Alberta Natural Gas Company Ltd

1982 ANNUAL REPORT

Corporate Profile

Alberta Natural Gas Company Ltd is a Calgary-based company having a pipeline transmission system, a liquids extraction operation and a recently added nitroparaffins operation. The Company owns and operates 172 km (107 miles) of 914 mm (36 inch) pipeline in southeastern British Columbia for transportation of natural gas to the international border at Kingsgate, B.C. In addition, Alberta Natural owns 49% of the outstanding capital stock of Foothills Pipe Lines (South B.C.) Ltd. and operates the Foothills pipeline facilities paralleling that of the Company's existing system. The Company owns and operates a liquids extraction plant near Cochrane, Alberta (located west of Calgary) which removes propane and heavier liquids (NGL) and ethane from the gas stream passing through the plant. The Company and its affiliate, Pacific Gas Transmission Company, recently established a new company in the United States, ANGUS Chemical Company, which produces nitroparaffins and other derivative products for a wide range of specialty chemical markets.

Common shares of Alberta Natural Gas Company Ltd are listed on the Alberta, Montreal, Toronto and Vancouver Stock Exchanges, and trade under the symbol ANG.

Table of Contents

Annual Meeting

THE ANNUAL MEETING of Shareholders will be held in the Mayfair Room, Westin Hotel, Calgary, Alberta, on Friday the 22nd day of April, 1983 at 9:30 a.m.

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

FINANCIAL HIGHLIGHTS

	1982	1981
Operating revenue	**$214,618,000**	$130,904,000
Net income		
—before extraordinary item	**16,004,000**	14,014,000
—after extraordinary item	**16,004,000**	18,800,000
Income per average outstanding common share		
—before extraordinary item	**2.68**	2.35
—after extraordinary item	**2.68**	3.15
Dividends paid per common share—annual rate	**1.32**	1.00
Common equity		
—total at year end	**72,282,000**	65,171,000
—per share	**12.12**	10.93
Construction expenditures	**40,982,000**	22,569,000

Note: 1982 results include the effect of consolidation of the accounts of ANGUS Chemical Company from July 1, 1982.

A view of the Cochrane liquids extraction plant.

TO OUR SHAREHOLDERS

In a year of overall downturn in corporate profits in Canada and other western countries, your Directors are pleased to be able to report record results for Alberta Natural in 1982. Consolidated net earnings amounted to $16,004,000, equivalent to $2.68 per outstanding common share. Comparable net earnings in 1981 were $2.35 per share, excluding a non-recurring extraordinary gain on the sale of an interest in the Company's Calgary property.

The year 1982 marked a major diversification of the Company's activities through the acquisition of an established world-scale nitroparaffins business, with production facilities in the United States and West Germany, and markets in many areas of the world.

The initial diversification by Alberta Natural, from its previous role as a major component in the Alberta-California pipeline system, occurred in 1969 with the construction of a natural gas liquids (NGL) extraction plant, located near Calgary, Alberta. A major expansion of the extraction plant took place in the fall of 1978 when new recovery facilities were installed to extract ethane product from the gas stream passing through the plant, and which also permitted the recovery of additional volumes of NGL. Another major activity resulted from the Company's involvement in the Alaska Highway Pipeline Project, which eventually permitted the Company to construct and operate the portion of the Project in southeastern British Columbia. The Company's ownership of 49% of the shares of Foothills Pipe Lines (South B.C.) Ltd. has made a significant contribution to earnings since commencement of gas flows through the new facilities in October, 1981.

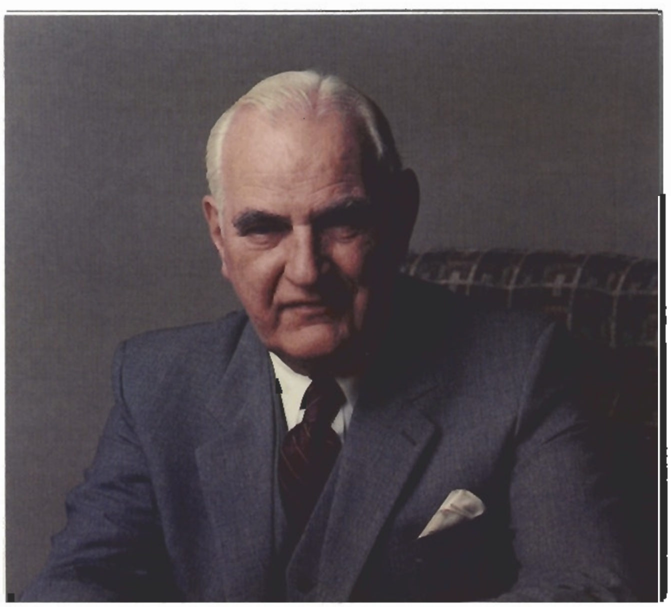
A further important venture has been the project to develop our downtown Calgary property jointly with Olympia & York Developments Limited. Current economic conditions have temporarily delayed construction of the proposed 30-story office tower but activities will be resumed as soon as conditions warrant.

The major construction activity during the past eighteen months has been the further expansion of the Company's liquids extraction plant to permit the removal of additional quantities of ethane. This project, which will more than double the Company's investment in this facility, is expected to be completed in March, 1983.

