1990 Annual Report

Alberta Natural Gas

[With respect to our investors, ANG is committed to enhancing shareholder value. Our competitive advantage is our employees. We are concerned

for their safety and committed to their training. As a company, we are aggressive, confident, goal oriented and environmentally respectful. We will continue to be career sensitive, to build on our

strengths and to seek new opportunities for synergy and growth.]

The Annual Meeting of Shareholders will be held in the Britannia Room, The Westin Hotel, Calgary, Alberto, on April 25, 1991 at 9:30 a.m.
The notice of the meeting and proxy form are mailed with this report to all shareholders of record.

Corporate Profile

ANG is a Calgary-based company operating in three husiness areas - hydrocarhons, specialty chemicals and magnesium.

Pacific Gas Transmission Company, a U.S. federally regulated pipeline company, owns 49.9% of the issued and outstanding common shares of ANG. In turn, Pacific Gas and Electric Company, a major investor owned utility hased in San Francisco, California, owns 100% of Pacific Gas Transmission. The halance of the shares of ANG are held predominantly by Canadian institutions and individuals.

ANG owns and operates a large-diameter natural gas pipeline, which links the systems of NOVA Corporation of Alberta and Pacific Gas Transmission Company, to move natural gas from Alberta to California. ANG has a 49% interest in and operates, Foothills Pipe Lines (South B.C.) Ltd., a pipeline which parallels about one-half of ANG's line in southeastern British Columbia.

The Company also owns and operates a pipeline which transports natural gas for Shell Canada Resources Limited in the Peace River area of Alberta.

Through the Cochrane Extraction Plant Partnership, ANG owns and operates a world-scale natural gas liquids and ethane extraction facility near Cochrane, Alberta, on the western leg of the NOVA pipeline system. A carbon dioxide (CO_2) facility at the plant site refines CO_2 to food grade quality.

ANG is in the business of natural gas and natural gas liquids marketing in Canada and the United States, through ANG Liquids Ltd. and its wholly-owned subsidiaries, and has an interest in NGL storage facilities located at Marysville, Michigan.

Through its subsidiary, ANGUS Chemical Company, ANG is engaged in the production and marketing of nitroparaffins and their derivatives, and the manufacture and marketing of specialty chemicals in the United States and abroad.

ANG holds a 54 percent interest in Magnesium Partnership No. 1, which was formed in 1987, to construct and operate a magnesium production facility near High River, Alberta. ANG also has a 50 percent interest in the Amoco Centre in downtown Calgary.

Introduction

This Annual Report provides information to assist in understanding ANG's businesses - the operations and the directions the Company is taking to improve its competitive position.

It contains management's discussion and analysis of the financial condition and results of operations. This information is essentially the same as the discussion and analysis contained in the Annual Information Form (AIF), a document prepared pursuant to regulatory guidelines. The AIF is available upon request.

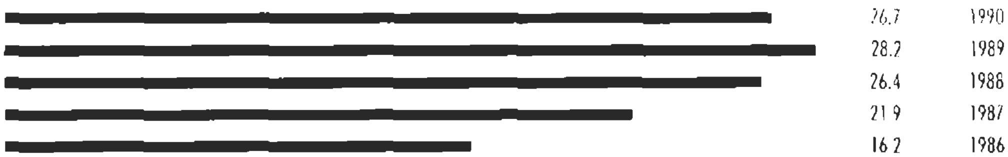
Financial Highlights

For the Years Ended December 31, 1990 and 1989

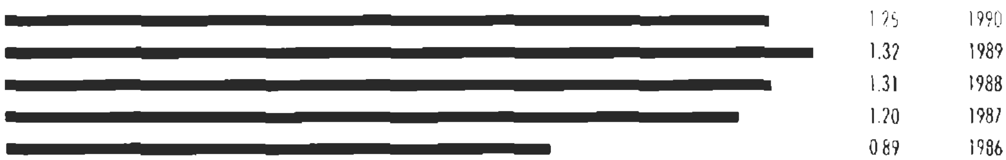
	1990	1989 (Restated)
Operating Revenue ($)	377,405,000	366,150,000
Income ($)		
from continuing operations	26,651,000	28,193,000
net income	25,728,000	23,623,000
Earnings Per Average Outstanding Common Share ($)		
(from continuing operations)		
first quarter	.21	.29
second quarter	.30	.34
third quarter	.28	.33
fourth quarter	.46	.36
annual		
from continuing operations	1.25	1.32
net income	1.21	1.11
Common Shareholders' Equity ($)		
total at year-end	168,528,000	152,652,000
per average outstanding common share	7.92	7.15
Return on Average Common Shareholders' Equity (%)	16.60	18.93
Dividends Paid Per Common Share ($)		
annual rate	.68	.68
Total Assets ($)	607,655,000	386,148,000
Capital Expenditures ($)	28,111,000	18,003,000
Average Number of Common Shares Outstanding	21,284,242	21,362,119
Number of Shareholders at Year-End	1,015	1,126

Operating Revenue (Millions of dollars)

Income From Continuing Operations (Millions of dollars)



Earnings Per Average Outstanding Common Share From Continuing Operations (Dollars)



It is a great privilege to present my first letter to shareholders as Chief Executive Officer of ANG and I am pleased to report that for the Company, 1990 was a year of moderate growth, with improved operating results. ANG has maintained a strong financial position, which is particularly gratifying considering that the High River magnesium plant required an infusion of funds throughout the year.

1990 was a year of significant change for the Company. We launched new initiatives to keep pace with changing markets and a changing

[Our people have shown that they can meet the challenges, but they will continue to be tested by our ever changing world. For this reason, training and education are at the top of our agenda.]

business environment. Change was also felt at our corporate office. In July of 1990, upon the resignation of Mr. D.R. Fenton, I was appointed Chief Executive Officer and President of ANG, in addition to my role as Chairman. Also, at that time, Mr. D. McMorland, the new President and Chief Executive Officer of Alberta and Southern Gas Co. Ltd., was appointed to the ANG Board of Directors.

1990 Operating Strategies

In 1990, we adopted the following operating strategies to achieve our ongoing objective – to earn and maintain investor confidence and to enhance shareholder value:

- Maintain long term reliability and security of pipeline and plant operations, while concentrating on safety and efficiency.
- Maintain existing gas markets and seek out new gas markets to strengthen the gas brokerage business.
- Actively investigate and pursue new business ventures in the hydrocarbons business.
- Develop new and expand existing markets in the chemical business through an enhanced commitment to quality and service.
- Attain an operating profit at ANGUS Fine Chemicals Ltd.
- Finalize a strategy regarding the magnesium business.

1990 Results

In general, our strategies were successful and our financial results were on target. Earnings were $1.21 per share, 10 cents per share more than last year. We achieved our earnings due to the continuing strong performances of both the hydrocarbons business and the chemical business. The hydrocarbons business experienced a very successful year with operating earnings of $42.1 million, an 11% increase over last year. ANGUS Chemical Company also had a good year, with strong earnings of $26.8 million.

The following are some of the highlights of 1990:

- Record volumes of natural gas were exported at Kingsgate, British Columbia, to serve markets in California and the Pacific Northwest. To ensure reliable future service, ANG initiated a compressor replacement program. Older units are being replaced with new energy efficient units.
- The Cochrane Extraction Plant performed beyond expectations and generated products and revenues which have contributed significantly to ANG's 1990 earnings.
- The NGL and natural gas marketing division had an excellent year achieving income of $5.6 million, an increase of $2.5 million over 1989 results.
- The Pipeline Expansion Project is forging ahead towards a proposed completion date of November, 1993.
- A business development group was established for the hydrocarbons business to review and direct the development of business opportunities.
- ANGUS Chemical detailed and initiated a European growth strategy. ANGUS is continuing to work with its customers to achieve successful research and development results. Success is highly dependent on its ability to deliver high quality products and provide top quality service. This requires a thorough understanding of customer needs in order to develop the appropriate products.

- The fine chemicals facility in Ireland earned a small profit during 1990, which is encouraging. We recognize that this facility is new and is performing in a highly competitive market. We are working to maximize utilization of this plant by producing quality products to our customers' specifications.
- ANG acquired control of the magnesium partnership.
- The only disappointing aspect of 1990 was our inability to achieve our objectives in the magnesium business. Not only did we encounter start-up difficulties, but it was necessary to advance funds for our partner. Although, we now have achieved the production and sale of some high quality magnesium, the commercial viability of this project remains uncertain. We are continuing to evaluate this business, including the additional financial support required to achieve commericial viability.

People

With respect to the many successes we experienced in 1990, they were due to the efficiency, hard work and dedication of our employees. They seized new opportunities and challenges, and turned them to ANG's advantage. ANG's employees are its competitive edge. The companies with whom we compete have just as many opportunities and face the same difficulties that we do. We are all experiencing the impact of market fluctuations and global change. ANG employees developed and implemented innovative ideas and found new ways to improve the Company's performance.

Our people have shown that they can meet the challenges, but they will continue to be tested by our ever changing world. For this reason, training and education are at the top of our agenda. We are developing a structure which will enable our employees to improve their skills, so they may discover better, more productive ways to approach their jobs.

To succeed in the 1990's, we need to work smarter. Daniel Bell, a well known futurist, is quoted as saying, "information is a transforming resource, knowledge is a strategic resource". We are challenging all of our employees to put this maxim into practice. We must transform data and information into knowledge, to ensure that our decision making is based on the most thorough analysis and the determination to capitalize on opportunities.

This will mean the development of new value added products and processes, as the operating results from the hydrocarbons and chemical businesses have illustrated. It means formalizing progressive, intelligent financing arrangements, as shown in our financial results.

This concept of knowledge as a strategic resource is also the motivation behind our ongoing strategic planning exercises. Like all alert companies, we continue to probe our current practices and explore new challenges.

