equity that have been included in applications of other utilities as well as the higher rates of interest now being experienced on both short and long term borrowings. The hearing of this application will commence March 8, 1982.

During the year, the Company intervened in proceedings before the Alberta Gas Utilities Board and the Energy Resources Conservation Board on applications by Esso Resources Canada Limited which would allow it to expand existing facilities in Alberta to increase extraction of natural gas liquids. Although these facilities would not impact directly on Alberta Natural at Cochrane, the Company is concerned about the possibility of other future facilities that may extract ethane and other liquids from the gas stream before it reaches the Cochrane plant. Decisions from these proceedings have not as yet been handed down.

The National Energy Board has scheduled a gas export hearing to consider a number of licence applications, including one from your Company's affiliate and major transmission customer, Alberta and Southern Gas Co. Ltd. Alberta and Southern is seeking to extend its existing export levels through Alberta Natural's facilities to October 31, 1993. The hearing, which will be in three phases, begins in Ottawa on March 16, 1982, and is expected to continue until mid-September. The first phase will be a review phase in which licence conditions and surplus calculation procedures are examined. In the second phase the details of each export proposal will be considered. The final phase will be a surplus phase in which the Canadian gas surplus will be determined and allocated to the applicants.

Calgary Property Development

On August 1st, the Company's offices were moved to new premises in the East Tower of Esso Plaza in downtown Calgary. The move took place over a weekend to minimize business disruptions. During the fall, the existing Alberta and Southern Building was demolished and site excavation has begun for the new office tower. Construction is expected to be completed in the third quarter of 1983.

Moving Day . . . a last look at the old ANG building reflected in the west tower of the Esso Resources building

STATEMENT OF INCOME

For the year ended December 31, 1981
(with 1980 figures for comparison)

	1981	1980
	(thousands of dollars)	
OPERATING REVENUE:		
Transportation of gas	$ 21,610	$ 20,937
Liquids extraction	108,928	94,671
Other facilities	366	527
Total operating revenue	130,904	116,135
OPERATING EXPENSES:		
Operating and maintenance	78,876	81,892
Administrative	3,564	2,887
Depreciation	5,828	5,810
Taxes — excise	17,318	2,087
— property and other	3,079	2,001
Total operating expenses	108,665	94,677
OPERATING INCOME	22,239	21,458
OTHER INCOME:		
Equity earnings in net income of Foothills Pipe Lines (South B.C.) Ltd.	1,533	—
Other (Net)	1,638	1,751
Total other income	3,171	1,751
INCOME BEFORE INCOME DEDUCTIONS	25,410	23,209
INCOME DEDUCTIONS:		
Interest on long term debt	1,599	1,723
Interest on other debt	352	143
Other	49	49
Total income deductions	2,000	1,915
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	23,410	21,294
PROVISION FOR INCOME TAXES	9,396	8,990
INCOME BEFORE EXTRAORDINARY ITEM	14,014	12,304
EXTRAORDINARY ITEM (Note 8)	4,786	—
NET INCOME FOR THE YEAR	$ 18,800	$ 12,304
EARNINGS PER COMMON SHARE:		
Before extraordinary item	$ 2.35	$ 2.06
Extraordinary item	.80	—
After extraordinary item	$ 3.15	$ 2.06

See accompanying summary of accounting policies and notes.

BALANCE SHEET
December 31, 1981
(with 1980 figures for comparison)

ASSETS

	1981	1980
	(thousands of dollars)	
PLANT, PROPERTY AND EQUIPMENT (Note 1)	$137,488	$120,921
Less accumulated depreciation	48,168	46,937
Net plant, property and equipment	89,320	73,984
CURRENT ASSETS:		
Cash and interest bearing deposits	71	7,082
Accounts receivable	22,528	22,614
Materials and supplies	1,550	1,818
Prepayments and other current assets	236	89
Total current assets	24,385	31,603
INVESTMENT	10,290	—
DEFERRED CHARGES (Note 2)	4,390	5,094
TOTAL	$128,385	$110,681

Approved by the Board:

H. Booth Director

John A. Sproul Director

SHAREHOLDERS' EQUITY AND LIABILITIES

	1981	1980
	(thousands of dollars)	
SHAREHOLDERS' EQUITY (Note 3):		
Capital stock:		
5,964,110 common shares	$ 11,928	$ 11,928
Contributed surplus	2,386	2,386
Reinvested earnings	50,857	38,021
Total shareholders' equity	65,171	52,335
LONG TERM DEBT (Note 4)	16,132	18,505
DEFERRED INCOME TAXES	23,209	20,475
CURRENT LIABILITIES:		
Notes payable	13,083	—
Accounts payable	8,638	11,420
Income taxes payable	—	5,923
Interest accrued	425	296
Sinking fund instalments due within one year	1,623	1,623
Total current liabilities	23,769	19,262
CONTRIBUTIONS IN AID OF CONSTRUCTION	104	104
TOTAL	$128,385	$110,681

See accompanying summary of accounting policies and notes.

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 1981
(with 1980 figures for comparison)

	1981	1980
	(thousands of dollars)	
FUNDS PROVIDED:		
From operations:		
Income before extraordinary item	$14,014	$12,304
Add (deduct) non-cash items:		
Depreciation	5,828	5,810
Provision for deferred income taxes	2,734	(2,001)
Amortization of deferred costs	138	—
Equity earnings in investment	(1,533)	—
Other income deductions	49	49
	21,230	16,162
Net proceeds from sale of Calgary property (Note 8)	6,105	—
Increase in notes payable	13,083	—
Recovery of Alaska Highway Pipeline Project costs	869	—
Total	$41,287	$16,162
FUNDS APPLIED:		
Net additions to plant, property and equipment	$22,483	$ 1,486
Reduction of long term debt	2,373	2,374
Investment	8,757	—
Dividends	5,964	5,009
Deferred charges	352	1,692
Increase in working capital other than notes payable	1,358	5,601
Total	$41,287	$16,162

See accompanying summary of accounting policies and notes

STATEMENT OF REINVESTED EARNINGS
For the year ended December 31, 1981
(with 1980 figures for comparison)

	1981	1980
	(thousands of dollars)	
BALANCE AT BEGINNING OF THE YEAR	$38,021	$30,726
NET INCOME FOR THE YEAR	18,800	12,304
	56,821	43,030
DIVIDENDS PAID ON COMMON SHARES	5,964	5,009
BALANCE AT END OF THE YEAR	$50,857	$38,021

See accompanying summary of accounting policies and notes.

SUMMARY OF ACCOUNTING POLICIES
DECEMBER 31, 1981

OPERATIONS:

Alberta Natural owns and operates a 914 mm (36 inch) pipeline from a point near Coleman, Alberta to Kingsgate, on the British Columbia-Idaho border for the transportation of gas owned by Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited, and for the transportation of gas for Foothills Pipe Lines (South B.C.) Ltd. Alberta Natural also operates the pipeline facilities owned by Foothills Pipe Lines (South B.C.) Ltd. located in southeastern British Columbia. Alberta Natural also owns and operates an extraction plant near Cochrane, Alberta which removes propane and heavier liquids (NGL) and ethane from the gas stream.

The gas transportation contracts and operating agreement with the gas shippers and the sale agreements with the purchasers of NGL and ethane provide for the full recovery of all operating expenses, depreciation, property and income taxes, together with a return on the unrecovered investment. In addition, Alberta Natural is entitled to 25% of the cumulative net marketing profits arising from the sale of the NGL by each of the buyers, Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd., and a share of the annual net profit realized by the buyer, The Alberta Gas Ethylene Company Ltd., on the sale outside Alberta of ethane surplus to ethylene plant requirements.

REGULATION:
The gas transmission segment of Alberta Natural's operations is subject to the National Energy Board Act and to the jurisdiction of the Board created thereby. This Board regulates accounting matters, export of gas, construction and operation of gas pipelines and rates, tolls and tariffs charged for such operations. Alberta Natural has filed an application with the Board requesting, effective January 1, 1982, an increase in the rate of return which it is permitted to earn on its rate base.

PLANT, PROPERTY AND EQUIPMENT:
Plant, property and equipment is carried at cost.

An allowance for funds used during construction is capitalized for plant under construction. The rate used is normally equivalent to the annual rate of return. Any such allowance recorded is included in other income.

Gas transmission plant is being amortized at an annual rate (approximately 4.7%) equal to the proportion that the annual volume of throughput authorized for export by the shippers bears to the total volume remaining under the licences granted by the National Energy Board.