New Business Development

While improving the profitability of our pipeline and extraction operations has remained a prime priority, the Company continues to participate individually and in partnership with other organizations in the investigation of new areas of potential investment opportunities.

In July, 1982, Alberta Natural and its affiliate Pacific Gas Transmission Company purchased the nitro-



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

paraffins division of International Minerals & Chemical Corporation. As a result, a new company was formed, ANGUS Chemical Company, which is owned approximately 56% by Alberta Natural, 42% by Pacific Gas Transmission Company, and 2% by certain key management employees.

The new business acquired is presently the only commercial scale nitroparaffins basics and derivatives operation in the world. ANGUS Chemical supplies products to a wide range of specialty chemical markets, including manufacturers of pharmaceuticals, solvents, coatings, explosives and textiles. Approximately 200 former International Minerals employees, including senior executives, are now associated with ANGUS Chemical.

ANGUS Chemical also formed a subsidiary, ANGUS Petrotech Corporation, to engage in the enhanced recovery of oil from partially depleted oil properties. Certain nitroparaffins derivatives produced by ANGUS Chemical can be used in these enhanced recovery projects.

Looking to the future, both of these new business ventures have the potential for significant growth and for expansion into Canada.

Regulatory Matters

In 1982, your Company's affiliate and major transmission customer, Alberta and Southern Gas Co. Ltd., applied to the National Energy Board to extend its existing natural gas export levels through Alberta Natural's pipeline facilities, at existing licenced rates, until the year 2000. The National Energy Board conducted a three phase Gas Export Omnibus Hearing to review existing natural gas licences, to examine various export proposals and to determine if a Canadian natural gas surplus existed and its allocation to the various applicants.

The Omnibus Hearing was completed in November, 1982, and a decision on the various export licence applications was released on January 27, 1983. In the Board's decision, Alberta and Southern received approval for continuation of exports at presently authorized levels until October, 1990, and at reduced levels in 1991 and 1992. The Board found that a substantial surplus of natural gas exists, and recognized the importance of assuring a continuing supply of natural gas to presently connected markets. When appropriate, in future proceedings, Alberta and Southern expects to apply for further extensions of its export licences.

Pipeline Rate Regulation

In March, 1982, the National Energy Board heard Alberta Natural's request for an increased rate of return on transmission rate base. In April, 1982, the Board approved an increase in the rate of return to 13.3% (compared to the prior rate of 11.5%). In

Harry Booth
President and Chief Executive Officer

December, 1982, Alberta Natural applied to the National Energy Board to vary the terms of its April, 1982 decision to modify the methodology prescribed by the Board in the calculation of an allowance for income taxes in monthly billings to our customers. The Company has received an affirmative decision from the Board which is effective March 1, 1983. This decision will improve the opportunity for your Company to continue to earn an adequate rate of return on its investment in transmission facilities.

Cochrane Plant Expansion

In 1981, Alberta Natural 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. In February, 1983, the plant was shut down to tie-in the new facilities with the existing cryogenic plant. The new unit is expected to be commissioned for service during March, 1983. This project is expected to contribute to higher earnings and cash flow for the Company in 1983.

Outlook

There are a number of variables that can influence your Company's future results, including interest rates and government economic policies.

Our expectation for the Canadian economy is for a slow recovery from the current recession in a difficult economic environment. If interest rates continue to decline to more moderate levels, it is expected that business activity and earnings will improve.

Despite the slow recovery expected in the Canadian economy, Alberta Natural should have another good year in 1983. Our basic pipeline and extraction businesses will remain profitable. Assuming industrial activity in the United States and in other world market areas increases in 1983, Alberta Natural expects to benefit from its investment in ANGUS Chemical.

In addition, because of our Company's strong asset base, good borrowing capacity and sturdy cash flow, we have entered 1983 well equipped to realize other opportunities for further diversification and expansion. Alberta Natural is well positioned to participate in future business developments in both Canada and the United States.

Personnel

The Board of Directors take this opportunity to thank the dedicated employees of Alberta Natural for their continued contribution to the successful operations of the Company during 1982.

For the Board of Directors

R.A. MacKimmie

Chairman of the Board

H. Booth

President and Chief Executive Officer

March 2, 1983

REVIEW OF OPERATIONS

Financial

The Company's consolidated net income for 1982 was $16,004,000, or $2.68 per outstanding common share. In 1981, net income was $18,800,000, or $3.15 per share. The 1981 net income included an extraordinary gain of $.80 per common share, resulting from the sale to Olympia & York Developments Limited of a one-half interest in the Company's downtown Calgary property.

Major items contributing to the improvement in basic earnings in 1982 were related to operations at the Cochrane plant. These items included an increase in the Company's share of the annual net profit realized by The Alberta Gas Ethylene Company Ltd. on the sale outside Alberta of ethane surplus to ethylene plant requirements, an increase in profits arising from the downstream sale of natural gas liquids (NGL), and an increase in interest capitalized on the Cochrane plant expansion. Another factor contributing to improved earnings was a higher return realized on pipeline facilities. Earnings were offset to some extent by the cost of funds borrowed to acquire ANGUS Chemical Company.

