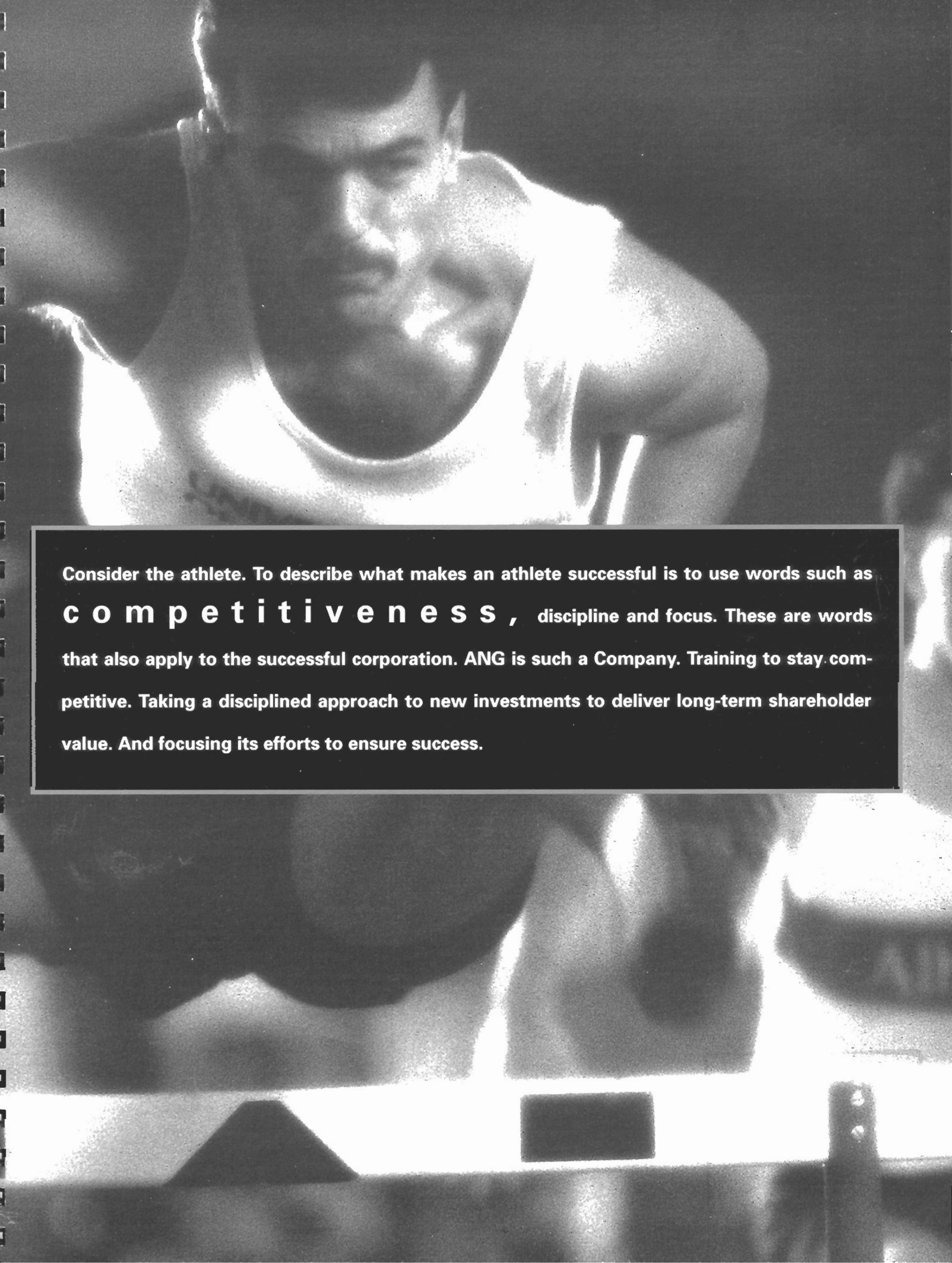
ANG Focused on success

1994 ANNUAL REPORT

[Contents]

The Annual General Meeting of Alberta Natural Gas Company Ltd will be held on May 9, 1995 at 10:30 a.m. in the Belaire Room of the Westin Hotel located at 320 - 4th Avenue S.W., Calgary, Alberta.

All shareholders are encouraged to attend but if unable to do so are requested to complete and return the Proxy form to the Company's Transfer Agent and Registrar, Montreal Trust Company of Canada.



Consider the athlete. To describe what makes an athlete successful is to use words such as **competitiveness,** discipline and focus. These are words that also apply to the successful corporation. ANG is such a Company. Training to stay competitive. Taking a disciplined approach to new investments to deliver long-term shareholder value. And focusing its efforts to ensure success.

CORPORATE PROFILE

Alberta Natural Gas Company Ltd [ANG] is a Calgary-based corporation operating in Canada and, through its various subsidiaries and affiliates, in the United States, Europe, Asia and Latin America. ANG's businesses comprise natural gas processing, marketing and services, specialty chemicals and natural gas transportation.

ANG began over 30 years ago as a transporter of natural gas to markets in California. The business grew through the development of extraction facilities for natural gas liquids and ethane at Cochrane, Alberta. This was the catalyst for ANG's involvement in NGL and natural gas marketing in Canada and the United States.

In 1982, ANG diversified its asset base and added ANGUS Chemical Company [ANGUS] to its portfolio of businesses. ANGUS is the world's foremost producer and marketer of nitroparaffins and nitroparaffin derivatives. ANGUS' technology adds value to industrial and consumer products ranging from pharmaceuticals to latex paints. Its scope is global, the end products diverse.

ANG is listed on the Toronto, Montreal, Vancouver and Alberta stock exchanges and trades under the symbol "ANG".

HIGHLIGHTS

[Operating]

- Income from base operations up 20 per cent
- Pipeline system throughput increased 38 per cent
- Two new products commercialized by ANGUS

[Investing]

- Cochrane extraction plant recommissioning project completed and in service November 1, 1994
- Acquisition of a 20 per cent interest in the CrossAlta gas storage facility
- Disposition of ANG's NGL and crude oil brokering business completed
- ANG's 50 per cent interest in the Amoco Centre sold

[Other]

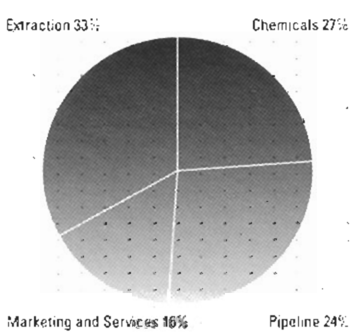
- ANGUS' Sterlington plant granted ISO 9002 certification
- CanStates received NEB approval to export an additional 44.5 MMcf/d of natural gas
- New strategic initiative approved by ANG's Board

[in thousands except per share data]		1994		1993
Revenues	**$**	**678,473**	$	662,693
Income from continuing operations	**$**	**31,491**	$	33,398*
Net income	**$**	**31,491**	$	49,584
Net property, plant and equipment additions	**$**	**68,608**	$	111,073
Total assets [year end]	**$**	**685,529**	$	640,616
Shareholders' equity [year end]	**$**	**225,649**	$	204,273†
Average number of shares outstanding		**25,698**		25,672
Earnings per share				
Continuing operations	**$**	**1.23**	$	1.30*
Net income	**$**	**1.23**	$	1.93
Dividends paid per share	**$**	**0.68**	$	0.68
Shareholders' equity per share [year end]	**$**	**8.78**	$	7.95†
Toronto Stock Exchange market price per share [year end]	**$**	**15.25**	$	16.50
Dividend yield [percent on year end market price]		**4.46**		4.12

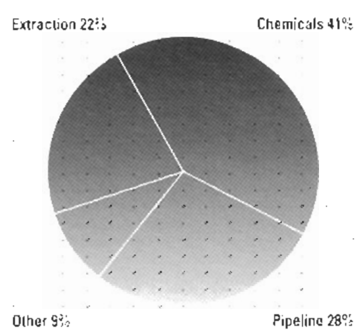
* Includes an after-tax litigation settlement of $7.0 million ($0.27 per share).

† Restated for post employment benefit costs other than pensions due to a change in accounting policy.

