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Alberta Natural Gas Company Ltd

1984 Annual Report

Corporate Mission Statement

In seeking to maintain and improve its financial strength and to achieve profitable sustained growth, the Company has adopted a program for expansion and diversification intended to minimize its dependence on the processing and transporting of natural gas dedicated to the Alberta California gas export project. Growth and development are to be achieved within the framework of the following principles:

- ☐ Further investment in the Company's traditional areas;
- ☐ Possible investment in other energy related areas;
- ☐ Potential investment (and to a lesser extent) in marginally related or unrelated business areas.

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Annual Meeting

The Annual Meeting of Shareholders will be held in the Bonavista Room, Westin Hotel, Calgary, Alberta on Friday the 26th day of April, 1985 at 9:30 a.m.

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

About the Cover

Two employees at Alberta Natural's Cochrane liquids extraction plant prepare to inspect the plant's cathodic protection controls which guard against corrosion of underground piping at the plant.

Financial Highlights

	1984	1983
Operating revenue	**$309,201,000**	$290,257,000
Net income	**24,178,000**	22,779,000
Income per average outstanding common share	**1.32**	1.27
Dividends paid per common share		
– annual rate	**.56**	.44
Common equity		
total at year end	**107,549,000**	90,635,000
per share	**5.90**	4.99
Total assets	**301,044,000**	279,223,000
Capital expenditures	**10,243,000**	13,875,000
Average number of common shares outstanding	**18,254,790**	17,982,677

Common Share Market Information

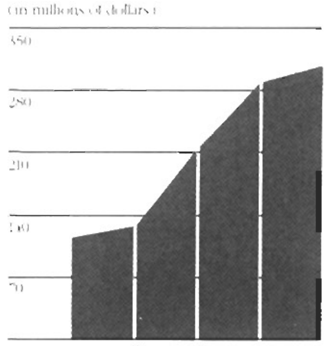
(Toronto Stock Exchange)

	High	Low	Close	Shares Traded	Dividends Paid
1984					
First Quarter	$10.66	$ 8.08	$10.66	361,299	$0.14
Second Quarter	11.75	10.41	10.62	142,457	0.14
Third Quarter	11.37	10.13	11.00	239,140	0.14
Fourth Quarter	14.50	10.75	13.75	815,300	0.14
Year	**14.50**	**8.00**	**13.75**	**1,558,196**	**0.56**
1983	$ 9.67	$ 7.25	$ 8.67	599,379	$0.44

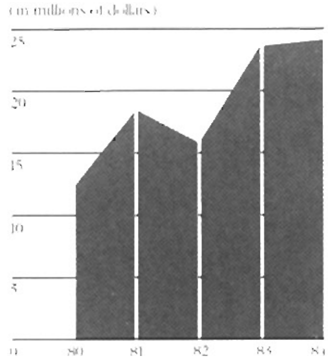
Closing price – Valuation Day, December 22, 1971 $1.33

Note: Share information has been adjusted to give retroactive effect to the three for one stock split on May 18, 1984

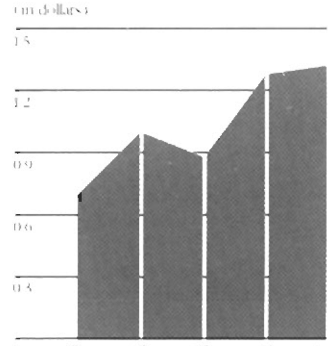
Operating Revenue
(in millions of dollars)



Net Income
(in millions of dollars)



Income per Average Outstanding Common Share
(in dollars)



To Our Shareholders

Your Directors are pleased to report that Alberta Natural achieved very satisfactory results in 1984. Consolidated net earnings amounted to $24,178,000 which is equivalent to $1.32 per average outstanding common share; earnings in 1983 were $1.27 per share. Major factors contributing to the improved results were the record earnings achieved by our 56% owned subsidiary, ANGUS Chemical Company, and the operation of the expanded ethane recovery facilities at the Cochrane extraction plant. These increases were offset, partially, by a decrease in the Company's share of marketing profits on the downstream sale of natural gas liquids.

During the year your Company examined several areas of new investment as well as opportunities for new activity within the scope of its existing operations. In July we announced that the Company and Shell Canada Resources Limited had reached an agreement in principle whereby Alberta Natural would construct, own and operate the 80 km (50 mile) 324 mm (12 inch) pipeline, together with ancillary meter and pressure reduction facilities, which will supply natural gas to Shell's Peace River Expansion Project. The Company has applied to the Alberta Energy Resources Conservation Board for approval to construct this project.

Late in the year the Company determined that the substantial quantities of carbon dioxide (CO_2) which are available at the Cochrane plant could be refined economically to food-grade. Work has now commenced on the construction of the necessary facilities, with completion expected late in the year. Your Company is continuing to identify and investigate other areas of potential investment opportunity with a view to expanding its operations and enhancing profitability.

In response to United States concerns with respect to the price of Canadian natural gas, the Canadian Government, in July, 1984, announced a change in the natural gas export pricing policy under which the sales price for natural gas exports from Canada is set. This change was indeed a welcome one for Alberta and Southern Gas Co. Ltd., your Company's affiliate and major transmission customer. Alberta and Southern's exports had been drastically affected by reduced demand for Canadian gas in the California market because the then higher priced Canadian natural gas was not competitive with the less expensive indigenous United States supply.

The change in policy enabled Alberta and Southern to negotiate a new export price with Pacific Gas Transmission Company. Approval of the new price and other corollary contractual changes was obtained from the appropriate Canadian and United States regulatory authorities, and the new arrangements were placed in effect on November 1, 1984. As a result of these changes, Alberta Natural should experience increased gas flows through its pipeline. With these higher gas flows will come a resultant increase in the production of NGL and ethane at the Cochrane plant.

ANGUS Chemical Company's plant located at Sterlington, Louisiana.

Harry Booth, Chairman of the Board and Chief Executive Officer

To Our Shareholders (continued)

During the year, the National Energy Board, in response to two separate applications by Alberta Natural, authorized increased rates of return on transmission rate base from 11.69% to 12.63% and from 12.63% to 12.81%, respectively.

Your Directors are pleased with the performance of our subsidiary and affiliated companies. In addition to achieving record earnings, ANGUS Chemical Company has taken steps to expand its operations. Under a joint venture arrangement with Isochem S.A. of France, a new plant is being constructed in Ringaskiddy, County Cork, Ireland by ANGUS Fine Chemicals Ltd. (owned 80% by ANGUS Chemical), and is scheduled for completion in the fall of 1985. This new facility will manufacture fine chemicals which will be sold primarily to the pharmaceutical and agricultural industries in western Europe. ANGUS Petroleum Corporation, owned 20% by Alberta Natural and 80% by our affiliate, Pacific Gas Transmission Company, has established itself in the enhanced oil recovery business. Activities to date have been concentrated on steam flood operations in the Kern County area of California.