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

J.E. Goudie
Executive Vice-President

H.B. Sanderson (left) Treasurer
G.J. Clark, Comptroller

Cochrane Plant Expansion

In order to increase the Company's ethane production, Alberta Natural, in 1981, undertook the second expansion of the Cochrane plant. The construction consisted of two new turbo expander units to operate in parallel with the existing unit. The installation of these two new trains progressed satisfactorily in 1982 with the majority of the necessary equipment arriving on site as originally scheduled. Process towers were raised during the first quarter of 1982, followed by the placement of process piping and equipment. However, the delivery of two 30,000 horsepower electric motors utilized for compressing residue gas was delayed. As a result, start-up of the new ethane facilities has been postponed until March, 1983, at which time ethane production capacity is projected to increase from approximately 4 000 to 6 800 m^3 (25,000 to 43,000 barrels) per day. Actual project costs to date indicate that the work will be completed at a total cost of approximately $65 million.

Insulating new demethanizer tower at Cochrane.

Installation of new CO_2 removal unit.

Arrival of residue gas compressor.

Liquids Extraction Operations

NGL production at the Cochrane extraction plant averaged 1 970 m³ (12,385 barrels) per day in 1982. This was an increase of approximately 23% over the 1981 production rate and was primarily due to an increase in gas volumes available to the plant. A slightly richer inlet gas stream also contributed to the production rise.

Ethane production for the year averaged 3 025 m³ (19,105 barrels) per day. This production rate represented a decrease of approximately 10% from 1981 average daily production, due primarily to a request from The Alberta Gas Ethylene Company Ltd. to reduce volumes of ethane production for the period June 1 to November 8, 1982. An additional factor contributing to the decrease in ethane production volumes was a bearing failure on the presaturated lean oil pump electric motor which limited ethane recovery for a four-week period during April.

Feed gas volumes to the Cochrane extraction plant averaged approximately 21.25 $10^6 m^3$ (750 Mmcf) per day in 1982, 20% higher than in 1981. This increase in volume was attributable to natural gas owned by Pan-Alberta Gas Ltd. that began flowing through the plant in October, 1981, following completion of the Phase I portion of the Alaska Highway Pipeline Project. Alberta and Southern's gas flows remained at minimum contract levels throughout 1982 because the requirements for Canadian gas in the California market continued to be depressed.

The plant was on stream for over 98% of the year, being shut down for a period of only six days. The majority of the downtime was due to the replacement of sections of pipeline downstream of the plant in Alberta and in southeastern British Columbia, and also for the connection of the new transformers and switch gear required for the second expansion of ethane removal facilities.

D.R. Fenton
Executive Vice-President

D.A. Sharp (left)
Vice-President
G.R. Walsh (center)
Vice-President, Operations
E.W. Mychaluk (right)
Vice-President, Engineering and Construction

Pipeline Operations

Daily deliveries of natural gas during 1982 averaged 26.64 10^6m^3 (940 Mmcf) compared to 26.42 10^6m^3 (932 Mmcf) per day during 1981, resulting in pipeline utilization of approximately 65% of the total design capacity of the combined Alberta Natural/Foothills Pipe Lines systems.

Again in 1982, Canadian natural gas exporters delivered less than authorized volumes of gas to United States customers. Alberta and Southern's largest customer, Pacific Gas Transmission Company, purchased approximately 68% of licenced contract quantities of gas for redelivery to Pacific Gas and Electric Company. The most significant reason for the continued decrease in demand was the higher price of Canadian gas compared with indigenous supplies that are presently available in the United States.

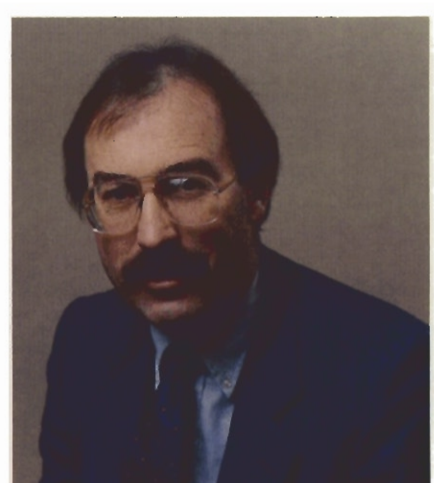
As a result of a routine inspection in October, 1982, a crack in the pipeline in the Flathead Ridge area was detected. The system was shut down and the line was repaired and placed back in service the same day. At the same time, in order to provide needed operating flexibility in the event of a future failure of either the Alberta Natural line or the Foothills loop line in the Flathead area, a valve was installed in the Alberta Natural line. Since this area is virtually inaccessible in the winter months, this valve allows isolation of either line over the ridge.

During the first quarter of 1982, the installation of a new 10,000 horsepower gas turbine driven centrifugal compressor unit, to replace the four original reciprocating compressors at the Crowsnest compressor station, was completed. Capital expenditures during 1982, amounting to $1,929,000, include the balance of the compressor unit costs as well as minor additions to the pipeline system.

Pipeline Rate Regulation

In March, 1982, the National Energy Board conducted a hearing with respect to Alberta Natural's request for an increased rate of return on transmission rate base. The Board subsequently approved an increase in the rate of return to 13.3% from 11.5% effective May 1, 1982. In December, Alberta Natural filed an additional application requesting authorization to amend the method of calculating the allowance for income taxes in order to permit the continued collection of appropriate amounts in monthly cost of service billings to our pipeline transportation customers. The application was approved by the Board, effective March 1, 1983.