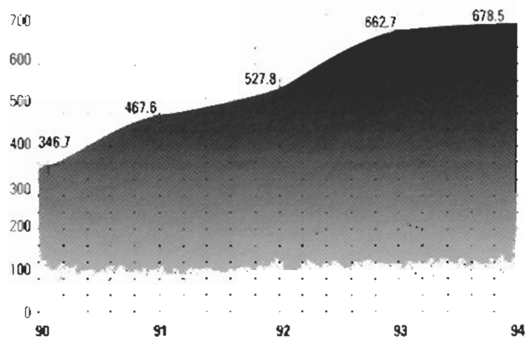
Contribution to Operating Income
1994



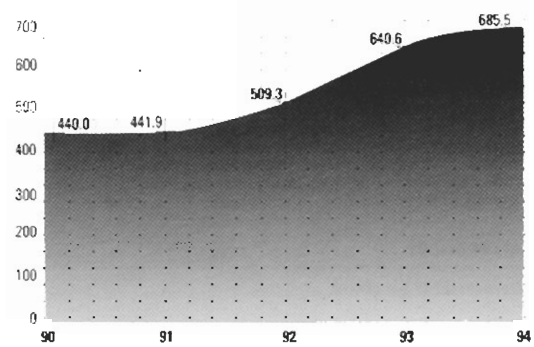
Asset Mix
December 31, 1994



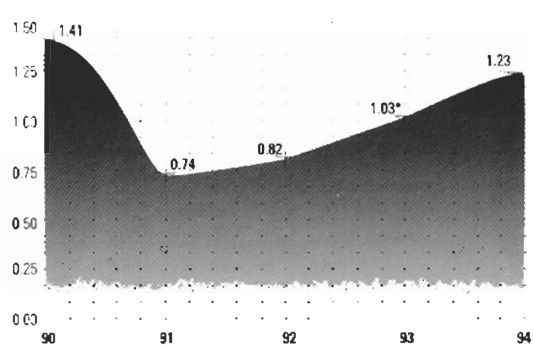
Revenues
[millions of dollars]



Total Assets
[millions of dollars]



Earnings Per Share From Continuing Operations
[dollars]



* Excluding the litigation settlement

Throughout 1994 ANG continued to concentrate on strengthening its core businesses. We acted decisively to improve our organization, sell non-core assets, bring on new products and make major investments in the chemical, extraction and pipeline facilities. These actions were major contributing factors to achieving a 20 per cent increase in income from base operations during 1994. During this process, the balance sheet was strengthened to give ANG a strong capital base to support future growth.

[ANG Takes a Strategic Stance] In addition to achieving improved operating performance in 1994, ANG examined several strategic options directed at maintaining recent momentum of asset growth and profitability. Key criteria in the selection process is the ability to provide significant investment opportunity and leverage ANG's existing strengths and businesses.

Despite recent weakness in gas prices, the Company concluded that investment activity relating to natural gas production and development will remain strong in the years ahead. Furthermore, it was concluded that ANG's existing competencies put it in a strong position to pursue opportunities in field gathering, processing, transportation and marketing services.

This new strategic thrust into the mid stream sector was launched in 1994 with ANG's participation in the CrossAlta gas storage project. We expanded our presence in this sector by constructing a gathering system which feeds the Cochrane extraction plant. Other mid stream investments are also being investigated. These include:

- Acquisitions of existing gas processing facilities
- Investments in new field gathering systems and gas processing facilities
- Developing new markets and transportation opportunities for ethane production

In addition, ANG is pursuing two electrical cogeneration projects associated with its existing facilities in southeastern British Columbia. The ANGUS strategy will be to expand its position on a worldwide basis as the foremost producer and marketer of nitroparaffin-based specialty chemicals. The acquisition of product line extensions will form part of this strategy.

All of these strategic initiatives evolve from our existing core businesses. ANG will build in new directions from what it does best.

Through 1995 and beyond, ANG will broaden and strengthen its asset base, building a multi-skilled organization to carry the Company forward to achieve its strategic goals.

ANG's financial strength and expertise in processing, transportation and marketing services constitute a strong base by which ANG can carry out these initiatives, as do ANGUS' strengths in research and development, marketing and manufacturing.

[1994 Overview] The recommissioning and complete modernization of previously idled facilities at the Cochrane extraction plant was completed and in service November 1, 1994 at a cost of $53 million. The project, which added 900 MMcf/d of natural gas processing capacity for the extraction of NGL, was completed on schedule and under budget. Total design capacity of the

Cochrane plant is now 2,200 MMcf/d, while the NGL production capability is in excess of 26 Mbbls/d. By year-end, full capacity utilization had been achieved.

A gas gathering system was completed to directly supply 10 MMcf/d of natural gas to the Cochrane plant from the Bottrel and Wildcat Hills areas. The system was designed to facilitate expansion of deliverability to 20 MMcf/d. This successful project was our first initiative in field gathering. An expansion is already underway.

Phase I of the CrossAlta gas storage project, in which ANG has an approximate 20 per cent interest, was completed in November 1994. This facility, located near Crossfield, Alberta, has storage capacity of 40 Bcf and peak day injection or withdrawal capacity of 500 MMcf/d and is fully contracted for varying terms.

In November, CanStates Gas Marketing was granted 15-year licenses to export a total of 44.5 MMcf/d at Kingsgate, British Columbia. The natural gas will be used to fuel a proposed combined cycle electricity generating plant at Hermiston, Oregon.

ANGUS benefited from expanded markets worldwide due to a combination of global market penetration and the introduction of new products. Research and development efforts resulred in the introduction of two new products, with a further three in various stages of development to be introduced in 1995. ANGUS continues to pursue markets which have substantial upside, particularly Asia, the Pacific Rim, Europe and Latin America.

We are particularly proud of the fact that, in early 1995, ANGUS' Sterlington Plant earned the prestigious ISO 9002 certification. ISO 9002 is one of a series of five quality assurance standards coordinated by the International Organization for Standardization [ISO]. This certification represents worldwide recognition of the high standards of management practices which ensure product quality.

As mentioned ANG is pursuing two cogeneration projects located in British Columbia. The Company is preparing to submit proposals for both projects in response to a December 1994 request to supply power to BC Hydro. A short list of suppliers is expected to be issued by BC Hydro in mid-1995.

The successful pipeline expansion, completed in November 1993, operated at higher volumes than expected in 1994 and contributed to ANG's strong financial performance. We anticipate that further opportunities for expansion will arise in 1996 or 1997.

In February, ANG completed the sale of its NGL and crude oil brokerage business for $9 million, including $5 million in working capital.

In December, the sale of the Amoco Centre was concluded at a price of $95.5 million. ANG received $8.5 million in net cash proceeds for its 50 per cent interest, after repayment of projecr financing. This sale marked the successful conclusion of a long restructuring process involving this non-core asset.

[Financial Review] Our financial results for 1994 continued to improve, benefiting from strong performances in the pipeline and chemical operations.

In 1994, income from continuing operations increased by 20 per cent to $31.5 million, as compared to $26.4 million [before including after-tax income of $7.0 million from the ANGUS litigation settlement]. Earnings per share from continuing operations increased to $1.23 per share in 1994, from $1.03 [excluding the ANGUS litigation settlement]. Funds from continuing operations for 1994 were $65.5 million, an increase of 11 per cent from $58.8 million in 1993.

ANG's financial success and favourable outlook earned the Company an upgrade on its long-term debt rating from the Canadian Bond Rating Service to A[low] from B++[high]. This further enhances ANG's access to the capital markets.

ANG's capital base is strong. Our capacity for future investment is substantial.

[Outlook] The future is exciting for ANG. The Company has both opportunity and focus and will grow using existing strengths. In the competitive environment faced by all businesses today, ANG recognizes that it must continue to evolve in order to anticipate and meet the challenges of the future and ensure continued success.

ANG has the discipline to adhere to what it does well, and the ability to finance growth. The opportunities now being developed within the midstream sector of the natural gas business will enable ANG to achieve continued profitable growth. We are confident in our ability to attain this objective and we look forward to telling you of our successes in 1995 and beyond.

[Corporate Responsibility] ANG and ANGUS invest in the continued development of the communities in which they operate. Contributions are made to organizations that promote health, welfare and education, as well as athletic, civic and cultural activities.

[People] We are pleased to report that in April 1994, Robert Dymond was appointed President and Chief Operating Officer at ANGUS, bringing with him a wealth of experience in the environmental and chemicals businesses. With this appointment, Gary Granzow, Chief Executive Officer of ANGUS, will focus on the strategic development and implementation of new market expansions.