Your Company remains confident about the future, given the rationalized gas pricing policy discussed above which will enable increased production of liquids at the Cochrane plant. The continuing strong economy in the United States bodes well for ANGUS Chemical's operations. With its strong asset base and healthy cash flow, your Company is well positioned to take advantage of opportunities for diversification and expansion that may present themselves and are deemed to be in our best interests to pursue.

Following the Annual Meeting of the Company in April 1984, the number of directors was increased from eleven to twelve and Dallas E. Hawkins, Chairman of the Board of Oakwood Petroleums Ltd., was appointed to the Board. In December 1984, Donald McMorland was appointed Senior Vice-President, Elmer Mychaluk was appointed Vice-President, Business Development, Gordon T. Noland was appointed Vice-President, Corporate Planning and David A. Sharp was appointed Vice-President, Operations and Engineering.

The Board of Directors takes this opportunity to again acknowledge, with sincere appreciation, the loyalty and dedication of our employees and their continued contribution to the successful operations of the Company in 1984.

For the Board of Directors

H.R. Booth

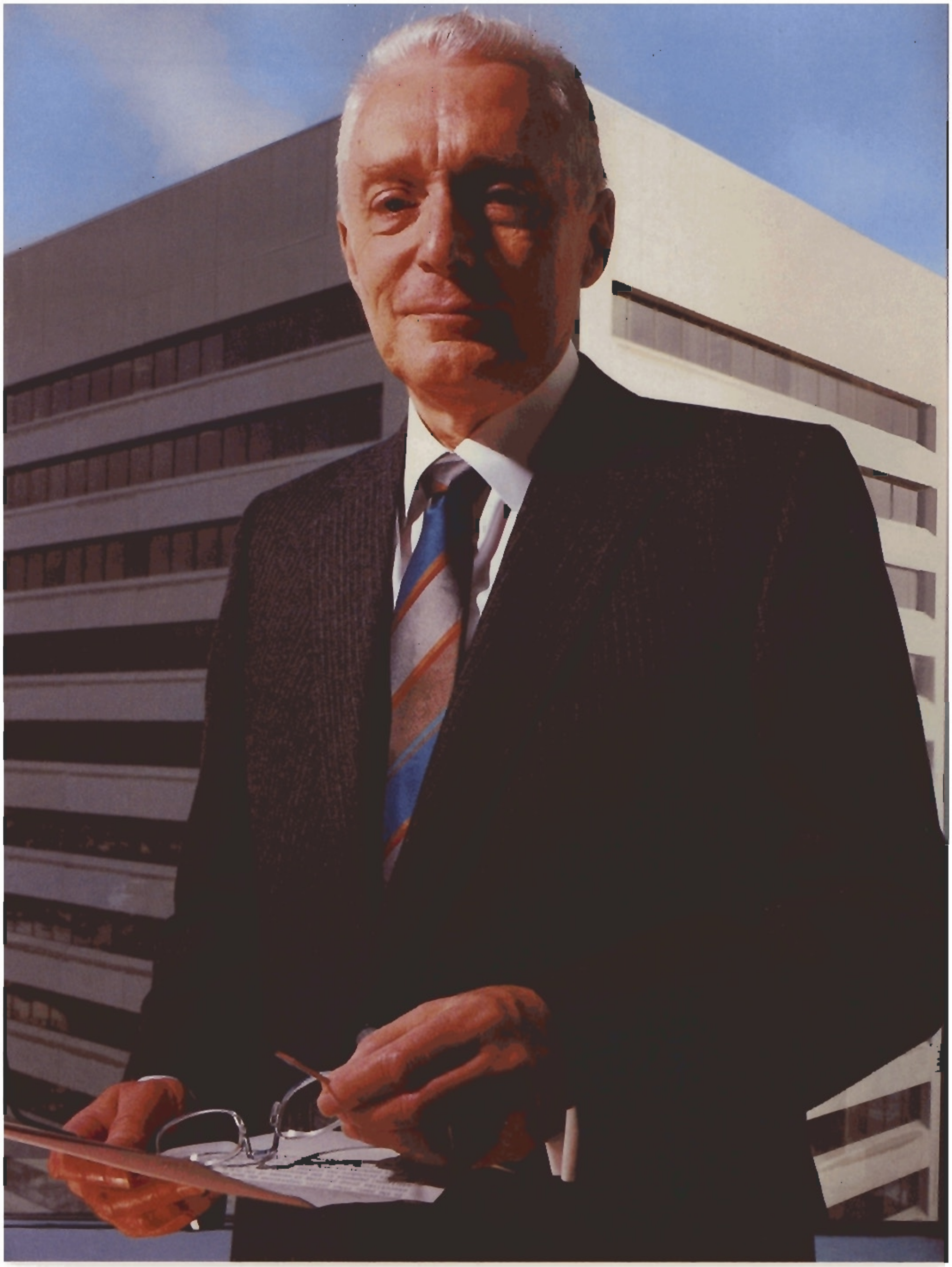
Chairman of the Board
and Chief Executive Officer

J. S. Goudie

President

March 6, 1985

Alberta Natural has applied for a permit to construct a natural gas pipeline through Alberta's rugged Peace River district, to supply Shell Canada Resources Limited for its Peace River Expansion Project.



John F. Cade, President

Review of Operations

Petrochemical

Cochrane Plant

Last year in conjunction with the second expansion of the Cochrane plant, a new carbon dioxide (CO_2) removal unit, which purifies the ethane by reducing CO_2 to specification levels, was installed. By the end of July, 1984, at a capital cost of $1.4 million, additional equipment which removes hydrogen sulphide (H_2S) contaminates from the CO_2 was also installed. This 'Lo-Cat' process is the first of its kind in Canada, and reflects Alberta Natural's commitment to the operation of the plant in a manner which has negligible impact on the environment. A liquid iron solution removes the H_2S from the CO_2 vapors, converting it to elemental sulphur, which is removed in solid form.

The Company is now proceeding to construct a food-grade CO_2 liquefaction facility at the plant site, to take advantage of the existing large market for CO_2 in Alberta for carbonated beverages and for oil and gas well stimulation. It is also expected that there will be a market for significant quantities of CO_2 as a miscible flood agent for enhanced oil recovery ventures. Construction of the 170 tons per day plant is expected to cost approximately $3.5 million and to be operational by late 1985.