F.G. Homer (left)
Secretary and General Counsel
D. McMorland
Vice-President, Gas Supply



G.T. Noland
Vice-President
Planning and Development

Nitroparaffins

In July, 1982, Alberta Natural and its affiliate Pacific Gas Transmission Company established a new company in the United States, ANGUS Chemical Company. This company is owned approximately 56% by Alberta Natural, 42% by Pacific Gas Transmission and 2% by certain key management employees. ANGUS Chemical Company purchased the nitroparaffins division of International Minerals & Chemical Corporation and established its corporate head office in Northbrook, Illinois.

The nitroparaffins plant operation, located at Sterlington, Louisiana, is presently the only commercial scale facility in the world, having a production capacity of approximately 90 million pounds per year of the four basic nitroparaffins. For the six month period of 1982 during which ANGUS Chemical owned and operated these facilities, no operating problems were encountered. Production of nitroparaffins during this period was at an annual rate of approximately 60 million pounds.

In addition, ANGUS Chemical has a production capacity of 25 million pounds of nitroparaffins derivatives at facilities in Sterlington and in Ibbenbueren, West Germany. The nitroparaffins and derivatives serve a wide range of specialty chemical markets and are being used in pharmaceuticals, explosives, coatings, solvents, textiles and in a large number of other applications.

Besides the physical assets, ANGUS Chemical also obtained all related patents and licences previously held by International Minerals. These patents and licences, together with the approximately 200 employees that joined ANGUS Chemical from International Minerals, provide an excellent base for future expansion.

During 1982 ANGUS Chemical formed a subsidiary, ANGUS Petrotech Corporation, headquartered in Golden, Colorado, to participate in enhanced oil recovery ventures. Plans include the acquisition of interests in partially depleted oil properties, suitable to polymer and alkaline enhanced water flooding or thermal recovery processes. ANGUS Petrotech is currently reviewing potential enhanced recovery opportunities and has recently concluded arrangements for two thermal recovery projects in Kern County, California.

R.E. Secrist
Chairman of the Board
and Chief Executive Officer
ANGUS Chemical Company and
ANGUS Petrotech Corporation

O.W. Chandler
President and Chief Operating Officer
ANGUS Chemical Company

R.B. Kayser
President and Chief Operating Officer
ANGUS Petrotech Corporation

Natural Gas Export

The National Energy Board has completed a three phase hearing to consider a number of export applications, including one from your Company's affiliate and major transmission customer, Alberta and Southern Gas Co. Ltd. Alberta and Southern applied to extend, to the year 2000, exports through Alberta Natural's facilities at current contract volumes.

The Board's decision with respect to the first phase of the hearing was released in May, 1982. The key element of that decision was the adoption of more flexible procedures for the determination of an exportable surplus of natural gas. During the second phase, the Board examined in detail the various applications before it and heard evidence on methods of surplus allocation. In the final or surplus phase, the Board considered the gas supply question as it related to the specific applications as well as the country as a whole.

On January 27, 1983, the Board released its decision concerning the second and third phases of the hearing and approved additional exports of Canadian gas amounting to 12.2 exajoules (11.6 trillion cubic feet). Of these new volumes, Alberta and Southern received approval for the continued export of currently authorized annual volumes until 1990, and for partial extensions for 1991 and 1992. Prior to the Board's decision, Alberta and Southern's licenced export volumes would have started to decline beginning in 1985.

Of particular significance to Alberta Natural and Alberta and Southern in considering the long term potential for further export approvals, were a number of factors which influenced the Board in its decision. The Board indicated that the first consideration in determining the allocation of an exportable gas surplus was an obligation to continue to supply existing markets. Thus, the existing Pacific Gas and Electric Company service area will be assured of a continuous supply of Canadian natural gas for the next decade. In addition, the Board stated a preference to optimize the utilization of existing pipeline systems and also favored minimizing the costs of transmission in Canada by the continuation of exports at points close to the producing provinces.

