ALBERTA NATURAL GAS COMPANY LTD

Annual Report 1987

CORPORATE PROFILE

Alberta Natural is a Calgary-based, diversified company involved in processing and marketing of specialty chemicals and natural gas liquids, the ownership and operation of natural gas pipelines and property development.

Pacific Gas Transmission Company, a U.S. federally-regulated pipeline company, owns 49.3% of the issued and outstanding common shares of Alberta Natural; in turn, Pacific Gas and Electric Company, a major investor-owned utility based in San Francisco, California, owns 100% of Pacific Gas Transmission. The balance of the shares of Alberta Natural are held predominantly by Canadian institutions and individuals.

Through its wholly-owned subsidiary, ANGUS Chemical Company, Alberta Natural is engaged in the production and marketing of nitroparaffins and their derivatives, the antibiotic erythromycin and the manufacture and marketing of specialty chemicals in the United States and abroad.

Through the Cochrane Extraction Plant Partnership, Alberta Natural owns and operates a world-scale natural gas liquids and ethane extraction facility near Cochrane, Alberta, on the western leg of Nova Corporation of Alberta's pipeline system. This facility also produces and contracts for the marketing of carbon dioxide.

Through another wholly-owned subsidiary, ANG Liquids Ltd., Alberta Natural is engaged in the natural gas liquids brokerage business in Canada and the United States and has an interest in an NGL fractionation and storage facility located at Marysville, Michigan.

Alberta Natural is a joint owner in a new company that will construct, own and operate a processing facility near High River, Alberta to produce and market high purity magnesium.

The Company owns and operates a large-diameter natural gas pipeline which links the systems of Nova and Pacific Gas Transmission Company, to move natural gas from Alberta to California. Alberta Natural has a 49% interest in and operates Foothills Pipe Lines (South B.C.) Ltd., a pipeline which parallels about one-half of Alberta Natural's line in southeastern British Columbia, and is the "pre-build" portion of the Alaska Highway Pipeline Project. The Company also owns and operates a pipeline which transports natural gas for Shell Canada Resources Limited, in the Peace River area of Alberta.

Alberta Natural has a half-interest in the development of property located in downtown Calgary, on which an office tower is being constructed.

Alberta Natural has a 24% interest in International Permeation Inc., a private Alberta company which has developed a membrane technology for the separation and recovery of various components from gas mixtures and natural gas streams.

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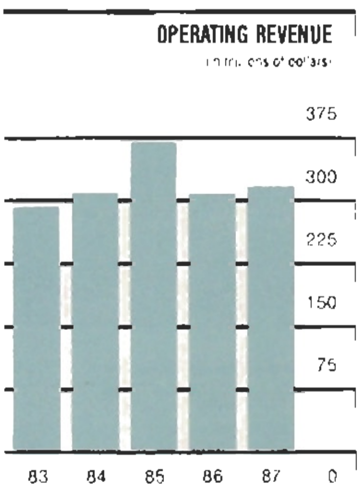
ANNUAL MEETING

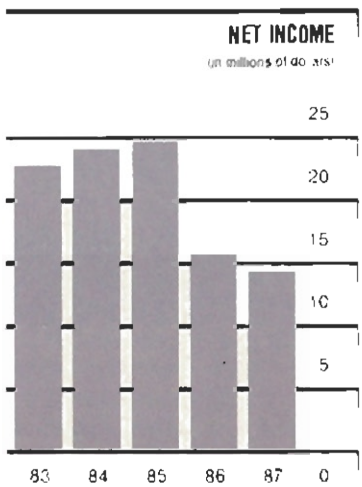
The Annual Meeting of Shareholders will be held in the Bonavista Room, Westin Hotel, Calgary, Alberta, on Friday, the 29th day of April, 1988 at 9:30 a.m.

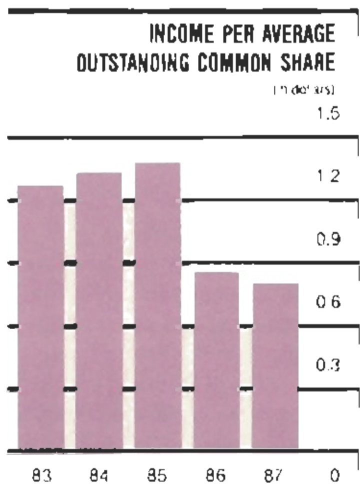
The notice of the meeting and proxy form are being mailed with this report to all shareholders of record.

FINANCIAL HIGHLIGHTS

Years ended December 31,	1987	1986
Operating revenue ($)	**318,797,000**	308,454,000
Net income ($)		
—before extraordinary items	**14,893,000**	16,247,000
—after extraordinary items	**16,906,000**	16,247,000
Income per average outstanding common share ($)		
—first quarter	**.23**	.30
—second quarter	**.22**	.22
—third quarter	**.15**	.26
—fourth quarter	**.22**	.11
—annual		
—before extraordinary items	**.82**	.89
—after extraordinary items	**.93**	.89
Common shareholders' equity ($)		
—total at year-end	**134,332,000**	128,977,000
—per share	**7.36**	7.08
Return on average common shareholders' equity (%)	**11.31**	12.82
Dividends paid per common share ($)		
—annual rate	**.68**	.64
Total assets ($)	**386,527,000**	360,283,000
Capital expenditures ($)	**40,127,000**	13,722,000
Average number of common shares outstanding	**18,262,748**	18,210,696
Number of shareholders at year-end	**1,305**	1,351







*Does not include effect of extraordinary items

TO OUR SHAREHOLDERS

Consolidated net earnings in 1987 amounted to $16,906,000 which is equivalent to 93¢ per average outstanding common share. 1986 earnings were $16,247,000 equivalent to 89¢ per share. Included in the 1987 results are two extraordinary items; a net gain of 14¢ per share resulting from the sale of ANGUS Petroleum Corporation, offset by a 3¢ per share foreign exchange loss with respect to the redemption of a portion of the Company's long term debt.

From an operational point of view, 1987 was a successful year in that both our Cochrane plant and pipeline operations achieved record annual production and throughput levels.

During the past 18 months, the face of Alberta Natural changed significantly. In order to replace earnings declines occurring as the rate bases of our traditional cost-of-service businesses depreciate, our long standing effort to expand and diversify the Company has been realized in four ways.

Firstly, in November, 1986, following the execution of the lease agreement with the lead tenant, Amoco Canada Petroleum Company Ltd., construction of the 32-storey, 630,000 square foot building, being jointly developed by the Company and Olympia & York Developments Limited, was resumed. Tenant occupancy is expected during the summer of 1988.

Secondly, we acquired a fifty per cent interest in CanStates Energy Partnership, which represents an extension of our natural gas processing business into the area of marketing finished natural gas liquids (NGL) products. Alberta Natural had not previously been directly involved in marketing of NGL since all of the production at the Cochrane plant is sold at the outlet of the plant under long-term contract. CanStates also has a share of a natural gas liquids fractionation plant in Michigan, which is not yet operating, and associated salt cavern storage. The business will be developed by bringing the fractionation plant into production for the finishing of product owned by CanStates and for toll processing of liquids for others.

Thirdly, we purchased the minority interest (forty-three percent) in ANGUS Chemical Company held by our affiliate, Pacific Gas Transmission Company, and Alberta Natural now owns one hundred percent of this company. In that transaction, Alberta Natural's twenty percent interest in ANGUS Petroleum Corporation was sold. ANGUS Chemical has experienced another record earnings year in its original nitroparaffins business, and has brought its new plants in Ireland and in California to the point where we believe that by year-end they will begin to make a positive contribution to Alberta Natural's earnings. ANGUS is a major segment of Alberta Natural's business mix, and has the potential to contribute even more substantially to the Company's success in the future.