The plant was shut down in August, 1984 for a scheduled tie-in of a section of upgraded pipe on the pipeline system of Nova, An Alberta Corporation, in the Crowsnest Pass area of Alberta. This was the only complete shutdown of the Cochrane plant during 1984 and lasted less than a day. During the period of the low spring summer inlet feed gas rates, extensive preventive maintenance inspections were carried out with no lost production. The Company is proud to recognize the efforts of the operating and maintenance personnel at the plant, who have achieved this excellent operating record.

Feed gas volumes for 1984 averaged approximately 18.40 10^6m^3 (653 Mmcf) per day compared with 19.02 10^6m^3 (675 Mmcf) per day in 1983. Gas throughput for the first ten months of 1984 was 13% less than for the same period of 1983. However, the gas flow was 50% higher during the last two months in 1984 than for the same period of 1983, with a major factor being the previously mentioned change in Canadian natural gas pricing policy. December's throughput of 27.977 10^6m^3 (1,064 Mmcf) per day was a record for the plant.

An employee at Alberta Natural's Cochrane liquids extraction plant is dwarfed by large diameter pipes carrying natural gas.

Douglas R. Fenton, Executive Vice President

Cochrane Plant (continued)

During 1984, an average of 4 310 m^3 (27,270 barrels) per day of ethane was produced, a 10% increase over the 1983 rate of 3 920 m^3 (24,780 barrels) per day. Ethane produced at the plant is sold to The Alberta Gas Ethylene Company Ltd. to be used principally as feedstock for its ethylene plants at Joffre, Alberta. At the request of the buyer, due to a combination of low demand and high feedstock cost, approximately 30% of the daily ethane production was re-injected into the residue gas stream during the last two months of 1984. Because of cost of service arrangements in our ethane contract with Alberta Gas Ethylene, re-injection has no negative financial impact on Alberta Natural.

Production of natural gas liquids (NGL) in 1984 amounted to 1 625 m^3 (10,230 barrels) per day compared with 1 630 m^3 (10,270 barrels) per day in 1983. Because of the increased flow through the plant, a record high daily NGL production of 3 141 m^3 (19,716 barrels) was reached on December 18.

Capital expenditures for plant operations amounted to $3,183,000 during 1984. Projected expenditures for 1985 will be approximately $3.8 million, which includes the CO_2 liquefaction plant.

ANGUS Chemical Company

Alberta Natural's 56% owned subsidiary achieved record earnings during 1984, reflecting an improved mix of nitroparaffins sales. Key markets remained strong throughout the year, while prices and feedstock costs remained stable.

The company completed expansion of its amino derivative production facilities at both the Sterlington, Louisiana and Ibbenbueren, West Germany, sites.

Construction was begun in 1984 of an $11.2 million (U.S.) plant in the Republic of Ireland for the production of fine chemicals and pharmaceutical intermediates. The plant, a joint venture with Isochem S.A. of France, is expected to be on stream in the fourth quarter of 1985. It will produce low volume, high value added chemical intermediates used in the manufacture of pharmaceutical and agricultural products. The plant will also produce the sweetener aspartame for sale in Europe and other overseas markets. The venture is ANGUS's first diversification outside its core nitroparaffin business.

Two demethanizers dwarf a portion of Alberta Natural's Cochrane liquids extraction plant which houses the two turbo-expander trains, an integral part of the plant's recent major expansion

Final inspection of the Lo-Cat sulphur removal facility prior to its commissioning following the Cochrane liquids extraction plant expansion

ANGUS Chemical Company (continued)

In January 1985, ANGUS Chemical announced that it, along with Alberta Natural, Pacific Gas Transmission Company and another potential investor, had submitted a proposal to acquire the NutraSweet® aspartame sweetener business of G. D. Searle & Co.

The proposed acquisition would provide an opportunity to fully develop the aspartame production technology that ANGUS Fine Chemicals will use at its plant in Ireland.

At the time of the preparation of this report, the outcome of the offer to Searle was not known.

ANGUS Petroleum Corporation

In spite of decreasing world oil prices, an attractive market exists in the United States for oil produced from partially-depleted reservoirs through Enhanced Oil Recovery (EOR) projects. Alberta Natural's 20% owned affiliate, ANGUS Petroleum, has been developing oil reserves with EOR methods since 1983. These reserves now total 4.3 million barrels.

At the beginning of 1984, ANGUS Petroleum owned a 100% working interest in three enhanced oil recovery properties in Kern County, California. The Kern River property, acquired in January 1983, was in full operation by March of 1984. Cyclic steam injection began in mid-January and continued through June. Steam drive was started in September and will continue indefinitely. Production response, due primarily to the cyclic steaming, has been significantly better than expected for 1984. The Midway-Sunset property, acquired in May 1983, has not shown an adequate production response from cyclic steaming. Efforts are under way to sell the property or to explore alternate stimulation methods with a joint venture partner. The Blackwells Corner property, acquired in November 1983, was the subject of extensive laboratory and mineralogical work in 1984. ANGUS Petroleum plans to conduct a waterflood pilot there in 1985.

During 1984, ANGUS Petroleum acquired two steam flood properties in Kern County, two alkaline-polymer pilot properties in Zapata County, Texas, and a portion of a waterflood property in Orange County, California. At year end, development of one of the new steam flood properties in Kern County was essentially complete. Development of the other awaits completion of steam cogeneration units, electrical connections and other equipment. Steam injection in one property started in January, 1985. Steam injection is expected to begin in the second property in the spring or early summer of 1985 after the cogeneration units are operating. The alkaline-polymer projects in Zapata County will undergo laboratory and engineering evaluation during 1985. Under the terms of acquisition, ANGUS Petroleum must either proceed with a pilot program or abandon each property by a specified date. Development work for a waterflood will begin in the first of these projects during April of 1985. Complete ownership of the Orange County waterflood property has not yet been accomplished. ANGUS Petroleum plans to complete acquisition of the interests which it does not now own and begin preliminary development by the end of 1985.

Official sod turning and site dedication ceremony for the new fine chemicals facility being constructed by ANGUS Fine Chemicals Ltd. at Ringaskiddy, County Cork, Ireland.

A wide variety of products are manufactured from the nitroparaffins produced by ANGUS Chemical Company.

Pipeline Operations

For the year 1984, natural gas deliveries to the United States on behalf of the shippers, Alberta and Southern, Westcoast Transmission Company Limited and Pan-Alberta Gas Ltd. averaged 23.17 10^6m^3 (818 Mmcf) per day, a decline from 24.12 10^6m^3 (852 Mmcf) per day for 1983. A notable increase in flows was experienced during the last two months of 1984, when average rates of flow were 128.9 10^6m^3 (1,025 Mmcf) per day. Off-line deliveries to British Columbia consumers averaged .52 10^6m^3 (18 Mmcf) per day.