Calgary Property Development

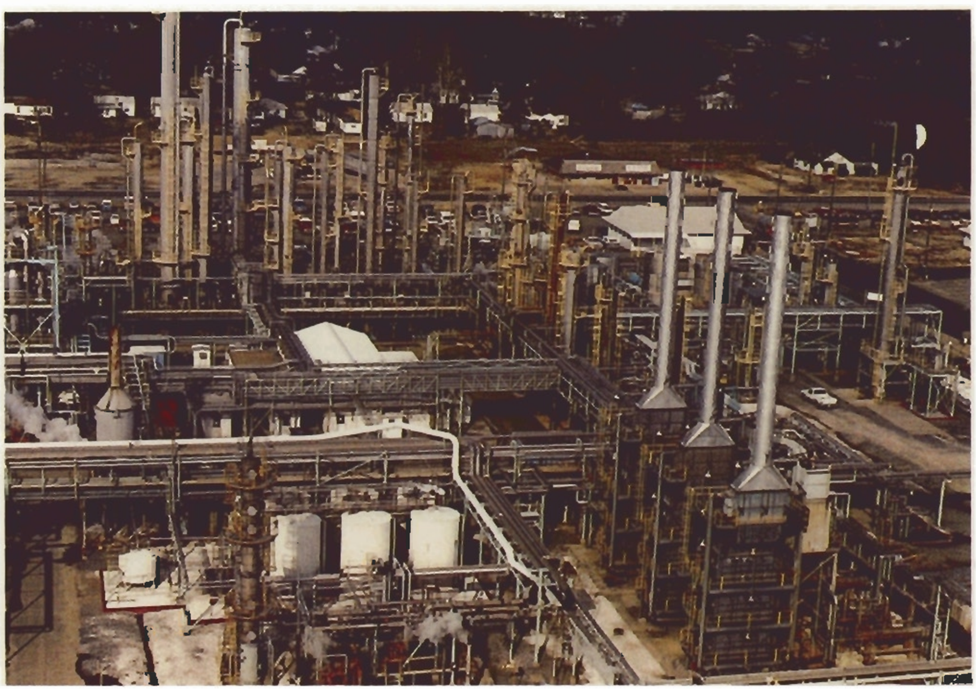
Because of the current economic conditions and the reduced demand for office space in Calgary, the proposed office tower project to be jointly owned by Alberta Natural and Olympia & York Developments Limited has been temporarily deferred. The existing office building on the property was demolished in the fall of 1981 and shoring operations and site excavation were completed in the spring of 1982. Construction activities will be resumed as soon as conditions warrant.

Safety

Both the pipeline and the extraction plant have completed the year without any lost-time injuries. This is indicative of the ongoing safety programs that are being followed at all Alberta Natural installations.

Pipeline operations received an award from the Canadian Gas Association for outstanding vehicle safety. The Alberta PetroChemical Safety Council and the Canadian Gas Processors Association also issued awards to the Company for ten consecutive years without a lost-time injury at the Cochrane plant.

CONSOLIDATED FINANCIAL STATEMENTS



A view of the Sterlington, Louisiana nitroparaffins plant owned by ANGUS Chemical Company.

The financial statements include the consolidation of ANGUS Chemical accounts from July 1, 1982.

ALBERTA NATURAL GAS COMPANY LTD

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1982

(with 1981 figures for comparison)

ASSETS

	1982	1981
	(thousands of dollars)	
PLANT, PROPERTY AND EQUIPMENT (Note 1)	**$221,750**	$137,488
Less accumulated depreciation	**57,908**	48,168
Net plant, property and equipment	**163,842**	89,320
CURRENT ASSETS:		
Cash and interest bearing deposits	**12,733**	71
Accounts receivable (Note 7)	**46,555**	22,528
Inventories	**21,641**	1,550
Other	**574**	236
Total current assets	**81,503**	24,385
INVESTMENTS AND ADVANCES (Note 2)	**16,413**	10,290
DEFERRED CHARGES (Note 3)	**605**	4,390
TOTAL	**$262,363**	$128,385

Approved by the Board:

H. Booth Director

John A. Sproul Director

See accompanying summary of accounting policies and notes.

SHAREHOLDERS' EQUITY AND LIABILITIES

	1982	1981
	(thousands of dollars)	
SHAREHOLDERS' EQUITY (Note 4):		
Capital stock:		
5,964,110 common shares	**$ 11,928**	$ 11,928
Contributed surplus	**2,386**	2,386
Reinvested earnings	**58,988**	50,857
Cumulative translation adjustment	**(1,020)**	—
Total shareholders' equity	**72,282**	65,171
MINORITY INTEREST	**28,596**	—
LONG TERM DEBT (Note 5)	**29,751**	16,132
DEFERRED INCOME TAXES	**34,521**	23,209
CURRENT LIABILITIES:		
Notes payable:		
Affiliated companies	**14,000**	—
Other	**55,102**	13,083
Accounts payable	**19,951**	8,638
Income taxes payable	**4,725**	—
Interest accrued	**1,116**	425
Sinking fund instalments due within one year	**1,623**	1,623
Other	**592**	—
Total current liabilities	**97,109**	23,769
CONTRIBUTIONS IN AID OF CONSTRUCTION	**104**	104
TOTAL	**$262,363**	$128,385

ALBERTA NATURAL GAS COMPANY LTD

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1982

(with 1981 figures for comparison)

	1982	1981
	(thousands of dollars)	
OPERATING REVENUE:		
Transportation of gas	**$ 26,763**	$ 21,610
Petrochemical	**180,542**	108,928
Other	**7,313**	366
Total operating revenue	**214,618**	130,904
OPERATING EXPENSES:		
Operating and maintenance	**128,978**	78,876
Selling, administrative and research	**13,050**	3,564
Depreciation	**9,836**	5,828
Taxes - excise	**29,669**	17,318
- property and other	**3,488**	3,079
Total operating expenses	**185,021**	108,665
OPERATING INCOME	**29,597**	22,239
OTHER INCOME:		
Equity in net income of Foothills Pipe Lines (South B.C.) Ltd.	**1,669**	1,533
Other (Net)	**6,788**	1,638
Total other income	**8,457**	3,171
INCOME BEFORE INCOME DEDUCTIONS	**38,054**	25,410
INCOME DEDUCTIONS:		
Interest on long term debt	**2,324**	1,599
Interest on other debt	**5,700**	352
Other	**49**	49
Total income deductions	**8,073**	2,000
INCOME BEFORE INCOME TAXES	**29,981**	23,410
PROVISION FOR INCOME TAXES	**13,477**	9,396
	16,504	14,014
MINORITY INTEREST	**500**	—
INCOME BEFORE EXTRAORDINARY ITEM	**16,004**	14,014
EXTRAORDINARY ITEM (Note 8)	**—**	4,786
NET INCOME	**$ 16,004**	$ 18,800
EARNINGS PER COMMON SHARE:		
Before extraordinary item	**$ 2.68**	$ 2.35
Extraordinary item	**—**	.80
After extraordinary item	**$ 2.68**	$ 3.15