Finally, we have commenced a grass roots project with our partner, Magnesium International Corporation, Ltd., to market high purity magnesium from the production of a new plant to be built near High River, Alberta. Using a new patented process, we will be producing and marketing up to 12 500 tonnes per year of magnesium by 1990. This project will demonstrate the viability of both the new process and the magnesium markets, and we expect it will be expanded as much as five-fold during the 1990's. The project will show no results for at least two years, but we intend that this investment will contribute materially to future Company earnings.

In September, 1987, the search for the purchase of a suitable oil company was discontinued.

With these major steps, we believe our job is now to develop and manage these new ventures and to continue the operation of our gas transportation and processing businesses to the best possible benefit of our shareholders.

The Board of Directors takes this opportunity to welcome the employees of CanStates and MagCan to the Alberta Natural group and acknowledges, with sincere appreciation, the loyalty and continued dedication of our employees and their substantial contributions to our operations.

For the Board of Directors

J. S. Goudie

Chairman of the Board

D R Fenton

President and Chief Executive Officer

February 29, 1988

DOUGLAS R. FENTON
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

JOHN E. GOUDIE
CHAIRMAN OF THE BOARD

REVIEW OF OPERATIONS

ANGUS CHEMICAL COMPANY

On April 23, 1987, the Company purchased all issued and outstanding shares of ANGUS Chemical held by Pacific Gas Transmission Company and others.

ANGUS Chemical results were mixed in 1987, with another record earnings year in its core nitroparaffins business offset by losses and delays in the two start-up businesses. The contributing factors to the nitroparaffins earnings increase were continued low levels of feedstock costs combined with sales volumes in key markets at or exceeding the previous year's levels. This result occurred despite the entry of two new competitors in the nitroparaffins marketplace; one a United States producer and another based in the Peoples Republic of China. The basic nitroparaffins plant in Sterlington, Louisiana, and the nitroparaffins derivatives facilities in Sterlington and Ibbenbueren, West Germany, operated efficiently throughout the year with no significant, unplanned outages.

ANGUS Fine Chemicals Ltd. (AFCL), a wholly-owned subsidiary of ANGUS Chemical in Cork County, Republic of Ireland, has increased the capacity in its Chemical Building #2, the first fine chemicals processing unit completed at the Irish site. While completion and commissioning of the larger Chemical Building #1 was delayed from earlier expectations, the facility was in service at year-end. Major high-value business has been contracted to bring that facility to a 50% capacity level by the middle of 1988, and opportunities for additional utilization are promising.

The retrofit and construction of the ANGUS Biotech, Inc. erythromycin plant in Long Beach, California was essentially complete at year-end. Food and Drug Administration approval of the product is expected during the first quarter of 1988. Full scale commercial production levels are expected to be reached by mid-year, 1988. The demand for erythromycin, an antibiotic and a substitute for penicillin, continues strong, with existing industry operating rates at or near capacity. ANGUS Biotech is owned 85% by ANGUS Chemical.

THIS FULLY EQUIPPED MODERN FACILITY, LOCATED IN CORK HARBOUR, IRELAND, IS A CUSTOM CHEMICAL PRODUCTION FACILITY WHICH DEVELOPS, PROCESSES, AND PRODUCES ORGANIC INTERMEDIATES FOR THE FINE CHEMICAL, PHARMACEUTICAL AND AGRICULTURAL MARKETS

A RESIDENT POPULATION OF MALLARD DUCKS ADDS A TRANQUIL FEELING TO THIS AERATION POND AT ANGUS CHEMICAL'S IBBENBEUREN, WEST GERMANY PLANT

THE NIGHT AIR CREATES A STAR-LIKE IMPRESSION OF THE STERLINGTON NITROPARAFFINS FACILITY

COCHRANE EXTRACTION PLANT

During 1987, the ownership of the Cochrane extraction plant was re-structured such that the operations of the plant will now be conducted through the Cochrane Extraction Plant Partnership. The partners of the Partnership are Alberta Natural, and two of its wholly-owned subsidiaries, ANG Liquids and ANG Processing Ltd. The restructuring will not have any effect on the presentation of the financial results for the plant, or on its operation.

Gas volumes have been at or near the plant's maximum processing capabilities throughout the year. The 29.1% increase over 1986 volumes reflects the ability of our major transmission customer, Alberta and Southern Gas Co. Ltd., to be competitive in the northern and central California market area.

As a result of the increased volumes flowing through the plant, production of NGL and ethane increased 28.9% and 25.1% respectively, over 1986, and represents record production levels since the plant was commissioned.

During periods of high gas flows past the Cochrane plant, the maximum inlet volume levels authorized by the Alberta Energy Resources Conservation Board had been reached. Accordingly, on October 28, 1987, Alberta Natural applied to have the approved maximum capacity increased from $31.15\ 10^6m^3$ (1.1 Bcf) per day to $36.65\ 10^6m^3$ (1.3 Bcf) per day. Temporary approval was granted for the period November 6, 1987 to July 31, 1988, pending final dispensation of the application.

When spare capacity was available in the Alberta-California pipeline system, gas was shipped on an interruptible basis. Processing contracts have been concluded with the majority of interruptible shippers, whose gas passes through the Cochrane plant.

The Cochrane plant operated continuously during 1987, with two exceptions. The plant was shut down for ninety hours during the summer, in conjunction with a total scheduled shutdown of the Alberta-California pipeline system, during which time a complete maintenance overhaul was conducted. The plant was also shut down for an additional ten hours due to several unscheduled electrical power outages.

The CO_2 plant achieved design capacity on numerous occasions as a result of the high volumes of ethane produced in the extraction process, but, due to product demand levels, only operated 60% of the time during 1987. The production was used primarily for gas well stimulation, with lesser volumes going to the carbonated beverage market. With a greater degree of concentration on marketing by our contracted marketers, revenues from the sale of CO_2 are expected to increase in 1988, over 1987.

During the year, capital expenditures at the plant amounted to $1.0 million, primarily for equipment replacements and improvements.

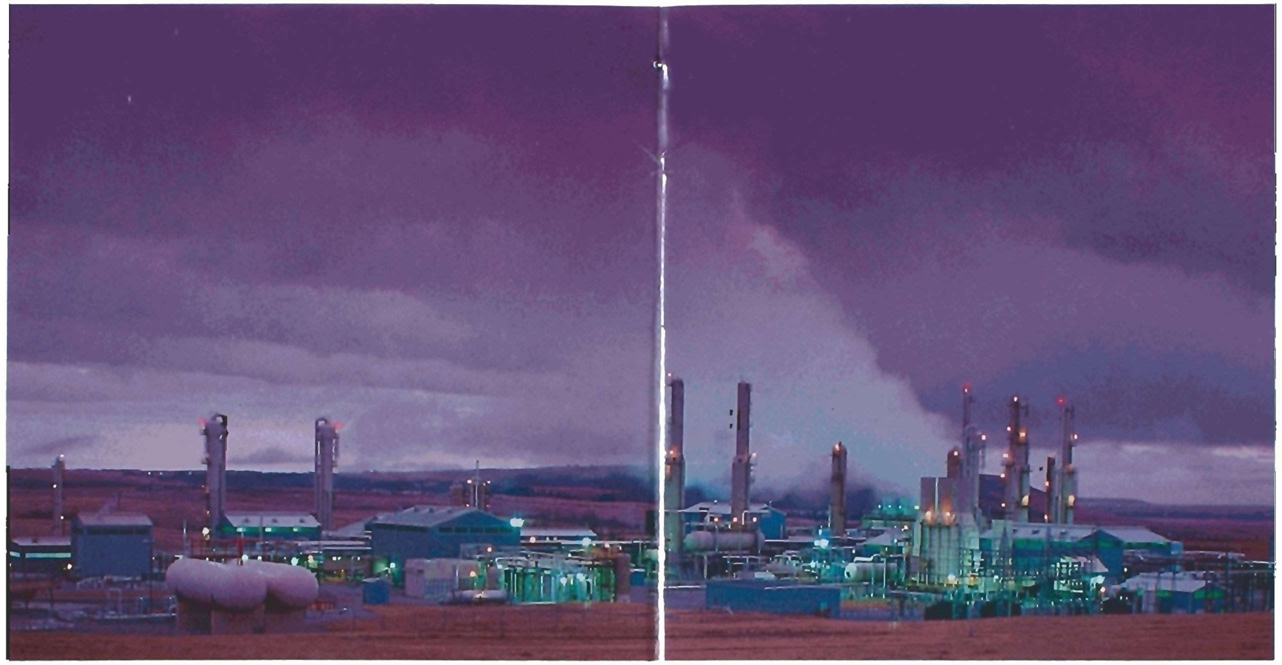
In response to the problem created by the construction of ethane extraction capacity upstream of the straddle plants, on August 21, 1987, the Alberta Government issued a draft Policy Statement on Ethane Upstreaming. The problem concerned the fact that field plants were removing ethane that would otherwise be available at the straddle plants, thereby threatening the availability of adequate supplies of ethane for processing and consequently the viability of the Alberta petrochemical industry. This draft policy requires the ERCB to include, in further approvals of upstream ethane extraction facilities, a condition that the upstream plants supply the petrochemical industry sufficient ethane to maintain certain minimum "threshold volumes"; otherwise, the ERCB will direct those upstream plants to re-inject or supply ethane to restore the "threshold" level. The Alberta Government requested the ERCB to examine a variety of matters related to this policy thereby ensuring consultation with industry concerning the details of drafting and implementing this policy.