Improvements to the pipeline, by means of upgrading existing equipment, were carried out during the year. Operating personnel took advantage of low flows to continue their maintenance program to maintain the reliability and efficiency of the pipeline system when gas flows increase. The sound-proofing of all the above ground piping, and the installation of programmable process controllers were the major improvements at the Crowsnest compressor station. The replacement of mainline valve operators and the replacement of an air filtration unit and installation of a low flow aerodynamic assembly at Compressor Station 2B accounted for the other major capital expenditures. Electronic measurement equipment was installed at the international border meter station at Kingsgate. In addition to improved accuracy, this equipment can provide instantaneous readings of flow rates or accumulated volumes, which is not available with traditional chart-type meters.

Total capital expenditures for the pipeline system in 1984 amounted to $857,000. Approximately $1.5 million is expected to be expended in 1985 on a number of small projects which are a continuation of the Company's commitment to upgrade the system to keep pace with technological change.

Alberta Natural has applied to the Alberta Energy Resources Conservation Board for the pipeline permit necessary to construct the natural gas pipeline which will supply natural gas to Shell Canada Resources Limited for its Peace River Expansion Project. The pipeline, which Alberta Natural will own and operate, will cost approximately $13 million and is expected to be completed by the fall of 1986. The project has been expanded to include a gas distribution point for the water pumping station at the Peace River and now includes the meter station at the Nova mainline, the 80 km (50 mile) 324 mm (12 inch) pipeline, the major pipeline crossing of the Peace River, and pressure reduction stations at the Peace River and at the plant site.

Senior Electrical Technician Michael J Ondrus monitors the compressor alarm panel at Alberta Natural's Compressor Station 1 in the Crowsnest Pass

The Alberta Natural maintenance base at Cranbrook, British Columbia provides major maintenance and repair facilities for all operations in southeastern British Columbia.

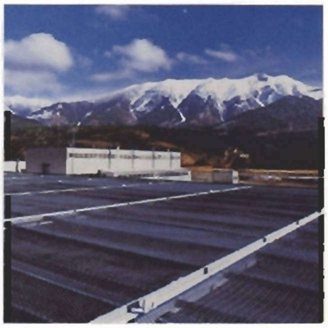
Regulatory Developments

1984 has seen dramatic changes in the regulation of the natural gas industry in both Canada and the United States. Certain decisions affected Alberta Natural directly, while others were of an indirect nature as they affected Alberta Natural's transportation customers.

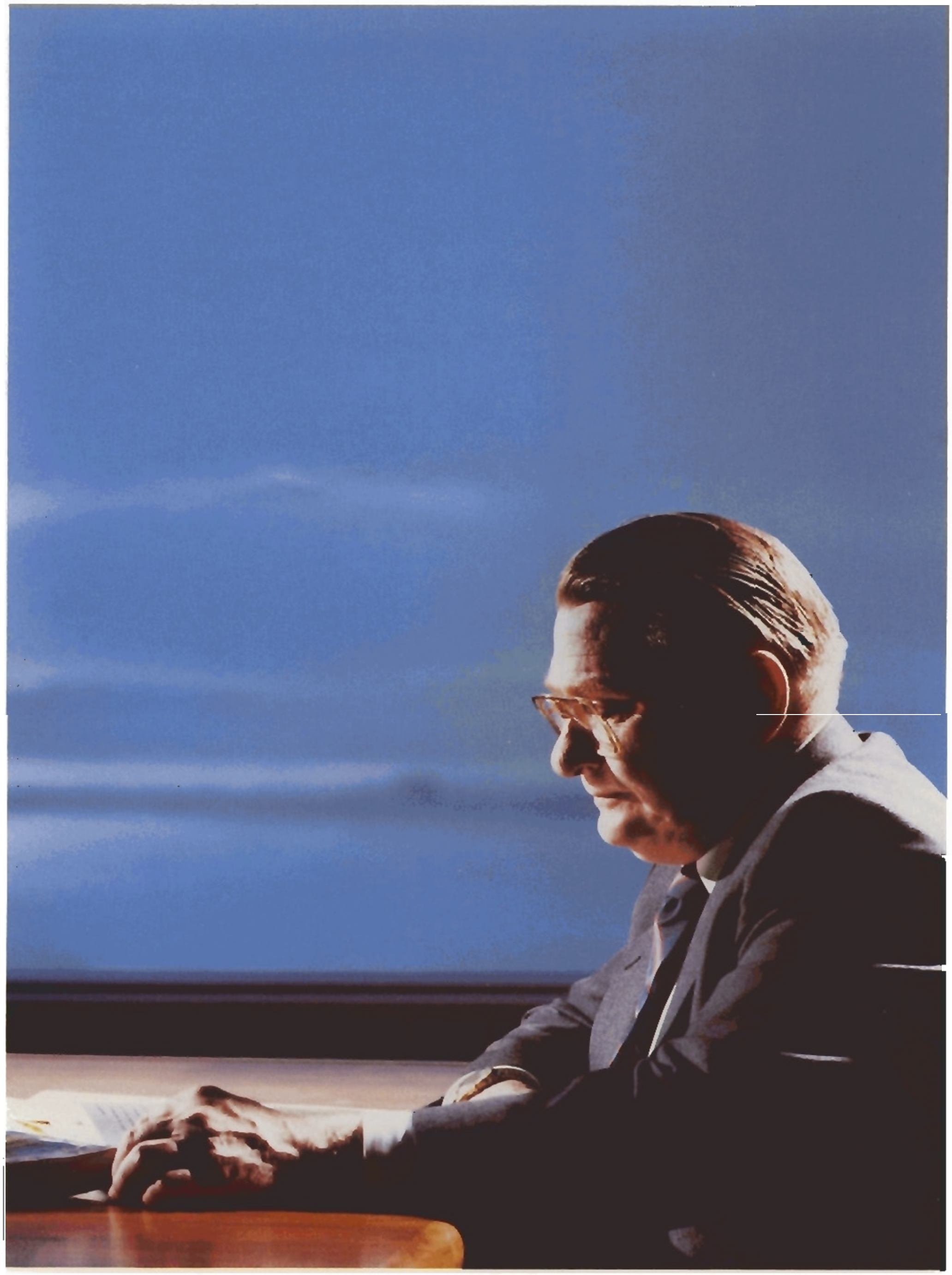
Alberta Natural applied for and received National Energy Board (NEB) approval to increase the cost rate allowed on long term debt. The approved increase raised Alberta Natural's rate of return on rate base from 11.69% to 12.63% effective July 1, 1984. Alberta Natural subsequently applied for NEB approval to increase the allowed rate of return on common equity. Approval was received for an increase in the return on equity from 14.5% to 15%, effective December 13, 1984. This subsequent decision had the effect of further increasing the rate of return on rate base to 12.81%.