Depreciation on the portion of the extraction plant used for the removal of NGL is calculated at an annual rate of 2.5% on a straight-line basis. The ethane portion of the extraction facility is being depreciated at an initial rate of approximately 6.25% decreasing to 1.25% in 1993.

INVESTMENTS:
Alberta Natural follows the equity method of accounting for its investment in a 49% owned affiliate, Foothills Pipe Lines (South B.C.) Ltd.

INVENTORIES:
Inventories of materials and supplies are carried at cost.

INCOME TAXES:
Alberta Natural follows the tax allocation basis of recording income taxes on all income except for gas transportation and liquids extraction operations which are subject to cost of service contracts. Income taxes are provided on this source of income only to the extent that they are included in costs of service under such contracts.

UNAMORTIZED DEBT EXPENSES:
Debt expense applicable to each series of bonds is being amortized over the term of such series.

UNAMORTIZED ORGANIZATION AND CAPITAL STOCK EXPENSE:
Organization and capital stock expense is being amortized over the life of the last expiring export licence (presently October 31, 1993).

DEFERRED CHARGES:
Project costs are initially recorded as deferred charges pending evaluation of the projects. Deferred charges applicable to projects which have been terminated are expensed.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1981
(Tabular amounts shown in thousands of dollars)

	1981	1980
1. PLANT, PROPERTY AND EQUIPMENT:		
Gas Transmission Plant	$ 58,037	$ 54,812
Extraction Plant	62,521	62,408
Other Plant	—	2,631
Plant Under Construction	16,930	1,070
	137,488	120,921
Less: Accumulated Depreciation	48,168	46,937
Net Plant, Property and Equipment	$ 89,320	$ 73,984

During 1981, an allowance for funds used during construction of $1,076,000 (1980 $76,000) has been capitalized and included in other income.

2. DEFERRED CHARGES:

	1981	1980
Alaska Highway Pipeline Project	$ 3,816	$ 4,383
Unamortized debt expense	385	426
Unamortized organization and capital stock expense	92	100
Other	97	185
	$ 4,390	$ 5,094

Alaska Highway Pipeline Project costs have been approved by the National Energy Board for inclusion in the rate base of the Foothills group of companies at such time as they are transferred to the books of account of these companies.

During 1981, an allowance in the amount of $301,000 for funds used to finance the preliminary expenditures has been capitalized and included in other income.

3. SHAREHOLDERS' EQUITY:

The classes of shares Alberta Natural is authorized to issue consist of an unlimited number of preference shares, having such rights and privileges attached to them as the Directors may by resolution determine, and an unlimited number of common shares.

Restrictions on the payment of cash dividends under certain circumstances are contained in the Deed of Mortgage and Trust securing Alberta Natural's bonds. At December 31, 1981 $3,082,000 otherwise available for dividends was restricted in this manner.

4. **LONG TERM DEBT:**

First Mortgage Pipe Line Bonds:

	Year Issued	Maturity	1981	1980
6⅛% Series A	1961	1986	$ 4,891	$ 5,978
9⅛% Series B				
($5,000,000 U.S.)	1969/1970	1991	5,364	5,900
8⅞% Series C	1971	1992	7,500	8,250
			17,755	20,128
Less sinking fund instalments due within one year			1,623	1,623
			$16,132	$18,505

The Series A Bonds are payable in United States dollars. As provided by the gas transportation contract, Alberta Natural is required to accept from the gas shippers in substitution for an equal number of Canadian dollars, the number of United States dollars required to make the annual principal and interest payments on the bonds (under the original terms of the Deed of Mortgage and Trust). Accordingly, the principal amount of the Series A Bonds and associated interest expense are recorded in Alberta Natural's accounts on the basis of the two currencies being equal in value.

The Series B Bonds are payable in United States dollars. The principal amount of the Series B Bonds is recorded in Alberta Natural's accounts at the amount of Canadian funds received on conversion of United States funds received on issue.