The efforts of all employees have helped strengthen ANG's business base through focus and discipline. Their dedication and creativity have been instrumental in the progress achieved. We are proud of the strong team that we have built at ANG which is committed to ensuring the continued success of the Company. We are also confident in our employees' ability to implement the new strategic initiative focusing on the midstream business.

To borrow from the Olympic motto, ANG strives to move faster, higher and stronger.

John Beddome

John M. Beddome
President and Chief Executive Officer

Norman E. Wagner
Chairman of the Board
March 8, 1995

Income Summary

(in thousands)	1994	1993	1992
Extraction	$ 21,489	$ 24,447	$ 26,787
Marketing and services	10,189	13,204	14,424
ANGUS Chemical			
Base operations	17,910	13,732	9,265
Non-recurring item	–	12,631	–
Pipeline	15,629	9,196	6,633
Corporate expenses	(8,611)	(8,543)	(9,191)
Operating income	56,606	64,667*	47,918
Other income	9,818	13,705	4,684
Interest expense	(18,165)	(16,397)	(19,422)
Provision for income taxes	(16,768)	(28,577)	(15,381)
Income from continuing operations	31,491	33,398†	17,799
Discontinued operations	–	790	(20,075)
Extraordinary item	–	15,396	20,181
Net income	$ 31,491	$ 49,584	$ 17,905

* Includes $12.6 million pertaining to a successful litigation settlement.

† Includes $7.0 million after tax ($12.6 million pre tax) pertaining to a successful litigation settlement.

Continuing Operations

(in thousands)	1994	1993	1992
Base operations	$ 31,491	$ 26,350	$ 17,799
Non-recurring item	–	7,048	–
Income from continuing operations	$ 31,491	$ 33,398	$ 17,799

Earnings per Share

	1994	1993	1992
Continuing operations			
Base operations	$ 1.23	$ 1.03	$ 0.82
Non-recurring item	–	0.27	–
	1.23	1.30	0.82
Discontinued operations	–	0.03	(0.92)
Extraordinary item	–	0.60	0.92
Net income	$ 1.23	$ 1.93	$ 0.82

[1994 Financial Review] ANG continues to record strong growth in financial performance from base operations. Income from continuing operations increased to $31.5 million [$1.23 per share] from $26.4 million [$1.03 per share] in 1993 [excluding after-tax income of $7.0 million from the ANGUS litigation settlement].

Net income for 1994 was $31.5 million, compared to $49.6 million in 1993. Earnings per share were $1.23, versus $1.93 in 1993. The 1993 results include $0.87 per share related to the ANGUS litigation settlement of which $0.60 per share was an extraordinary item. Discontinued operations also contributed $0.03 per share to 1993. When these non-recurring items are excluded, 1993 earnings per share from base operations were $1.03.

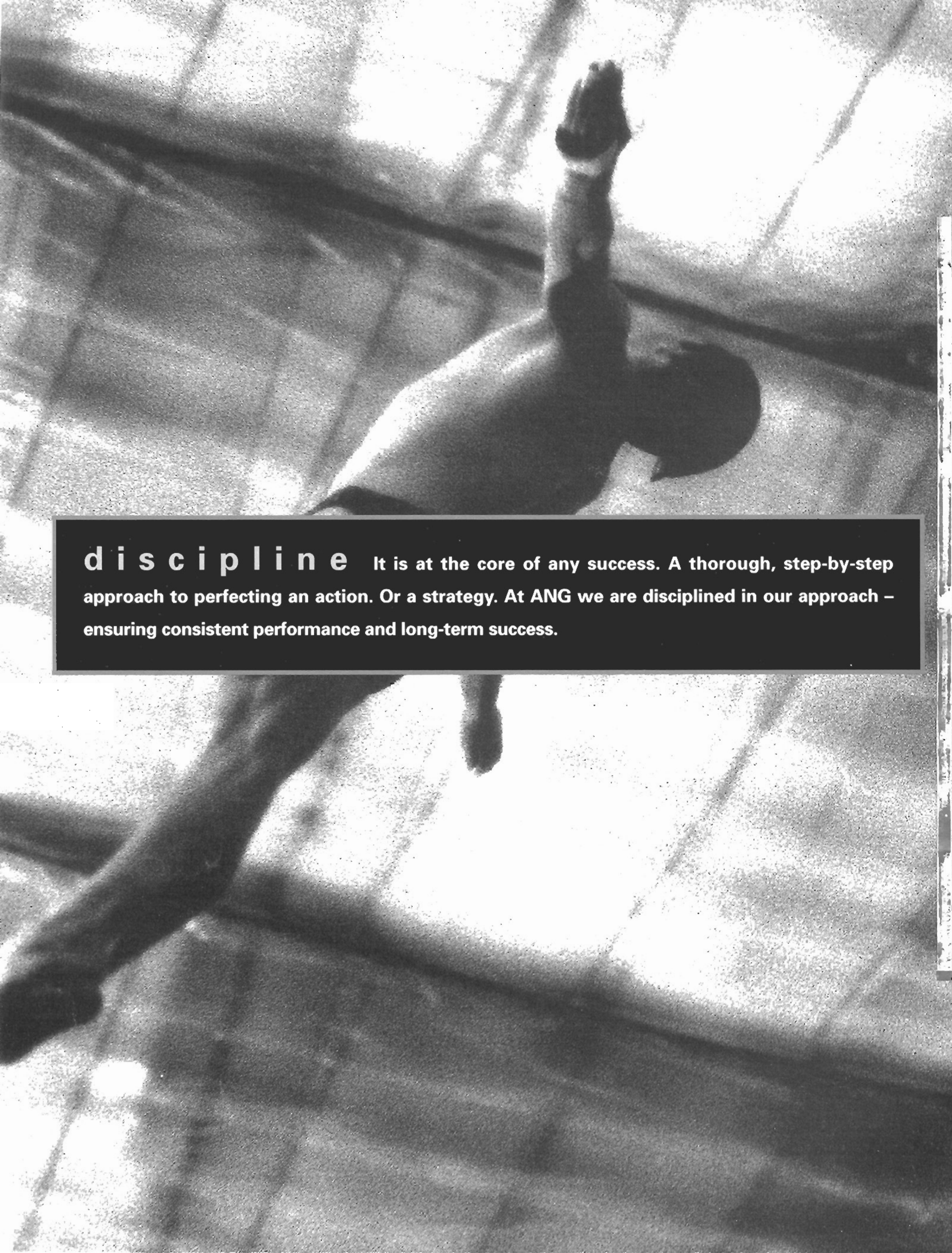
Extraction Extraction operating income was $21.5 million compared to $24.5 million for 1993. Reduced operating income, resulting from a lower capital base in this business, was partially offset in the last quarter of 1994 by income from the recommissioning project at the Cochrane plant.

Marketing and Services Operating income from marketing and services declined to $10.2 million from $13.2 million as a result of higher natural gas feedstock prices in the early part of 1994.

Chemicals ANGUS recorded operating income from base operations of $17.9 million, an increase of 30 per cent from $13.7 million in 1993 [excluding the litigation settlement]. ANGUS benefited from higher sales volumes attributable to expanded markets worldwide, global market penetration and the successful introduction of new products. These positive results were recorded despite sharply higher raw materials prices and lower prices realized for nitromethane due to competition from China. ANGUS' results were also positively impacted by stronger US and German currencies, relative to the Canadian dollar.

Pipelines Operating income from the pipeline business showed an increase of 70 per cent over 1993, to $15.6 million from $9.2 million. This was primarily due to the November 1993 completion of the pipeline expansion in southeastern British Columbia. Pipeline deliveries for 1994 were up 38 per cent, to 1,966 MMcf/d from 1,422 MMcf/d in 1993.

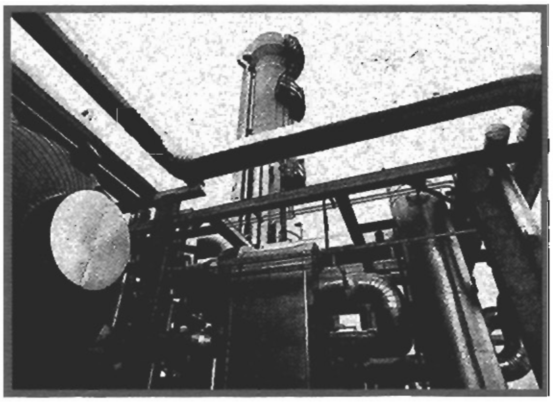
Liquidity and Capital Resources Funds generated from continuing operations increased to $65.5 million in 1994 from $58.8 million in 1993, reflecting improved operating results. The Company's debt to debt plus equity ratio at year-end remained at 55 per cent following the net $55 million investment program undertaken in 1994. ANG's capital position affords the Company flexibility in terms of future financing decisions.



discipline It is at the core of any success. A thorough, step-by-step approach to perfecting an action. Or a strategy. At ANG we are disciplined in our approach – ensuring consistent performance and long-term success.

