Alberta Natural Gas Company Ltd

1983 Annual Report

Annual Meeting

The Annual Meeting of Shareholders will be held in the Bonavista Room, Westin Hotel, Calgary, Alberta, on Friday the 27th day of April, 1984 at 9:30 a.m.

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

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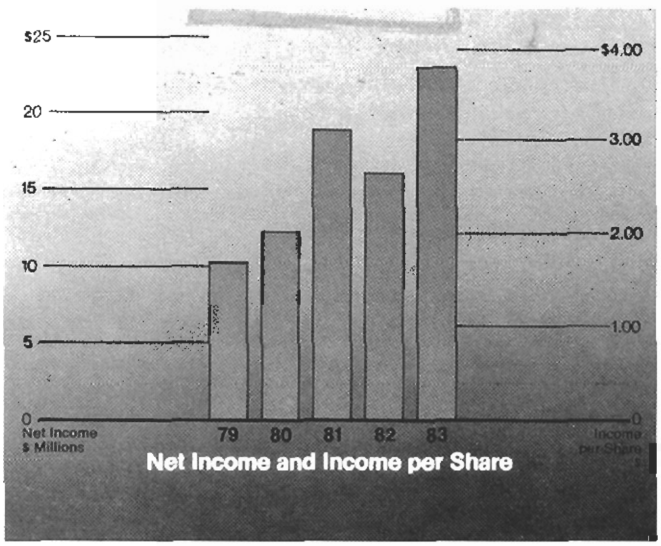
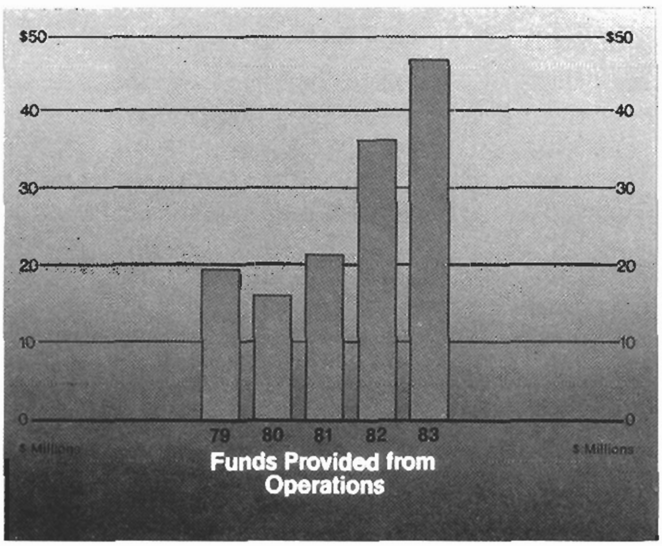
Financial Highlights

	1983	1982
Operating revenue	**$290,257,000**	$214,618,000
Net income	**$ 22,779,000**	$ 16,004,000
Income per average outstanding common share	**$ 3.80**	$ 2.68
Dividends paid per common share—annual rate	**$ 1.32**	$ 1.32
Common equity		
—total at year end	**$ 90,635,000**	$ 72,282,000
—per share	**$ 14.97**	$ 12.12
Total assets	**$279,223,000**	$262,363,000
Capital expenditures	**$ 13,875,000**	$ 40,982,000
Average number of common shares outstanding	**5,992,745**	5,964,110

Note: Accounts of ANGUS Chemical Company have been consolidated since July, 1982.



Net Income and Income per Share



Funds Provided from Operations

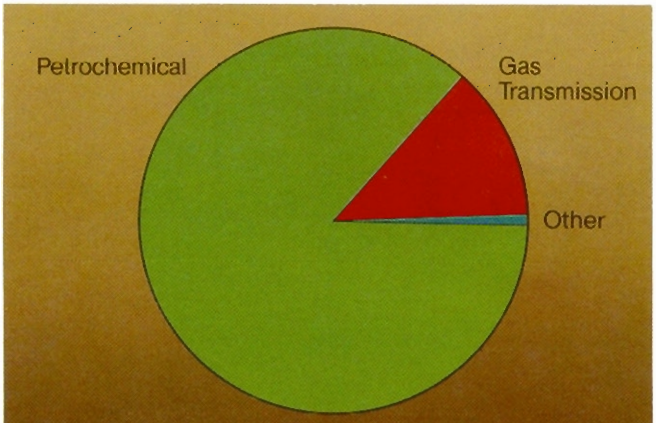
Company Overview

Alberta Natural Gas Company Ltd is a Calgary-based diversified company which has been involved in the transportation of natural gas for over two decades. Alberta Natural owns and operates a pipeline system in southeastern British Columbia and a natural gas extraction plant near Cochrane, Alberta. The Company also has a majority ownership in a nitroparaffins petrochemical operation headquartered in Northbrook, Illinois and has part ownership in a company located in Golden, Colorado which is engaged in enhanced oil recovery. Alberta Natural is owned approximately 50.2% in Canada and 49.3% by Pacific Gas Transmission Company.

Pipeline

Alberta Natural was formed in 1960 as part of the Alberta-California Pipeline Project to transport Canadian natural gas to the northern California market area served by Pacific Gas and Electric Company. The portion of the project owned by Alberta Natural, consists of 172 kilometres (107 miles) of 914 mm (36 inch) pipeline which connects with the pipeline system of Nova, An Alberta Corporation near Coleman, Alberta and with the pipeline facilities of Pacific Gas Transmission Company at the international border near Kingsgate, British Columbia. Pacific Gas Transmission, a subsidiary of Pacific Gas and Electric, transports the gas from the British Columbia/Idaho border to northern California where it enters Pacific Gas and Electric's system. Pacific Gas and Electric is the largest single consumer of Canadian gas in the United States; between 35 and 40% of its gas supply comes from Alberta. In addition to its pipeline operation in British Columbia, Alberta Natural owns 49% of the outstanding capital stock of Foothills Pipe Lines (South B.C.) Ltd and operates Foothills pipeline facilities in British Columbia, which parallel Alberta Natural's main line. Foothills (South B.C.) is one of the Foothills group of companies which own the "pre-build" facilities, which are now transporting Alberta gas and which will eventually be expanded to transport Alaskan gas to United States markets.

Alberta Natural transports natural gas for Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited, and Foothills (South B.C.). Alberta and Southern, an affiliate of Alberta Natural and a wholly-owned subisidiary of Pacific Gas and Electric, purchases natural gas in Canada for export to the northern California market area.