Sinking fund requirements amount to approximately $2,337,000 ($1,587,000 (U.S.) and $750,000 (Cdn.)) in each of the years 1983 to 1985, and approximately $1,793,000 ($1,043,000 (U.S.) and $750,000 (Cdn.)) in 1986. The 1982 sinking fund requirement for the Series C Bonds has been provided for by the purchase and cancellation of $750,000 principal amount of such bonds and consequently the liability for sinking fund instalments due within one year has been reduced by this amount.

With the exception of Alberta Natural's Calgary property, substantially all of its properties are pledged under the Deed of Mortgage and Trust securing the bonds.

5. CLASSES OF BUSINESS OPERATIONS:

1981

	Natural Gas Processing	Pipeline Transport	Other	Total
Operating Revenue	$108,928	$21,610	$ 366	$130,904
Operating Expenses:				
Operating and Maintenance	69,560	9,054	262	78,876
Administrative	1,928	1,632	4	3,564
Depreciation	3,167	2,594	67	5,828
Property and Other Taxes	17,099	3,220	78	20,397
	91,754	16,500	411	108,665
Operating Income (Loss)	$ 17,174	$ 5,110	$ (45)	$ 22,239
Total Identifiable Assets	$ 84,627	$26,481	$17,277	$128,385
Total Capital Expenditures During The Year	$ 15,924	$ 6,483	$ 162	$ 22,569

1980

	Natural Gas Processing	Pipeline Transport	Other	Total
Operating Revenue	$94,671	$20,937	$ 527	$116,135
Operating Expenses:				
Operating and Maintenance	70,536	10,988	368	81,892
Administrative	1,638	1,243	6	2,887
Depreciation	3,153	2,591	66	5,810
Property and Other Taxes	2,626	1,350	112	4,088
	77,953	16,172	552	94,677
Operating Income (Loss)	$16,718	$ 4,765	$ (25)	$ 21,458
Total Identifiable Assets	$71,885	$22,935	$15,861	$110,681
Total Capital Expenditures During The Year	$ 498	$ 983	$ 5	$ 1,486

6. RELATED PARTY TRANSACTIONS:

Alberta Natural is related to Pacific Gas Transmission Company, which company owns 49.997% of Alberta Natural's outstanding capital stock. Pacific Gas Transmission in turn is a subsidiary of Pacific Gas and Electric Company, which company owns 50.17% of the outstanding capital stock of Pacific Gas Transmission. Alberta and Southern Gas Co. Ltd. is a wholly owned subsidiary of Pacific Gas and Electric Company. Alberta Natural owns 49% of the outstanding capital stock of Foothills Pipe Lines (South B.C.) Ltd. Significant transactions with these related companies, not disclosed in the accompanying financial statements, were as follows:

		1981	1980
(1)	Net charges for personnel and related administrative costs from:		
	Alberta and Southern	$ 3,679	$ 2,462
	Pacific Gas Transmission	151	119
	Pacific Gas and Electric	16	12
(2)	Charges for liquids extraction feedstock and fuel purchased from Alberta and Southern	64,402	67,242
(3)	Net charge for transportation of gas to:		
	Alberta and Southern	11,539	11,204
	Foothills (South B.C.) Ltd.	516	—
(4)	Amounts outstanding at December 31:		
	Payable to Alberta and Southern	5,453	7,115
	Receivable from:		
	Alberta and Southern	1,704	1,613
	Foothills (South B.C.) Ltd.	1,678	—

7. DIRECTORS AND OFFICERS:

At December 31, 1981, Alberta Natural had eleven directors and eleven officers. Four of the officers were also directors. Directors' fees of $53,000 were paid in 1981 (1980 - $44,600) which represents the only remuneration received from Alberta Natural by the directors and officers. In respect of services rendered to it by some of its officers who are also officers of a related company, Alberta Natural pays a service charge to the related company.

8. COMMITMENTS:

At December 31, 1981, the company had entered into an agreement with Olympia & York Developments Limited for the joint development of Alberta Natural's property in downtown Calgary. In accordance with the terms of the development agreement Olympia & York is responsible for financing the project during the construction period. The development, excluding land, will cost approximately $76 million, of which $1,914,000 has been expended to date. Alberta Natural's security pledged for construction loans is restricted to its share of the project land, the cost of which is included in Plant Under Construction. In connection with this development, in 1981 Alberta Natural sold a 50% interest in its property to Olympia & York resulting in an extraordinary gain of $4,786,000 net of income taxes of $1,253,000.