One of ANG's core areas of expertise is natural gas processing. ANG's Cochrane extraction plant is the second largest such facility in North America and stands out as one of the most competitive producers in Alberta. The facility extracts NGL, ethane and CO_2 from natural gas. In addition to its processing efficiency, ANG believes its success in this business is attributable to its strengths with respect to customer service, market intelligence and other related cross-functional components.

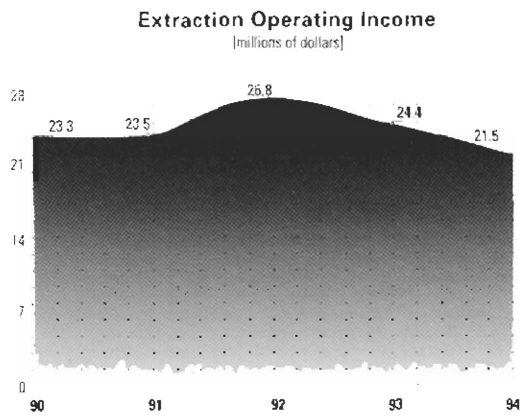
The Cochrane extraction plant straddles the western Alberta leg of the pipeline system operated by NOVA. The production and sale of ethane and NGL are conducted under long-term agreements which provide for the recovery of all reasonable operating expenses, depreciation, interest expense and an after-tax return on investment.

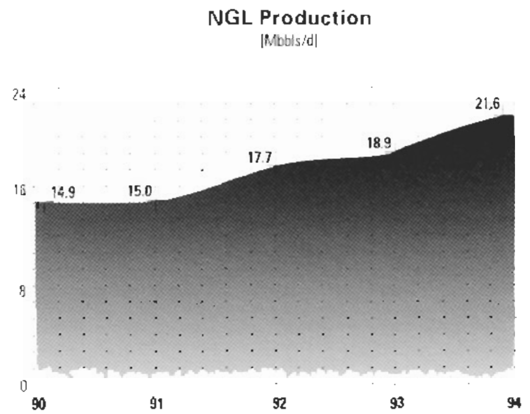


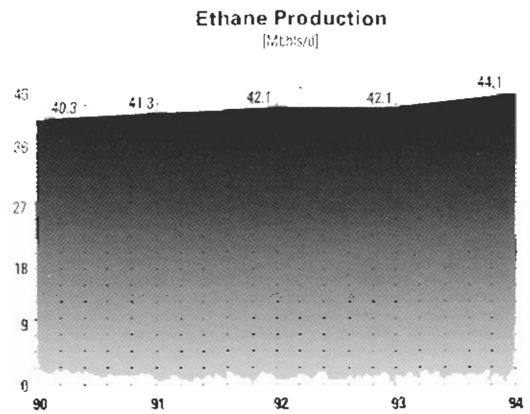
The Cochrane Extraction Plant, North America's second largest such facility, extracts NGL, ethane and CO_2 from natural gas.

[Strategy] A key to ANG's growth strategy is its ability to leverage its expertise in gas processing. As part of this strategy, ANG will be exploring the development, operation and acquisition of gas processing facilities in western Canada. The strategy contemplates providing these services to producers under an array of third-party processing arrangements, allowing producers to concentrate on their core business activities.

[1994 Highlights] October 1994 marked the completion of the recommissioning and upgrading of previously idled facilities at ANG's gas processing plant at Cochrane which began in June 1993. The project was completed on schedule and under budget without interruption of production from existing facilities. The recommissioning added 900 MMcf/d of processing capacity, bringing the total to 2,200 MMcf/d. Contractual arrangements are in place to process virtually all of the natural gas flowing through the plant. As a result of this project, ANG's annual NGL production capability is now in excess of 9,500 Mbbls.


Extraction Operating Income
(millions of dollars)
28
21
14
7
0
23.3
23.5
26.8
24.4
21.5
90
91
92
93
94


NGL Production
(Mbbls/d)
24
16
8
0
14.9
15.0
17.7
18.9
21.6
90
91
92
93
94


Ethane Production
(Mbbls/d)
45
36
27
18
9
0
40.3
41.3
42.1
42.1
44.1
90
91
92
93
94

Production of NGL averaged 21.6 Mbbls/d in 1994, compared with 18.9 Mbbls/d in 1993, an increase of 14 per cent. The increase in production was due to the completion of the recommissioned facility which increased total NGL production capacity by over 40 per cent to 26.0 Mbbls/d. All of this product is sold under long-term contracts tied to market prices in eastern Canada and the United States.

Ethane production in 1994 averaged 44.1 Mbbls/d, compared to 42.1 Mbbls/d in 1993. Most of the ethane produced at the facility is sold under a long-term agreement as feedstock for ethylene production in Alberta. This agreement will be renegotiated by 1998.

Capital Expenditures Expenditures on property, plant and equipment for the extraction business totalled $41 million in 1994, compared with $16 million in 1993. Of these amounts, $39 million was spent on the recommissioning project in 1994 and $11 million in 1993. An additional $3 million relating to the recommissioned facilities was disbursed during the first quarter of 1995. A further $3 million is budgeted for sustaining capital expenditures in 1995.

Financial Operating income from the extraction business was $21.5 million, as compared to $24.5 million in 1993, mainly due to a lower capital base. ANG has diversified the risk associated with feedstock supply by contracting with more shippers and producers.

Outlook ANG is currently in a strong position whereby its NGL and most of its ethane production is committed to profitable markets. Given current ethane market conditions in North America, ANG believes that there are opportunities to further expand this business in terms of production, assets and markets served. This would benefit ANG's strategic position with respect to contracting for gas supply and extraction rights.

ANG's marketing and services business is comprised of natural gas gathering, storage and brokering, as well as the marketing of NGL and ethane from the Cochrane extraction plant.

[Strategy] ANG will continue to expand its presence in gas marketing and services, which is important to its goal of becoming an integrated midstream natural gas company. To this end, ANG is exploring opportunities related to the construction, operation or acquisition of midstream gas gathering and processing facilities in western Canada. ANG will also extend the gathering system near Cochrane to provide a cost effective fuel supply for the Cochrane plant.

[1994 Highlights] [illegible] ANG completed the construction of a 33 kilometre gas gathering system to carry third-party sweet natural gas from the Wildcat Hills and Bottrel areas to the Cochrane extraction plant. The gathering system commenced service in December 1994 and was initially designed to transport 10 MMcf/d of natural gas for processing at the Cochrane extraction plant, but can be easily expanded to transport 20 MMcf/d. The project was developed, in conjunction with area producers, to minimize construction of new field processing facilities and maximize capacity utilization at the existing Cochrane extraction plant. ANG will also share in the marketing profits from NGL extracted in processing this gas.

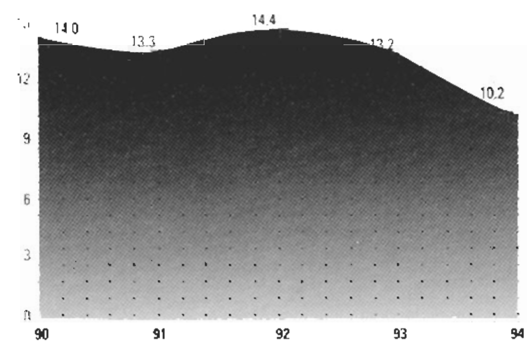
[illegible] ANG invested $16 million for an approximate 20 per cent interest in the CrossAlta natural gas storage project located near Crossfield, Alberta. The facility is a joint venture between Amoco, as operator, TransCanada PipeLines and ANG. The CrossAlta gas storage project was formed to provide competitively priced natural gas storage and hub management services. The facility has a peak day design injection or withdrawal capacity of 500 MMcf/d and 40 Bcf of storage capacity. An expansion of the facility is being evaluated which would increase peak design injection or withdrawal capacity to 1,300 MMcf/d and storage capacity to 80 Bcf. The Alberta Energy Resources Conservation Board has granted a commercial license to the project for a term of 25 years. The license allows for incremental expansion of the facilities without submitting further applications.