Safety and Environment

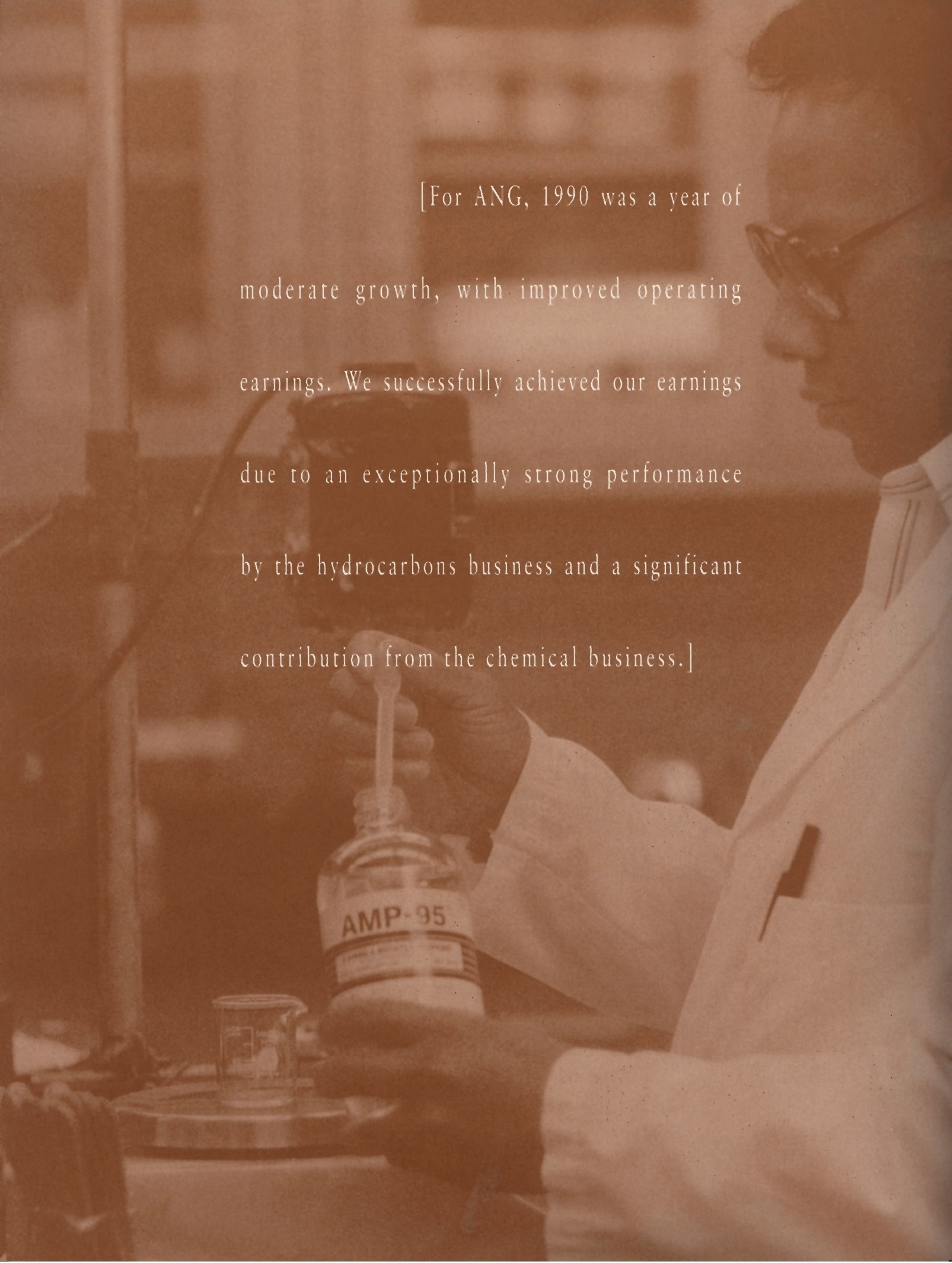
We are proud of our record with respect to safety and environmental compliance and these issues will continue to be of paramount concern to the Company. Our 1990 safety record for the operating areas reflects this commitment.

Industry must reduce emissions and wastes to an absolute minimum. To this end, ANG must play a pro-active role. The commitment to this objective is evidenced by new investments to improve our efficiency and environmental performance. We will continue to cooperate with others in industry to find solutions that will improve ANG's performance.

Outlook

1991 promises to be a most challenging year. Energy prices will continue to be unstable and there are no signs that exchange rates will work to our advantage. This is a time when our very best efforts will be required to succeed and prosper, and we plan to do just that.

Norman E. Wagner
Chairman, President and Chief Executive Officer
February 12, 1991

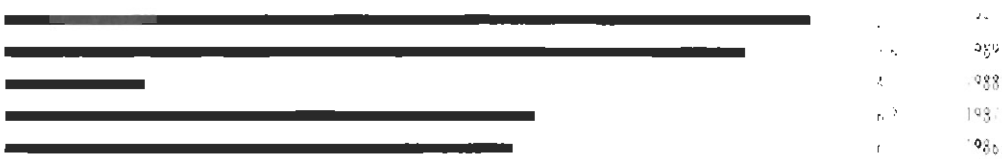


[For ANG, 1990 was a year of moderate growth, with improved operating earnings. We successfully achieved our earnings due to an exceptionally strong performance by the hydrocarbons business and a significant contribution from the chemical business.]

Corporate Overview

Alberta Natural Gas Company Ltd reported a consolidated net income, after discontinued operations, of $25.[illegible] million for the year ended December 31, 1990. This is a 9% increase over 1989 consolidated net income of $23.6 million. Similarly, earnings per share rose 9% over 1989, from $1.11 per share to $1.21 per share. The 1990 earnings improvement was due to an exceptionally strong performance by the hydrocarbons business and a significant contribution from the chemical business.

Net Income (Millions of dollars)



Earnings Per Average Outstanding Common Share (Dollars)

The hydrocarbons business achieved excellent results in 1990, and it is this traditional business base that has allowed the Company to participate in other diversified business opportunities in recent years. Strong marketing profits, due largely to the increase in propane prices during the early and latter parts of 1990, contributed extensively to the improvement in overall corporate results. Management recognizes that hydrocarbon revenue sources are increasingly market driven. Growth and stability, however, are dependent on a solid cost of service base and management is actively pursuing projects, such as the Pipeline Expansion and the Cochrane Extraction Plant Expansion, to achieve these objectives. These opportunities have been addressed and are presented in greater detail, throughout this report.

The chemical business continued to provide a significant contribution to overall corporate results. The nitroparaffins business maintained a solid record of profit performance and management intends to enhance profitability by developing and marketing new products and new applications for existing products through increased research and development efforts. The fine chemicals operation, located in Ireland, realized its first positive contribution at the operating income level in 1990. Management is hopeful that this upward trend in profitability can be sustained due to an expanded customer base and ANGUS Fine Chemicals Ltd.'s growing reputation as a reliable supplier of fine chemical intermediates.

The magnesium business has not achieved the production levels that were anticipated. During 1991, attention will be focused on resolving a final strategy regarding the magnesium business, including evaluating its commercial viability.

(Millions of dollars)	1990	1989 (Restated)	1988 (Restated)
Income from continuing operations			
Hydrocarbons:*			
Revenue	$ 223.0	$ 219.6	$ 205.0
Expenses	180.9	181.8	174.8
	42.1	37.8	30.2
Chemical:			
Revenue	153.8	146.5	132.7
Research & Development	4.1	4.1	3.7
Other expenses	122.7	114.5	100.2
	27.0	27.9	28.8
Magnesium:			
Revenue	0.6	—	—
Expenses	6.4	—	—
	(5.8)	—	—
Corporate expenses	8.7	5.4	4.1
Operating income	54.6	60.3	54.9
Other income	5.8	1.7	3.9
	60.4	62.0	58.8
Interest expense	20.7	15.6	16.0
Income taxes	17.1	18.2	16.4
Minority interest	(4.1)	—	—
	$ 26.7	$ 28.2	$ 26.4

* These figures exclude the NGL and natural gas marketing operations of the CanStates group. These results are included on an equity basis in Other Income.

The above chart provides a summary of income from continuing operations.

The following information provides an in-depth analysis of each of the Company's major businesses.

Hydrocarbons Business

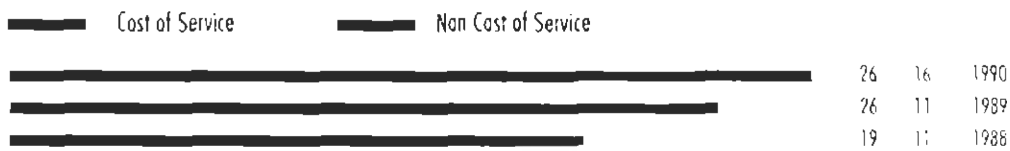
In 1990, operating income for the hydrocarbons business increased by 11% to $42.1 million, indicating continued strength, stability and growth.

Operating income (Millions of dollars)		1990		1989		1988
Hydrocarbons business						
Natural gas processing	$	35.3	$	32.5	$	24.0
Pipelines		4.5		4.0		4.4
Natural gas marketing		2.3		1.3		1.8
	$	42.1	$	37.8	$	30.2

* These figures exclude the NGL and natural gas marketing operations of the CanStates group. These results are included on an equity basis in Other Income.

The hydrocarbons business includes ANG's natural gas processing business, its NGL and natural gas marketing business and its pipeline investments in British Columbia and Peace River, Alberta.

Operating Income (Millions of dollars)



Operating income generated from cost of service contracts continues to provide significant, stable and long term earnings to the hydrocarbons business. This graph details specific cost of service elements in the Natural Gas Processing and Pipeline operations.

Natural Gas Processing The natural gas processing business is conducted at the world-scale Cochrane Extraction Plant. NGL and ethane are extracted from natural gas made available to the Cochrane Plant by its suppliers. The Cochrane Plant is, by far, the largest contributor to operating results within the hydrocarbons business, generating operating income of $35.3 million during 1990, compared to $32.5 million during 1989.

The business is driven by two major cost of service based extraction agreements, one for each of NGL and ethane.

The cost of service component of these agreements provides for the full recovery of both current operating expenses and capital facilities investment over the life of the agreements, along with a contracted after tax return on the outstanding investment base. These returns will decline as the investment base is recovered. This decline may eventually be offset by additional facilities investment that may be required to continue to meet the service obligations.

Return and related taxes total $14.0 million for both 1990 and 1989.

[In 1990, operating income for the hydrocarbons business increased by 11% to $42.1 million, indicating continued strength, stability and growth.]

This represents 41% (43% - 1989) of overall operating results for the natural gas processing business for 1990.

The cost of service provisions of the ethane extraction agreement call for the full recovery of the initial capital investment by the end of 1998. Because the Company has a commitment from the Cochrane Plant's major natural gas supplier to the end of 2012, the facility is being depreciated in the accounting records over this longer, useful life estimate. The additional revenue stream that results from this treatment contributed $5.0 million during 1990 ($4.9 million - 1989).

Other cost of service related fees contributed $3.8 million to operating income during 1990 ($5.0 million - 1989). The variance is the result of a decline in production volumes experienced during 1990, in comparison to those achieved in 1989.

The NGL extraction agreement, in conjunction with one other related profit sharing arrangement with a major supplier, provides for at least a 25% participation in cumulative net marketing profits generated by the sale of propane, butane and condensates, derived from the NGL delivered to the buyer. Marketing profits include the selling prices of these products, reduced by Cochrane Plant processing costs and downstream expenses for transportation, fractionation and marketing. Any losses that may be generated by this activity are carried forward to subsequent contract years.

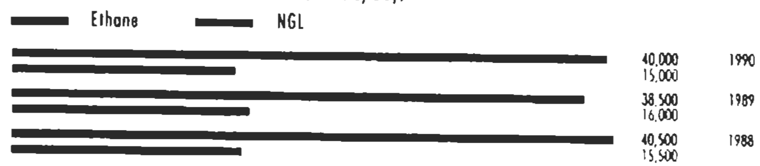
Certain marketing losses did accumulate during 1989 and prior years, but due to the substantial increase in propane and related product prices that were experienced at various times during 1990, these losses have been recovered. A $6.2 million marketing profit contribution was made to operating results during 1990 ($1.5 million - 1989).

The Company participates in a further profit opportunity through its arrangements with the NGL buyer. By aggressively managing the supply and cost of natural gas made available for processing at the plant, any savings, when compared with the price that would otherwise be payable, are shared with the buyer. This arrangement contributed $5.3 million during 1990 ($6.3 million - 1989).