Alberta Natural filed a submission in response to specific aspects of the Alberta Government's ethane policy and presented witnesses to speak to its submission. The Inquiry began on October 26, 1987, and concluded during the week of December 14, 1987. The ERCB is expected to make its recommendations to the Alberta Government in early 1988, and these recommendations are expected to affect the number of additional "deep-cut" facility applications filed with the Board in the future.

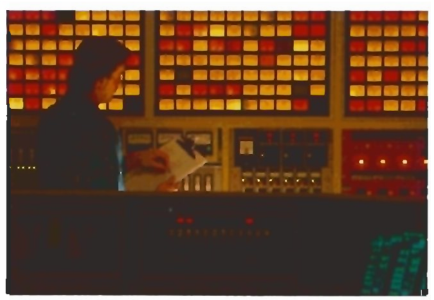
Production and Feed Gas Volumes: (average per day)

	1987		1986	
Inlet volumes	**30.9 $10^6 m^3$**	**1,096 Mmcf**	23.8 $10^6 m^3$	846 Mmcf
NGL	**2 326.0 m^3**	**14,645 Bbls**	1 802.0 m^3	11,345 Bbls
Ethane	**6 349.0 m^3**	**40,146 Bbls**	5 050.0 m^3	31,935 Bbls
CO_2	**52.4 tonnes**	**57.8 tons**	21.5 tonnes	23.7 tons

HIGH VOLUMES OF ETHANE PRODUCED AT COCHRANE CONTRIBUTED TO KEEPING THIS CO_2 LOADING FACILITY BUSY



AN AUTUMN STORM FORMS IN THE ROCKY MOUNTAIN FOOTHILLS, NEAR THE COCHRANE EXTRACTION PLANT



THE CONTROL CENTRE AT THE COCHRANE PLANT IS THE NUCLEUS OF THIS HIGH TECH FACILITY

ANG LIQUIDS LTD.

During 1987, Alberta Natural finalized the acquisition of a 50% equity position in CanStates Energy Partnership. This was achieved through the purchase of the issued and outstanding shares of Rankin Holdings Ltd., subsequently re-named ANG Liquids Ltd., and related asset purchase arrangements with subsidiaries and affiliates of Polysar Limited, a wholly-owned subsidiary of Polysar Energy and Chemical Corp. This strategic acquisition allowed entry into the marketing segment of the NGL business. In 1987, CanStates extended its diversification into natural gas marketing, which will blend well with its existing business of operating as a marketer and broker of NGL and refined products and petrochemical feedstock base.

In addition to the marketing operations of CanStates, Alberta Natural acquired interests in certain fractionation and NGL storage facilities. These facilities are strategically located at Marysville, Michigan (in the Sarnia area), and will be operated by Consumers Power Co. Ltd., the major Michigan utility, as soon as sufficient NGL mix is available.

The storage project is fully operational, has a 794,550 m^3 (5 million barrel) capacity, state-of-the-art truck and rail loading racks, and is connected to all the major pipelines in the area. The 5 085 m^3 (32,000 barrel) fractionation facility is expected to be ready to commence batch operations in 1989.

Since 1982, Alberta Natural has entered into numerous natural gas sales arrangements to serve customers in Alberta, British Columbia, Manitoba, Ontario and Quebec. The Company is currently delivering over 2.8 $10^6 m^3$ (100 Mmcf) per day to these customers. Through a newly formed gas marketing division within CanStates Energy, the Company has reached agreement with Polysar to pursue future marketing opportunities east of Alberta and in the United States.