See accompanying summary of accounting policies and notes.

ALBERTA NATURAL GAS COMPANY LTD

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1982

(with 1981 figures for comparison)

	1982	1981
	(thousands of dollars)	
FUNDS PROVIDED:		
From operations:		
Income before extraordinary item	**$16,004**	$14,014
Add (deduct) non-cash items:		
Depreciation	**9,836**	5,828
Provision for deferred income taxes	**11,565**	2,734
Amortization of deferred charges	**—**	138
Equity earnings in investment	**(1,669)**	(1,533)
Other income deductions	**49**	49
Minority interest	**500**	—
	36,285	21,230
Net proceeds from sale of Calgary property	**—**	6,105
Recovery of Alaska Highway Pipeline Project costs	**3,400**	869
Deferred charges—decrease (increase)	**338**	(352)
Dividends—Foothills Pipe Lines (South B.C.) Ltd.	**2,303**	—
Other	**383**	—
Decrease in working capital	**16,222**	11,725
Total	**$58,931**	$39,577
FUNDS APPLIED:		
Net working capital applied to acquire subsidiary	**$ 614**	$ —
Net additions to plant, property and equipment	**40,960**	22,483
Reduction of long term debt	**2,373**	2,373
Investment in preferred shares of Foothills Pipe Lines (Yukon) Ltd.	**3,400**	—
Other investments and advances	**3,187**	8,757
Dividends	**7,873**	5,964
Effect of exchange rate changes on working capital	**524**	—
Total	**$58,931**	$39,577
CHANGES IN WORKING CAPITAL COMPONENTS:		
Cash and interest bearing deposits	**$(12,662)**	$ 7,011
Accounts receivable	**(24,027)**	86
Inventories	**(20,091)**	268
Other	**(338)**	(147)
Notes payable	**56,019**	13,083
Accounts payable	**11,313**	(2,782)
Income taxes payable	**4,725**	(5,923)
Interest accrued	**691**	129
Other	**592**	—
Decrease in working capital	**$16,222**	$11,725

See accompanying summary of accounting policies and notes.

ALBERTA NATURAL GAS COMPANY LTD

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1982

(with 1981 figures for comparison)

	1982	1981
	(thousands of dollars)	
BALANCE AT BEGINNING OF THE YEAR	**$50,857**	$38,021
NET INCOME	**16,004**	18,800
	66,861	56,821
DIVIDENDS PAID ON COMMON SHARES	**7,873**	5,964
BALANCE AT END OF THE YEAR	**$58,988**	$50,857

See accompanying summary of accounting policies and notes.

AUDITORS' REPORT

To the Shareholders of Alberta Natural Gas Company Ltd:

We have examined the consolidated balance sheet of Alberta Natural Gas Company Ltd (a Canada corporation) as of December 31, 1982, and the related consolidated statements of income, reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company as of December 31, 1982, 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.

Calgary, Alberta
February 4, 1983

Arthur Andersen & Co.
Chartered Accountants

ALBERTA NATURAL GAS COMPANY LTD

SUMMARY OF ACCOUNTING POLICIES
DECEMBER 31, 1982

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.

Alberta Natural, through its subsidiary ANGUS Chemical Company, owns and operates nitroparaffin production facilities at Sterlington, Louisiana and Ibbenbueren, West Germany. The facilities utilize feedstocks derived from natural gas in the production of nitroparaffins and other derivative products that are marketed worldwide.

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.

CONSOLIDATION:

The consolidated financial statements include the accounts of Alberta Natural and its approximately 56%-owned U.S. subsidiary ANGUS Chemical Company.

FOREIGN CURRENCY TRANSLATION:

The accounts of ANGUS Chemical Company have been translated into Canadian dollars using current rates of exchange for all assets and liabilities and average rates of exchange for revenue and expenses. The cumulative effects of foreign currency translations are included in shareholders' equity.

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

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 on rate base. Any such allowance recorded is included in other income.

Gas transmission plant is being amortized at an annual rate (approximately 6.4%) 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.

Nitroparaffin production facilities are being depreciated on a straight-line basis over the estimated useful life of the assets. Buildings are depreciated over 9 to 25 years and equipment is depreciated over 3 to 15 years

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:

Nitroparaffin product inventories are carried at the lower of cost or market on the last-in, first-out (LIFO) method of accounting for inventory cost. Inventories of materials and supplies are carried at average cost.