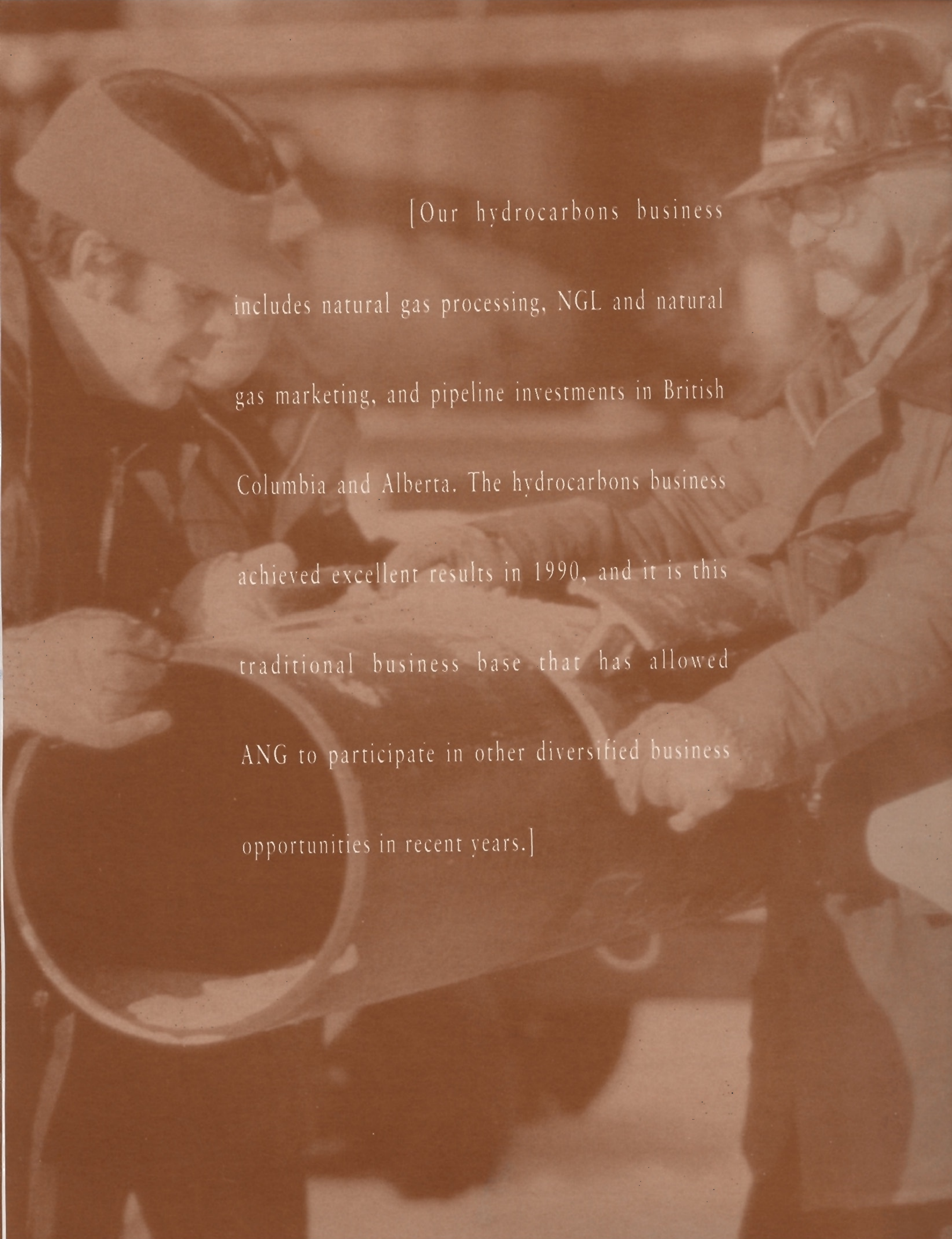
A small CO_2 processing facility has been in operation at the Cochrane Plant for a number of years, contributing $.6 million to operating results for 1990 ($.3 million - 1989).

Investment in the Cochrane Plant, through ongoing capital maintenance projects, has been small over the past two years. Plans for more significant capital projects are currently under way for 1991, at an estimated cost of approximately $8.7 million. The majority of this amount will be spent on energy saving modifications, such as the addition of three heat exchangers and the re-wheeling of the compressor. These projects will increase operational flexibility and achieve energy cost savings.

Cochrane Extraction Plant Production (Barrels/Day)



Ethane production averaged 6,336 m^3 per day (40,068 Bbls/Day) in 1990, an increase of 2.7% over 1989. NGL production volumes averaged 2,374 m^3 per day (14,933 Bbls/Day) in 1990, a decrease of 8.4% over 1989. This decrease is a direct result of a lower propane content in the natural gas stream available to the plant and a lower natural gas throughput. Natural gas volumes processed in 1990 averaged 32.3 10^6m^3 per day (1,147 Mmcf/Day), down 1% from the record volumes processed in 1989.



[Our hydrocarbons business includes natural gas processing, NGL and natural gas marketing, and pipeline investments in British Columbia and Alberta. The hydrocarbons business achieved excellent results in 1990, and it is this traditional business base that has allowed ANG to participate in other diversified business opportunities in recent years.]

There was a marked increase in sales of CO_2 to the food industry, resulting in total shipments of 29,827 tonnes compared to 22,403 tonnes in 1989.

A significant investment opportunity exists for expansion of the Cochrane Plant, due to the anticipated increased gas flows projected for the Alberta - California Pipeline Expansion Project, which is addressed later in this report. Management is considering a plant expansion, at an estimated cost of $50 - $75 million, which would provide operational flexibility and incremental capacity, allowing the hydrocarbons business to participate in future market opportunities.

Pipelines The success of the pipeline business depends on providing a safe and reliable transportation service. ANG's pipeline investments are located in southeastern British Columbia and northern Alberta. The B.C. pipeline links the systems of NOVA Corporation of Alberta and Pacific Gas Transmission Company, to move natural gas from Alberta to California. Its facilities and related cost of service contracts are subject to the jurisdiction of the National Energy Board (NEB). The Peace River, Alberta, pipeline is dedicated to the delivery of natural gas for Shell Canada Resources Ltd., to its heavy oil recovery project. The related contract provides a cost of service based tariff to the year 2016.

In addition to the operating facilities described above, the Company has a further pipeline investment through a 49% common share ownership in Foothills Pipe Lines (South B.C.) Ltd. Foothills (South B.C.) owns facilities that parallel about one-half of ANG's own pipeline in southeastern British Columbia. The Company's share of net income is accounted for on an equity basis and is included in Other Income in the Consolidated Statement of Income.

Similar to the cost of service agreements relating to the Cochrane Plant, the pipeline transportation agreements provide for full recovery of operating expenses and capital investment along with an after tax return.

Operating income contributed by pipeline operations amounted to $4.5 million for 1990, compared to $4.0 million for 1989. Maintaining and improving this level of contribution requires continuing capital investment. In excess of $6.6 million was spent on capital improvement projects for 1990 and 1989. The Company has plans, approved by the NEB, for further capital projects amounting to approximately $29.5 million during 1991 and into 1992. The replacement of two compressor units accounts for the bulk of this capital program. Replacing these units with new gas turbines and axial inlet compressor units will dramatically reduce fuel consumption, station emissions and noise. ANG's concern for the environment is clearly evident in this project, as it is expected to reduce emissions of products of combustion by up to 50% of current emissions. This action is taken in response to the increasing awareness of environmental concerns, which may lead to stricter regulatory standards in the near future.

The most significant opportunity for capital investment in the pipeline business is the Alberta - California Pipeline Expansion Project. ANG views this project as a valuable expansion of one of its primary businesses.

In February, 1990, ANG and Foothills (South B.C.) reached an agreement to co-sponsor the Canadian portion of the project. The project was initiated to meet the growing demand for natural gas in the California and Pacific Northwest markets, and will expand pipeline capacity by over 50% to carry an additional 932 million cubic feet per day. ANG will design, construct and operate the expansion facilities in southeastern British Columbia. The estimated $186 million Canadian portion of the project will consist of additional pipeline segments that will be owned by Foothills (South B.C.), along with new and modified compression facilities at existing compressor stations that will be owned by ANG. Construction is planned to commence in the fall of 1992 or early 1993, with full volume deliveries in November, 1993. Facilities applications have been filed with both the NEB and the Northern Pipeline Agency, with approval expecred in 1991.

The United States portion of the project has been granted most of the required regulatory approvals. In December, 1990, the California Public Utilities Commission approved expansion of the California portion from Malin, Oregon, to Kern River Station in San Joaquin County, California. In early 1991, the Federal Energy Regulatory Commission granted the project preliminary approval.

ANG, working jointly with TransAlta Resources Corporation, has proposed a $100 million development of a cogeneration plant for the generation of up to 129 megawatts of electricity for domestic and export markets by 1995. The project would rely on the recovery of waste heat, complemented by natural gas, for the generation of electricity and would be located at the Crowsnest compressor station on the British Columbia pipeline. Should the project proceed, the facility would be designed to meet or exceed all environmental regulations, with particular attention to atmospheric emission, surface discharge and noise. The technology required for the project is well proven and efficient.

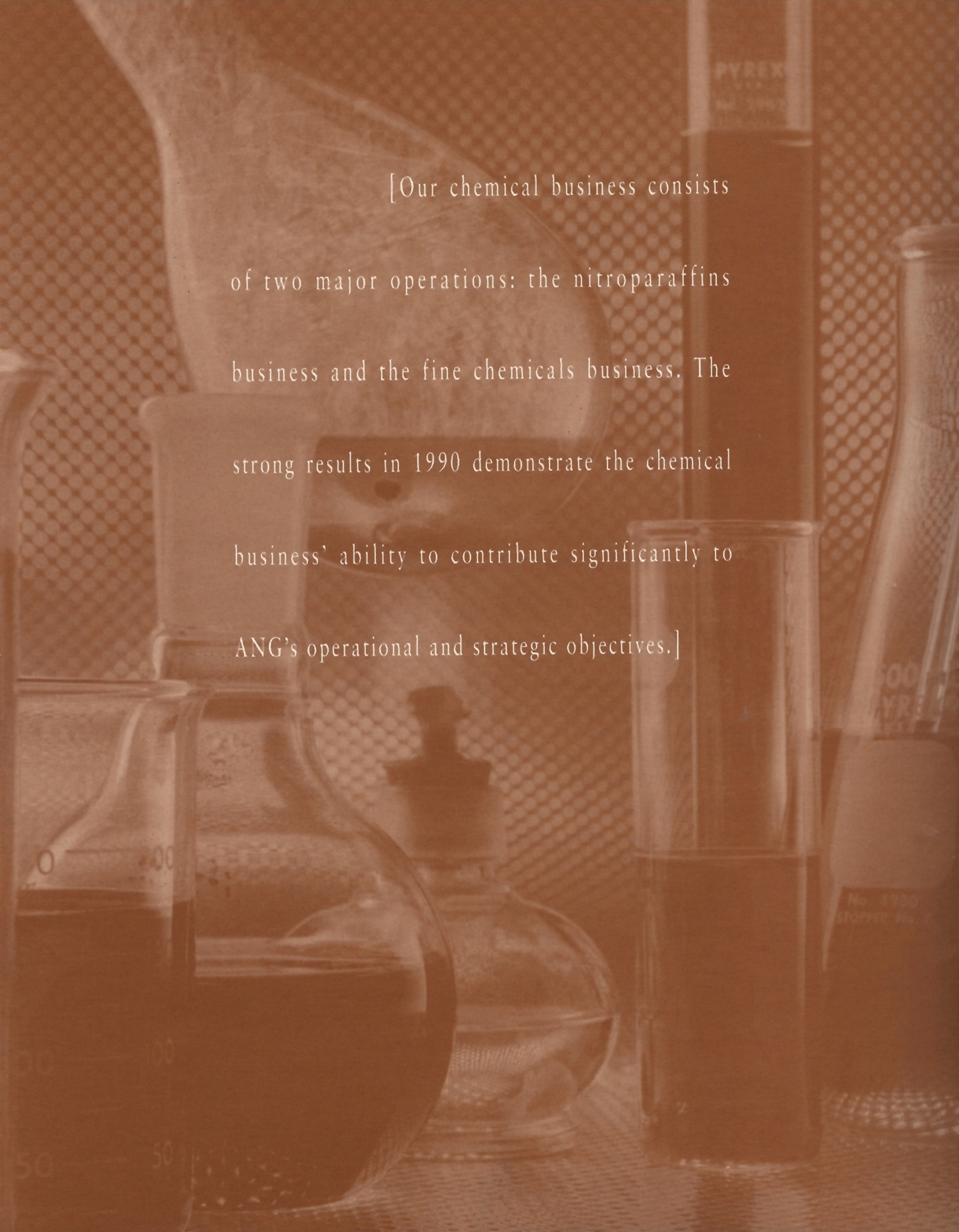
If ANG and TransAlta are successful in attracting any one of a number of markets being pursued, an electricity sales contract could be in place by the end of 1991. Other ANG owned and operated gas compressor stations along the British Columbia pipeline could be similarly developed with a total potential cogeneration capacity of 400 megawatts.