[illegible] During 1994, CanStates Gas Marketing [CanStates], a partnership in which ANG has a 67 per cent interest, entered into long-term gas contracts to supply a cogeneration plant in the US Pacific Northwest. CanStates received NEB approval in November 1994 to export the 44.5 MMcf/d with deliveries expected to commence in mid-1996. These new contracts augment the 125 MMcf/d of long-term export contracts held by CanStates.

CanStates' natural gas sales volumes for 1994 were 108.8 Bcf which represented an increase of 15 per cent over volumes sold in 1993. Due to the combination of a mild winter, significant development of new reserves and a large increase in storage capability, natural gas prices softened during the latter part of 1994. This trend is expected to continue into 1995. In this price environment, CanStates has been able to expand its business into new markets, including the US Pacific Northwest and California.

The marketing of NGL produced by the Cochrane extraction plant is conducted under long-term sales agreements. Higher production volumes of 21.6 Mbbls/d in 1994 were attributable to the increased capacity resulting from the completion of the recommissioned facility. Although prices for NGL remained fairly steady in 1994, operating income from the marketing of NGL was significantly lower in 1994 compared to 1993. The main reason for this decline was the overall higher natural gas feedstock costs. This situation reversed at year-end when natural gas prices fell sharply.

Marketing Operating Income
(millions of dollars)



Contractual arrangements also provide for ANG's participation in the marketing of ethane outside Alberta. These arrangements have not contributed to ANG's operating income for a number of years. However, ethane from the recommissioned facility has recently been profitably sold under a short-term interruptible agreement. The recommissioned facility will allow ANG to develop new ethane business as the project has increased the Company's ethane production capabilities.

Expenditures on property, plant and equipment for marketing and services totalled $3 million in 1994. In addition, ANG invested $16 million with respect to the CrossAlta gas storage facility. Capital expenditures in 1995 are expected to be $3 million.

Operating income for marketing and services in 1994 was $10.2 million, a decrease from the $13.2 million recorded in 1993. The decrease was primarily due to the higher cost of natural gas used for NGL feedstock. Total volumes of NGL were 7,900 Mbbls as compared to 1993 levels of 6,900 Mbbls.

ANG believes that there are significant opportunities to leverage its expertise and invest in the area of gas gathering and processing. This is due to the growing need for facilities to meet deliverability requirements from the western Canadian sedimentary basin into the 21st century. Extraction rights to increased natural gas volumes should benefit marketing profits from the sale of NGL and ethane.

ANGUS, using nitroparaffin chemistry, has evolved into the world's foremost producer and marketer of nitroparaffin specialty chemical products. Success at ANGUS comes from its ability to respond to the ever changing needs of the marketplace. ANGUS has developed a variety of products from a single technology to meet the diverse needs of its customers. ANGUS produces over 50 nitroparaffin products which provide added benefits to approximately 40 industries located in over 80 countries worldwide.

The products are used in applications ranging from personal care products, latex paints, pharmaceuticals such as Zantac™, and other drugs. ANGUS' leading position is well-supported by its global marketing presence and distribution network.

The diversity of markets served with nitroparaffin products positions ANGUS favourably without dependence on any one product or customer. Further, it reduces the impact of economic cycles on sales and profitability. In 1994, the largest industry group represented less than 25 per cent of ANGUS' sales. In a typical year, the 10 largest customers account for less than 25 per cent of sales.

ANGUS, our US-based specialty chemical products manufacturer, is a key element in ANG's long-term growth strategy. ANGUS is the world's foremost producer of nitroparaffin-based specialty chemical products.

ANGUS' commitment to product development is demonstrated by the planned construction in 1995 of a pilot plant at its Sterlington, Louisiana facility. The purpose of the plant is to facilitate new market and product development and to provide processing scale-up data.

[Strategy] ANGUS is a key element in ANG's long-term growth strategy. ANGUS will pursue product line extensions or businesses which augment its current nitroparaffin technology. This, together with a continued concentration on research and development of new products and the development of new markets for existing products, is expected to provide long-term profitable growth.

As part of its long-term strategy to develop nitroparaffin-based products, ANGUS maintains a discipline of spending approximately four per cent of sales revenue on its research and development.

[The Business of ANGUS] ANGUS manufactures four basic nitroparaffin co-products: nitromethane, nitroethane, 1-nitropropane and 2-nitropropane. These co-products are made from a feedstock of nitric acid and propane. Value-added, nitroparaffin derivative products are produced from each of these basic co-products.

Nitroparaffins and their derivatives are produced at the Sterlington plant, while the plant in Ibbenbueren, Germany exclusively manufactures derivative products. In 1994, the basic nitroparaffins plant operated at two-thirds of its 90 million pound capacity. In 1994, 80 per cent of the basics produced were used for the production of derivatives.

[1994 Highlights] *Products* ANGUS' new product development process screens the market potential, technical fit and overall economic returns, allowing the dedication of resources to only those products that have a high probability of commercial success. New product development is continuing to generate widespread interest in several market segments. Four new products were introduced in 1993 and two were introduced in 1994. Zoldine® ZT-55, which was introduced in late 1993 as a specialty additive for the adhesive industry, demonstrated strong growth in 1994 because of its combined benefits of improved properties and reduction in worker exposure to hazardous chemicals.

Zoldine® RD-20 reactive diluent and Zoldine® MS-PLUS moisture scavenger, introduced in 1994, are two new products developed by ANGUS targeting the urethane industrial coatings market. These products represent a new class of compounds for ANGUS which enable formulators to dramatically lower the volatile organic compound level of these coatings and improve their surface appearance and durability. Zoldine® RD-20 replaces solvents used in urethane coatings. Unlike solvents, however, it reacts within the coating to become a part of the final product. As a result, it does not evaporate into the atmosphere and contribute to poor air quality as solvents do. Zoldine® MS-PLUS removes moisture from these same coatings, preventing an unwanted chemical reaction that would otherwise create bubbles, pinholes, hazing and reduced gloss in the final product. Both new products enable manufacturers to develop high performance urethane coatings which deliver the top quality customers expect and meet increasingly strict environmental regulations.

ANGUS has three new products scheduled for commercial introduction in 1995. The production processes for these products were piloted in 1994 and are now in commercial production, scale-up and customer trials. A number of other new products continue in various stages of development, many in partnerships with ANGUS customers, to meet specific customer needs.

Sales of ANGUS' more than 50 products is led by AMP 95™. This versatile product, which is primarily used to optimize the performance of latex paints, enjoyed worldwide, double-digit growth in 1994 as opportunities in the coatings markets expanded and new international markets were penetrated.

Worldwide, ANGUS sells its products direct and through distributors in more than 80 countries. It has offices in Buffalo Grove, Illinois, USA; Paris, France; Sheffield, England; Essen, Germany; and in Singapore, supporting growth in the Far East including China.

Europe currently accounts for 25 per cent of worldwide sales. Derivatives volumes grew in Europe by more than 15 per cent in 1994 as the coatings industry moved away from solvent-based systems towards water-based systems which utilize ANGUS' primary product lines. In Asia, sales have grown to represent more than 20 per cent of worldwide sales, with the majority of growth occurring in Pacific Rim countries. The Middle and Far East demonstrated exceptionally strong growth in 1994, with sales increasing more than 28 per cent. During 1994 a distributor network was formed in China targeting the coatings and rubber industry in that country as areas for substantial growth over the next several years.

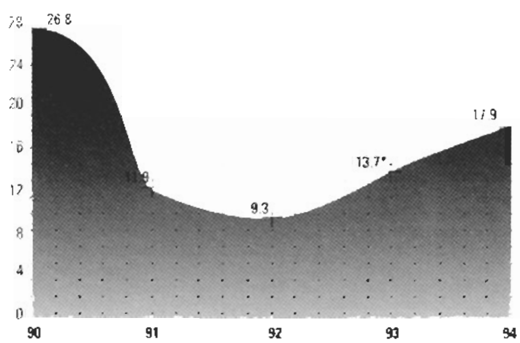
AMP 95™ is a versatile product, primarily used to optimize performance in latex paints. It is used worldwide and leads ANGUS products in terms of sales.

While Latin America is still less than two per cent of ANGUS' overall sales, this is a fast growing market where eight distributors sell all of ANGUS' major products. In Mexico, ANGUS benefits from the North American Free Trade Agreement as duties on its products were reduced by 10 to 15 per cent, enabling ANGUS products to be more competitive with locally produced products. Brazil has been targeted as a prime area for market penetration and growth as ANGUS products have had limited exposure in this major market. Customers in the United States accounted for about one-half of all ANGUS' sales, with a diverse range of industries contributing to this performance.