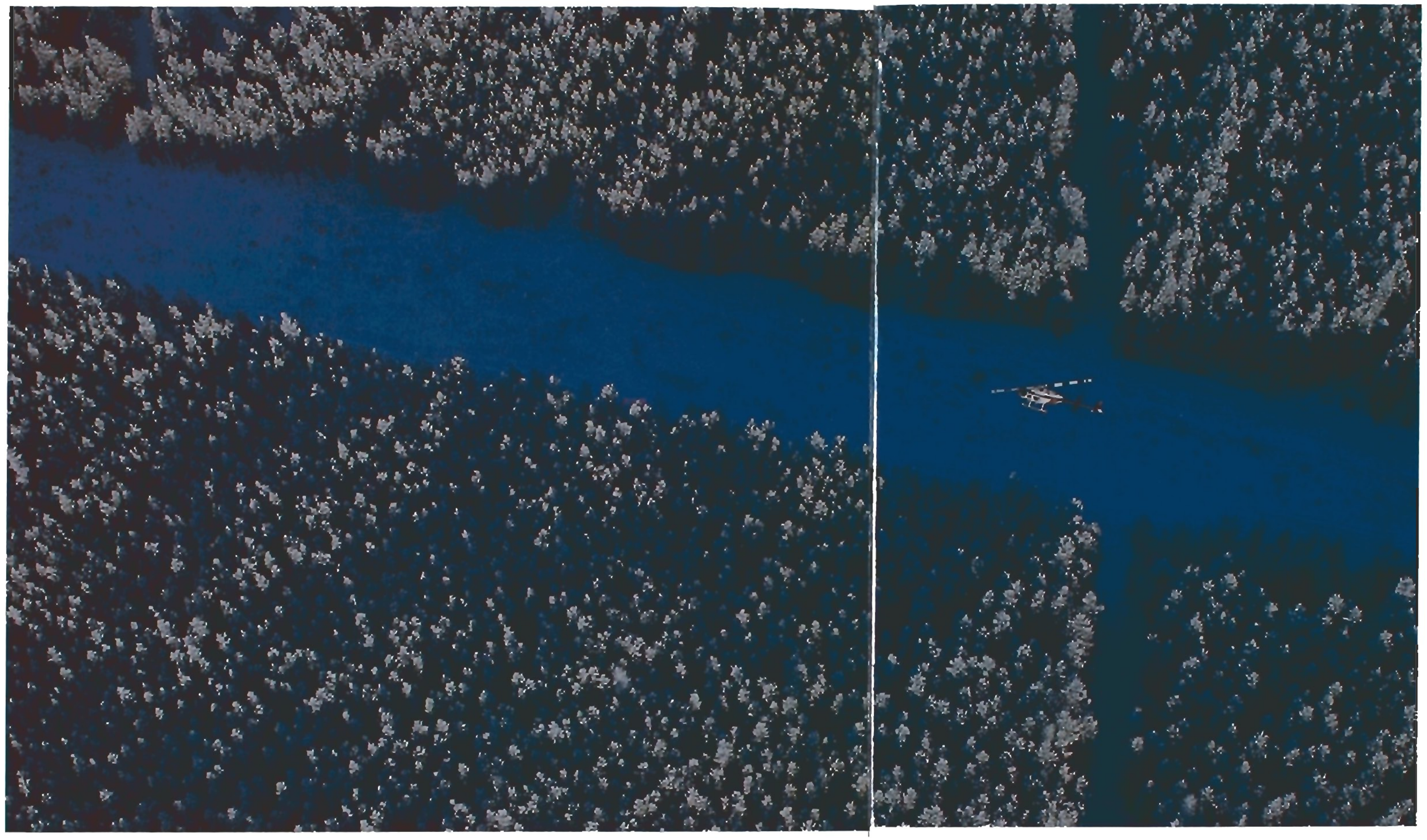
■ SOLIGAZ

In May of 1986, the Company announced that it was a member of a consortium with Soquip, Gaz Metropolitain, and the SNC Group, whose mandate was to determine the feasibility of transporting natural gas liquids by pipeline from western Canada to Montreal via the Interprovincial PipeLine Limited (IPL) system. The NGL would then be fractionated and marketed in Quebec, the Maritimes and the northeastern United States. Alberta Natural has a 20% interest in the consortium.

IPL had applied for a toll design methodology for the potential conversion of the Sarnia-to-Montreal pipeline to natural gas liquids service. The National Energy Board issued a decision favourable to the project, allowing the cost of operating the pipeline to be rolled in with the cost of operating the balance of the IPL system. The project will bear the incremental costs associated with moving NGL, relative to the oil transportation tariff. The remaining hurdles before the project can proceed include IPL's filing of an NEB application to convert the Sarnia-Montreal pipeline for transportation of natural gas liquids.

A ROW OF MANIFOLDS PRESENTS AN INTERESTING "FENCE" FOR THIS PASSING WORKMAN AT THE COMPRESSOR STATION

PIPELINE OPERATIONS ARE CAREFULLY MONITORED 24 HOURS A DAY



A PATROLLING HELICOPTER IS DWARFED BY THE WINTER MAJESTY OF THE PIPELINE RIGHT-OF-WAY IN SOUTHEASTERN BRITISH COLUMBIA.

■ GAS TRANSMISSION

During the year, the Company continued to upgrade its pipeline system in order to keep pace with technological change. Of the total gas transmission capital expenditures of $3.0 million, one major expenditure reflected the replacement of the two compressors and control panels at the Elko Compressor Station. The other major expenditure involved the replacement of a compressor driver at the Crowsnest Compressor Station which effectively increased the total installed power on the pipeline system by 1 570 kW (2,100 horsepower) to a total of 73 480 kW (98,500 horsepower). The remaining $1.1 million was used for other equipment replacements and improvements to the pipeline and compression facilities.

Since early 1986, Alberta Natural has been transporting natural gas for several shippers, both within British Columbia and for export at Kingsgate, on an interruptible basis. Any such shipper is entitled to have its gas transported when and if there is unused capacity on the Company's pipeline. The deliveries shown below, on behalf of those shippers, are also included in the total for export.

On April 22, 1987, the NEB released its decision approving the regulation of Alberta Natural's tolls and tariffs on a complaint basis only. Alberta Natural would charge tolls negotiated with its customers and filed with the Board. This regulatory methodology will improve the manner in which Alberta Natural's gas transmission services are regulated by reducing the costs of regulation and by increasing Alberta Natural's efficiency in providing transmission service to existing and new shippers.

Deliveries of Natural Gas:
(average per day)

	1987		1986	
For export at Kingsgate	**37.6 10^6m^3**	**1,327 Mmcf**	27.0 10^6m^3	953 Mmcf
Interruptible deliveries	**1.03 10^6m^3**	**36.5 Mmcf**	.55 10^6m^3	20 Mmcf
Off-Line sales	**1.06 10^6m^3**	**37.4 Mmcf**	.84 10^6m^3	29.7 Mmcf
For the Peace River Expansion Project	**.56 10^6m^3**	**20 Mmcf**	.34 10^6m^3	12 Mmcf

■ MAGNESIUM COMPANY OF CANADA LTD. (MAGCAN)

MagCan was formed in July of 1987, to construct a magnesium metal production facility, near High River, Alberta, utilizing a new process developed by Magnesium International Corporation, Ltd.

The project, owned 50% by Alberta Natural, will be constructed in three phases. Phase I is scheduled for completion in late 1989, having a production capacity of 12 500 tonnes per annum.

The phased capital investment and staged approach to financing is designed to minimize the overall project risk while testing the market entry strategy. The initial market penetration for the Phase I production will allow the process to prove its cost competitiveness while gauging overall market response.

Site clearing and construction of an access road was completed in 1987. An engineering contractor comprised of a consortium of the three firms of Davy McKee (Stockton) Ltd., Acres Davy McKee and SNC has been selected for the construction of the facility.

When construction is completed, a single step reactor process will convert magnesite ore directly to molten, anhydrous magnesium chloride, for subsequent electrolytic reduction to primary metal. Magnesium has a tremendous market growth potential in weight-sensitive applications such as consumer products and automobiles.

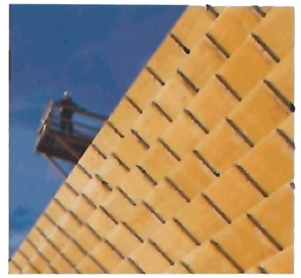
The plant will be financed on a 75% debt, 25% equity basis, with the equity investment of Alberta Natural, for Phase I, being approximately \$25 million. The Alberta government will guarantee the debt financing for the project, which is being secured from a syndicate of banks.

■ OFFICE BUILDING

Construction of the substructure, to ground level, of the office building in downtown Calgary, was completed during 1985. Construction of the 32-storey, 630,000 square foot building was resumed in November, 1986, following the execution of a lease agreement with the lead tenant, Amoco Canada Petroleum Company Ltd. Tenant occupancy is expected during the summer of 1988.

Alberta Natural and Olympia & York Developments Limited are developing the property jointly, with Olympia & York responsible for arranging the interim and permanent financing for the project.

OTHER BUSINESS



COOLING BAFFLES AT THE COCHRANE FACILITY DWARF THIS WORKMAN

MAGNESIUM IS AN EXTREMELY STRONG, LIGHTWEIGHT METAL IDEAL FOR USE IN TENNIS RACKETS, BASEBALL BATS AND A WIDE VARIETY OF OTHER USES. THE RAW MATERIAL AND TWO INGOTS ARE ALSO PICTURED HERE.

A MODEL OF THE NEW OFFICE BUILDING IN DOWNTOWN CALGARY – TENANT OCCUPANCY IS EXPECTED DURING THE SUMMER OF 1988

REGULATORY REVIEW

On January 18, 1988, a joint committee of the Public Utility Board Energy Resources Conservation Board rendered its decision on an Inquiry which began in September of 1987 respecting security of natural gas supply and transportation service. While evidence was heard on a number of issues, the major issues concerned the basis for determining the classes of consumers of natural gas to be protected by contracts to ensure security of supply, and the availability of transportation service of natural gas to consumers who wish to contract directly with producers and others for supplies. The decision, which must be approved by the Alberta Government Cabinet before implementation, addressed both a definition of the "Core Market" and the availability of the transportation service. From a technical perspective, all customers now have access to transportation service in Alberta. However, due to the restrictions and costs associated with both contracting supply and transportation service for core customers, only the larger "core customers" are likely to avail themselves of the opportunity to purchase gas supplies directly. Alberta Natural was represented at the Inquiry but did not present evidence.