The NEB commenced hearings into the method of regulation of Westcoast Transmission and TransCanada PipeLines Limited in 1984. Your Company has intervened in these hearings to keep abreast of developments which could subsequently affect Alberta Natural.

The NEB, in January 1983, issued a decision which authorized additional export volumes of natural gas for a large number of applicants including your Company's affiliate, Alberta and Southern. The NEB, as part of its decision, required each exporter to obtain United States import approval by January 31, 1984. Alberta and Southern applied for and received a one year extension until January 31, 1985, of the condition contained in the export licences issued in 1984, which requires the Canadian exporter to demonstrate that United States import approval for the authorized exports has been received. Pacific Gas Transmission has applied for and received United States Economic Regulatory Administration (ERA) approval to import these volumes subject to Pacific Gas Transmission demonstrating that volumes to be imported are priced competitively for sale into the Pacific Gas and Electric Company market. On January 3, 1985, Alberta and Southern requested final approval of these licences based on the ERA approval which Pacific Gas Transmission had received. The NEB gave final approval of these licences on January 21, 1985. Pacific Gas Transmission is now seeking final approval from the ERA. The ERA has issued a procedural order to provide interested parties an opportunity for additional comment and to request additional procedures.



Alberta Natural's Crowsnest Pass compressor station develops 40,000 horsepower from three compressors



Don McMorland, Senior Vice President of Alberta Natural, is responsible for representing and advising the Company on all regulatory matters.

Regulatory Developments (continued)

In early 1984, the Canadian Government and the producing provinces of Alberta and British Columbia established a Federal Provincial Task Force to examine the export markets for Canadian gas with the intention of recommending possible changes to the export price. By establishing the Task Force, the governments involved recognized the pressing need to act in order to retain the existing natural gas export markets. During the past few years, the Federal Government established prices for Canadian gas which were not competitive in most United States markets, resulting in a decline in exports of natural gas to those markets. Exporting companies, including Alberta and Southern, outlined to the Task Force the market conditions in their respective export markets and made recommendations to retain Canada's share of these traditional markets.

As a result of these discussions, the Canadian Federal Government announced a new export pricing policy on July 13, 1984. This policy enabled Canadian natural gas exporting companies to negotiate export prices with their United States customers for implementation as early as November 1, 1984. These freely negotiated prices were required to meet certain government policy criteria.

Alberta Natural's major transportation customer, Alberta and Southern, was able to renegotiate the export price for its existing export contract. In Alberta and Southern's agreement with Pacific Gas Transmission, Canadian gas is priced competitively with Pacific Gas and Electric's other major supplier, El Paso Natural Gas Company. The agreement provides for Pacific Gas and Electric to purchase Canadian gas from Pacific Gas Transmission on an equitable annual equivalent percentage basis with El Paso, provided the price remains competitive. The new export price became effective November 1, 1984 and export volumes for Alberta and Southern have increased since it went into effect.

The increased export sales through Kingsgate have increased the throughput in the Alberta Natural pipeline and as a result have also increased the amount of natural gas available for ethane and NGL extraction at the Cochrane plant.

Members of the Gas Supply department reviewing well logs to determine the extent of suppliers' reservoirs, in order to determine deliverability of gas contracts. From left to right, Syed M. Hasan, Chief Geologist, Don McMorland, Senior Vice-President, George R. Walsh, Vice President, Gerry M. Malin, Chief Engineer.

Portion of the Meter Station complex located near Kingsgate, British Columbia – the final Canadian point in the export of natural gas to United States markets.

Safety

The Cochrane plant received three major awards for recognition of twelve consecutive years without lost time due to injury. These awards were received from the Canadian Gas Processors Association, the Alberta Workers' Health Safety and Compensation Board and the Canadian Gas Association. The plant maintains a rigorous, ongoing, safety training program. This year, since completion of a plant fire simulation area, our employees have also become more proficient in the use of the latest fire fighting equipment.

The pipeline division has now achieved three consecutive years without a lost-time injury, and in recognition of this, has received an award from the Canadian Gas Association.

Both the plant and pipeline divisions also received awards from the Canadian Gas Association for their safe driving records during 1984.

The annual Safety Awards ceremony at Alberta Natural's Cochrane liquids extraction plant this year marked 12 accident free years.

Senior Maintenance employee, Jack Gjoko at Compressor Station 1, is qualified in emergency first aid, as are all Alberta Natural employees.

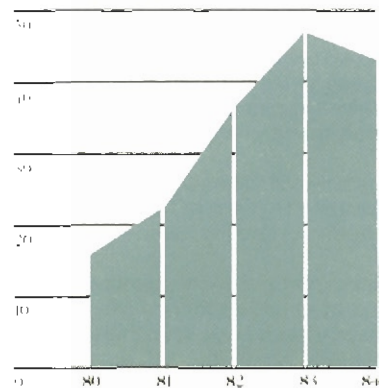
Financial Review

The consolidated net income of Alberta Natural for 1984 was $24,178,000 or $1.32 per average outstanding common share. In 1983, consolidated net income was $22,779,000, or $1.27 per average outstanding common share. The 1983 earnings per share are adjusted to reflect the three for one stock split effective in May, 1984.

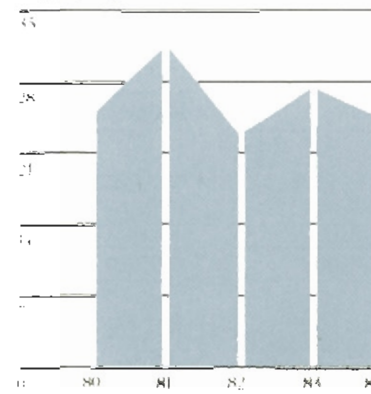
The major factors contributing to the increase in earnings in 1984 were the record operating results of our 56% owned subsidiary, ANGUS Chemical Company, and the increased revenues derived from our expanded ethane recovery facilities at the Cochrane plant. Earnings resulting from Alberta Natural's share of the profits on the downstream sale of NGL's by Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd., were reduced from last year. Contributing factors were reduced sales of NGL's due to the milder weather conditions in the market area and a corresponding softening in the sales price of the product.

The annual dividend rate paid on the Company's common shares was increased to 56¢ per share from 44¢ per share, effective with the March, 1984 quarterly dividend payment, and was further increased to 60¢ per share, effective with the quarterly payment in March, 1985.