NGL and Natural Gas Marketing ANG's natural gas marketing business is structured as two divisions: ANG Gas Marketing, focusing on Western Canada, and CanStates Gas Marketing, which primarily targets the eastern North American markets. Natural gas liquids are marketed by CanStates Energy and CanStates Petroleum Marketing.

The NGL and natural gas marketing business made a substantial contribution during 1990, achieving operating income of $5.6 million, a $2.5 million increase over 1989. The CanStates operations contributed $3.3 million of the $5.6 million and are recorded in the accounting records on an equity basis and are included in Other Income in the Consolidated Income Statement ($1.8 million - 1989). These improved operating results were due to worldwide fluctuations in energy prices, which caused significant variances between spot and contract NGL prices. Management recognizes that 1990 results reflect the Company's ability to take advantage of temporary market uncertainty, and is cautious of anticipating similar results if and when a measure of price stability prevails.

In January, 1991, ANG acquired 100% ownership of CanStates Energy, CanStates Petroleum Marketing and 66.67% interest in CanStates Gas Marketing. As part of the acquisition, existing contracts with NOVA Corporation of Alberta to supply feedstock to NOVA's petrochemical facilities will be terminated and replaced with new arrangements.

CanStates is aggressively seeking new markets. A major natural gas export contract, including export authority, has been negotiated and will enable deliveries to commence by November 1, 1991, when required TransCanada PipeLines facilities are in service. Opportunities exist for ANG's marketing divisions to develop a large cross-Canada and export gas marketing business.



[Our chemical business consists of two major operations: the nitroparaffins business and the fine chemicals business. The strong results in 1990 demonstrate the chemical business' ability to contribute significantly to ANG's operational and strategic objectives.]

Chemical Business

In 1990, the chemical business achieved operating income, after discontinued operations, of $26.8 million. These strong results demonstrate the chemical business' ability to contribute significantly to ANG's operational and strategic objectives.

Operating income (Millions of dollars)		1990		1989 (Restated)		1988 (Restated)
Chemical business						
Nitroparaffins	$	26.8	$	29.8	$	31.1
Fine Chemicals		0.2		(1.9)		(2.3)
Operating income from continuing operations		27.0		27.9		28.8
Discontinued operations - Biotech		(0.2)		(5.7)		(15.5)
	$	26.8	$	22.2	$	13.3

The chemical business consists of two major operations: the nitroparaffins business and the fine chemicals business. A third operation, the ANGUS Biotech business, was discontinued in 1989 and its operating results were reclassified to discontinued operations. These operations make up ANGUS Chemical Company, a 100% owned subsidiary of ANG. ANGUS Chemical is headquartered in Northbrook, Illinois, U.S.A., and its technical offices are located in West Germany, France, England and Singapore.

Nitroparaffins ANGUS Chemical is the worldwide leader in the manufacture and marketing of nitroparaffins and derivative products. The nitroparaffins business has production facilities for the four basic nitroparaffins and their derivatives in Sterlington, Louisiana. Nitroparaffin derivatives are manufactured at Ibbenbueren, West Germany, and custom organic intermediates are manufactured at a plant in Ringaskiddy, Ireland.

The nitroparaffins and derivatives produced by ANGUS Chemical are used in the following applications: pharmaceutical intermediates, printing inks, dispersants for paint pigments, biocides in cutting fluids and personal care products, fuels, specialty explosives, solid propellants, and many more.

With over 50 years of history, ANGUS Chemical has a reliable track record of supplying value added products to a dynamic market. Long-term growth in the nitroparaffins business requires the development of new uses for its products and the development of new products.

Through an increased commitment to research and development, the nitroparaffins business is aggressively pursuing new opportunities. To create a greater emphasis on market driven technical innovation, the nitroparaffins business is currently enhancing product management and market development capabilities. The high value market opportunities are identified and prioritized, allowing management to focus its efforts on research and development expansion. During 1990, approximately 3% of revenues was allocated to research and development. New products, currently under development, are considered promising enough to warrant a planned 30% increase in research and development spending in 1991.

[With over 50 years of history, ANGUS Chemical has a reliable track record of supplying value added products to a dynamic market.]

Revenues in the nitroparaffins business declined slightly from 1989 levels, primarily as a result of volume shortfalls during the first half of the year. The decline stemmed from depressed sales volumes, as severe weather affected certain agricultural markets, and reduced purchases from offshore markets. This was partially offset by strong sales during the second half of 1990. Management believes that these volume decreases are temporary fluctuations, not trends.

Profits were also hampered by other temporary conditions during 1990. First, the business was faced with a 50% - 60% increase in the cost of a key feedstock, as the price of propane showed extreme volatility throughout the year. Management anticipates continued volatility. However, as discussed later in this report in the Sensitivities section of the Corporate Liquidity and Capital Resources section, this volatility is counterbalanced by the positive impact of propane prices on the hydrocarbons business. Second, increased manufacturing expenses, associated with the start-up of new facilities in Sterlington, Louisiana, negatively affected operating results.

Capital spending in the nitroparaffins business totalled $3.5 million during 1990. The major capital expenditures included expansions at both the Sterlington and Ibbenbueren production facilities. An additional $9.3 million is planned during 1991, for ongoing improvements, environmental upgrades and research and development projects.

The nitroparaffins business is highly profitable and management is determined to maintain this level of success. ANGUS Chemical was the sole Western World manufacturer of nitroparaffins until the mid 1980s. Since that time, another U.S. producer has entered the field with approximately 15% of ANGUS Chemical's worldwide capacity. Nitroparaffin products are sold on a performance basis and success is measured by the value added, in end-use, in a wide diversity of markets. Product margins are dependent on valuable applications at the customer level. Increased competition prompted the nitroparaffins business to focus on its most profitable products and markets. The business will continue to enjoy growth in these areas as a result of expanded production capacity and improved marketing capabilities.

Fine Chemicals ANGUS Fine Chemicals Ltd. began operations in 1987, as a grass roots development of ANGUS Chemical. It operates one of the Industry's largest custom chemical facilities at Ringaskiddy, Ireland, and offers a broad range of capabilities to carry out multi-stage batch organic reactions.

The fine chemicals business achieved a positive operating income in 1990, with the introduction of several major new products in the fourth quarter. Management expects the business to achieve further growth and improved profitability in 1991, which will solidify its reputation as a high-quality, United States Government Food and Drug Administration registered, manufacturer.

Capital expenditures in the fine chemicals business in 1990 totalled $8.2 million, and were primarily allocated to environmental projects, such as the installation of waste treatment facilities. The 1991 budget of $9.7 million will be used for ongoing improvements, further environmental upgrades and research and development efforts.

Because of the developing nature of the fine chemicals business, its ultimate market share is not currently determinable. Management believes that this operation excels in the areas critical to success in this business, due to the quality of the production facilities and the technical and marketing skills of the employees.

Magnesium Business

The magnesium plant has not achieved the production levels that were anticipated. Commissioning the facility has been difficult and expensive. Additional financial support will be required to achieve commercial viability. Until commericial success can be demonstrated, it is not reasonably determinable whether all capital costs will be realizeable through ongoing operations.

Since 1987, ANG has been a partner with Magnesium International (Canada) Ltd. (MICAN) in the construction and operation of a facility near High River, Alberta, to produce and market high purity magnesium and magnesium metal alloys. The facility is operated for the partnership by the Magnesium Company of Canada (MAGCAN). Phase I of the development, with a 12,500 tonne per year design capacity, is in the start-up phase and has produced metal on a limited basis since September, 1990. Throughout 1990, construction and operation of the plant required considerable effort and expenditure.

[It is MAGCAN's objective to improve the competitive position of magnesium, relative to alternative structural materials, by providing a secure high quality magnesium supply under longer term contracts.]

ANG has been advancing its partner's share of project equity requirements since July, 1990. According to the partnership agreement, these advances are repayable with interest, or may be converted by the contributing partner into additional partnership interest. ANG exercised this conversion right in August, 1990, by converting advances amounting to $2.8 million, plus accrued interest, into an additional 4% interest in the partnership, giving ANG a 54% interest. Ongoing advances have been made by the Company, on behalf of its partner, amounting to $13.0 million as of December 31, 1990.

As a result of the increase in ownership, ANG established control of decision making for the partnership. Acquisition of control has resulted in a full consolidation of the accounts of the partnership in ANG's Consolidated Financial Statements. The effect of this consolidation is summarized in Note 10 to the Consolidated Financial Statements.