Sources of Operating Income—1983

Liquids Extraction

The Company owns and operates a natural gas liquids extraction plant located near Cochrane, Alberta, which was initially placed in service in 1970, expanded in 1978 and again in 1983. Propane and heavier liquids (NGL) and ethane, are removed from the gas stream passing through the plant. NGL are sold to Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd. for resale in eastern Canada and the midwestern United States. Ethane is sold to The Alberta Gas Ethylene Company Ltd. for production of ethylene at a plant located in Joffre, Alberta.

Petrochemical

In mid-1982, Alberta Natural and Pacific Gas Transmission bought the nitroparaffins division of International Minerals & Chemical Corporation and formed ANGUS Chemical Company. ANGUS Chemical is headquartered in Northbrook, Illinois with plants in Sterlington, Louisiana, and Ibbenbueren, West Germany. The company is owned 56% by Alberta Natural, 42% by Pacific Gas Transmission and 2% by certain key management employees. The nitroparaffins and derivatives are sold throughout the world for use in pharmaceuticals, paints, coatings, explosives and many other products.

Alberta Natural also has a 20% interest in ANGUS Petrotech Corporation, a subsidiary of Pacific Gas Transmission, which is headquartered in Golden, Colorado. ANGUS Petrotech is engaged in the acquisition and development of oil properties where production may be enhanced by the application of various types of recovery technology that is currently being developed.

Alberta-California Pipeline System

- NOVA, an Alberta Corporation
- Alberta Natural Gas Company Ltd
- Pacific Gas Transmission Company
- Pacific Gas and Electric Company

Location of Company Operations

- ANG Head Office
- ANGUS Chemical Facilities and Distribution Points

To Our Shareholders

Harry Booth
Chairman of the Board and Chief Executive Officer

J. E. Goudie
President

Your Directors are pleased to announce that Alberta Natural achieved record results in 1983. Consolidated net earnings amounted to $22,779,000, which is equivalent to $3.80 per average outstanding common share. This represents a 42% increase over comparable earnings per share of $2.68 attained in 1982. This significant increase is primarily attributable to the operation of the expanded ethane facilities at the Cochrane plant, higher earnings from ANGUS Chemical Company and from the effect of reduced taxes created both by an investment tax credit and a lower overall corporate income tax rate.

During the year your Company reviewed its goals and objectives for the future, with the aim of maintaining financial strength and achieving profitable sustained growth. Possible areas of new investment are being examined as well as opportunities for new activity within the scope of our existing operations and those of our subsidiary company.

To that end, Alberta Natural and its affiliate, Pacific Gas Transmission Company, agreed early in 1983 to restructure the ownership of ANGUS Petrotech Corporation. This change allowed Pacific Gas Transmission to optimize United States tax benefits and at the same time opened up a possible new area of diversification for your Company. ANGUS Petrotech, formed to engage in enhanced recovery of oil from partially depleted oil properties, initially operated as a wholly-owned subsidiary of ANGUS Chemical Company. Alberta Natural now owns 20% of the common shares of ANGUS Petrotech, the remaining 80% is owned by Pacific Gas Transmission. Any enhanced oil recovery projects undertaken in Canada will be carried out directly by Alberta Natural.

Alberta Natural maintains a close working relationship with the various levels of government and regulatory bodies affecting our industry. In recent years your Company, along with many others in the industry, has become concerned about the increasing and onerous levels of regulatory controls governing the operations of the pipeline sector of the energy industry.

In 1983, the National Energy Board requested industry to participate in a review of the NEB Act, its regulations, and sections of the NEB Rules of Practice and Procedure. Alberta Natural, along with other pipeline companies, responded by providing specific comments on the proposed Regulation of Tolls and Tariffs, proposed Construction Costs, Toll Reporting Regulations and the proposed NEB Rules of Procedure. We hope that the industry's suggestions will result in some easing of regulatory burdens.

In September, 1983, the Federal Department of Energy, Mines and Resources released a Task Force Report on pipeline construction costs. In the report a number of causes were identified which contribute to increases in construction costs. Delays in project timing, delays during construction, construction resource constraints during periods of high construction activity, labor relations problems, and inadequate cost control incentives were all cited as contributory factors. A number of recommendations were made to reduce cost increases and were directed at the National Energy Board, industry and various levels of government. Alberta Natural is reviewing the recommendations and will provide comments as appropriate.

In retrospect, 1983 was a very difficult year for most companies in the natural gas industry. Specifically, sales of natural gas by Alberta and Southern Gas Co. Ltd., your Company's affiliate and major transmission customer, continued to be affected by reduced demand in the California market and by the fact that the higher priced Canadian natural gas is not competitive with the less expensive indigenous United States supply.

In response to United States concerns with respect to the price of Canadian natural gas, the Federal Minister of Energy, Mines and Resources announced in the spring of 1983 that the export price would be reduced from $4.94 U.S. to $4.40 U.S. per MMbtu. This action was taken because of falling oil prices and to honour the Canadian/United States agreement to adjust the export price of natural gas to reflect changing world oil prices.

To further ease the problem, and in order to preserve and potentially increase Canada's share of the United States gas market, the Minister announced in July, 1983, the implementation of a Volume Related Incentive Price (VRIP) scheme for exporters of natural gas to the United States. Under VRIP, Canadian exporters are able to sell gas, in excess of an established base level, at an incentive price of $3.40 U.S. per MMbtu.

In the summer of 1983, the Alberta Energy Resources Conservation Board (ERCB) approved the construction of three field ethane extraction plants in northern Alberta. These facilities are not expected to have a significant impact on our Cochrane operation as they will, to a large extent, process volumes of natural gas that will not pass by the plant.

The Canadian natural gas industry continues to face the future with little immediate growth prospects. While the North American economy is strengthening, consumer conservation, pricing, and technological advances continue to dampen the demand for natural gas. Despite this situation your Company's strong asset base and healthy cash flow leaves it well positioned for further diversification and expansion in the future. With the advent of the strengthening economy, the chemical industry continues to recover from the recent recession. It is expected that ANGUS Chemical's earnings will continue to provide a positive contribution to Alberta Natural's earnings.

Following the Annual Meeting of the Company in April, 1983, Harry Booth was appointed Chairman of the Board and Chief Executive Officer and John E. Goudie was appointed President. Ross A. MacKimmie had held the position of Chairman of the Board since December, 1970. Mr. MacKimmie's contributions as Chairman during the years of Alberta Natural's expansion and growth are very much appreciated. He will continue to serve on the Board, as a Director.

Other appointments following the Annual Meeting included F. Garrick Homer as Secretary and Assistant to the Chairman of the Board, Anne Kenney as Assistant Secretary and Patricia M. Mahoney as Assistant Treasurer. In August, 1983, David A. Sharp was appointed Vice-President, Operations and George R. Walsh was appointed Vice-President. In December, 1983, H. Barry Sanderson was appointed Vice-President and Treasurer.