Expenditures on property, plant and equipment for 1994 totalled $14 million compared to $12 million in 1993. These funds were directed at infrastructure and safety projects as well as the replacement of a temporary administration building at the Sterlington plant. Total expenditures for 1995 are expected to be $23 million with the major projects being a new derivatives production control room with state-of-the-art computer control systems and the construction of the Sterlington pilot plant. The remaining funds have been allocated to derivatives facility expansions and efficiency improvements. Sustaining capital for ANGUS normally ranges from $5 to $7 million annually.

Operating income in 1994 for chemicals was $17.9 million as compared to $13.7 million [before the $12.6 million pre-tax litigation settlement] in 1993.

This increase was mainly attributable to higher sales volumes in the pharmaceutical, health care and coatings markets. ANGUS benefited from expanded markets worldwide due to global market penetration and the successful introduction of new products. The 1993 results were negatively affected when the world's second largest manufacturer of nitroparaffins withdrew from the market and liquidated its inventory.



* Excluding the litigation settlement

Sales of one of the basic products, nitromethane, were negatively affected in 1993 when the product was imported into the United States from China at prices significantly below prevailing market rates. In response, ANGUS filed an anti-dumping petition in 1993. During the second quarter of 1994, the United States Department of Commerce found that nitromethane sourced from China was being sold at less than fair value. However, the United States International Trade Commission determined that ANGUS was not materially injured or threatened with material injury and denied ANGUS' request for the imposition of dumping duties. ANGUS has filed an appeal of this decision with the United States Court of International Trade.

During 1994 ANGUS received the balance of funds associated with the 1993 litigation settlement relating to the 1991 explosion at the Sterlington facility. Net proceeds to ANGUS of US $35 million were to have been paid in several installments over a period of three years. However, US $15 million was received in 1993 and the remaining US $20 million was received in June of 1994. See Note 11 to the Consolidated Financial Statements.

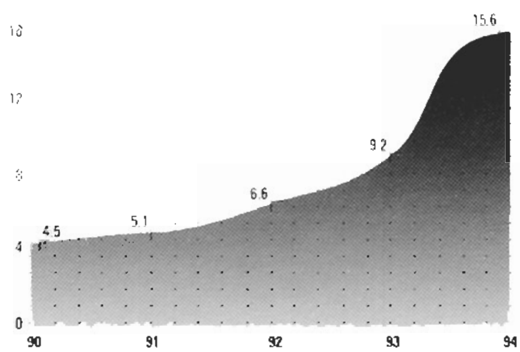
[Recent Developments] ISO 9002

In early 1995, ANGUS' Sterlington plant received ISO 9002 certification. This sought-after certification, signifying that the Sterlington plant's quality systems conform to comprehensive international standards, was received following a rigorous audit of ANGUS' facilities by an independent third party appointed by the ISO Council. The Ibbenbueren plant in Germany had previously received ISO 9002 certification.

Outlook ANGUS looks forward to penetrating new markets with new and existing products. ANGUS' ability to create products which control the release of formaldehyde, nitrosamines and volatile organic compounds will further benefit the Company as environmental legislation continues to tighten with respect to these compounds. Increased geographic and end-market diversity will provide a platform for continued growth at ANGUS.

ANG's pipeline provided its initial platform for growth. Over the years, the pipeline has provided a reliable cash flow and a fair rate of return for ANG's shareholders. ANG owns and operates the largest single export point for deliveries of Canadian natural gas. In the 1993-94 gas year, these deliveries represented 28 per cent of Canada's total natural gas exports. Today, ANG's pipeline-related growth opportunities will depend on new market demand for natural gas, the continued ability to provide competitive transportation services and ANG's ability to capitalize on other opportunities related to the pipeline assets.

Pipeline Operating Income
(millions of dollars)



[Strategy] A key factor contributing to the success of the pipeline operation is ANG's ability to continuously meet the changing needs of customers using the system. ANG recognizes the dynamic nature of the natural gas industry. In order to stay abreast of the issues facing the pipeline operations, its customers and the industry at large, ANG maintains a close relationship with its pipeline shippers.

A planned expansion of the pipeline during 1995 to meet growing market demand for gas in the Pacific Northwest and Nevada was deferred. Responding to customer requests, ANG successfully coordinated a rationalization mechanism whereby existing shippers were able to relinquish underutilized transportation capacity to shippers committed to the planned 1995 expansion. Such endeavours ensure the optimal utilization of ANG's pipeline facilities.

ANG's transportation services are interconnected with PGT's system. With the assistance of PGT's electronic bulletin board, known as the Pacific Trail, the system facilitates nominations and other services provided to ANG shippers. ANG is currently in discussions regarding participation in the "NrG Highway", being developed by several Canadian companies, which will provide ANG customers with additional electronic multi-pipeline gas transportation information services.

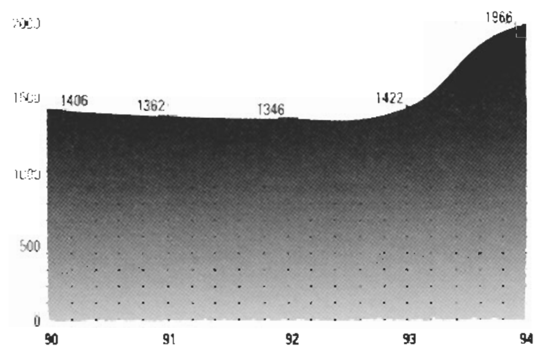
As ANG moves to pursue the goal of becoming an integrated midstream natural gas company, the Company will continue to serve its customers through pipeline expansions and examine related opportunities, such as cogeneration.

The Pipeline Assets ANG operates the British Columbia segment of the Alberta-California pipeline system, one of Canada's major pipelines for natural gas exports to the United States. The pipeline extends from the Alberta/British Columbia border to the British Columbia/Idaho border and links the NOVA and PGT systems transporting gas to California. The Foothills South B.C. pipeline, which parallels and interconnects with ANG's pipeline, is 49 per cent owned and is operated by ANG as an integral part of the B.C. Pipeline System.

In November 1993, an expansion of the B.C. Pipeline System was completed which added 900 MMcf/d of capacity. As of December 31, 1994 total capacity was approximately 2,500 MMcf/d. While the majority of the gas is destined for export to the United States, the B.C. Pipeline System also supplies a local gas distributor and several industrial consumers in southeastern British Columbia.

The pipeline operates within the jurisdiction of the NEB. Income and cash flow are based on tolls charged to pipeline shippers. These tolls are designed to recover all reasonable operating and maintenance expenses, depreciation and amortization, income and other taxes and a return on rate base [the pipeline assets]. The average pipeline rate base increased from $77 million in 1993 to $161 million in 1994, reflecting the 1993 pipeline expansion.

Kingsgate Export Volumes
(average MMcf/d)



The rate base increases by the amount of capital additions and decreases by the amount of depreciation charged. The rate base is funded according to a deemed capital structure consisting of debt and equity. The return on the rate base includes the recovery of debt costs and an after-tax return on the deemed equity component. The debt and equity components and the return on equity may be determined in consultation with the pipeline shippers and other interested parties. If an agreement cannot be reached as a result of the consultative process, such return will be determined by the NEB. Net income for the pipeline business is determined by the rate of return on the equity portion of the rate base.

[illegible] On March 17, 1994 the NEB called a multi-pipeline cost of capital hearing for major regulated pipelines. The purpose of the hearing was to set a benchmark return on equity, to establish a suitable mechanism for adjusting that return over a three to five year period and assign an appropriate capital structure for the individual pipelines. Prior to calling this hearing, the NEB had set a June 13, 1994 date for a separate hearing relating to ANG's pipeline capital structure and rate of return on equity.