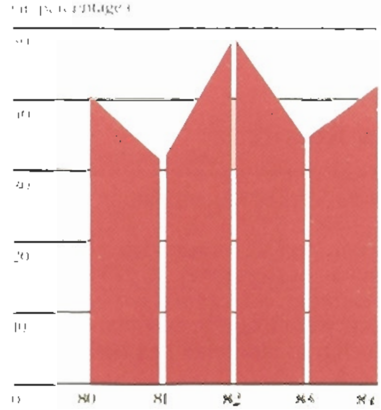
Funds Provided from Operations
(in millions of dollars)



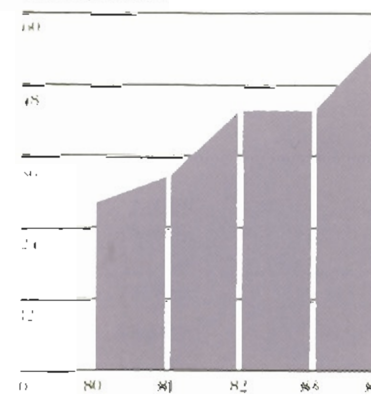
Return on Average Common Shareholders' Equity
(in percentages)



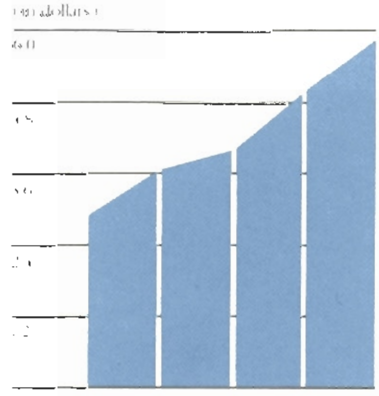
Dividend Payout Ratio
(in percentages)



Annual Dividend Rate per Common Share
(stated in dollars)



Common Shareholders' Equity per Average Outstanding Common Share
(in dollars)



Report of Management

The accompanying consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. These financial statements, prepared on an historic cost basis, are in accordance with generally accepted accounting principles in Canada and are also in conformity with International Accounting Standards with respect to historic cost. Where appropriate, amounts based on estimates and judgments are included. 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, 1984 and 1983, 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, 1984 and 1983, 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 1, 1985.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Consolidated Statement of Income

For the year ended December 31, 1984
(with 1983 figures for comparison)

(thousands of dollars)	1984	1983
Operating Revenue:		
Petrochemical	$269,930	$261,118
Transportation of gas	22,721	26,115
Other	16,550	3,024
Total operating revenue	309,201	290,257
Operating Expenses:		
Operating and maintenance	204,501	183,245
Selling, administrative and research	24,583	19,791
Depreciation	16,261	16,142
Taxes — excise	7,029	20,279
property and other	4,166	3,645
Total operating expenses	256,540	243,102
Operating Income	52,661	47,155
Other Income:		
Equity earnings	237	739
Other	3,748	1,249
Total other income	3,985	1,988
Income Before Income Deductions	56,646	49,143
Income Deductions:		
Interest on long term debt	2,222	2,331
Interest on other debt	5,468	5,836
Other	49	49
Total income deductions	7,739	8,216
Income Before Income Taxes	48,907	40,927
Provision for Income Taxes	18,481	15,320
	30,426	25,607
Minority Interest	6,248	2,828
Net Income	$ 24,178	$ 22,779
Earnings Per Average Common Share	$ 1.32	$ 1.27

See accompanying summary of significant accounting policies and notes.

Consolidated Balance Sheet

December 31, 1984
(with 1983 figures for comparison)

Assets

(thousands of dollars)	1984	1983
Plant, Property and Equipment	**$245,878**	$232,912
Less accumulated depreciation	**89,639**	72,860
Net plant, property and equipment	**156,239**	160,052
Current Assets:		
Cash and interest bearing deposits	**49,097**	24,084
Accounts and notes receivable	**51,061**	50,835
Inventories	**22,618**	18,680
Other	**1,133**	481
Total current assets	**123,909**	94,080
Investments and Advances	**18,294**	22,920
Deferred Charges	**2,602**	2,171
Total	**$301,044**	$279,223

Approved by the Board:

H Booth Director   John A. Sproul Director

Shareholders' Equity and Liabilities

(thousands of dollars)	1984	1983
Shareholders' Equity:		
Capital stock:		
18,236,130 common shares (1983 — 18,162,630)	**$ 15,076**	$ 14,092
Contributed surplus	**2,169**	2,877
Reinvested earnings	**87,779**	73,835
Cumulative translation adjustment	**2,525**	(169)
Total shareholders' equity	**107,549**	90,635
Minority Interest	**39,917**	32,164
Long Term Debt	**29,882**	28,571
Deferred Income Taxes	**36,882**	40,116
Current Liabilities:		
Notes payable:		
Affiliated companies	—	24,000
Other	**45,787**	30,687
Accounts payable	**26,349**	20,819
Income taxes payable	**7,638**	7,069
Other	**6,936**	5,058
Total current liabilities	**86,710**	87,633
Contributions in Aid of Construction	**104**	104
Total	**$301,044**	$279,223

See accompanying summary of significant accounting policies and notes.

Consolidated Statement of Reinvested Earnings

For the year ended December 31, 1984
(with 1983 figures for comparison)

(thousands of dollars)	1984	1983
Balance at Beginning of the Year	**$73,835**	$58,988
Net Income	**24,178**	22,779
	98,013	81,767
Dividends Paid on Common Shares	**10,234**	7,932
Balance at End of the Year	**$87,779**	$73,835

Consolidated Statement of Contributed Surplus

For the year ended December 31, 1984
(with 1983 figures for comparison)

(thousands of dollars)	1984	1983
Balance at Beginning of the Year	**$ 2,877**	$ 2,386
Surplus Arising on Transfer of Subsidiary Within Affiliated Group	**—**	601
Purchase and Cancellation of Common Stock	**(708)**	(110)
Balance at End of the Year	**$ 2,169**	$ 2,877

See accompanying summary of significant accounting policies and notes.