The Board of Directors takes this opportunity to again acknowledge, with sincere appreciation, the contributions of the competent and dedicated employees who serve Alberta Natural and its associated companies.

For the Board of Directors

H. Booth

Chairman of the Board
and Chief Executive Officer

J. E. Goudie

President

March 7, 1984

Review of Operations

D. R. Fenton
Executive Vice-President

Petrochemical

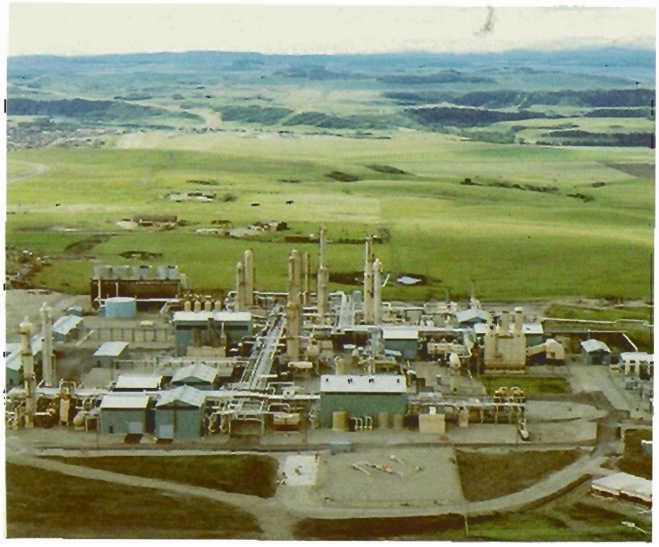
Cochrane Plant

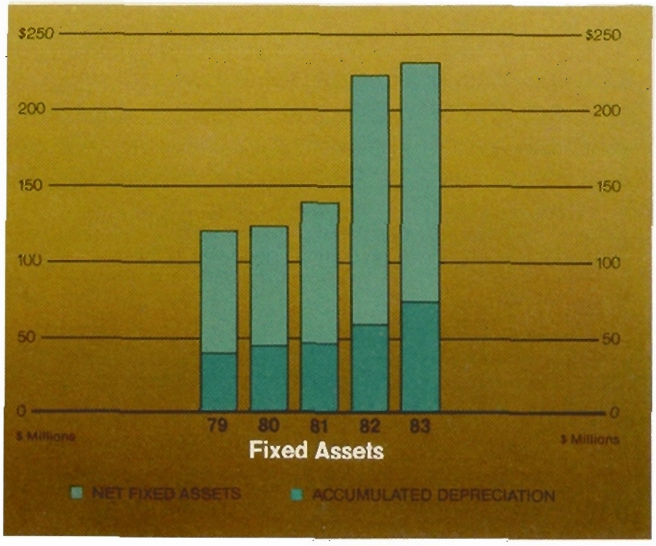
The second expansion of the Cochrane plant for the extraction of ethane, undertaken by Alberta Natural in 1981, came on stream in March, 1983. Construction consisted of the addition of two new turbo-expander trains to increase the efficiency of the ethane recovery system. The expansion increased ethane production capacity from 4 000 to 6 800 m³ (25,000 to 43,000 barrels) per day. A new carbon-dioxide (CO_2) removal unit, which purifies the ethane by reducing CO_2 to specification levels, was also installed. A process which removes contaminants from the CO_2 effluent remains to be completed during 1984. The cost of the expansion, including the CO_2 facility, is expected to be $67 million, approximately 10% below budget. While gas flows through the expanded plant have not been sufficient to test the capacity performance, current production levels indicate that the plant is capable of meeting the design specifications.

The plant was shut down on two separate occasions during the year for a total of 20 days. One shutdown was to connect the new ethane facilities; the other was as a result of a shutdown of Pacific Gas Transmission's pipeline and was utilized to clear work remaining from the construction phase.

During 1983, an average of 3 920 m³ (24,780 barrels) per day of ethane was produced, representing a 30% increase over the 1982 rate. Ethane produced at the plant is sold to The Alberta Gas Ethylene Company Ltd. to be used principally as a feed stock for its ethylene plant at Joffre, Alberta. Ethane surplus to ethylene plant requirements is sold in the eastern United States.

The second expansion of the Cochrane plant increased average daily production capacity from 25 000 to 43,000 barrels per day of ethane





Production of NGL in 1983 of approximately 1 630 m³ (10,270 barrels) per day reflects a decrease of 17% from 1982. Factors contributing to this decrease were lower gas flows experienced during the year as well as a decrease in the propane content of the feed gas. The volumes flowing through the plant continued to reflect the lower demand for Canadian natural gas in the California market. A negotiated reduction in the minimum contract quantity for gas sold by Alberta and Southern to Pacific Gas Transmission for the California market is expected to reduce the volume of gas flowing through the Cochrane plant by as much as 20% during 1984. Natural gas liquids produced at the plant are sold to Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd. and are then transported by pipeline to Sarnia, Ontario where they are fractionated into propane, butane and heavier hydrocarbon components.

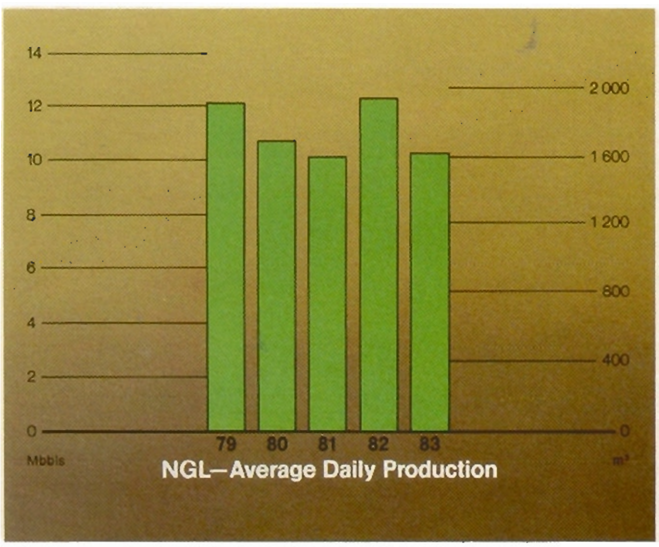
Capital expenditures for plant operations during 1983 amounted to approximately $10,862,000. Projected expenditures for 1984 will be approx imately $500,000, for minor additions to plant.