A review of the surplus determination procedures of the Alberta, British Columbia and Federal Governments has now been completed. Both the ERCB in Alberta and the Ministry of Energy, Mines and Petroleum Resources in British Columbia issued decisions which adopted a calculation that would protect the requirements of core users for 15 years.

On September 9, 1987, the National Energy Board announced the adoption of a new procedure for approving gas exports from Canada. Termed the Market-Base Procedure, market forces will be allowed to operate freely as long as Canadian needs are adequately served. Under the procedure, the Board will ensure that natural gas licenced for export is surplus to Canadian needs by holding public hearings to consider applications for licences to export natural gas and by monitoring exports on an ongoing basis. The public hearings would include Complaints Procedures and Export Impact Assessments. The Board will continue to consider all other factors relevant in determining whether proposed export licences are in the public interest.

The Company's affiliate and major transmission customer, Alberta and Southern Gas Co. Ltd., is currently preparing support material for an application filed during 1987 with the Board to extend its current export licence, which will terminate October 31, 1994 at full authorized volumes, to October 31, 2010. The authorized average daily contract volume at the Canada/United States border is 28.979 10^6m^3 (1,023 Bcf) per day, and the application seeks to continue exports at that level.

SAFETY

The Company recognizes that safety is the responsibility of all levels of management and stresses the importance of a safe work environment through continuous educational programs and training. Safety is an integral part of all day-to-day activities.

Having completed sixteen consecutive years without lost time due to injury, the Cochrane plant received the Presidents' plaque and safety awards from the Canadian Gas Association, the Canadian Gas Processors Association and the Alberta Workers' Health, Safety and Compensation division.

The pipeline division completed six years without lost time due to injury and received the Presidents' plaque and safety awards from the Canadian Gas Association.

A QUIET MOMENT AT THE COCHRANE EXTRACTION PLANT

A TECHNICIAN ENTERS THE HOUSING OF A COMMUNICATIONS TOWER FOR THE PIPELINE SYSTEM, ATOP A SNOW-BOUND MOUNTAIN IN THE KOOTENAY RANGE OF SOUTHEASTERN BRITISH COLUMBIA

A DAZZLING SUNSET CASTS A RED HUE OVER THE COCHRANE EXTRACTION PLANT

FINANCIAL REVIEW

The consolidated net income of Alberta Natural for 1987 was $16,906,000 or 93¢ per average outstanding common share. In 1986, consolidated net income was $16,247,000 or 89¢ per share. Extraordinary items included in 1987 income resulted in a net gain of 11¢ per share.

ANGUS Chemical achieved record operating income in its core basic nitroparaffins operation during 1987. ANGUS's contributions to Alberta Natural's earnings were significantly reduced by the expensing of start-up costs for the new operations in Ireland and California. These start-up operations are not expected to significantly impact earnings in 1988.

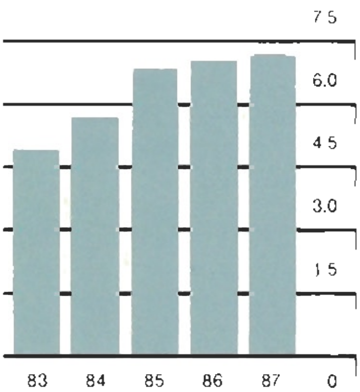
Earnings from Alberta Natural's share of the profits on the downstream sale of NGL by Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd., increased significantly over 1986. The earnings improvement was a result, in part, of record production of liquids at the Cochrane plant.

Earnings derived from the Company's pipeline operations improved over 1986, as a result of a full year of operation of the Peace River project and of an increase in interruptible deliveries through Kingsgate, British Columbia.

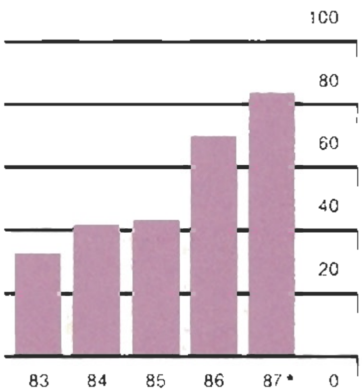
Effective February 1, 1988, the Company has redeemed the First Mortgage Pipeline Bonds which were scheduled to be repaid during 1991 and 1992. Current market conditions made the redemption desirable.

The annual dividend rate paid on the Company's common shares was increased to 68¢ per share, effective with the March, 1987 quarterly dividend payment, and will remain at that level during 1988.

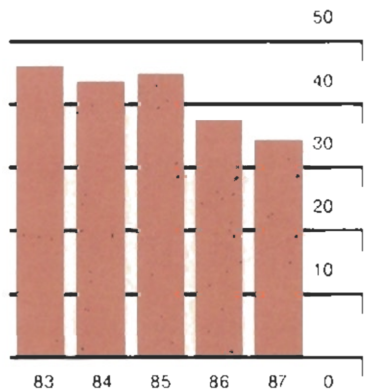
COMMON SHAREHOLDERS' EQUITY PER AVERAGE OUTSTANDING COMMON SHARE
(in dollars)



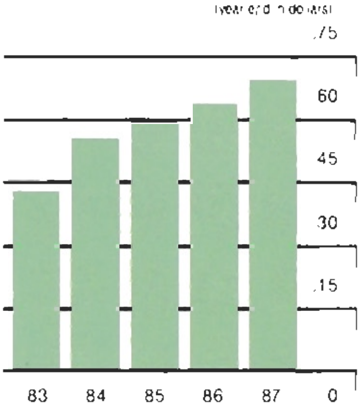
DIVIDEND PAYOUT RATIO
(in percentage)



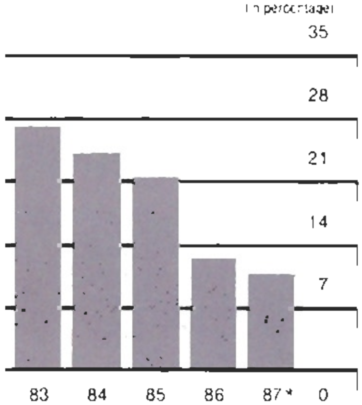
FUNDS PROVIDED FROM OPERATIONS
(in millions of dollars)



ANNUAL DIVIDEND RATE PER COMMON SHARE
(year end in dollars)



RETURN ON AVERAGE COMMON SHAREHOLDERS' EQUITY
(in percentage)



*Does not include effect of extraordinary items.

CONSOLIDATED FINANCIAL STATEMENTS

ALBERTA NATURAL GAS COMPANY LTD

FOR THE YEAR ENDED DECEMBER 31, 1987 and Auditors' Report to the Shareholders.

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. Where appropriate, amounts based on estimates and judgements 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 auditors.

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 independent auditors have free access to the Audit Committee. The consolidated financial statements have been approved by the Board on the recommendation of the Audit Committee.