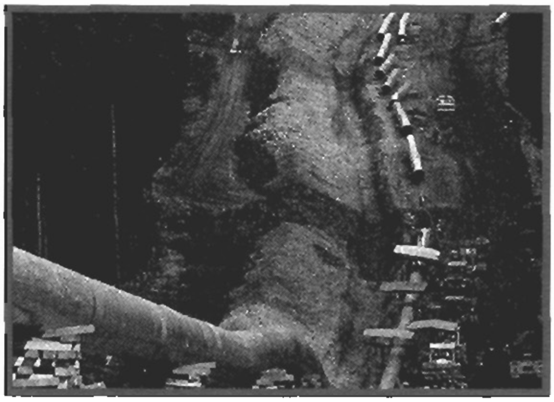
In order to avoid unnecessary duplication between the two proceedings, a settlement was reached in June 1994 with ANG's shippers for pipeline tolls for the period from November 1, 1993 to December 31, 1994. This settlement provided for a rate of return on equity of 12 per cent on a deemed equity component of 30 per cent. The Company applied for the benchmark return on equity of 13 per cent and a deemed equity component of 35 per cent in the multi-pipeline cost of capital hearing. The NEB's decision, expected to be issued in the spring of 1995, will set ANG's rate of return retroactive to January 1, 1995. The decision is not expected to have a material impact on the earnings of ANG.

Based on ANG's December 31, 1994 rate base, an increase in the equity component of five per cent [i.e. from 30 per cent to 35 per cent] would increase earnings per share by approximately $0.01, as would a fifty basis point rise [i.e. from 12 per cent to 12.5 per cent] in the rate of return on equity.

Cogeneration ANG and TransAlta Energy Corporation [TransAlta] are partners in the ownership and operation of a proposed cogeneration facility to be located adjacent to ANG's compressor station at Crowsnest, British Columbia. This facility's capacity could range from 80 Megawatts to 170 Megawatts and cost between $100 million and $160 million.

In March 1994, ANG, TransAlta and Powerex, the export marketing division of BC Hydro, signed a letter of intent providing for the marketing of the electricity to be generated by the Crowsnest cogeneration project. To date, Powerex has been unsuccessful in its attemprs to find a buyer, however is continuing in its efforts to market the electriciry.

In addition to the Crowsnest project, ANG is independently developing another cogeneration project located adjacent to its pipeline compressor station near Elko in the East Kootenay region of British Columbia. This proposed facility would combine heat generated through combustion of sawmill wood waste with waste heat recovered from compressors at the station. The cost of this 45 Megawatt facility is approximately $95 million.



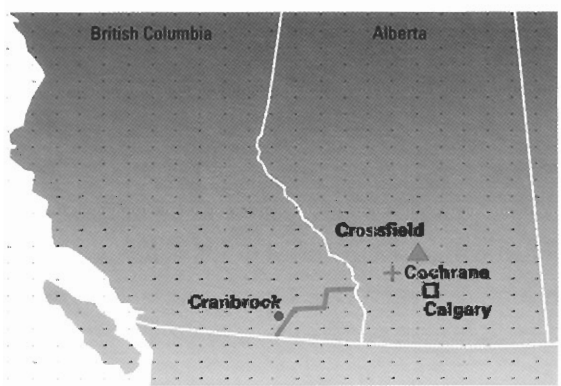
As part of our commitment to provide safe, efficient and reliable transportation services, we continue to upgrade our pipeline facilities.

Both projects will be submitted as proposals in March of 1995 in response to a request to provide power to BC Hydro by 1999. A short list of the successful bidders is expected to be received in mid-1995.

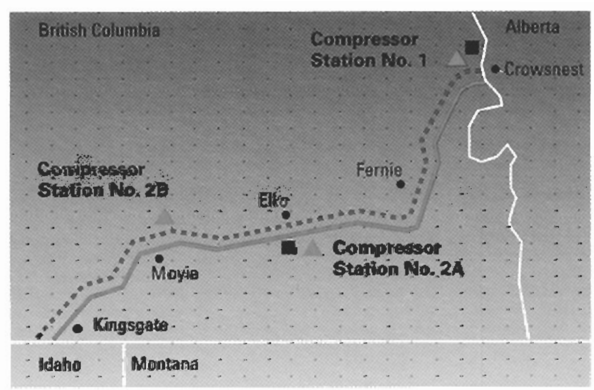
[1994 Highlights] Capital Expenditures As part of ANG's ongoing commitment to provide safe, efficient and reliable transportation services, ANG continues to upgrade its pipeline facilities. Sustaining capital expenditures for 1994 were $10 million. Additions to property, plant and equipment were $78 million in 1993, of which $67 million was related to the 1993 pipeline expansion. Expenditures for 1995 are expected to total $12 million to fund compressor turbine cooling systems and several smaller projects.

Financial Operating income from the pipeline business was $15.6 million in 1994, as compared to $9.2 million in 1993. The increase resulted from the November 1993 pipeline expansion.

Outlook The need for expansion capacity to meet market demand is now growing again and may result in another pipeline expansion in 1996 or 1997. ANG also believes that there are opportunities to service upstream companies operating in areas which are uneconomic with respect to services offered by other pipelines and will investigate such opportunities as warranted.



Headquarters
Extraction facility
Pipeline
Gas storage facility



Compressor station
ANG pipeline
Proposed cogeneration facility
Foothills South BC pipeline

Improved operating performance in 1994 increased funds from continuing operations to $65.5 million compared to $58.8 million in 1993. During 1994, ANG's investment in property, plant and equipment totalled $69 million, of which $39 million was for the upgrade and facility recommissioning at the Cochrane extraction plant. The remainder of the expenditures were mainly related to sustaining capital for the chemical and pipeline operations. In 1993, expenditures on property, plant and equipment totalled $111 million of which $67 million was for the expansion of ANG's pipeline system in southeastern British Columbia.

Also in 1994, ANG sold non-strategic assets for net proceeds of $13 million and incurred costs of $16 million related to its investment in the CrossAlta gas storage project. Net proceeds of $13 million relating ro a litigation settlement were received in each of 1994 and 1993. See Note 11 to the Consolidated Financial Statements. At the end of 1994, ANG held cash and interest-bearing deposits of $52 million, an increase of $38 million over the prior year-end.

In June 1994, the Canadian Bond Rating Service upgraded its rating on the Company's long-term debt to A[low] from B++[high] as a result of the steady improvement in earnings, cash flow, interest coverage levels and prospects for continued improvement in consolidated performance. This rating further enhances ANG's access to debt markets at attractive interest rates.

The Company's debt ratings are as follows:

Dominion Bond Rating Service	
Debentures	A [low]
Commercial Paper	R-1 [low]
Canadian Bond Rating Service	
Debentures	A [low]
Commercial Paper	A-1 [low]

As of December 31, 1994, total debt outstanding was $274 million compared to $250 million on December 31, 1993. Of the total debt outstanding, short-term notes payable were $98 million and consisted largely of commercial paper with varying terms to maturity. Long-term debt consisted of $110 million in Canadian dollars, CDN $53 million denominated in US dollars and CDN $13 million denominated in German marks. See Note 7 to the Consolidated Financial Statements.

Approximately $170 million of ANG's debt is associated with cost-of-service operations. Through contractual arrangements, the associated interest expense on such debt is recovered, largely shielding ANG from interest rate volatility.

The Company's weighted average cost of short-term borrowing was 5.7 per cent compared to 6.5 per cent in 1993. Interest expense was $18 million, $2 million higher than in 1993. The increase reflects funding requirements associated with the 1994 capital program.

At the end of 1994, ANG had revolving credit facilities totalling $155 million with five Canadian banks and a US $6 million facility, all of which were unused. These credit facilities are used for general corporate purposes and to support the Company's commercial paper program.

Capital expenditures in 1995 are budgeted at approximately $45 million and are expected to be financed mainly through cash flow from operations. ANG's sound capital position affords the Company flexibility for future financing decisions.

[Sensitivities] The Company is exposed to interest rate, exchange rate and commodity price volatility. To the extent possible, risks are mitigated by natural offsets, and in some cases, through the use of hedging instruments.

Increase in Key Market Driver	1995 Earnings per share increase [decrease]
Propane price of US $0.03 per gallon	$0.02
CDN/US dollar exchange rate of CDN $0.03	[0.02]
Natural gas CDN $0.25 per gigajoule	[0.04]

[Canadian Operations] ANG remains committed to operating its business in an environmentally responsible manner. In 1993 ANG implemented its Environmental Philosophy and Policy which emphasizes its commitment to the environment and outlines the measures being taken within ANG to ensure that Company operations are compatible with the environment.

As part of this Policy, a Chief Compliance Officer [CCO], reporting to the Board of Directors, was appointed to ensure that the Policy is properly adhered to. The CCO meets regularly with the Safety and Environmental Review Committee to review safety and environmental concerns.