ANGUS Chemical Company

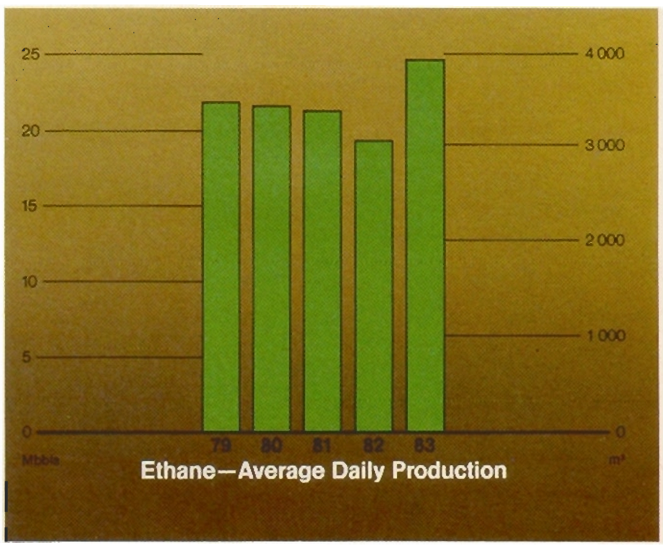
In 1982, Alberta Natural and its affiliate Pacific Gas Transmission purchased the nitroparaffins division of International Minerals & Chemical Corporation, continuing operations under the name ANGUS Chemical Company. ANGUS Chemical produces nitroparaffins and nitroparaffin derivatives which are utilized in the pharmaceutical, construction, metal working, water treatment and petroleum production industries. Production capacity is about 90 million pounds per year of basic chemicals and 25 million pounds of derivative chemicals. ANGUS Chemical's earnings in 1983 were significantly higher than the previous year and the outlook for 1984 remains promising.

Factors contributing to the 1983 earnings increase were a favorable mix of sales of basic nitroparaffins and nitroparaffin derivatives, and continued stability of feedstock costs. The Sterlington, Louisiana basic nitroparaffins plant operated at 65% of capacity. Chemical derivative production at plants in Sterlington and at Ibbenbueren, West Germany was at or near capacity. ANGUS Chemical recently announced plans for expansion of its amino derivative production facilities at both locations, which will increase capacity by 25%, and is scheduled to be completed early in 1984.

Currently ANGUS Chemical is the only commercial-scale producer of nitroparaffins and their derivatives in the world. Although a new nitroparaffins manufacturer is expected in 1984, ANGUS Chemical is taking additional steps to enhance its future growth and profitability and to strengthen and diversify its operations.



NGL—Average Daily Production



Ethane—Average Daily Production

During 1983 ANGUS Chemical disposed of its Comsol explosives business segment which was no longer compatible with the overall production marketing mix. Results in 1983 reflect a provision for loss on the disposal.

In 1983 ANGUS Chemical also developed plans for a fine chemicals venture with Isochem S.A. of France, a well established French specialty chemical manufacturer. ANGUS Chemical has formed a new subsidiary, ANGUS Chemical (U.K.) Ltd., in which Isochem presently has a 20% ownership interest. A new £8 million ($14.5 million Canadian) specialty chemical manufacturing facility is to be constructed in Clwyd County, Wales. Subject to planning approval, construction is scheduled to begin in April or May of 1984, with the first phase to be ready to operate 12 months later. The new plant will produce low volume, high value-added organic intermediates used in the manufacture of finished pharmaceutical and agricultural products.

ANGUS Petrotech Corporation

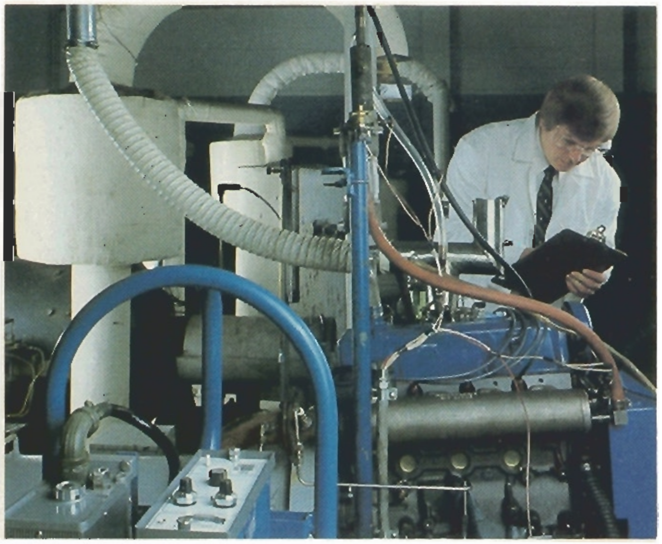
ANGUS Petrotech was incorporated in 1982 to test and develop United States oil properties where additional oil production might be achieved utilizing enhanced oil recovery techniques. To date, ANGUS Petrotech has acquired a 100% working interest in three Kern County, California steam injection projects where steam is injected to recover additional volumes of oil and is near final agreement to acquire a fourth. Construction of all essential facilities was completed and steam injection in the initial project was begun in late December. 1983. In the second project, steam injection on a pilot basis commenced in September, 1983, and full-scale steam injection is expected to commence in March, 1984. ANGUS Petrotech expects to devote approximately two years to pilot programs in the third steam project in order to design the proper steam stimulation and sand control systems.

In addition to its Kern County activities, ANGUS Petrotech has evaluated a substantial number of polymer waterflood and alkaline-polymer waterflood candidate properties, with prospects in Texas, Colorado and Wyoming under consideration.

Through December, 1983, ANGUS Petrotech's capital spending has totaled approximately $12 million (U.S.) on the above mentioned projects. It is expected that capital spending on these and other projects will increase to approximately $21 million (U.S.) for 1984. ANGUS Petrotech is owned 20% by Alberta Natural and 80% by Pacific Gas Transmission.

Nitroparaffin derivatives are manufactured at Ibbenbueren and are shipped worldwide.

ANGUS Chemical maintains ongoing research and development programs aimed at evaluating and improving products.