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 at December 31, 1987 and 1986 and the related consolidated statements of income, reinvested earnings 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, these consolidated financial statements present fairly the financial position of Alberta Natural Gas Company Ltd as at December 31, 1987 and 1986 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.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Calgary, Alberta
February 5, 1988

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1987 (with 1986 figures for comparison)

(thousands of dollars)	1987	1986
OPERATING REVENUE:		
Petrochemical	$266,539	$262,066
Transportation and sale of gas	52,258	46,388
	318,797	308,454
OPERATING EXPENSES:		
Operating and maintenance	194,142	187,299
Gas purchases	21,863	26,050
Selling, administrative and research	39,172	35,141
Depreciation and amortization	20,335	17,388
Property taxes and other	6,036	4,554
	281,548	270,432
OPERATING INCOME	37,249	38,022
INTEREST AND OTHER INCOME	6,022	5,944
INCOME BEFORE INCOME DEDUCTIONS	43,271	43,966
INCOME DEDUCTIONS:		
Interest on long term debt	8,748	3,217
Interest on other debt	5,266	5,074
	14,014	8,291
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEMS	29,257	35,675
PROVISION FOR INCOME TAXES	13,564	14,911
MINORITY INTEREST	800	4,517
INCOME BEFORE EXTRAORDINARY ITEMS	14,893	16,247
EXTRAORDINARY ITEMS	2,013	–
NET INCOME	$ 16,906	$ 16,247
EARNINGS PER SHARE:		
Before extraordinary items	$ .82	$ .89
Extraordinary items	.11	–
After extraordinary items	$ .93	$ .89

See accompanying summary of significant accounting policies and notes.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1987 (with 1986 figures for comparison)

(thousands of dollars)	1987	1986
ASSETS		
PLANT, PROPERTY AND EQUIPMENT	**$368,679**	$318,392
Less accumulated depreciation	**139,349**	121,720
Net plant, property and equipment	**229,330**	196,672
CURRENT ASSETS:		
Cash and interest bearing deposits	**19,623**	48,437
Accounts and notes receivable	**50,123**	50,949
Inventories	**35,446**	34,715
Other	**1,268**	2,094
Total current assets	**106,460**	136,195
INVESTMENTS AND ADVANCES	**28,458**	23,627
DEFERRED CHARGES	**22,279**	3,789
TOTAL	**$386,527**	$360,283

Approved by the Board:

John A. Sproul J. S. Goudie

Director Director

(thousands of dollars)	1987	1986
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY:		
18,242,430 common shares (1986—18,205,130)	$ 18,439	$ 17,687
Reinvested earnings	109,348	105,205
Cumulative translation adjustment	6,545	6,085
Total shareholders' equity	134,332	128,977
MINORITY INTEREST	—	50,156
LONG TERM DEBT	88,172	94,042
DEFERRED INCOME TAXES	25,235	31,317
CURRENT LIABILITIES:		
Notes payable	92,363	16,343
Accounts payable	27,471	28,547
Income taxes payable	3,843	778
Other	15,111	10,123
Total current liabilities	138,788	55,791
TOTAL	$386,527	$360,283

ALBERTA NATURAL GAS COMPANY LTD

See accompanying summary of significant accounting policies and notes.

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1987 (with 1986 figures for comparison)

(thousands of dollars)	**1987**	1986
BALANCE AT BEGINNING OF THE YEAR	**$105,205**	$100,866
NET INCOME	**16,906**	16,247
	122,111	117,113
PURCHASE AND CANCELLATION OF COMMON SHARES	**344**	255
DIVIDENDS	**12,419**	11,653
BALANCE AT END OF THE YEAR	**$109,348**	$105,205

ALBERTA NATURAL GAS COMPANY LTD

See accompanying summary of significant accounting policies and notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1987 (with 1986 figures for comparison)

(thousands of dollars)	1987	1986
OPERATING ACTIVITIES:		
Operations:		
Income before extraordinary items	**$ 14,893**	$ 16,247
Add (deduct) non-cash items:		
Depreciation and amortization	**20,335**	17,388
Provision for deferred income taxes	**(5,931)**	(5,176)
Equity earnings after dividends	**(84)**	2,837
Minority interest	**800**	4,517
Other income deductions	**356**	74
	30,369	35,887
Change in working capital other than cash	**4,367**	2,227
	34,736	38,114
FINANCING ACTIVITIES:		
Common shares:		
Issued	**778**	–
Purchased and cancelled	**(370)**	(273)
Increase (decrease) in long term debt	**(2,361)**	60,495
	(1,953)	60,222
Cash available for investments and dividends	**32,783**	98,336
INVESTMENT ACTIVITIES:		
Acquisition of subsidiaries	**85,458**	–
Net capital expenditures	**40,127**	43,722
Investments and advances	**4,325**	5,351
Other	**(4,712)**	891
	125,198	49,964
DIVIDENDS:		
On common shares	**12,419**	11,653
Paid by subsidiary to minority shareholders	**–**	1,854
	12,419	13,507
Total investments and dividends	**137,617**	63,471
CASH–INCREASE (DECREASE):		
Notes payable	**(76,020)**	40,431
Cash and interest bearing deposits	**(28,814)**	(5,566)
	$(104,834)	$ 34,865

OPERATIONS:

Alberta Natural owns and operates, through the Cochrane Extraction Plant Partnership, 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 two pipeline transportation facilities:

a) 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 a number of interruptible shippers 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.

b) a 324 mm (12 inch) pipeline from a point near Warrensville, Alberta to an oil sands recovery facility owned by Shell Canada Resources Limited for the transportation of gas owned by Shell Canada.

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 approximately 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. Alberta Natural is also entitled to 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.

ANGUS Chemical Company, a United States subsidiary of Alberta Natural, owns and operates nitroparaffins production facilities located in the United States and West Germany. The facilities utilize feedstocks derived from natural gas in the production of nitroparaffins and other derivative products that are marketed worldwide. ANGUS Chemical, through other subsidiaries, also owns and operates specialty chemical production facilities located in California and Ireland.

ANG Liquids Ltd., a subsidiary of the Company, is engaged in various aspects of the natural gas and NGL business in both Canada and the United States, which it conducts in partnership with subsidiaries of Polysar Limited through the CanStates group. In addition to these marketing operations the CanStates group has an interest in certain fractionation and NGL storage facilities located in Marysville, Michigan.

REGULATION:

The pipeline facility located in British Columbia 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 wholly-owned subsidiaries ANGUS Chemical Company, ANG Liquids Ltd., ANG Processing Ltd. and the Cochrane Extraction Plant Partnership. All intercompany accounts have been eliminated upon consolidation.

INVESTMENTS:

Alberta Natural follows the equity method of accounting for its 49% investment in Foothills Pipe Lines (South B.C.) Ltd., its 24% investment in International Permeation Inc., its 50% interest in the Amoco Building joint venture and its 50% interest in Magnesium Company of Canada Ltd. and associated partnership.

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.

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 4.6% in 1994.

The pipeline located in southeastern British Columbia is being amortized at an annual rate (approximately 2.9%) based on the proportion that the annual volume of throughput authorized for export bears to the total volume remaining under the licences granted by the National Energy Board to the major shippers.

The pipeline located in Alberta is being depreciated on a straight-line basis over a 30 year term ending August 31, 2016.

Nitroparaffins 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:

Nitroparaffins 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, 1987
(Tabular amounts shown in thousands of dollars)

1. PLANT, PROPERTY AND EQUIPMENT:

	1987	1986
Petrochemical	$277,761	$213,743
Pipeline transport	78,279	75,770
Under construction	12,639	28,879
	368,679	318,392
Less accumulated depreciation	139,349	121,720
Net plant, property and equipment	$229,330	$196,672

During 1987, an allowance for funds used during construction of $1,246,000 (1986— $2,145,000) has been recorded.

2. INVESTMENTS AND ADVANCES:

	1987	1986
Foothills Pipe Lines (South B.C.) Ltd.	$ 6,684	$ 6,959
Foothills Pipe Lines (Yukon) Ltd. (preferred shares at cost)	3,085	3,141
ANGUS Petroleum Corporation	—	8,599
International Permeation Inc.	927	936
The "Amoco Building" joint venture	444	414
Magnesium partnership interest	2,656	—
CanStates Partnerships	10,982	—
Other	3,680	3,578
	$ 28,458	$ 23,627

The Company has entered into an agreement with Olympia & York Developments Limited for the joint development of the Amoco Building project in downtown Calgary. In accordance with the terms of the development agreement, Olympia & York is responsible for financing the project during the construction period. The project is under construction and Alberta Natural's share of construction expenditures total $27,921,000 at December 31, 1987. Alberta Natural's secnrity pledged for construction loans is restricted to its share of the project land.