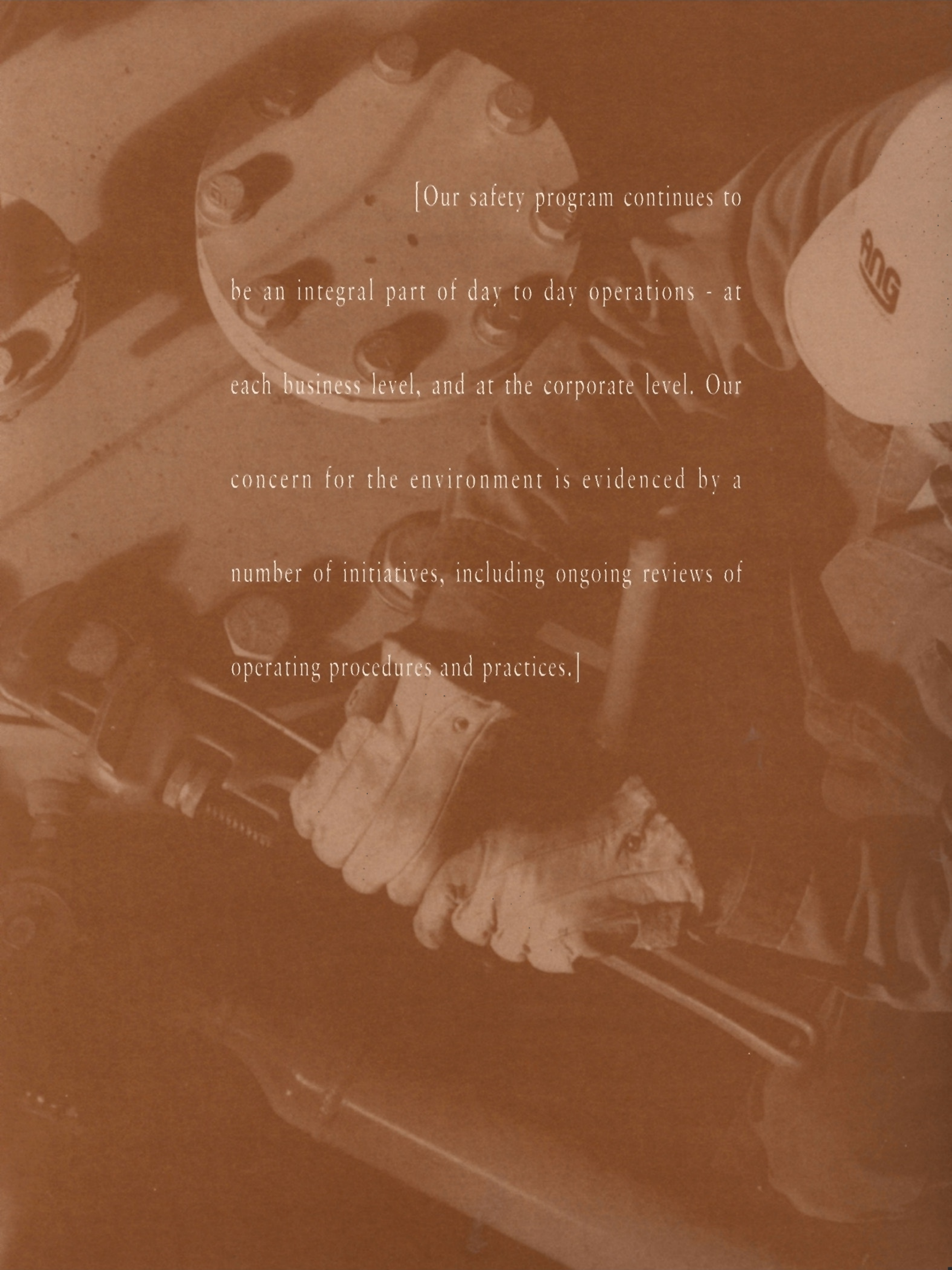
ANG's investment in the project, including advances made on behalf of its partner, amounted to $58.8 million as of December 31, 1990. ANG's Canadian commercial paper program and internally generated operating cash flow, provided the necessary funding for this project. It is anticipated that any additional funds required in 1991 would be similarly sourced. Financing for 75% of the original capital cost of the project was arranged through a bank loan of $102.8 million. This loan is described in Note 5 to the Consolidated Financial Statements.

Considered operational October 1, 1990, the magnesium business reported an operating loss of $5.8 million on revenue of $.6 million for the remainder of 1990. Because the facility has not demonstrated its ability to produce at design capacity, the results of future operations are uncertain. It remains uncertain whether MAGCAN can contribute positively to net income.

Since consolidation, $8.8 million was spent on capital expenditures at the magnesium production facility in 1990. 1991 capital expenditures are expected to be $4 to $9 million.

The primary markets for magnesium are the diecasting of auto and other components, the production of aluminum alloys and the metal reduction processes used to manufacture titanium and zirconium.

There are nine producers of magnesium in the Western World. Four companies - Dow Chemical Company (Dow), Norsk Hydro AS (Norsk), Magcorp and Alcoa, represent over 80% of the total capacity. With Norsk's new Becancour, Quebec facility reaching full capacity in 1991, Norsk and Dow will have in excess of 60% of the Western World's supply capability. In 1990, there was an effort on the part of the producers to reduce inventory, resulting in an oversupply on the world market which depressed prices.



[Our safety program continues to be an integral part of day to day operations - at each business level, and at the corporate level. Our concern for the environment is evidenced by a number of initiatives, including ongoing reviews of operating procedures and practices.]

Safety and the Environment

ANG is committed to occupational health and safety in all areas of its businesses and this is reflected in the Company's safety record. ANG's Safety Program continues to be an integral part of day to day operations - at each business level, and at the corporate level. It includes ongoing safety training for all employees, together with safety inspections and audits throughout the organization. A special effort has been made to involve the operating staff in safety meetings and in the establishment of safety goals.

The Cochrane Extraction Plant was recognized by both the Canadian Gas Processors Association and the Southern Alberta Petro-Chemical Safety Council, for its outstanding record of zero loss time accidents.

ANG shares the public's increasing concern about the environment. This is evidenced by a number of initiatives currently taking place, including ongoing reviews of operating procedures and practices, to reflect current technology and regulations.

In the hydrocarbons business, the compressor replacement program will reduce emissions of products of combustion by up to 50%, improve energy efficiency and reduce noise pollution. Plans for the proposed Cogeneration Plant are being carefully designed to meet or exceed all environmental regulations. Environmental protection has become an integral component of the Pipeline Expansion Project. Wherever possible, the project will follow the existing pipeline right-of-way to minimize environmental impact. The right-of-way, or any other disturbed areas, will be re-vegetated, which is expected to enhance the habitat for some species. All aspects of the project are being designed to meet or exceed all environmental standards.

In the chemical business, ANGUS Chemical's Sterlington, Louisiana plant received a satisfactory environmental rating, which is the highest environmental rating given by the State of Louisiana. The ANGUS Fine Chemical facility in Ireland, continues its significant level of environmental spending. Much of this spending is not in response to regulatory requirements, demonstrating ANGUS Chemical's pro-active commitment to the environment.

At the magnesium plant, environmental monitoring is carried out on a routine basis. Additional investments are being investigated to further reduce emissions at the facility.

Corporate Liquidity and Capital Resources

Liquidity

(Millions of dollars)		1990		1989		1988
Current Assets	$	152.0	$	120.4	$	115.6
Current Liabilities		76.7		106.4		122.2
Working Capital		75.3		14.0		(6.6)

Working capital increased significantly in 1990, to $75 million. Reclassification of ANG's Canadian commercial paper program to

[On an ongoing basis, management monitors key business drivers, which it defines as those economic variables critical to the Company's cash flow and profitability.]

long term debt, as discussed in the Notes to Consolidated Financial Statements, decreased current notes payable, on a net basis, by $50.6 million. Accounts receivable increased by $14.3 million during the year, reflecting ANGUS Chemical's strong sales during the final two months of 1990. Inventory levels rose by $14.6 million during 1990, primarily due to a significant inventory build up of new products in ANGUS Fine Chemicals and a planned increase in the derivatives inventories required to support nitroparaffin sales during early 1991. Accounts payable increased by $7.5 million in 1990, primarily due to the consolidation of MAGCAN. 1990 funds provided by operations continued at the 1989 level. Investing activity exceeded the 1989 levels, primarily due to the magnesium project requirements.

In 1989, working capital was $14 million, an increase of $20.6 million from the previous year. The most significant impact was a $19.6 million decrease in notes payable. The proceeds of a Deutsche Mark bank loan, as well as operating cash flow, were used to retire this debt. The cash balance rose by approximately $7.5 million, largely due to the discontinuation of the operating losses at ANGUS Biotech Inc. Other current assets decreased by $2.7 million, reflecting lower income taxes receivable, resulting from substantially larger tax deferrals in 1988. Other current liabilities increased by approximately $3.8 million, impacted by ANGUS Fine Chemicals' increased business activity.

1989 funds from operations showed marginal improvement over 1988. The most substantial improvement was found in the non-cash working capital accounts. Significant cash was required by the chemical business during 1988, to bring ANGUS Fine Chemicals and ANGUS Biotech to commercial scale. This requirement was not repeated in 1989. In 1988, the Company required $23 million to make its initial equity contribution to the magnesium partnership. An additional $3.5 million of equity was required in 1989.

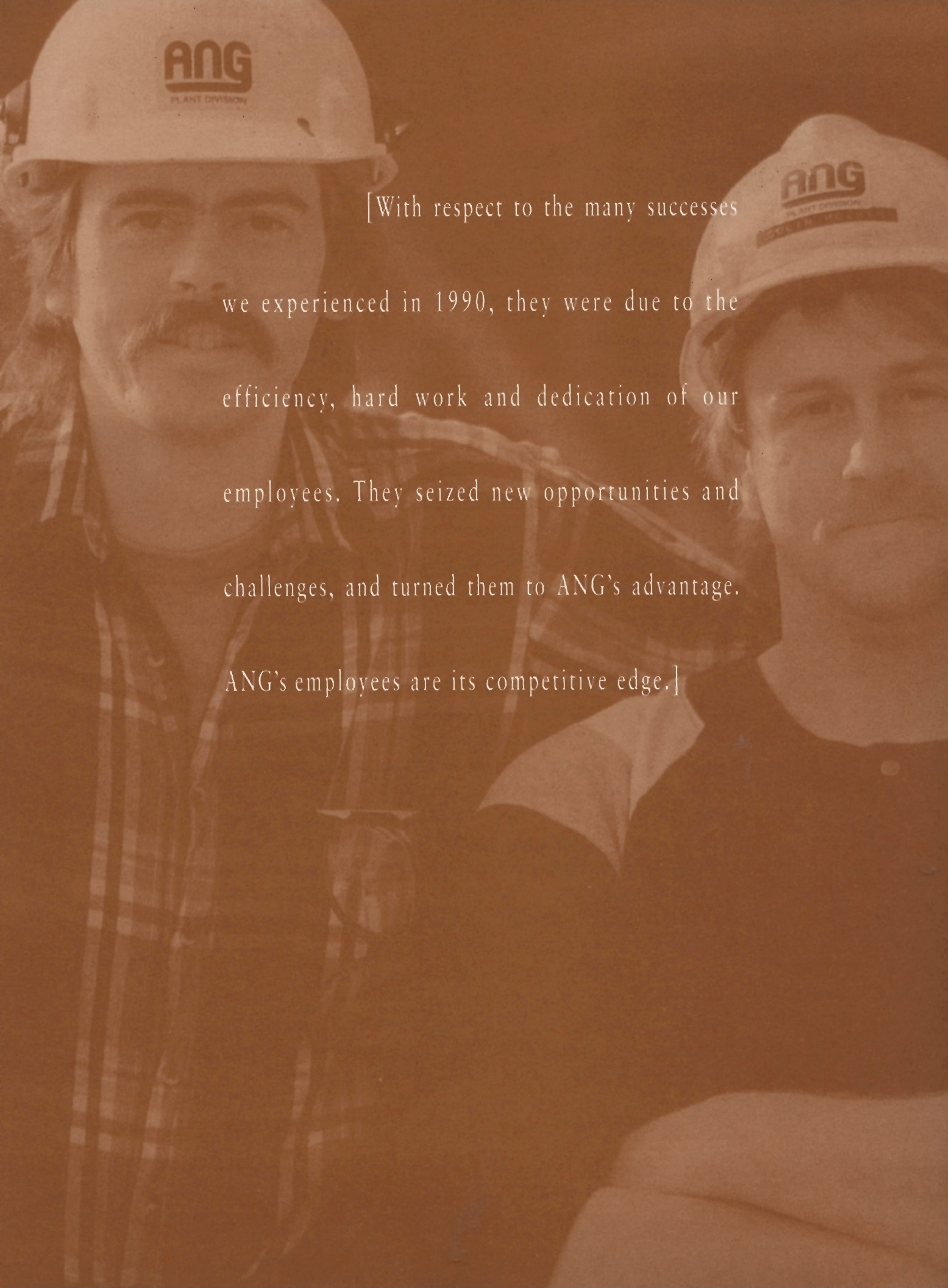
Sensitivities On an ongoing basis, management monitors key business drivers, which it defines as those economic variables critical to the Company's cash flow and profitability. By tracking and forecasting these drivers and analyzing the effects of their movements, management is aware of the Company's sensitivity to each of the variables and is positioned to capitalize on opportunities and quickly react to downturns.