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1984
(with 1983 figures for comparison)

(thousands of dollars)	1984	1983
Funds Provided:		
From operations:		
Net income	$24,178	$22,779
Add (deduct) non cash items:		
Depreciation	16,261	16,142
Provision for deferred income taxes	(3,341)	5,570
Equity earnings	(237)	(739)
Other income deductions	49	19
Minority interest	6,248	2,828
	43,158	46,629
Sale of ANGUS Petroleum	—	1,678
Foothills Pipe Lines (South B.C.) Ltd.		
– dividends	867	1,764
– share redemption	—	1,568
Capital stock issued	1,033	2,372
Other investments and advances – decrease (increase)	4,355	(9,166)
Effect of exchange rate changes on working capital	3,218	601
Total	$52,631	$44,946
Funds Applied:		
Net additions to plant, property and equipment	$10,218	$11,925
Dividends to		
– shareholders	10,234	7,932
– minority shareholders of subsidiary	595	
Long term debt – decrease (increase)	(388)	2,373
Deferred charges	409	264
Capital stock repurchased	757	118
Other	54	281
Change in working capital	30,752	22,053
Total	$52,631	$44,946
Changes in Working Capital Components:		
Cash and interest bearing deposits	$25,013	$11,351
Accounts and notes receivable	226	1,280
Inventories	3,938	(2,961)
Notes payable	8,900	14,415
Accounts payable	(5,530)	(868)
Income taxes payable	(569)	(2,344)
Other	(1,226)	(1,820)
Change in working capital – increase (decrease)	$30,752	$22,053

See accompanying summary of significant accounting policies and notes

Summary of Significant Accounting Policies

December 31, 1984

Operations:

Alberta Natural owns and operates an extraction plant near Cochrane, Alberta which removes propane and heavier liquids (NGL) and ethane from the gas stream. Alberta Natural also 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.

The sale agreements with the purchasers of NGL and ethane and the gas transportation contracts and operating agreement with the gas shippers 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.

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 Petroleum Corporation (formerly ANGUS Petrotech Corporation).

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 are recorded in Alberta Natural's accounts at the current rate of exchange. 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.

Summary of Significant Accounting Policies (continued)

December 31, 1984

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. Any such allowance recorded is included in other income. 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 6.3% decreasing to 4.3% in 1994. Gas transmission plant is being amortized at an annual rate (approximately 6.5%) 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. 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.
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.
Deferred Charges:	Project costs are initially recorded as deferred charges pending evaluation of the projects. Deferred charges applicable to projects which have been terminated are expensed.

Notes to the Consolidated Financial Statements

December 31, 1984
(Tabular amounts shown in thousands of dollars)

1. Plant, Property and Equipment:

	1984	1983
Petrochemical	$180,104	$171,736
Gas transmission	61,220	60,546
Under construction	4,554	630
	245,878	232,912
Less accumulated depreciation	89,639	72,860
Net plant, property and equipment	$156,239	$160,052

During 1984, an allowance for funds used during construction of $38,000 (1983, $1,459,000) has been capitalized and included in other income.

2. Investments and Advances:

	1984	1983
Foothills Pipe Lines (South B.C.) Ltd.	$ 8,085	$ 7,653
Foothills Pipe Lines (Yukon) Ltd. (preferred shares at cost)	3,271	3,329
ANGUS Petroleum Corporation	3,501	8,543
Other	3,437	3,395
	$ 18,294	$ 22,920

3. Shareholders' Equity:

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

The Company issued additional shares of common stock in connection with a three for one stock split to shareholders of record as of May 18, 1984. All per share amounts and quantities of shares have been restated to reflect this stock split.

In accordance with the provisions of a Senior Management Stock Option Plan, 540,000 common shares were reserved for issuance under the Plan. Options have been made available on 194,400 shares at a price of $7.75 per share, 88,200 shares at a price of $7.55 per share and on 132,000 shares at a price of $7.83 per share. To December 31, 1984, all of the options have been exercised in the amount of $3,205,000. Of this amount $2,660,000 is included in accounts receivable. A total of 70,800 common shares were repurchased by the Company at market price in accordance with the provisions of the Plan, reducing capital stock by $57,000.

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, 1984, $3,082,000, otherwise available for dividends, was restricted in this manner.

Notes to the Consolidated Financial Statements (continued)

December 31, 1984
(Tabular amounts shown in thousands of dollars)

4. Long Term Debt:

	Year Issued	Maturity	1984	1983
First mortgage pipe line bonds:				
6⅛% Series A ($1,630,000 U.S.)	1961	1986	$ 2,154	$ 3,381
9⅛% Series B ($3,500,000 U.S.)	1969–70	1991	4,625	4,978
8⅞% Series C	1971	1992	5,250	6,000
Revenue bonds 6⅝% ($13,008,000 U.S.)	1978–79	2004–08	17,189	16,187
Other ($2,090,000 U.S.)			2,761	
			31,979	30,546
Less sinking fund instalments due within one year			2,097	1,975
			$29,882	$28,571

Sinking fund requirements for the next five years are:

	Series A	Series B	Series C	Other
	($U.S.)	($U.S.)	($CDN.)	($U.S.)
1985	1,087	500	750	
1986	543	500	750	
1987	-	500	750	—
1988		500	750	231
1989		500	750	462

The 1985 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.

5. 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.

	1984	1983
Income before income taxes and minority interest	$48,907	$40,927
Less: Income which is not subject to tax allocation	6,166	5,115
Equity earnings	237	739
Income subject to tax allocation	$42,504	$35,073
Expected income tax expense at 48.0% (1983 – 47.83%)	$20,402	$16,775
Add (deduct) adjustment to income taxes resulting from:		
Higher effective tax rate of earnings of foreign subsidiary	—	579
Manufacturing and processing profits credit	(645)	(1,126)
Investment and other tax credits	(1,490)	(1,593)
Provision for withholding taxes on foreign income	302	318
Other	(88)	367
Actual income tax provision	$18,481	$15,320

Notes to the Consolidated Financial Statements (continued)

December 31, 1984
(Tabular amounts shown in thousands of dollars)

6. Segmented Information:

a) Financial information by segment:

	Petro chemical	Pipeline Transport	Other	Total
1984				
Operating revenue	$269,930	$22,721	$16,550	**$309,201**
Depreciation expense	$ 12,319	$ 3,942	$ —	**$ 16,261**
Operating income	$ 47,694	$ 5,676	$ (709)	**$ 52,661**
Total identifiable assets	$253,553	$18,412	$29,079	**$301,044**
Total capital expenditures during the year	$ 9,387	$ 856	$	**$ 10,243**
1983				
Operating revenue	$261,118	$26,115	$ 3,024	$290,257
Depreciation expense	$ 12,085	$ 4,057	$ —	$ 16,142
Operating income	$ 41,764	$ 6,391	$(1,000)	$ 47,155
Total identifiable assets	$236,747	$22,577	$19,899	$279,223
Total capital expenditures during the year	$ 13,161	$ 714	$	$ 13,875

b) Financial information by reportable geographic area:

	Domestic	Foreign
1984		
Operating revenue	**$209,660**	**$ 99,541**
Operating income	**$ 29,476**	**$ 23,185**
Total identifiable assets	**$175,563**	**$125,481**
1983		
Operating revenue	$191,946	$ 98,311
Operating income	$ 31,924	$ 15,231
Total identifiable assets	$177,657	$101,566

(Tabular amounts shown in thousands of dollars)

7. Related Party Transactions:

Alberta and Southern Gas Co. Ltd. and Pacific Gas Transmission Company are subsidiaries of Pacific Gas and Electric Company. Pacific Gas Transmission Company in turn owned 49.05% of the outstanding capital stock of Alberta Natural Gas Company Ltd at December 31, 1984. Alberta Natural owns 49% of the outstanding capital stock of Foothills Pipe Lines (South B.C.) Ltd., 56% of ANGUS Chemical Company and 20% of ANGUS Petroleum Corporation. Significant transactions with these related companies were as follows:

		1984	1983
(1)	Net charges for personnel and related administrative costs from:		
	Alberta and Southern	**$ 5,941**	$ 5,019
	Pacific Gas Transmission	**266**	161
(2)	Charges for liquids extraction feedstock and fuel purchased from:		
	Alberta and Southern	**96,222**	85,574
(3)	Net charge for transportation of gas to:		
	Alberta and Southern	**13,810**	14,651
	Foothills (South B.C.) Ltd.	**2,640**	2,540
(4)	Interest paid to:		
	Pacific Gas Transmission	**374**	2,469
(5)	Amounts outstanding at December 31		
	Payable to:		
	Alberta and Southern	**11,036**	11,898
	Pacific Gas Transmission	**—**	24,000
	Receivable from:		
	Alberta and Southern	**1,171**	2,493
	Foothills (South B.C.) Ltd.	**264**	366
	ANGUS Petroleum Corporation	**2,660**	6,527

8. 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 $8,293,000 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.

9. Other Matters:

Alberta Natural, along with other investors has submitted a proposal to G.D. Searle & Co., to acquire Searle's NutraSweet* sweetener business.

The capital requirements for this potential investment would be substantial and consequently Alberta Natural's share would have to come primarily from externally generated funds. As of March 4, 1985, the outcome of this proposal is not known. If this proposal should go forward, the financing would be arranged so as not to be detrimental to the maintenance of Alberta Natural's sound financial condition.

Ten Year Comparative Highlights

	1984	1983
Financial and Share Data		
Operating revenue ($000's)	**309,201**	290,257
Net income ($000's)	**24,178**	22,779
Earnings per average outstanding common share ($)	**1.32**	1.27
Common shareholders' equity per average outstanding common share ($)	**5.90**	4.99
Capital provided ($000's)		
Common shareholders' equity — total	**107,549**	90,635
Long term debt (including current portion)	**31,979**	30,546
Short term debt	**45,787**	54,687
Minority interest	**39,917**	32,164
Deferred income taxes	**36,882**	40,116
Average equity outstanding ($000's)	**99,092**	81,459
Average debt outstanding ($000's)	**81,500**	92,855
Return on average common shareholders' equity — (%)	**24.40**	27.96
Cash dividends ($000's)	**10,234**	7,932
Annual dividend rate per common share ($) — year end	**.56**	.44
Dividend payout ratio (%)	**42.3**	34.8
Plant		
At year end ($000's)		
original cost	**245,878**	232,912
depreciated cost	**156,239**	160,052
Capital Expenditures ($000's)	**10,243**	13,875
Operational		
Daily volume of gas delivered		
average		
(10^6m^3)	**23.69**	24.66
(MMcf)	**836**	871
Daily production (average)		
NGL		
(m^3)	**1 625**	1 630
(Bbls)	**10,230**	10,270
Ethane		
(m^3)	**4 310**	3 920
(Bbls)	**27,270**	24,780

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 27¢ per share).

Share information has been adjusted to give retroactive effect to the five for one stock split on May 16, 1980 and the three for one stock split on May 18, 1984.

1982	1981	1980	1979	1978	1977	1976	1975
214,618	130,904	116,135	110,207	62,150	52,387	47,317	41,063
16,004	18,800	12,304	10,057	7,271	5,787	5,701	4,563
.89	1.05	.69	.56	.41	.32	.32	.26
4.04	3.64	2.92	2.52	2.15	1.87	1.65	1.44
72,282	65,171	52,335	45,040	38,412	33,126	29,601	25,725
31,374	17,755	20,128	22,502	24,875	27,249	29,604	31,985
69,102	13,083	—	—	11,011	4,999	—	
28,596	—	—	—	—		—	
34,521	23,209	20,475	22,476	18,974	14,118	9,530	8,212
68,727	58,753	48,687	41,741	35,934	31,513	27,663	24,278
65,657	25,483	21,315	29,194	34,067	30,926	30,794	33,403
23.29	32.00	25.27	24.09	20.23	18.36	20.61	18.79
7,873	5,964	5,009	3,459	2,255	1,962	1,825	1,670
.14	.33	.28	.23	.16	.11	.11	.10
49.2	31.7	40.7	31.4	31.0	33.9	32.0	36.6
221,750	137,488	120,921	119,419	114,419	90,503	75,213	75,105
163,842	89,320	73,984	78,308	79,112	59,162	47,220	50,456
40,982	22,569	1,499	5,073	23,926	15,318	271	946
26.64	26.58	27.82	33.99	30.57	35.13	34.56	33.94
940	938	982	1,200	1,079	1,240	1,220	1,198
1,970	1,600	1,705	1,930	1,680	1,840	2,020	2,210
12,385	10,085	10,730	12,160	10,540	11,600	12,700	13,900
3,025	3,370	3,480	3,485	2,630			
19,105	21,230	21,800	21,920	16,530			-

Member of Audit Committee
† Member of Compensation Committee

Directors and Officers

Directors

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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.

D. E. Hawkins
Calgary, Alberta
Chairman of the Board,
Oakwood Petroleums 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
Director and former President,
Conventures Limited

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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

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Chairman of the Board and Chief Executive Officer

J. E. Goudie,
President

D. R. Fenton,
Executive Vice President

D. McMorland,
Senior Vice President

E. W. Mychaluk,
Vice President, Business Development

G. T. Noland,
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H. B. Sanderson,
Vice President and Treasurer

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Vice President, Operations and Engineering

G. R. Walsh,
Vice President

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

A. Kenney,
Assistant Secretary

P. M. Mahoney,
Assistant Treasurer

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. F. 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

Auditors

Arthur Andersen & Co.
Chartered Accountants
Calgary, Alberta

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

Alberta Natural Gas Company Ltd
East Tower, Esso Plaza
24th Floor, 425 First Street S.W.
Calgary, Alberta
T2P 3L8

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