3. DEFERRED CHARGES:

	1987	1986
Unamortized goodwill	$ 19,822	$ —
Unamortized debt expense	930	1,260
Unamortized organization and capital stock expense	45	53
Other	1,482	2,476
	$ 22,279	$ 3,789

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, 1,140,000 common shares were reserved for issuance under the Plan. Options have been made available on 681,100 shares at prices ranging from $7.55 to $13.92 per share. As of December 31, 1987, all of the options have been exercised in the amount of $6,801,000. Of this amount $4,089,000 (1986—$3,602,000) is included in accounts receivable. A cumulative total of 331,000 common shares have been purchased by the Company at market prices and cancelled in accordance with the provisions of the Plan.

5. LONG TERM DEBT:

	Year Issued	Maturity	1987	1986
First mortgage pipe line bonds:				
9⅛% Series B ($2,000,000 U.S.)	1969/70	1991	**$ 2,599**	$ 3,451
8⅞% Series C	1971	1992	**3,744**	4,413
Debentures 10⅛%—unsecured	1986	1993	**60,000**	60,000
Revenue bonds 6¾% ($13,008,000 U.S.)	1978/79	2004/08	**16,908**	17,958
Other ($9,510,000 U.S.)	1985/87	1992	**12,361**	9,573
			95,612	95,395
Less amounts payable within one year			**7,440**	1,353
			$88,172	$94,042

Repayment requirements for other long term debt are $844,000 U.S. for 1988 and $1,687,000 U.S. for subsequent years.

During 1986 the Company sold $60,000,000 of debentures in the international capital market. This issue will mature in October, 1993 with no repayment requirements before that time.

The Series B and C First Mortgage Pipe Line Bonds were redeemed, in full, on February 1, 1988 and as a result have been classified as current liabilities. A foreign exchange loss of approximately $453,000 has been accrued with respect to this retirement and is included in extraordinary items.

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:

	1987	1986
Income before income taxes, minority interest and extraordinary items	**$29,257**	$35,675
Less: Income which is not subject to tax allocation	**5,934**	6,042
Equity earnings	**1,069**	(1,355)
Add: Amortization of acquisition costs in excess of book value	**1,604**	—
Income subject to tax allocation	**$23,858**	$30,988
Expected provision for income taxes at 50.7% (1986—49.6%)	**$12,096**	$15,370
Add (deduct) adjustments to income taxes:		
Manufacturing and processing profits deduction	**(228)**	(864)
Tax credits	**(607)**	(1,154)
Tax relief available to foreign subsidiary	**(1,144)**	(1,843)
Loss carry forwards of foreign subsidiaries for which no current benefit is provided	**4,167**	3,400
Provision for withholding taxes on foreign income	**242**	286
Other	**(962)**	(284)
Actual provision for income taxes	**$13,564**	$14,911

7. *SEGMENTED INFORMATION:*

a) Financial information by segment:

	Petro-Chemical	Pipeline Transport	Other	Total
1987				
Operating revenue	**$266,539**	**$28,381**	**$23,877**	**$318,797**
Depreciation expense	**17,569**	**2,295**	**–**	**19,864**
Operating income	**34,526**	**4,340**	**(1,617)**	**37,249**
Identifiable assets	**312,112**	**30,888**	**43,527**	**386,527**
Capital expenditures	**37,129**	**2,998**	**–**	**40,127**
1986				
Operating revenue	262,066	18,869	27,519	308,454
Depreciation expense	14,804	2,584	–	17,388
Operating income	35,378	4,257	(1,613)	38,022
Identifiable assets	302,046	30,624	27,613	360,283
Capital expenditures	36,696	7,026	–	43,722

b) Financial information by reportable geographic area:

	Domestic	Foreign
1987		
Operating revenue	**$201,817**	**$116,980**
Operating income	**25,968**	**11,281**
Total identifiable assets	**179,673**	**206,854**
1986		
Operating revenue	201,778	106,676
Operating income	21,741	16,281
Total identifiable assets	174,889	185,394

8. RELATED PARTY TRANSACTIONS:

Alberta and Southern Gas Co. Ltd. and Pacific Gas Transmission Company are wholly-owned subsidiaries of Pacific Gas and Electric Company. Pacific Gas Transmission Company in turn owned 49.3% of the outstanding capital stock of Alberta Natural Gas Company Ltd at December 31, 1987. Alberta Natural owns 49% of the outstanding capital stock of Foothills Pipe Lines (South B.C.) Ltd., 100% of ANGUS Chemical Company, 24% of International Permeation Inc., and 100% of ANG Liquids Ltd. which holds a 50% interest in the CanStates group of partnerships. Significant transactions with these related companies were as follows:

	1987	1986
(a) Net charges for personnel and related administrative costs from:		
Alberta and Southern	**$ 7,762**	$ 7,522
Pacific Gas Transmission	**326**	238
(b) Charges for liquids extraction feedstock and fuel purchased from		
Alberta and Southern	**72,729**	68,696
(c) Net charge for transportation of gas to:		
Alberta and Southern	**12,089**	11,160
Foothills (South B.C.)	**1,708**	1,731
(d) Net charges for gas sales to Alberta and Southern	**6,684**	6,918
(e) Interest paid to Pacific Gas Transmission	**–**	185
(f) Amounts outstanding at December 31:		
Payable to:		
Alberta and Southern	**1,070**	8,084
Pacific Gas Transmission	**52**	69
Receivable from:		
Alberta and Southern	**3,581**	2,534
Foothills (South B.C.)	**183**	123
ANGUS Petroleum Corporation	**–**	4,114

9. PENSION PLAN:

The Companies maintain defined benefit pension plans for substantially all of their employees. Information relating to the plans, on a consolidated basis, as at December 31, 1987 is provided below:

Actuarial present value of accumulated pension benefits	$8,151,000
Market value of pension fund assets	$7,056,000

10. ACQUISITIONS:

On March 27, 1987 Alberta Natural purchased 100% of the capital stock of Rankin Holdings Ltd. for cash of $12,100,000 and the assumption of $3,100,000 of short term debt, representing all of the liabilities of the company. The results of operations have been included in these consolidated financial statements from January 1, 1987. The cost of the purchase was fully allocable, at fair value, to the Company's interest in the assets and liabilities acquired except for $4,939,000 arising as goodwill which is included in deferred charges and is being amortized over a period of 30 years. On December 11, 1987, Rankin Holdings Ltd. changed its name to ANG Liquids Ltd.

On April 23, 1987 Alberta Natural purchased from Pacific Gas Transmission the minority interest share of the capital stock of ANGUS Chemical Company for cash of $70,236,000. As additional consideration for this purchase, Alberta Natural also sold its 20% interest in ANGUS Petroleum Corporation, an affiliate, for $11,600,000 resulting in a $2,466,000 net gain included in net income as an extraordinary item. Of the purchase price, $32,600,000 was in excess of book value and was allocable at fair value to the Company's interest in plant, property and equipment acquired except for $15,355,000, arising as goodwill which is included in deferred charges and is being amortized over a period of 30 years.

11. COMMITMENT:

On July 16, 1987 Alberta Natural announced that an agreement in principal had been reached with the MPLC Group S.A. (a privately owned research and development organization with its operating headquarters in Geneva, Switzerland) to construct and operate a jointly owned magnesium plant to be located near High River, Alberta.

The cost of Alberta Natural's 50% participation in this project will be the first $25,000,000 of equity financed construction expenditures and 50% of any subsequent equity requirements. As at December 31, 1987, the Company has advanced $2,700,000.

12. PRIOR YEAR FINANCIAL STATEMENTS:

Certain prior year figures have been reclassified where necessary to conform to the 1987 presentation.