The commodity prices of magnesium, energy costs, chemical products selling prices, and natural gas prices, are all key drivers within the various businesses. Variables such as interest rates, foreign exchange rates, and propane prices, are analyzed from a corporate viewpoint. Knowledge of the simultaneous effects on cash flow and profits of all the businesses, which result from movements in these variables, is valuable to management as it continually strives to reduce ANG's operational and financial exposures.

Corporate Key Drivers Effect on ANG's 1991 Plan Net Income (Millions of dollars Canadian)

Corporate Key Drivers		Net Income Increase/ (Decrease)
Propane price/increase of $.05 U.S. per gallon	$	1.5
Interest rate/increase of 100 basis points	$	(.9)
U.S. dollar exchange rate/increase of $.02 Canadian	$	.9
U.S. dollar exchange rate/increase of 5% versus Deutsche Mark	$	(.4)

The above table illustrates an analysis of corporate sensitivity.



[With respect to the many successes we experienced in 1990, they were due to the efficiency, hard work and dedication of our employees. They seized new opportunities and challenges, and turned them to ANG's advantage. ANG's employees are its competitive edge.]

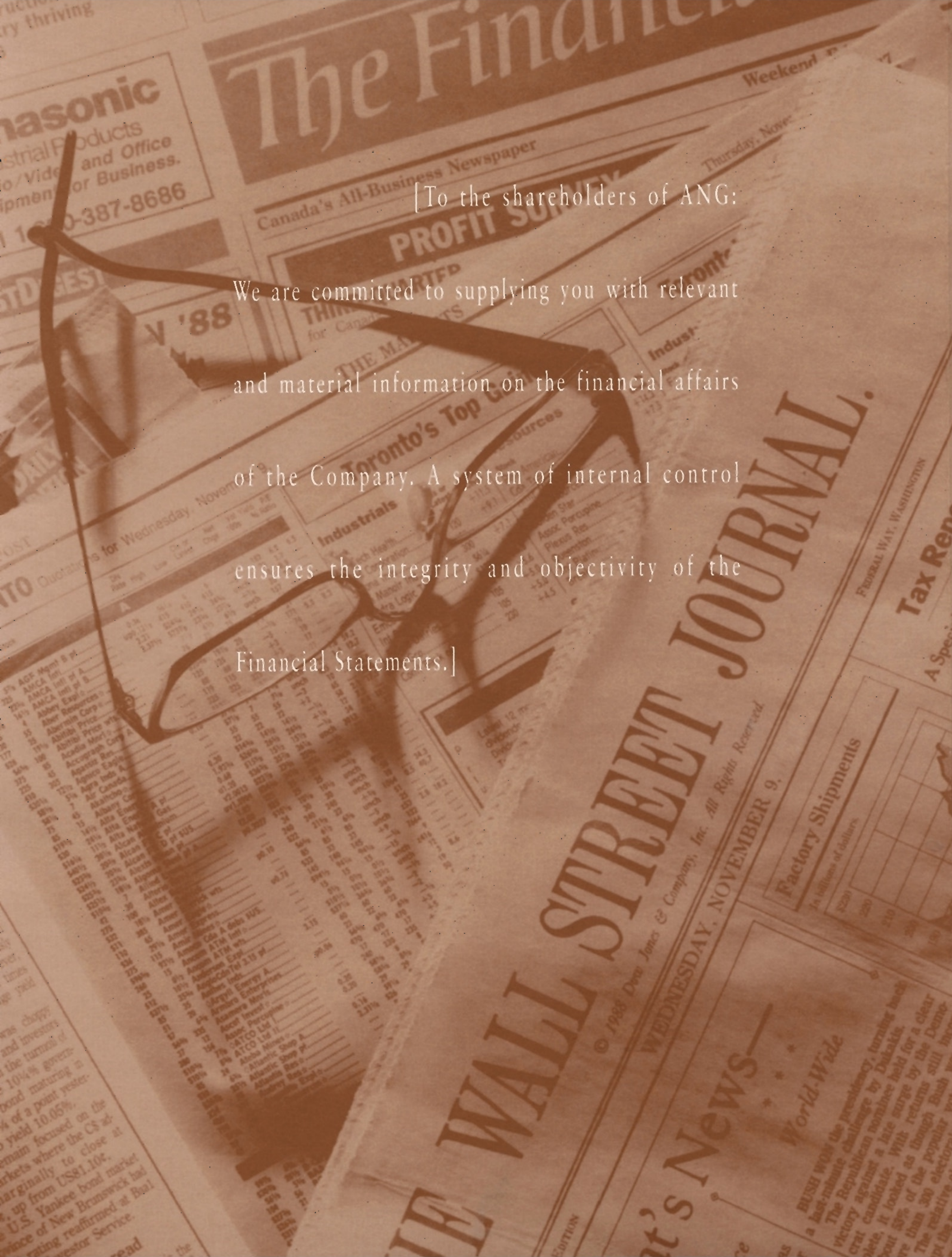
Financing ANG has operations in several countries, substantially increasing the number of variables that affect profitability. The 1980s saw an unprecedented volatility in exchange and interest rates. This trend is expected to continue in the 1990s. The challenge issued to ANG's management is to match the overall corporate funding requirements in the most cost effective way. The Company's response to this challenge is the implementation of a coordinated multi-currency treasury management function. This will allow ANG to obtain maximum benefit from its multi-national resources by matching cash flow surpluses and deficits throughout the organization and negotiating funding by drawing upon the credit and resources of ANG as a whole.

The Company endeavors to reduce both its borrowing cost and its exposure to foreign exchange fluctuations. As part of its long term financial strategy, the Company converted $70 million of floating rate Canadian debt into fixed and floating U.S. debt in 1990, and borrowed 14 million Deutsche Marks in 1989. The details of these transactions and of the Company's outstanding debt are described in the Notes to Consolidated Financial Statements.

ANG's available bank lines of credit total $120 million. These lines support the commercial paper borrowings. Upon drawdown, the unsecured loans bear interest at prevailing market rates.

The Company and its subsidiaries expect to meet their fiscal 1991 cash requirements for working capital, capital expenditures, long-term debt repayments and dividends from internally generated funds, unutilized existing bank lines of credit and unutilized existing short-term borrowing facilities.

Major capital projects in the future will require additional long-term borrowing. ANG management fully anticipates that there will not be any restraints on its ability to secure future financing on the capital markets.



[To the shareholders of ANG:

We are committed to supplying you with relevant and material information on the financial affairs of the Company. A system of internal control ensures the integrity and objectivity of the Financial Statements.]

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 a historical 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 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, and policies and procedures, which are designed to meet its responsibility for reliable and accurate reporting. These systems of control include periodic review by the Company's 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 external auditors have unrestricted 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 audited the consolidated balance sheet of Alberta Natural Gas Company Ltd as at December 31, 1990 and 1989 and the consolidated statements of income, retained earnings and changes in cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1990 and 1989 and the results of its operations and the changes in its cash flow for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta,
February 1, 1991.

Arthur Andersen & Co.
Chartered Accountants

Consolidated Statement of Income

For the Years Ended December 31, 1990 and 1989

Thousands of dollars	1990	1989 (Restated)
Operating Revenue	$ 377,405	$ 366,150
Operating Expenses:		
Operating and maintenance	223,998	201,908
Gas purchases	35,626	47,392
Selling, administrative and research	43,536	35,134
Depreciation and amortization	15,042	15,075
Property taxes and other	4,611	6,354
	322,813	305,863
Operating Income	54,592	60,287
Interest and Other Income	5,778	1,680
Income Before Interest Expense	60,370	61,967
Interest Expense:		
Interest on long term debt	12,854	8,641
Interest on other debt	7,869	6,949
	20,723	15,590
Income from Continuing Operations Before Income Taxes and Minority Interest	39,647	46,377
Provision for Income Taxes	17,074	18,184
Minority Interest	4,078	–
Income from Continuing Operations	26,651	28,193
Discontinued Operations	(923)	(4,570)
Net Income	$ 25,728	$ 23,623
Earnings Per Share:		
From continuing operations	$ 1.25	$ 1.32
Net income	$ 1.21	$ 1.11

See accompanying summary of significant accounting policies and notes.

Consolidated Balance Sheet

December 31, 1990 and 1989

Thousands of dollars	1990	1989
Assets		
Current Assets:		
Cash and interest bearing deposits	$ 15,609	$ 13,611
Accounts receivable	78,065	63,812
Inventories	55,468	40,898
Other	2,889	2,105
Total current assets	152,031	120,426
Investments and Advances	34,309	48,757
Deferred Charges	25,175	22,218
Property, Plant and Equipment - Net	396,140	194,747
Total	$ 607,655	$ 386,148

Thousands of dollars	1990	1989
Liabilities & Shareholders' Equity		
Current Liabilities		
Notes payable	$ 16,258	$ 66,812
Accounts payable	36,428	28,909
Income taxes payable	16,066	877
Other	7,928	9,769
Total current liabilities	76,680	106,367
Long Term Debt	281,114	89,245
Deferred Income Taxes	41,660	37,884
Minority Interest	39,673	–
Shareholders' Equity:		
21,232,652 common shares (1989 - 21,359,235)	54,419	54,300
Retained earnings	117,364	108,488
Cumulative translation adjustment	(3,255)	(10,136)
Total shareholders' equity	168,528	152,652
Total	$ 607,655	$ 386,148

Approved by the Board:

Director Director

See accompanying summary of significant accounting policies and notes.

Consolidated Statement of Changes in Cash Flow

For the Years Ended December 31, 1990 and 1989

Thousands of dollars		1990		1989 (Restated)
Operating Activities:				
Income from continuing operations	$	26,651	$	28,193
Items not affecting cash:				
Depreciation and amortization		15,042		15,075
Deferred income taxes		17,296		10,551
Equity earnings and partnership earnings - net of dividends and distributions		(1,650)		822
Minority Interest		(4,078)		–
Other		844		1,095
		54,105		55,736
Discontinued operations		(923)		(4,570)
Change in working capital items other than cash		(22,740)		6,471
Effect of exchange rate changes		361		(1,519)
	$	30,803	$	56,118
Investing Activities:				
Net property, plant and equipment expenditures	$	(28,111)	$	(18,003)
Investments and advances		(17,900)		(2,007)
Other		(4,065)		(2,593)
	$	(50,076)	$	(22,603)
Financing Activities:				
Common shares - issued	$	520	$	520
- purchased and cancelled		(2,783)		(156)
Reclassification of short term notes payable		90,000		–
Change in long term debt		(1,442)		7,700
Dividends		(14,470)		(14,528)
	$	71,825	$	(6,464)
Cash Provided by (Used in):				
Operating activities	$	30,803	$	56,118
Investing activities		(50,076)		(22,603)
Financing activities		71,825		(6,464)
		52,552		27,051
Cash, Interest Bearing Deposits and Notes Payable:				
Beginning of year		(53,201)		(80,252)
End of year	$	(649)	$	(53,201)

Consolidated Statement of Retained Earnings

For the Years Ended December 31, 1990 and 1989

Thousands of dollars		1990		1989
Balance at Beginning of the Year	$	108,488	$	99,549
Net Income		25,728		23,623
		134,216		123,172
Purchase and Cancellation of Common Shares		2,382		156
Dividends		14,470		14,528
Balance at End of the Year	$	117,364	$	108,488

See accompanying summary of significant accounting policies and notes.