INCOME TAXES:

Income taxes are provided on the tax allocation basis for all income except 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.

ALBERTA NATURAL GAS COMPANY LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1982

(Tabular amounts shown in thousands of dollars)

1. PLANT, PROPERTY AND EQUIPMENT:

	1982	1981
Gas transmission	$ 60,030	$ 58,037
Petrochemical	107,810	62,521
	167,840	120,558
Under construction	53,910	16,930
	221,750	137,488
Less accumulated depreciation	57,908	48,168
Net plant, property and equipment	$163,842	$ 89,320

During 1982, an allowance for funds used during construction of $5,783,000 (1981, $1,076,000) has been capitalized and included in other income.

2. INVESTMENTS AND ADVANCES:

	1982	1981
Foothills Pipe Lines (South B.C.) Ltd.	$ 9,656	$ 10,290
Foothills Pipe Lines (Yukon) Ltd. (preferred shares at cost)	3,400	—
Other	3,357	—
	$ 16,413	$ 10,290

3. DEFERRED CHARGES:

	1982	1981
Alaska Highway Pipeline Project	$ —	$ 3,816
Unamortized debt expense	345	385
Unamortized organization and capital stock expense	83	92
Other	177	97
	$ 605	$ 4,390

4. 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.

In accordance with the provisions of a Senior Management Stock Option Plan approved April 30, 1982, 180,000 common shares were reserved for issuance under the plan. Options have been made available on 64,800 shares at a price of $23.24 per share, exercisable to December 31, 1986. No options have been exercised to date.

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, 1982 $3,082,000 otherwise available for dividends was restricted in this manner.

5. LONG TERM DEBT:

	Year Issued	Maturity	1982	1981
First mortgage pipe line bonds:				
6⅛% Series A	1961	1986	$ 3,804	$ 4,891
9⅛% Series B ($4,500,000 U.S.)	1969/70	1991	4,828	5,364
8⅞% Series C	1971	1992	6,750	7,500
Revenue bonds 6¾% ($13,008,000 U.S.)	1978/79	2004/08	15,992	—
			31,374	17,755
Less sinking fund instalments due within one year			1,623	1,623
TOTAL			$29,751	$16,132

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, approximately $1,793,000 ($1,043,000 (U.S.) and $750,000 (Cdn.)) in 1986 and approximately $1,250,000 ($500,000 (U.S.) and $750,000 (Cdn.)) in 1987. The 1983 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.

6. SEGMENTED INFORMATION:

At a duly convened Directors meeting, the minutes of which have been recorded, the Directors of Alberta Natural have determined the following classes of business as being the most representative of the current business and operations of the company.

a) Financial information by segment:

1982

	Petrochemical	Pipeline Transport	Other	Total
Operating revenue	$180,542	$26,763	$ 7,313	$214,618
Depreciation expense	$ 6,068	$ 3,768	$ —	$ 9,836
Operating income	$ 24,129	$ 5,142	$ 326	$ 29,597
Total identifiable assets	$219,333	$25,116	$17,914	$262,363
Total capital expenditures during the year	$ 39,044	$ 1,929	$ 9	$ 40,982

1981

	Petrochemical	Pipeline Transport	Other	Total
Operating revenue	$108,928	$21,610	$ 366	$130,904
Depreciation expense	$ 3,167	$ 2,594	$ 67	$ 5,828
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

b) Financial information by reportable geographic area:

1982

	Domestic	Foreign
Operating revenue	$169,560	$45,058
Operating income	$ 26,161	$ 3,436
Total identifiable assets	$169,758	$92,605

1981

	Domestic	Foreign
Operating revenue	$130,904	$ —
Operating income	$ 22,239	$ —
Total identifiable assets	$128,385	$ —

7. 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 were as follows:

	1982	1981
(1) Net charges for personnel and related administrative costs from:		
Alberta and Southern	**$ 5,760**	$ 3,679
Pacific Gas Transmission	**148**	151
Pacific Gas and Electric	**18**	16
(2) Charges for liquids extraction feedstock and fuel purchased from Alberta and Southern	**67,001**	64,402
(3) Net charge for transportation of gas to:		
Alberta and Southern	**13,504**	11,539
Foothills (South B.C.) Ltd.	**1,934**	516
(4) Amounts outstanding at December 31:		
Payable to:		
Alberta and Southern	**7,692**	5,453
Pacific Gas Transmission	**14,000**	—
Receivable from:		
Alberta and Southern	**2,296**	1,704
Foothills (South B.C.) Ltd.	**510**	1,678

Alberta Natural's subsidiary has notes receivable from officers and directors of $1,100,000 (U.S.). The notes are non-interest bearing and are collateralized by subsidiary companies common stock and are scheduled for repayment no later than July 1, 1990.

8. COMMITMENTS:

The company has 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. Preliminary expenditures have totalled $6,491,000 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.

The company has entered into an agreement relating to the expansion of its Cochrane plant aggregating approximately $54,600,000 of which $43,604,000 has been expended to date.

9. ACQUISITION:

Effective July 1, 1982 Alberta Natural purchased 57% of the capital stock of ANGUS Chemical Company at a cost of approximately $35,600,000. The balance of the capital stock was purchased by Pacific Gas Transmission Company. On that date ANGUS Chemical Company purchased the net assets of the nitroparaffin division of International Minerals & Chemical Corporation. The results of operations of ANGUS Chemical Company have been included in these consolidated financial statements from the date of acquisition.