Years ended December 31,	1987	1986	1985	1984
FINANCIAL AND SHARE DATA				
Operating revenue ($000's)	**318,797**	308,454	372,806	309,201
Net income ($000's)	**14,893**	16,247	24,968	24,178
Earnings per average outstanding common share ($)	**.82**	.89	1.37	1.32
Common shareholders' equity per average outstanding common share ($)	**7.36**	7.08	6.86	5.89
Capital provided: ($000's)				
Common shareholders' equity-total	**134,332**	128,977	124,584	107,549
Long term debt (including current portion)	**95,612**	95,395	35,961	31,979
Short term debt	**92,363**	16,343	56,774	45,787
Minority interest	**–**	50,156	47,437	39,917
Deferred income taxes	**25,235**	31,317	36,569	36,882
Average equity outstanding ($000's)	**131,655**	126,781	116,067	99,092
Average debt outstanding ($000's)	**149,857**	102,237	85,251	81,500
Return on average common shareholders' equity (%)	**11.31**	12.82	21.51	24.40
Return on capital employed (%)	**6.01**	5.34	10.27	11.28
Cash dividends ($000's)	**12,419**	11,653	10,911	10,234
Annual dividend rate per common share ($)—year end	**.68**	.64	.60	.56
Price/earnings (%)	**15.85**	15.02	11.58	10.42
Dividend payout ratio (%)	**83.4**	71.7	43.7	42.3
Working capital ($000's)	**(32,328)**	80,404	48,620	37,199
Average number of common shares outstanding	**18,262,748**	18,210,696	18,174,171	18,256,683
Closing share price ($)	**13.00**	13.37	15.87	13.75
CAPITAL EXPENDITURES ($000's)	**40,127**	43,722	27,801	10,243
PLANT				
At year end: ($000's)				
Original cost	**368,679**	318,392	277,058	245,878
Depreciated cost	**229,330**	196,672	171,751	156,239
OPERATIONAL (average per day)				
Daily volume of gas exported:				
($10^6 m^3$)	**37.6**	27.0	31.9	23.2
(MMcf)	**1,327**	953	1,127	818
Daily Production: (average)				
NGL (m^3)	**2,326**	1 802	2 235	1 625
(Bbls)	**14,645**	11,345	14,070	10,230
Ethane (m^3)	**6,349**	5 050	6 160	4 695
(Bbls)	**40,146**	31,935	38,940	29,575

Notes:

Certain of the comparable figures for 1986 have been reclassified to conform with the financial statement presentation adopted for 1987.

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

1981 results do not include the effect of an extraordinary item ($4,786,000 or 27¢ per share).

1987 results do not include the effect of extraordinary items ($2,013,000 or 11¢ 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.

Closing price—Valuation Day, December 22, 1971—$1.33.

ELEVEN YEAR COMPARATIVE HIGHLIGHTS

1983	1982	1981	1980	1979	1978	1977
290,257	214,618	130,904	116,135	110,207	62,150	52,387
22,779	16,004	14,014	12,304	10,057	7,271	5,787
1.27	.89	.78	.69	.56	.41	.32
5.04	4.04	3.64	2.92	2.52	2.15	1.87
90,635	72,282	65,171	52,335	45,040	38,442	33,426
30,546	31,374	17,755	20,128	22,502	24,875	27,249
54,687	69,102	13,083	—	—	11,011	4,999
32,164	28,596	—	—	—	—	—
40,116	34,521	23,209	20,475	22,476	18,974	14,118
81,459	68,727	58,753	48,687	41,741	35,934	31,513
92,855	65,657	25,483	21,315	29,194	34,067	30,926
27.96	23.29	23.85	25.27	24.09	20.23	18.36
11.89	4.68	13.40	13.46	11.36	9.00	7.90
7,932	7,873	5,964	5,009	3,459	2,255	1,962
.44	.44	.33	.28	.19	.13	.11
6.83	8.43	11.76	9.30	8.34	7.80	8.53
34.8	49.2	31.7	40.7	34.4	31.0	33.9
6,447	(15,606)	616	12,341	6,740	(1,550)	3,255
17,982,677	17,892,330	17,892,330	17,892,330	17,892,330	17,892,330	17,892,330
8.67	7.50	9.17	6.42	4.67	3.20	2.73
13,875	40,982	22,569	1,499	5,073	23,926	15,318
232,912	221,750	137,488	120,921	119,449	114,419	90,503
160,052	163,842	89,320	73,984	78,308	79,112	59,162
24.7	26.6	26.6	27.8	34.0	30.6	35.1
871	940	938	982	1,200	1,079	1,240
1 630	1 970	1 600	1 705	1 930	1 680	1 840
10,270	12,385	10,085	10,730	12,160	10,540	11,600
3 920	3 025	3 370	3 480	3 485	2 630	—
24,780	19,105	21,230	21,800	21,920	16,530	—

COMMON SHARE MARKET INFORMATION

TORONTO STOCK EXCHANGE

	High	Low	Close	Shares Traded	Dividends Paid
1987					
First quarter	$16.00	$13.37	$15.50	895,961	$0.17
Second quarter	15.75	14.25	14.50	801,200	0.17
Third quarter	16.00	14.25	14.87	676,205	0.17
Fourth quarter	15.12	10.75	13.00	508,703	0.17
YEAR	**$16.00**	**$10.75**	**$13.00**	**2,882,069**	**$0.68**
1986	$16.00	$11.00	$13.37	3,285,744	$0.64

CORPORATE INFORMATION

CORPORATE OFFICE
East Tower, Esso Plaza
2400,
425 - 1st Street S.W.
Calgary, Alberta
T2P 3L8
(403) 260-9911

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 Pipeline Bonds, Series C)

Montreal Trust Company
Calgary, Montreal, Regina, Toronto, Vancouver, Winnipeg

(10⅛% Debentures)

Royal Trust,
Calgary, Toronto,
London, England

AUDITORS
Arthur Andersen & Co.
Chartered Accountants
Calgary, Alberta

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

SUBSIDIARY COMPANIES
ANGUS Chemical Company
Northbrook, Illinois
(100% owned by Alberta Natural)

Company Executives
R.E. Secrist,
Chairman and Chief Executive Officer
O.W. Chandler,
President and Chief Operating Officer

ANG Liquids Ltd.
Calgary, Alberta
(100% owned by Alberta Natural)

DIRECTORS AND OFFICERS

DIRECTORS

‡ Harry Booth,
Calgary, Alberta
Consultant.
Former Chairman of the Board and Chief Executive Officer, Alberta and Southern Gas Co. Ltd.

R.A. Clarke,
San Francisco, California
Chairman of the Board and Chief Executive Officer, Pacific Gas and Electric Company

‡† D.R. Fenton,
Calgary, Alberta
President and Chief Executive Officer, Alberta and Southern Gas Co. Ltd.

‡ J.E. Goudie,
Calgary, Alberta
Semi-Retired.
Chairman of the Board, Alberta and Southern Gas Co. Ltd.

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

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

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

B.W. Shackelford,
San Francisco, California
Consultant.
Former President, Pacific Gas and Electric Company

S.T. Skinner,
San Francisco, California
Vice Chairman of the Board, Pacific Gas and Electric Company

†‡ John A. Sproul,
San Francisco, California
Chairman of the Board, Pacific Gas Transmission Company and
Executive Vice President and General Manager, Gas Supply Business Unit, Pacific Gas and Electric Company

N.E. Wagner,
Calgary, Alberta
President and Vice-Chancellor, The University of Calgary

* Member of Audit Committee
† Member of Compensation Committee
‡ Member of Executive Committee

OFFICERS

J.E. Goudie,
Chairman of the Board

D.R. Fenton,
President and
Chief Executive Officer

D. McMorland,
Senior Vice-President

W.J. Demcoe,
Vice-President,
Finance and Administration

E.W. Mychaluk,
Vice-President,
Business Development

G.T. Noland,
Vice-President,
Corporate Planning

D.A. Sharp,
Vice-President,
Operations and Engineering

G.R. Walsh,
Vice-President

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

P.M. Mahoney,
Treasurer

A. Kenney,
Assistant Secretary

Alberta Natural Gas Company Ltd
1987 Annual Report

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