At December 31, 1981, the company had entered into an agreement relating to the expansion of its Cochrane plant aggregating approximately $54,600,000 of which $14,600,000, has been expended to date.

AUDITORS' REPORT

To the Shareholders of
Alberta Natural Gas Company Ltd:

We have examined the balance sheet of Alberta Natural Gas Company Ltd as at December 31, 1981 and the statements of reinvested earnings, income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1981 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.

Deloitte Haskins + Sells
Chartered Accountants

Calgary, Alberta
February 5, 1982

COMMON SHARE MARKET INFORMATION
(Toronto Stock Exchange)

1981	High	Low	Close	Shares Traded	Dividends Paid
First Quarter	$25.25	$19.00	$25.25	352,953	$0.25
Second Quarter ...	25.50	24.00	25.00	446,120	0.25
Third Quarter......	31.00	24.00	24.00	439,625	0.25
Fourth Quarter.....	29.50	22.75	27.50	48,940	0.25
Year..............	31.00	19.00	27.50	1,287,638	1.00
1980	$26.00	$13.50	$19.25	553,877	$0.84

TEN YEAR COMPARATIVE HIGHLIGHTS

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
FINANCIAL AND SHARE DATA										
Operating revenue ($000's)	130,904	116,135	110,207	62,150	52,387	47,317	41,063	30,940	23,853	17,291
Net Income ($000's)	18,800	12,304	10,057	7,271	5,787	5,701	4,563	3,456	2,144	1,977
Common shareholders' equity										
total ($000's)	65,171	52,335	45,040	38,442	33,426	29,601	25,725	22,832	20,688	19,796
per share ($)	10.93	8.77	7.55	6.45	5.60	4.96	4.31	3.83	3.47	3.32
Average equity outstanding ($000's)	58,753	48,687	41,741	35,934	31,513	27,663	24,278	21,760	20,242	19,404
Earnings per outstanding common share ($)	3.15	2.06	1.69	1.22	.97	.96	.77	.58	.36	.33
Return on average common shareholders' equity (%)	32.00	25.27	24.09	20.23	18.36	20.61	18.79	15.88	10.59	10.19
Cash dividends ($000's)	5,964	5,009	3,459	2,255	1,962	1,825	1,670	1,312	1,252	1,193
Annual dividend rate per common share ($) — year end	1.00	.84	.68	.48	.34	.32	.30	.22	.22	.20
Dividend payout ratio (%)	31.7	40.7	34.4	31.0	33.9	32.0	36.6	38.0	58.4	60.3
GAS PLANT										
At year end ($000's)										
original cost	137,488	120,921	119,449	114,419	90,503	75,213	75,105	74,183	73,911	73,544
depreciated cost	89,320	73,984	78,308	79,112	59,162	47,220	50,456	52,591	55,342	58,012
CAPITAL EXPENDITURES ($000's)	22,569	1,499	5,073	23,926	15,318	271	946	314	357	564
OPERATIONAL										
Daily volume of gas delivered										
average (10^6m^3)	26.58	27.82	33.99	30.57	35.13	34.56	33.94	31.95	34.53	34.16
(MMcf)	938	982	1,200	1,079	1,240	1,220	1,198	1,128	1,219	1,206
maximum (10^6m^3)	30.88	38.04	37.17	36.66	39.77	38.47	37.96	38.78	38.87	37.73
(MMcf)	1,090	1,343	1,312	1,294	1,404	1,358	1,340	1,369	1,372	1,332
Daily production (average)										
NGL (m^3)	1 600	1 705	1 930	1 680	1 840	2 020	2 210	2 110	2 460	2 080
(Bbls)	10,110	10,730	12,160	10,540	11,600	12,700	13,900	13,300	15,500	13,100
Ethane (m^3)	3 370	3 480	3 485	2 630	—	—	—	—	—	—
(Bbls)	21,220	21,800	21,920	16,530	—	—	—	—	—	—

NOTES: — Share information is adjusted to reflect the five-for-one stock split on May 16, 1980. Shares Outstanding — 5,964,110.
— 1981 Financial and Share Data includes the effect of an extraordinary item of $4,786,000 or $.80 per share.

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ALBERTA NATURAL GAS COMPANY LTD
1981 ANNUAL REPORT