10. PRIOR AUDITORS:

The financial statements at December 31, 1981 were reported on, without qualification, on February 5, 1982 by Chartered Accountants other than Arthur Andersen & Co.

TEN YEAR COMPARATIVE HIGHLIGHTS

FINANCIAL AND SHARE DATA		**1982**	1981	1980
Operating revenue ($000's)		**214,618**	130,904	116,135
Net income ($000's)		**16,004**	18,800	12,304
Common shareholders' equity				
total ($000's)		**72,282**	65,171	52,335
per share ($)		**12.12**	10.93	8.77
Average equity outstanding ($000's)		**68,727**	58,753	48,687
Earnings per outstanding common share ($)		**2.68**	3.15	2.06
Return on average common shareholders' equity (%)		**23.29**	32.00	25.27
Cash dividends ($000's)		**7,873**	5,964	5,009
Annual dividend rate per common share ($)—year end		**1.32**	1.00	.84
Dividend payout ratio (%)		**49.2**	31.7	40.7
GAS PLANT				
At year end ($000's)				
original cost		**221,750**	137,488	120,921
depreciated cost		**163,842**	89,320	73,894
CAPITAL EXPENDITURES ($000's)		**40,982**	22,569	1,499
OPERATIONAL				
Daily volume of gas delivered				
average	(10^6m^3)	**26.64**	26.42	27.82
	(MMcf)	**940**	932	982
maximum	(10^6m^3)	**31.14**	30.88	38.04
	(MMcf)	**1,099**	1,090	1,343
Daily production (average)				
NGL	(m^3)	**1 970**	1 600	1 705
	(Bbls)	**12,385**	10,085	10,730
Ethane	(m^3)	**3 025**	3 370	3 480
	(Bbls)	**19,105**	21,230	21,800

NOTES:

- Shares Outstanding — 5,964,110.
- 1982 results include the effect of consolidation of the accounts of ANGUS Chemical Company from July 1, 1982.
- 1981 results include the effect of an extraordinary item ($4,786,000, or $.80 per share).
- Share information has been adjusted to give retroactive effect to the five-for-one stock split on May 16, 1980.

1979	1978	1977	1976	1975	1974	1973
110,207	62,150	52,387	47,317	41,063	30,940	23,853
10,057	7,271	5,787	5,701	4,563	3,456	2,144
45,040	38,442	33,426	29,601	25,725	22,832	20,688
7.55	6.45	5.60	4.96	4.31	3.83	3.47
41,741	35,934	31,513	27,663	24,278	21,760	20,242
1.69	1.22	.97	.96	.77	.58	.36
24.09	20.23	18.36	20.61	18.79	15.88	10.59
3,459	2,255	1,962	1,825	1,670	1,312	1,252
.68	.48	.34	.32	.30	.22	.22
34.4	31.0	33.9	32.0	36.6	38.0	58.4
119,449	114,419	90,503	75,213	75,105	74,183	73,911
78,308	79,112	59,162	47,220	50,456	52,591	55,342
5,073	23,926	15,318	271	946	314	357
33.99	30.57	35.13	34.56	33.94	31.95	34.53
1,200	1,079	1,240	1,220	1,198	1,128	1,219
37.17	36.66	39.77	38.47	37.96	38.78	38.87
1,312	1,294	1,404	1,358	1,340	1,369	1,372
1 930	1 680	1 840	2 020	2 210	2 110	2 460
12,160	10,540	11,600	12,700	13,900	13,300	15,500
3 485	2 630	—	—	—	—	—
21,920	16,530	—	—	—	—	—

Directors and Officers

Directors

John F. Bonner,
San Francisco, California
Executive Consultant.
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. O. Nickle,
Calgary, Alberta
President, Conventures Limited

R. H. Peterson,
San Francisco, California
Consultant.
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,
Pacific Gas and Electric Company

John A. Sproul,
San Francisco, California
Chairman of the Board and
Chief Executive Officer,
Pacific Gas Transmission Company;
and 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,
Gas Supply

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

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

G. R. Walsh,
Vice-President,
Operations

D. A. Sharp,
Vice-President

F. G. Homer,
Secretary and General Counsel

H. B. Sanderson,
Treasurer

G. J. Clark,
Comptroller

Corporate Information

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

Subsidiary Company
ANGUS Chemical Company
Northbrook, Illinois

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
Arthur Andersen & Co.
Chartered Accountants
Calgary, Alberta

Common Share Market Information
(Toronto Stock Exchange)

1982	High	Low	Close	Shares Traded	Dividends Paid
First Quarter	$27.50	$21.88	$25.00	146,070	$0.33
Second Quarter	27.25	22.50	22.50	42,445	0.33
Third Quarter	27.00	21.75	26.50	12,655	0.33
Fourth Quarter	26.25	21.25	22.50	29,595	0.33
Year	**27.50**	**21.25**	**22.50**	**230,765**	**1.32**
1981	31.00	19.00	27.50	1,287,638	1.00

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ALBERTA NATURAL GAS COMPANY LTD