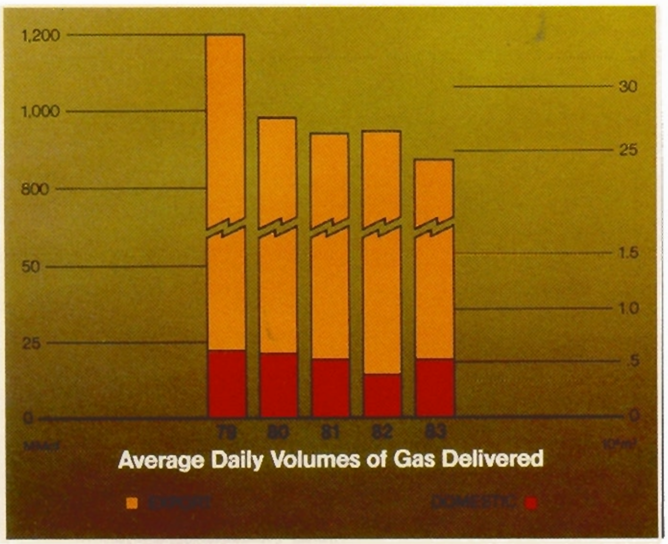


Pipeline Operations

During the year 1983, natural gas deliveries to the United States on behalf of Alberta and Southern, Westcoast Transmission and Foothills (South B.C.) averaged approximately 24.12 10^6m^3 (852 MMcf) per day, a decline from 26.24 10^6m^3 (926 MMcf) per day for the twelve months of 1982. Off-line deliveries to British Columbia consumers averaged approximately .54 10^6m^3 (19 MMcf) per day.

To maintain a consistent level of transmission service, Alberta Natural undertook three major improvements during the year. The measurement telemetry system was upgraded at the Kingsgate metering station, where the California-bound gas crosses the border into the United States. The new equipment improves the accuracy of the measurement signals transmitting continuous volume information to Spokane gas control and assists in the monitoring of daily nominations of gas through the Kingsgate meter station. In addition, telemetry systems to transmit gas movement measurement data at the Sparwood and Cranbrook sales taps were installed.

In August, an electronic pipeline device, which is used to detect variances in the symmetry of the pipeline profile, was run through the line and revealed the existence of some irregularities in the pipeline wall. These areas were completely exposed, cut out and replaced with new sections of pipe.



To protect the pipeline from the attack of external corrosion by electrolytic elements in the earth surrounding the line, additional cathodic protection facilities were installed at Station 1 at Crowsnest, the Morrisey pressure limiting station, and at the Kingsgate meter station.

Capital expenditures for the pipeline system in 1983 amounted to $714,000. Approximately $1.2 million is expected to be expended in 1984 on a number of small projects in order to maintain the dependability of transmission service.

Regulatory Affairs

As a result of the decline in interest and inflation rates that occurred in Canada during the latter half of 1982 and in early 1983, the National Energy Board found it necessary to review rates of return previously awarded to companies in Canada under its jurisdiction, including Alberta Natural. Consequently, in June, 1983 the Board issued an Order amending the rate of return Alberta Natural is allowed to earn on its pipeline rate base, reducing the rate from 13.30% to 11.69% effective July 1, 1983. The change in rate had a minor effect on net earnings in 1983.

Safety

The Canadian Gas Processors Association presented Alberta Natural with its award for 11 consecutive years without lost time due to injury. We are very proud of the Cochrane plant personnel for maintaining this safety standard, particularly during the ethane expansion construction phase.

Plant operating personnel also received an annual award presented by Alberta Workers' Health Safety and Compensation board for no lost time injuries during 1983.

An award was presented from the Canadian Gas Association to both the plant and pipeline division for their safe driving record during 1983, as well as for no lost time due to injury during 1983.

Financial Review

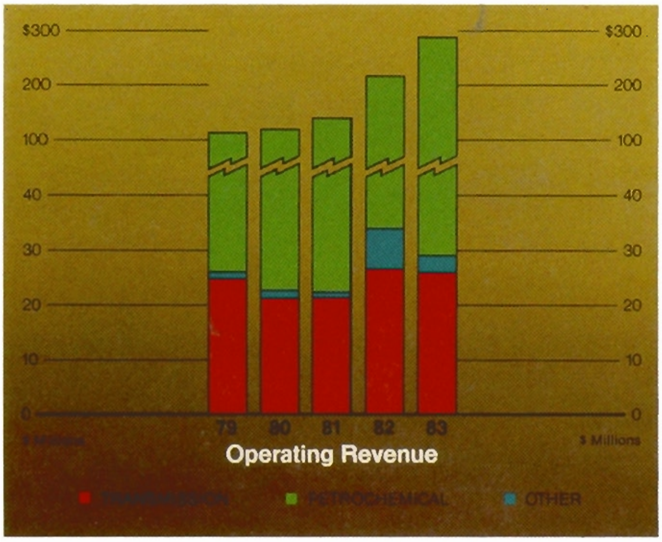
Earnings in 1983 amounted to $3.80 per average outstanding common share as compared with $2.68 in 1982, an increase of $1.12. The consolidated net income of Alberta Natural increased 42% to $22,779,000 for the year, from $16,004,000 in 1982.

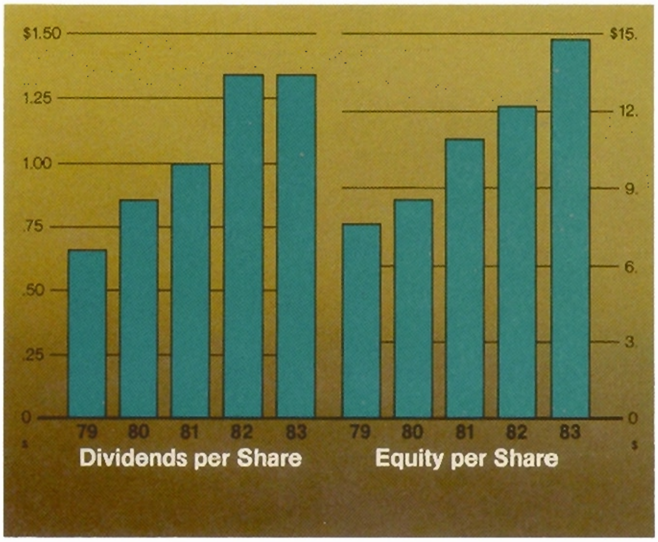
A significant portion of Alberta Natural's increase in net income resulted from the completion, in the spring of 1983, of the Cochrane plant ethane expansion. This contribution results largely from receiving a return on the completed facility at a rate higher than rates used in capitalizing an allowance for funds used during construction in 1982. In addition, the completion of the expansion earned an investment tax credit which has been applied to reduce the 1983 provision for income taxes. The provision for income taxes also reflects a lower overall corporate tax rate.

Another major factor contributing to the 1983 earnings increase reflects the favorable operating results of ANGUS Chemical. Factors contributing to ANGUS Chemical's earnings increase were a favorable mix of sales of both basic nitroparaffins and nitroparaffin derivatives, as well as continued stability of feedstock costs.

Effective with the quarterly payment in March, 1984, the annual rate of dividends paid on the Company's common shares was increased to $1.68 per share from $1.32 per share.