Operations

Alberta Natural Gas Company Ltd 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.

The Company 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. ANG 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, property and income taxes and capital investment together with a return on the unrecovered investment. In addition, ANG is entitled to approximately 25% of the cumulative net marketing profits arising from the sale of the NGL by the buyer, Amoco Canada Petroleum Company Ltd.

ANGUS Chemical Company, a U.S. subsidiary, 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 its subsidiary, ANGUS Fine Chemicals Ltd., also owns and operates a fine chemicals production facility located in 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. These activities include marketing and NGL fractionating and storage and have been carried out in partnership with subsidiaries of Polysar Limited. Early in January, 1991, the interest in the fractionation partnership was sold and the Polysar interest in the marketing partnerships was acquired at an approximate cost of $1,300,000.

The Company is a partner with Magnesium International (Canada) Ltd. (MICAN) in a partnership that owns a magnesium production plant located near High River, Alberta. Magnesium Company of Canada Ltd., on behalf of the partnership, as its agent, is responsible for the construction, financing and operation of the plant. Construction and start-up of the plant was complete on September 30, 1990. All expenditures to this date were capitalized. Since that time, operating revenue and current expenses have been included in the determination of net income. It has been more difficult and expensive than management initially anticipated to reach initial design capacity and will require the continuing financial commitment of the Company. Until commercial success can be demonstrated, it is not reasonably determinable whether all capital costs will be realizable through ongoing operations. The Company's net investment in the partnership as of December 31, 1990 is $58,767,000, which includes amounts advanced by the Company, on behalf of its partner, as discussed in Note 10.

Consolidation

The consolidated financial statements include the accounts of ANG and its subsidiaries or majority interest partnerships as follows:

	Interest
ANGUS Chemical Company	100%
ANG Liquids Ltd.	100%
ANG Processing Ltd.	100%
Cochrane Extraction Plant Partnership	100%
Magnesium Partnership No. 1	54%
158149 Canada Inc.	100%
ANG Marketing Partnership	100%

All intercompany accounts and transactions have been eliminated upon consolidation.

The investment in Magnesium Partnership No. 1 was accounted for on an equity basis during 1989, at which time the Company's share of the partnership was 50%.

Investments

The equity method of accounting is followed for the following investments:

	Interest
Foothills Pipe Lines (South B.C.) Ltd.	49%
International Permeation Inc.	24%
"Amoco Centre" joint venture	50%
Magnesium Company of Canada Ltd.	50%
ConStates Energy Partnership	50%
ConStates Petroleum Marketing Partnership	50%
St. Clair Underground Storage Partnership	12%

The Company's interest in ConStates Energy Partnership and ConStates Petroleum Marketing Partnership will increase to 100% in 1991.

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.

Foreign Currency Translation

The accounts of U.S. and Irish subsidiaries have been translated into Canadian dollars using the year end rate of exchange for all assets and liabilities and average rates of exchange for the year for revenues and expenses. The cumulative effects of these foreign currency translations are included in a separate component of shareholders' equity.

The accounts of the German subsidiary have been translated into Canadian dollars using the year end rate of exchange for all monetary assets and liabilities and the historical rate of exchange for non-monetary assets and liabilities. Revenues and expenses have been translated at the exchange rates prevailing on the date of the transactions. The cumulative effects of these foreign currency translations are included in the determination of net income.

The Company's Deutsche Mark (DM) denominated long term bank loan is translated into Canadian dollars using the year end rate of exchange. The effect of this foreign currency translation is deferred and amortized over the term of the bank loan.

Certain U.S. dollar debt and foreign currency contracts act as an effective hedge against the foreign exchange exposure relating to U.S. operations. Exchange gains or losses associated with the debt and contracts are included in the separate component of shareholders' equity.

Goodwill

Goodwill arose on the acquisition of certain subsidiaries, and represents that portion of the purchase price that was in excess of the fair value of the net assets acquired. Goodwill is included in deferred charges and is being amortized on a straight line basis over a period of 30 years.

Property, Plant and Equipment

Property, plant 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.

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

The magnesium production facilities were depreciated using a unit of production method for the fourth quarter of 1990. Once the facility reaches initial design capacity a straight line basis over a 20 year estimate of the useful life of the assets will be adopted.

Depreciation is provided on a straight-line basis over the term of the service contracts associated with the pipeline facilities and the term, to 2012, of the supply contracts associated with the Cochrane extraction plant.

Inventories

Chemical and magnesium product inventories are carried at the lower of cost or market. The last-in, first-out (LIFO) method is used to account for chemical product 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 are provided on this source of income only to the extent that they have been 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.

Tabular amounts shown in thousands of dollars

1. Property, Plant and Equipment

	1990	1989
Natural gas processing	$ 138,817	$ 137,943
Chemical	145,987	128,466
Pipeline transport	90,790	86,423
Magnesium	189,238	–
Under Construction	15,612	10,077
	580,444	362,909
Less accumulated depreciation	184,304	168,162
Net property, plant and equipment	$ 396,140	$ 194,747

2. Investments and Advances

	1990	1989
Foothills Pipe Lines (South B.C.) Ltd	$ 6,334	$ 6,296
Foothills Pipe Lines (Yukon) Ltd. (preferred shares at cost)	2,876	2,981
International Permeation Inc.	112	136
Magnesium Partnership No. 1	–	26,500
ConStates Partnerships	8,980	9,774
Advances to MICAN	12,950	–
Other	3,057	3,070
	$ 34,309	$ 48,757

The Company and Olympia & York Developments Ltd. are co-owners of the AMOCO CENTRE office building located in downtown Calgary. The Company's share of project development expenditures totalled $48,725,000 as at December 31, 1990. The results of operations have been included in other income, and amount to a loss of $2,726,000 for 1990 (1989 - loss of $2,687,000).

Long term financing was arranged in September, 1990. The Company's share of this liability is $45,000,000 and security pledged is restricted to its share of the project development. This loan was converted to U.S. dollars in October, 1990 and the Company considers this conversion an effective hedge against foreign exchange exposure related to its investment in U.S. subsidiaries.

3. Deferred Charges

	1990	1989
Unamortized goodwill	$ 17,593	$ 18,266
Unamortized debt expense	445	607
Project costs	7,137	3,345
	$ 25,175	$ 22,218

4. Shareholders' Equity

The authorized share capital consists 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 814,300 shares at prices ranging from $7.55 to $16.77 per share. As of December 31, 1990, substantially all of the options have been exercised in the amount of $8,613,620 (1989 - $8,093,750). Of these amounts, $4,006,000 (1989 - $5,765,000) is included in accounts receivable. A cumulative total of 522,883 (1989 - 365,300) common shares have been purchased by the Company at market prices and cancelled in accordance with provisions of the Plan.

5. Long Term Debt

	Year Issued	Maturity	1990	1989
Bank Loan 12.55% to 12.67%	1989/90	2000	$ 102,750	$ –
Debentures 10 1/8% - unsecured	1986	1993	60,000	60,000
Revenue Bonds 6 3/4%				
($13,008,000 U.S.)	1978/79	2004/08	15,093	15,061
Deutsche Mark Bank Loan 7.75%				
(14,000,000 DM)	1989	1996	10,854	9,597
Notes payable			90,000	–
Other	1985/87	1992	4,482	6,384
			283,179	91,042
Less amounts due within one year			2,065	1,797
			$ 281,114	$ 89,245

The bank loan was used to finance the construction of the magnesium production facility and recourse to the lender is restricted to these facilities. Interest rate exchange agreements are in place for $75,000,000 of the loan which fixes the interest rate at 11.42% plus stamping fee and come due between 1994 and 1999. Repayments are not due on this loan until 1993, at which time semi-annual payments will commence. The Government of Alberta has provided a loan guarantee in support of this financing.

The Company's available bank lines of credit total $120,000,000, which was utilized to support commercial paper borrowings as at December 31, 1990. Upon drawdown, the loans bear interest at prevailing market rates and are unsecured.

At December 31, 1990, notes payable amounting to $97,000,000 were outstanding pursuant to a Canadian commercial paper program at interest rates which averaged 13.01% during 1990 (1989 - 12.01%) and 12.33% at the end of 1990 (1989 - 12.35%). Of this amount $90,000,000 has been classified as long term debt as it is not expected to be retired and is supported by committed long term bank lines of credit.

Interest rate and currency exchange agreements have been made for $25,000,000 for a period of 3 years commencing May 4, 1990. This transaction acts as an effective hedge against the Company's investment in U.S. operations. The effective interest rate, for 1990, on short-term borrowing resulting from these interest rate exchange agreements is 11.80%.

Repayment requirements for other long term debt are $1,780,000 U.S. for 1991 and subsequent years. The debentures, revenue bonds and DM bank loan have no repayment requirements before maturity.

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:

	1990	1989 (Restated)
Income from continuing operations	$ 39,647	$ 46,377
Add (deduct):		
Liquids extraction activities not subject to tax allocation	(10,077)	(8,580)
Equity earnings	(927)	(971)
Amortization of the cost of assets acquired in excess of book value	2,107	2,255
Minority interest	4,078	–
Income subject to tax allocation	$ 34,828	$ 39,081
Expected provision for income taxes at 43.6% (1989 - 43.5%)	$ 15,185	$ 17,000
Add (deduct) adjustments to income taxes:		
Manufacturing and processing profits deduction	(39)	(397)
Foreign tax credits	(2,899)	(2,786)
Tax relief available to foreign subsidiary	(703)	(803)
Losses of foreign subsidiaries for which no current benefit is provided	(35)	1,981
Higher effective tax rate of foreign subsidiaries	1,090	719
Withholding taxes on foreign income	–	(738)
Other	534	379
	13,133	15,355
Tax recovered through cost of service contracts	3,941	2,829
Actual provision for income taxes	$ 17,074	$ 18,184

Included in income taxes payable in 1990 is $14,000,000 of current deferred taxes.

The Company anticipates that all foreign earnings will be reinvested by its foreign subsidiaries on an ongoing basis. As a result, during 1989, management made the decision to reverse its provision for withholding taxes on foreign income.

7. Segmented Information

a) Financial information by industry segment:

1990	Natural Gas Processing	Pipeline Transport	Chemical	Magnesium	Other	Eliminations	Total
Operating revenue	163,139	31,278	153,796	589	41,460	(12,857)	377,405
Depreciation and amortization expense	3,043	1,677	9,832	330	160	-	15,042
Operating income	35,356	4,462	26,991	(5,791)	(6,426)	–	54,592
Identifiable assets	99,157	41,308	211,310	195,519	60,361	–	607,655
Capital expenditures	621	6,996	11,661	8,833	–	–	28,111

1989	Natural Gas Processing	Pipeline Transport	Chemical	Magnesium	Other	Eliminations	Total
Operating revenue	153,751	29,904	146,497	–	49,041	(13,043)	366,150
Depreciation and amortization expense	3,029	2,240	9,514	–	292	–	15,075
Operating income	32,549	3,983	27,935	–	(4,180)	–	60,287
Identifiable assets	100,165	35,903	187,223	26,500	36,357	–	386,148
Capital expenditures	1,124	6,685	10,194	–	–	–	18,003

b) Financial information by geographic segment:

1990	Canada	United States	European Community	Total
Operating revenue	223,609	76,503	77,293	377,405
Operating income	27,601	19,920	7,071	54,592
Total identifiable assets	386,954	121,607	99,094	607,655

1989	Canada	United States	European Community	Total
Operating revenue	219,653	78,397	68,100	366,150
Operating income	32,352	25,254	2,681	60,287
Total identifiable assets	191,213	118,123	76,812	386,148

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 49.4% of the outstanding capital stock of the Company at December 31, 1990.