The Board of Directors, at their March 7, 1984 meeting, resolved to recommend to the shareholders of the Company that the outstanding common shares of Alberta Natural be split on a three-for-one basis. It is believed that this action would result in a broader and more diversified market for the Company's common shares. The shareholders will be asked to approve this recommendation at the Annual Meeting on April 27, 1984. The split would have no effect on any shareholders' proportionate equity in the Company.





Report of Management

The accompanying consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles, and, where appropriate, include amounts based on estimates and judgments. Other financial information included in the Annual Report is consistent with that in the financial statements.

Management has established and maintains appropriate systems of internal control, policies and procedures which are designed to meet its responsibility for reliable and accurate reporting. These systems of control include periodic reviews by the internal audit function.

Arthur Andersen & Co., independent auditors appointed by the shareholders, have reviewed the systems of internal control and examined the consolidated financial statements in accordance with generally accepted auditing standards, to enable them to express an opinion on the fairness of the statements. Their report is included herewith.

Through its appointed Audit Committee, the Board of Directors oversees management's responsibilities for financial reporting. The Audit Committee meets annually with management, the internal auditors and the independent auditors to review auditing and financial matters. Internal and external auditors have free access to the Audit Committee. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

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, 1983 and 1982, and the related consolidated statements of income, reinvested earnings, contributed surplus and changes in financial position for the years then ended. Our examinations were 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, 1983 and 1982, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
February 8, 1984

Arthur Andersen & Co.
Chartered Accountants

Alberta Natural Gas Company Ltd

Consolidated Balance Sheet

December 31, 1983
(with 1982 figures for comparison)

Assets

	1983	1982
	(thousands of dollars)	
Plant, Property and Equipment (Note 1)	**$232,912**	$221,750
Less accumulated depreciation	**72,860**	57,908
Net plant, property and equipment	**160,052**	163,842
Current Assets:		
Cash and interest bearing deposits	**24,084**	12,733
Accounts receivable	**50,835**	46,555
Inventories	**18,680**	21,641
Other	**481**	574
Total current assets	**94,080**	81,503
Investments and Advances (Note 2)	**22,920**	16,413
Deferred Charges (Note 3)	**2,171**	605
TOTAL	**$279,223**	$262,363

Approved by the Board:

Director John A. Sproul

Director H Booth

See accompanying summary of accounting policies and notes.

Shareholders' Equity and Liabilities

	1983	1982
	(thousands of dollars)	
Shareholders' Equity (Note 4):		
Capital stock:		
6,054,210 common shares (1982—5,964,110)	**$ 14,092**	$ 11,928
Contributed surplus	**2,877**	2,386
Reinvested earnings	**73,835**	58,988
Cumulative translation adjustment	**(169)**	(1,020)
Total shareholders' equity	**90,635**	72,282
Minority Interest	**32,164**	28,596
Long Term Debt (Note 5)	**28,571**	29,751
Deferred Income Taxes	**40,116**	34,521
Current Liabilities:		
Notes payable:		
Affiliated companies	**24,000**	14,000
Other	**30,687**	55,102
Accounts payable	**20,819**	19,951
Income taxes payable	**7,069**	4,725
Interest accrued	**1,047**	1,116
Sinking fund instalments due within one year	**1,975**	1,623
Other	**2,036**	592
Total current liabilities	**87,633**	97,109
Contributions in Aid of Construction	**104**	104
TOTAL	**$279,223**	$262,363

Alberta Natural Gas Company Ltd

Consolidated Statement of Income

For the Year Ended December 31, 1983
(with 1982 figures for comparison)

	1983	1982
	(thousands of dollars)	
Operating Revenue:		
Transportation of gas	**$ 26,115**	$ 26,763
Petrochemical	**261,118**	180,542
Other	**3,024**	7,313
Total operating revenue	**290,257**	214,618
Operating Expenses:		
Operating and maintenance	**183,245**	128,978
Selling, administrative and research	**18,695**	13,050
Depreciation	**16,142**	9,836
Taxes—excise	**20,279**	29,669
—property and other	**3,645**	3,488
Total operating expenses	**242,006**	185,021
Operating Income	**48,251**	29,597
Other Income:		
Equity earnings	**739**	1,669
Other (Net)	**153**	6,788
Total other income	**892**	8,457
Income Before Income Deductions	**49,143**	38,054
Income Deductions:		
Interest on long term debt	**2,331**	2,324
Interest on other debt	**5,836**	5,700
Other	**49**	49
Total income deductions	**8,216**	8,073
Income Before Income Taxes	**40,927**	29,981
Provision for Income Taxes (Note 6)	**15,320**	13,477
	25,607	16,504
Minority Interest	**2,828**	500
Net Income	**$ 22,779**	$ 16,004
Earnings Per Average Common Share	**$ 3.80**	$ 2.68

See accompanying summary of accounting policies and notes.

Alberta Natural Gas Company Ltd

Consolidated Statement of Reinvested Earnings

For the Year Ended December 31, 1983
(with 1982 figures for comparison)

	1983	1982
	(thousands of dollars)	
Balance at Beginning of the Year	**$58,988**	$50,857
Net Income	**22,779**	16,004
	81,767	66,861
Dividends Paid on Common Shares	**7,932**	7,873
Balance at End of the Year	**$73,835**	$58,988

Consolidated Statement of Contributed Surplus

For the Year Ended December 31, 1983
(with 1982 figures for comparison)

	1983	1982
	(thousands of dollars)	
Balance at Beginning of the Year	**$ 2,386**	$ 2,386
Surplus Arising on Transfer of Subsidiary Within Affiliated Group	**601**	–
Purchase and Cancellation of Common Stock	**(110)**	–
Balance at End of the Year	**$ 2,877**	$ 2,386

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, 1983
(with 1982 figures for comparison)

	1983	1982
	(thousands of dollars)	
Funds Provided:		
From operations:		
Net income	**$22,779**	$ 16,004
Add (deduct) non-cash items:		
Depreciation	**16,142**	9,836
Provision for deferred income taxes	**5,570**	11,565
Equity earnings	**(739)**	(1,669)
Other income deductions	**49**	49
Minority interest	**2,828**	500
	46,629	36,285
Sale of ANGUS Petrotech	**1,678**	—
Recovery of Alaska Highway Pipeline Project costs	**—**	3,400
Foothills Pipe Lines (South B.C.) Ltd.		
—dividends	**1,764**	2,303
—share redemption	**1,568**	—
Capital stock issued	**2,172**	—
Other	**71**	383
Effect of exchange rate changes on working capital	**601**	(524)
Total	**$54,483**	$ 41,847
Funds Applied:		
Change in working capital—increase (decrease)	**$22,053**	$(16,222)
Net additions to plant, property and equipment	**11,925**	40,960
Dividends	**7,932**	7,873
Reduction of long term debt	**1,375**	2,373
Other investments and advances	**9,466**	6,587
Deferred charges—increase (decrease)	**1,614**	(338)
Capital stock repurchased	**118**	—
Net working capital applied to acquire subsidiary	**—**	614
Total	**$54,483**	$ 41,847
Changes in Working Capital Components:		
Cash and interest bearing deposits	**$11,351**	$ 12,662
Accounts receivable	**4,280**	24,027
Inventories	**(2,961)**	20,091
Other	**(93)**	338
Notes payable	**14,415**	(56,019)
Accounts payable	**(868)**	(11,313)
Income taxes payable	**(2,344)**	(4,725)
Interest accrued	**69**	(691)
Sinking fund instalments due within one year	**(352)**	—
Other	**(1,444)**	(592)
Change in working capital—increase (decrease)	**$22,053**	$(16,222)

See accompanying summary of accounting policies and notes.

Alberta Natural Gas Company Ltd

Summary of Accounting Policies

December 31, 1983

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. In addition Alberta Natural 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 56%-owned U.S. subsidiary ANGUS Chemical Company (effective July 1, 1982).

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, and at December 31, 1983 are recorded in Alberta Natural's accounts at the current rate of exchange. This represents a prospective change in accounting policy. At December 31, 1982 the principal amount of the Series A Bonds was recorded in Alberta Natural's accounts on the basis of the two currencies being equal in value. As provided by the gas transportation contract, Alberta Natural receives from the gas shippers in substitution for Canadian dollars sufficient U.S. dollars to make the annual principal and interest payments on the Series A Bonds (under the original terms of the Deed of Mortgage and Trust) and accordingly the company is protected against foreign currency fluctuations with respect to this Series. The principal amount of the Series B Bonds was 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 6.8%) 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 4.2% in 1994.

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., and for its 20% investment in ANGUS Petrotech Corporation.

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 liquids extraction income which is subject to cost of service contracts. Income taxes will be provided on this source of income only to the extent that taxes are included in costs of service under such contracts.

Unamortized Debt Expense:

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, 1983

(Tabular amounts shown in thousands of dollars)

1. Plant, Property and Equipment:

	1983	1982
Gas transmission	**$ 60,546**	$ 60,030
Petrochemical	**171,736**	107,810
	232,282	167,840
Under construction	**630**	53,910
	232,912	221,750
Less accumulated depreciation	**72,860**	57,908
Net plant, property and equipment	**$160,052**	$163,842

During 1983, an allowance for funds used during construction of $1,459.000 (1982, $5,783,000) has been capitalized and included in other income.

2. Investments and Advances:

	1983	1982
Foothills Pipe Lines (South B.C.) Ltd.	**$ 7,653**	$ 9,656
Foothills Pipe Lines (Yukon) Ltd. (preferred shares at cost)	**3,329**	3,400
ANGUS Petrotech Corporation	**8,543**	–
Other	**3,395**	3,357
	$22,920	$16,413

3. Deferred Charges:

	1983	1982
Unamortized translation adjustment	**$1,350**	$ –
Unamortized debt expense	**305**	345
Unamortized organization and capital stock expense	**74**	83
Other	**442**	177
	$2,171	$605

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 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 and on 29,400 shares at a price of $22.65. During 1983 all of the options were exercised in the amount of $2,172,000. Of this amount, $2,077,000 is included in accounts receivable. A total of 4,100 common shares were repurchased by the Company at market price in accordance with the provisions of the Plan, reducing capital stock by $8,000.

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, 1983 $3,082,000 otherwise available for dividends was restricted in this manner.

5. Long Term Debt:

	Year Issued	Maturity	**1983**	1982
First mortgage pipe line bonds:				
6⅛% Series A ($2,717,000 U.S.)	1961	1986	**$ 3,381**	$ 3,804
9⅛% Series B ($4,000,000 U.S.)	1969/70	1991	**4,978**	4,828
8⅞% Series C	1971	1992	**6,000**	6,750
Revenue bonds 6¾% ($13,008,000 U.S.)	1978/79	2004/08	**16,187**	15,992
			30,546	31,374
Less sinking fund instalments due within one year			**1,975**	1,623
Total			**$28,571**	$29,751

Sinking fund requirements amount to approximately $1,587,000 (U.S.) and $750,000 (Cdn.) for the years 1984 and 1985, approximately $1,043,000 (U.S.) and $750,000 (Cdn.) in 1986 and approximately $500,000 (U.S.) and $750,000 (Cdn.) in 1987 and 1988. The 1984 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.

The Revenue Bonds are secured by pollution control facilities in Sterlington, Louisiana.

6. Income Taxes:

The provision for income taxes varies from the amount that would be computed by applying current federal and provincial income tax rates for the reasons shown in the following table.

	1983	1982
Income before income taxes & minority interest	**$40,927**	$29,981
Less: Income which is not subject to tax allocation	**5,115**	1,661
Equity earnings	**739**	1,669
Income subject to tax allocation	**$35,073**	$26,651
Expected income tax expense at 47.83% (1982 – 48.11%)	**$16,775**	$12,822
Add (deduct) adjustment to income taxes resulting from:		
Earnings of foreign subsidiary with higher effective tax rate	**579**	622
Manufacturing and processing profits credit	**(1,126)**	–
Investment tax credits	**(1,593)**	–
Provision for withholding taxes on foreign income	**318**	–
Other	**367**	33
Actual income tax provision	**$15,320**	$13,477

7. Segmented Information:

a) Financial information by segment:

1983

	Petrochemical	Pipeline Transport	Other	Total
Operating revenue	**$261,118**	**$26,115**	**$ 3,024**	**$290,257**
Depreciation expense	**$ 12,085**	**$ 4,057**	**$ —**	**$ 16,142**
Operating income	**$ 41,764**	**$ 6,391**	**$ 96**	**$ 48,251**
Total identifiable assets	**$236,747**	**$22,577**	**$19,899**	**$279,223**
Total capital expenditures during the year	**$ 13,161**	**$ 714**	**$ —**	**$ 13,875**

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

b) Financial information by reportable geographic area:

1983

	Domestic	Foreign
Operating revenue	**$191,946**	**$ 98,311**
Operating income	**$ 33,020**	**$ 15,231**
Total identifiable assets	**$177,657**	**$101,566**

1982

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

8. Related Party Transactions:

Alberta Natural is related to Pacific Gas Transmission Company, which company owns 49.253% 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. At December 31, 1982 ANGUS Petrotech Corporation was a wholly owned subsidiary of ANGUS Chemical Company. In 1983 Alberta Natural and Pacific Gas Transmission purchased 20% and 80% respectively of ANGUS Petrotech. Significant transactions with these related companies were as follows:

	1983	1982
(1) Net charges for personnel and related administrative costs from:		
Alberta and Southern	**$ 5,019**	$ 5,760
Pacific Gas Transmission	**161**	148
(2) Charges for liquids extraction feedstock and fuel purchased from Alberta and Southern	**85,574**	67,001
(3) Net charge for transportation of gas to:		
Alberta and Southern	**14,651**	13,504
Foothills (South B.C.) Ltd.	**2,540**	1,934
(4) Amounts outstanding at December 31:		
Payable to:		
Alberta and Southern	**11,898**	7,692
Pacific Gas Transmission	**24,000**	14,000
Receivable from:		
Alberta and Southern	**2,493**	2,296
Foothills (South B.C.) Ltd.	**366**	510
ANGUS Petrotech Corporation	**6,527**	–

9. Commitment:

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 $7,816,000 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. Construction of the proposed office tower has been delayed due to current economic conditions.

Ten Year Comparative Highlights

	1983	1982	1981
Financial and Share Data			
Operating revenue ($000's)	**290,257**	214,618	130,904
Net income ($000's)	**22,779**	16,004	18,800
Earnings per average outstanding common share ($)	**3.80**	2.68	3.15
Common shareholders' equity per outstanding common share ($)	**14.97**	12.12	10.93
Capital provided ($000's)			
Common shareholders' equity—total	**90,635**	72,282	65,171
Long term debt (including current portion)	**30,546**	31,374	17,755
Short term debt	**54,687**	69,102	13,083
Minority interest	**32,164**	28,596	—
Deferred income taxes	**40,116**	34,521	23,209
Average equity outstanding ($000's)	**81,459**	68,727	58,753
Average debt outstanding ($000's)	**92,855**	65,657	25,483
Return on average common shareholders' equity—(%)	**27.96**	23.29	32.00
Cash dividends ($000's)	**7,932**	7,873	5,964
Annual dividend rate per common share ($)—year end	**1.32**	1.32	1.00
Dividend payout ratio (%)	**34.8**	49.2	31.7
Plant			
At year end ($000's)			
original cost	**232,912**	221,750	137,488
depreciated cost	**160,052**	163,842	89,320
Capital expenditures ($000's)	**13,875**	40,982	22,569
Operational			
Daily volume of gas delivered			
average (10^6m^3)	**24.66**	26.64	26.58
(MMcf)	**871**	940	938
maximum (10^6m^3)	**29.79**	31.14	30.88
(MMcf)	**1,051**	1,099	1,090
Daily production (average)			
NGL (m^3)	**1 630**	1 970	1 600
(Bbls)	**10,270**	12,385	10,085
Ethane (m^3)	**3 920**	3 025	3 370
(Bbls)	**24,780**	19,105	21,230

NOTES:

- Accounts of ANGUS Chemical Company have been consolidated since July, 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.

1980	1979	1978	1977	1976	1975	1974
116,135	110,207	62,150	52,387	47,317	41,063	30,940
12,304	10,057	7,271	5,787	5,701	4,563	3,456
2.06	1.69	1.22	97	.96	.77	.58
8.77	7.55	6.45	5.60	4.96	4.31	3.83
52,335	45,040	38,442	33,426	29,601	25,725	22,832
20,128	22,502	24,875	27,249	29,604	31,985	34,821
—	—	11,011	4,999	—	—	—
—	—	—	—	—	—	—
20,475	22,476	18,974	14,118	9,530	8,212	5,686
48,687	41,741	35,934	31,513	27,663	24,278	21,760
21,315	29,194	34,067	30,926	30,794	33,403	36,001
25.27	24.09	20.23	18.36	20.61	18.79	15.88
5,009	3,459	2,255	1,962	1,825	1,670	1,312
.84	.68	.48	.34	.32	.30	.22
40.7	34.4	31.0	33.9	32.0	36.6	38.0
120,921	119,449	114,419	90,503	75,213	75,105	74,183
73,984	78,308	79,112	59,162	47,220	50,456	52,591
1,499	5,073	23,926	15,318	271	946	314
27.82	33.99	30.57	35.13	34.56	33.94	31.95
982	1,200	1,079	1,240	1,220	1,198	1,128
38.04	37.17	36.66	39.77	38.47	37.96	38.78
1,343	1,312	1,294	1,404	1,358	1,340	1,369
1 705	1 930	1 680	1 840	2 020	2 210	2 110
10,730	12,160	10,540	11,600	12,700	13,900	13,300
3 480	3 485	2 630	—	—	—	—
21,800	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
Chairman of the Board
and Chief Executive Officer,
Alberta and Southern Gas Co. Ltd.

D. R. Fenton,
Calgary, Alberta
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

Harry Booth,
Chairman of the Board
and Chief Executive Officer

J. E. Goudie,
President

D. R. Fenton,
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

H. B. Sanderson
Vice-President and Treasurer

D. A. Sharp,
Vice-President,
Operations

G. R. Walsh,
Vice-President

F. G. Homer,
Secretary and Assistant to the
Chairman of the Board

G. J. Clark,
Comptroller

A. Kenney,
Assistant Secretary

P. M. Mahoney,
Assistant Treasurer

*Member of Audit Committee

†Member of Compensation Committee

Corporate Information

Alberta Natural Gas Company Ltd was incorporated under the laws of Canada by a Special Act of Parliament, June 1, 1950. On July 8, 1971, Alberta Natural was continued as a Company under Part I of the Canada Corporations Act and on May 14, 1979, was further continued as a Corporation under the Canada Business Corporations Act.

Corporate Office

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

Subsidiary Company

ANGUS Chemical Company
Northbrook, Illinois

Subsidiary Company Executives

R. E. Secrist,
Chairman and Chief Executive Officer

O. W. Chandler,
President and Chief Operating Officer

R. B. Kayser,
Executive Vice President

Stock Exchange Listings

Common shares are listed for trading on the Alberta, Montreal, Toronto and Vancouver Stock Exchanges, and trade under the symbol ANG.

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)

1983

	High	Low	Close	Shares Traded	Dividends Paid
First Quarter	$25.50	$22.75	$25.50	40,362	$0.33
Second Quarter	27.50	24.75	25.00	78,700	0.33
Third Quarter	25.75	25.00	25.50	21,779	0.33
Fourth Quarter	29.00	21.75	26.00	58,952	0.33
Year	**29.00**	**21.75**	**26.00**	**199,793**	**1.32**
1982	$27.50	$21.25	$22.50	230,765	$1.32

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1983 Annual Report