Significant transactions with these and other related parties were as follows:

	1990	1989
(a) Net charges for personnel and related administrative costs from:		
Alberta and Southern	11,210	9,539
Pacific Gas Transmission	277	325
(b) Charges for liquids extraction feedstock and fuel purchased from Alberta and Southern	63,183	60,790
(c) Net charge for transportation of gas to:		
Alberta and Southern	12,565	11,829
Foothills (South B.C.)	1,865	1,547
(d) Net charges for gas sales to Alberta and Southern	11,068	12,493
(e) Net charges for gas purchases and sales from CanStates Gas Marketing	1,100	1,270
(f) Amounts outstanding at December 31:		
Payable to:		
Alberta and Southern	7,320	7,709
Pacific Gas Transmission	0	49
Receivable from:		
Alberta and Southern	2,247	3,662
Foothills (South B.C.)	1,732	569
Management - ANGUS Chemical	0	926

9. Pension Plan

ANG and its subsidiaries maintain defined benefit pension plans for substantially all of their employees. Information relating to the plans, on a consolidated basis, is provided below:

	1990	1989
Actuarial present value of accumulated pension benefits	14,164	11,376
Market value of pension fund assets	11,933	9,032

The majority of the unfunded pension obligation relates to the German operation.

10. Acquisition

In August of 1990 the Company increased its interest in Magnesium Partnership No. 1 to 54% from its original 50% participation. To allow the magnesium project to proceed, the Company has been advancing its partners share of project equity requirements since July, 1990. Pursuant to the partnership agreement, these amounts are repayable with interest. As well, the contributing partner has the right to convert these advances, including interest accrued, into additional partnership interest. The Company exercised this right in August, 1990 by converting advances, amounting to $2,750,000 plus accrued interest, into an additional 4% interest in the partnership. Ongoing advances have been made by the Company, on behalf of its partner, amounting to $12,950,000 at December 31, 1990 and have been recorded as an advance.

The accounts of Magnesium Partnership No. 1, at date of acquisition of control, are summarized as follows:

Cash and working capital	$	646
Property, plant and equipment		180,404
Long-term debt		(102,750)
	$	78,300
Net Equity		
Alberta Natural Gas Company Ltd	$	39,150
MICAN (including advances made by ANG)		39,150
	$	78,300

11. Discontinued Operations

In December, 1988, the decision was made to curtail the operation of the erythromycin production facility located in California. The plant was reduced to a pilot phase which concentrated on a process development effort. During the first quarter of 1989, the process development effort was abandoned and in the second quarter of 1990 the facility was sold. Net disposal proceeds, revenues and expenses associated with this facility are included as discontinued operations and amount to income of $713,000, net of tax of $367,000 for 1990 and a loss of $3,397,000, net of tax of $2,263,000 for 1989. All 1989 amounts, including those recorded as an extraordinary item in 1989 have been reclassified to Discontinued Operations.

Late in 1990, the Company made the decision to sell its 24% interest in the Marysville Fractionation Partnership. The partnership interest was sold in January 1991. Net disposal proceeds and all equity losses have been recorded as discontinued operations and amount to a loss of $1,636,000, net of tax of $843,000, for 1990 and a loss of $398,000, net of tax of $205,000, for 1989. All 1989 amounts have been reclassified to Discontinued Operations.

During 1989, International Permeation Inc. (IPI) made the decision to write off its investment in deferred research and development expenditures due to the continuing economic uncertainty surrounding the markets for its products. As a result, the Company wrote down its investment in IPI in the amount of $775,000. This amount was recorded as an extraordinary item in 1989 and has been reclassified to Discontinued Operations for 1990.

Alberto Natural Gas Company Ltd

Thousands of dollars, except for common share amounts	1990	1989	1988	1987	1986
Financial					
Operating Revenue	$ 377,405	$ 366,150	$ 337,706	$ 318,060	$ 308,454
Operating Income	54,592	60,287	54,905	48,947	38,022
Income from continuing operations	26,651	28,193	26,356	21,912	16,247
Net income	25,728	23,623	4,511	16,906	16,247
Total Assets	$ 607,655	386,148	376,790	386,527	360,283
Capitalization					
Short-term debt	$ 16,258	66,812	86,382	92,363	16,343
Long-term debt (including current portion)	283,179	91,042	83,921	95,612	95,395
Minority interest	39,673	–	–	–	50,156
Deferred income taxes	41,660	37,884	27,309	25,235	31,317
Common equity	168,528	152,652	145,211	134,332	128,977
Total Capitalization	$ 549,298	348,390	342,823	347,542	322,188
Funds Flow Data					
From operations	$ 54,105	55,736	55,696	35,392	35,887
Spending on plant, property and equipment	$ 28,111	18,003	14,484	40,127	43,722
Capital issued - long-term debt	$ 88,558	7,700	(3,803)	(2,361)	60,495
- common equity	$ (2,263)	364	35,023	408	(273)
Dividends paid	$ 14,470	14,528	13,993	12,419	11,653
Common Share Statistics					
Earnings per average outstanding common share					
- from continuing operations	$ 1.25	1.32	1.31	1.20	0.89
- net income	$ 1.21	1.11	0.23	0.93	0.89
Funds generated from operations per average outstanding common share	$ 2.54	2.61	2.77	1.94	1.97
Dividends paid per share	$ 0.68	0.68	0.68	0.68	0.64
Outstanding - year end (thousands)	21,233	21,359	21,332	18,242	18,205
- average (thousands)	21,284	21,362	20,084	18,263	18,211
Common equity per share at year end	$ 7.94	7.15	6.81	7.36	7.08
Market prices (TSE) - high	$ 19.50	19.13	16.25	16.00	16.00
- low	$ 11.50	14.25	12.87	10.75	11.00
- close	$ 12.88	19.00	14.50	13.00	13.37
Ratios					
Common shareholder					
Return on average common equity	16.60%	18.93%	18.86%	16.64%	12.82%
Return on average capital employed	5.94%	8.16%	7.64%	6.54%	5.21%
Dividend payout	54.29%	51.53%	53.09%	56.68%	71.72%
Dividend yield (year-end market price)	5.28%	3.58%	4.69%	5.23%	4.79%
Capital					
Debt to common equity	1.8:1	1.0:1	1.2:1	1.4:1	0.9:1
Interest coverage (x)	3.11	3.97	2.71	3.09	5.30

1985	1984	1983	1982	1981
$ 372,806	$ 309,201	$ 290,257	$ 214,618	$ 130,904
54,345	52,661	48,251	29,597	22,239
24,968	24,178	22,779	16,004	18,800
24,968	24,178	22,779	16,004	18,800
340,183	301,044	279,223	262,363	128,385
56,774	45,787	54,687	69,102	13,083
35,961	31,979	30,546	31,374	17,755
47,437	39,917	32,164	28,596	–
36,569	36,882	40,116	34,521	23,209
124,584	107,549	90,635	72,282	65,171
301,325	262,114	248,148	235,875	119,218
45,805	43,158	46,629	36,285	26,016
27,801	10,243	13,875	40,982	22,569
3,447	388	(2,373)	(2,373)	(2,373)
(510)	276	2,054	–	–
10,911	10,234	7,932	7,873	5,964
1.37	1.32	1.27	0.89	1.05
1.37	1.32	1.27	0.89	1.05
2.52	2.36	2.59	2.03	1.45
0.60	0.56	0.44	0.44	0.33
18,223	18,236	18,163	17,892	17,892
18,174	18,257	17,983	17,892	17,892
6.84	5.90	4.99	4.04	3.64
16.25	14.50	9.67	9.17	10.33
12.75	8.00	7.25	7.08	6.33
15.87	13.75	8.67	7.50	9.17
21.51%	24.40%	27.96%	23.29%	32.00%
8.86%	9.48%	9.41%	9.01%	17.72%
43.70%	42.33%	34.82%	49.19%	31.72%
3.78%	4.07%	5.07%	5.87%	3.60%
0.7:1	0.7:1	0.9:1	1.4:1	0.5:1
8.92	7.32	5.98	4.71	12.71

Notes:

Accounts of Magnesium Partnership No. 1 have been consolidated since August, 1990.

Certain comparable figures for prior years have been reclassified to conform with the financial statement presentation adopted for 1990. Prior to 1989, all extraordinary items have been reclassified as discontinued operations.

1988 earnings per share figures reflect the effect of the May, 1988 Rights Offering.

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

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

Closing price - Valuation Date, December 22, 1971 - $1.33.

Directors and Officers

Directors

H. Booth, [3]
Calgary, Alberta
Consultant
Former Chairman of the Board and Chief Executive Officer of the Company and of 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

J.E. Goudie, [1,3]
Calgary, Alberta
Chairman of the Board,
Alberta and Southern Gas Co. Ltd.

D.C. Lowe, [2]
Montreal, Quebec
Deputy-Chairman
Bombardier Inc.

G.A. Maneatis, [3]
San Francisco, California
President
Pacific Gas and Electric Company

J.R. McLeod, [2,3]
San Francisco, California
Executive Vice President,
Pacific Gas and Electric Company

D. McMorland
Calgary, Alberta
President and
Chief Executive Officer
Alberta and Southern Gas Co. Ltd.

R.J. Richardson, [1,2,3]
Montreal, Quebec
Management Consultant

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

J.A. Sproul, [1]
San Francisco, California
Consultant
Former Chairman of the Board
Pacific Gas Transmission Company

N.E. Wagner, [3]
Calgary, Alberta
Chairman, President and
Chief Executive Officer of the Company

Officers

N.E. Wagner
Chairman, President and
Chief Executive Officer

D. McMorland
Senior Vice President

W.J. Demcoe
Senior Vice President
Finance and Corporate Services

E.W. Mychaluk
Senior Vice President

D.A. Sharp
Senior Vice President and
General Manager
Hydrocarbons Business Unit

F.G. Homer
Vice President and Secretary

1 Member of the Audit Committee
2. Member of the Compensation Committee
3 Director of ANGUS Chemical Company

Corporate Office

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

(10¼% Debentures)
Royal Trust,
Calgary and Toronto; London, England

Direct Deposit Service

Shareholders of ANG may elect to have their dividends deposited directly into the bank account of their choice by advising Montreal Trust Company.

Significant Subsidiary Companies

ANG Liquids Ltd.
Calgary, Alberta

ConStates Holdings, Inc.
Calgary, Alberta

ANGUS Chemical Company
Northbrook, Illinois
R.E. Secrist, Chairman and
Chief Executive Officer

Auditors

Arthur Andersen & Co.
Chartered Accountants
Calgary, Alberta

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

Designed and Produced by Strokes Design, Calgary, Alberta

Printed on Recycled Paper

Alberta Natural Gas Company Ltd
1990 Annual Report

2400, 425 First Street S.W.
Calgary, Alberta, Canada T2P 3L8

Printed in Canada