In 1994, ANG personnel inspected, surveyed and tested all operating facilities to ensure proper performance and compliance with applicable regulations and operating policies. A number of regular safety and environmental inspections were conducted by federal and provincial agencies which did not identify any significant concerns. As part of its commitment to environmental preservation, ANG conducts facility audits on a regular basis. In addition, an independent environmental consulting firm has been engaged to conduct an audit of both the plant and pipeline facilities in 1995.

ANG keeps abreast of developments regarding environmental legislation to ensure a timely response to any changes in laws or regulations. ANG does not expect that environmental protection laws will affect it differently from other corporations in the industries in which it operates. To date, environmental protection requirements have not had, nor will have, a material adverse impact on ANG's earnings or competitive position. It is expected, however, that new and amended legislation could increase environmental compliance costs. ANG is unable to predict the impact of such increased costs at this time.

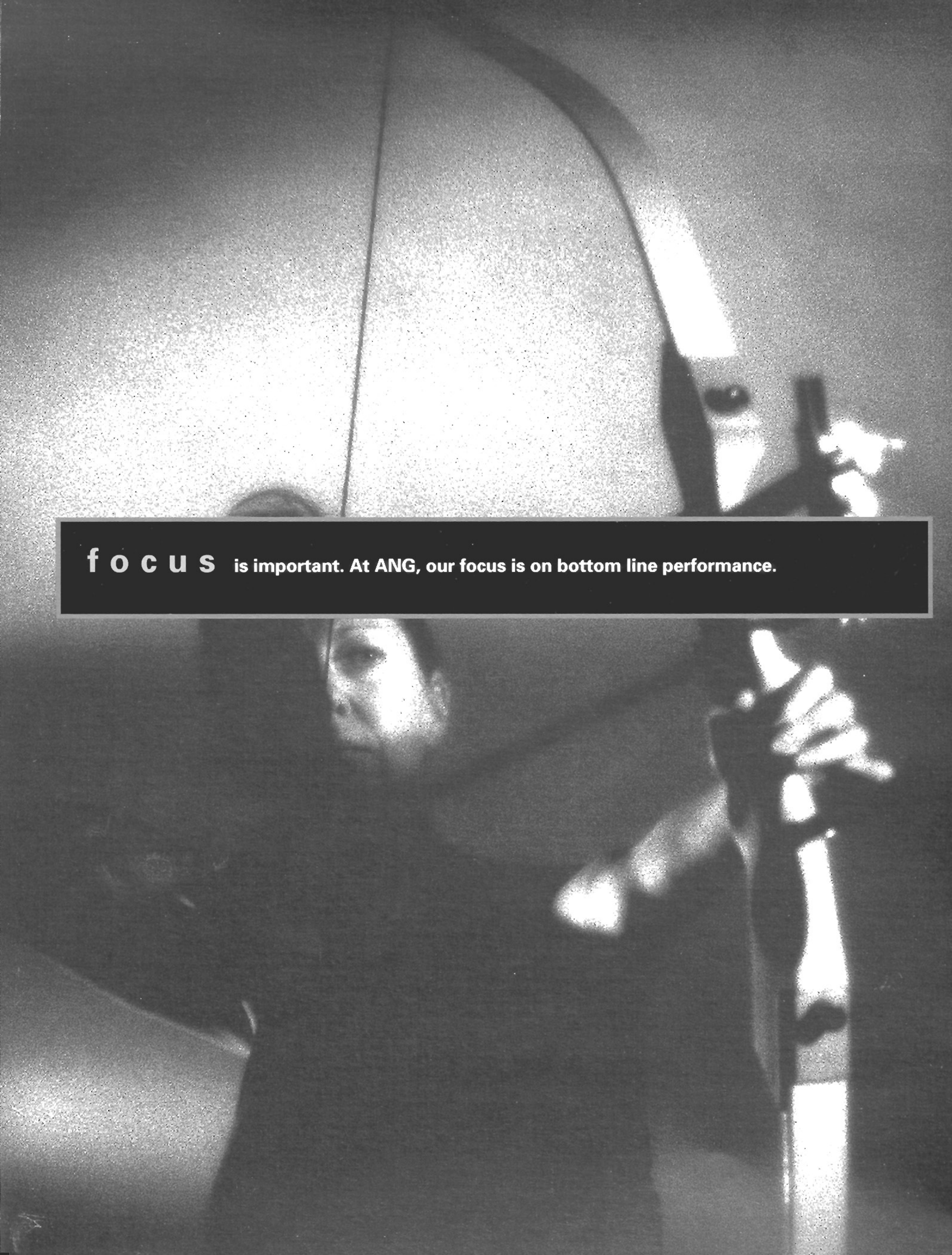
[Chemicals] ANGUS is committed to full compliance with current and future environmental regulations on a worldwide basis. In this respect, ANGUS is engaged in an active program of environmental management. Components of this program include a management commitment to environmental compliance and issue management, a trained and experienced environmental staff, and adequate capital resources.

In 1992, ANGUS initiated a project at Sterlington to reduce its long-term material handling risks which include the development of stringent material handling standards for certain chemicals. Many of these standards were implemented in 1993, at a minimal cost to ANGUS. Additional improvements to be completed in 1995 include reducing and consolidating certain storage facilities while providing improved containment capability as well as upgrading and rationalizing associated piping systems.

During 1994, ANGUS received renewal of its water discharge permit. This permit, which extends through 1999, allows ANGUS to continue to use its existing waste water treatment system, but will require the construction of certain facilities to reduce certain elements in its discharge and to allow direct discharge to the receiving stream. The permit contains a compliance schedule which provides up to three years to make changes necessary to comply with certain limits.

The costs associated with ANGUS' environmental activities have increased significantly in recent years. While it is difficult to determine environmental compliance costs, ANGUS expects environmental capital costs will not exceed $2 million per year over the next three to five years. ANGUS has dedicated resources to identify industrial and regulatory trends relating to environmental issues at an early stage and to take action to reduce potential long-term financial liability.

[Safety] ANG is pleased to report that the lost time rate for its Canadian operations was zero in both 1994 and 1993, down from 1.18 in 1992. The lost time rate experienced in our United States operations has been relatively stable; 0.66 in 1994, 0.60 in 1993 and 0.69 in 1992. This rate is approximately one-half of the rates normally experienced by chemical manufacturers of a similar size. The lost time rate is determined by dividing the number of days absent as a result of injury by 200,000, a calculation which is routinely used by North American industries when determining the impact of safety-related injuries.


focus is important. At ANG, our focus is on bottom line performance.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all other information in this Annual Report have been prepared by the management of ANG. Management is responsible for the integrity and objectivity of this information. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Where appropriate, amounts based on estimates and judgements are included. Financial information througnout this Annual Report is consistent with the consolidated financial statements.

Management has established and maintains appropriate systems of internal control, with policies and procedures which are designed to meet its responsibility for reliable and accurate reporting. These systems of control include a program of review by ANG's internal auditors.

Arthur Andersen & Co. are independent auditors appointed by the shareholders. For the purposes of determining the nature, timing and extent of their audit procedures, the auditors have considered ANG's internal controls. They have audited the consolidated financial statements in accordance with generally accepted auditing standards so as to enable them to express an opinion on the fairness of the financial statements.

Through its appointed Audit Committee, the Board of Directors oversees the financial reporting prepared by management. The Audit Committee meets regularly with management, the internal auditors and Arthur Andersen & Co. to review auditing and financial reporting matters. Internal and external auditors have unrestricted access to the Audit Committee and management. 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, 1994 and 1993 and the consolidated statements of income, reinvested earnings and 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, 1994 and 1993 and the results of its operations and its cash flow for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta,
February 3, 1995.

Arthur Andersen & Co.
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31 [in thousands except earnings per share]	1994	1993
Revenues [Note 12]	$ 678,473	$ 662,693
Expenses		
Operating and maintenance	533,233	521,016
Selling, administrative and research	58,547	49,598
Depreciation and amortization	25,081	22,619
Property taxes and other expenses	5,006	4,793
	621,867	598,026
Operating Income [Note 12]	56,606	64,667
Other income [Note 9]	9,818	13,705
Interest expense	[18,165]	[16,397]
Income from Continuing Operations before Income Taxes	48,259	61,975
Income taxes [Note 10]	[16,768]	[28,577]
Income from Continuing Operations	31,491	33,398
Discontinued operations	–	790
Extraordinary item [Note 11]	–	15,396
Net Income	$ 31,491	$ 49,584
Earnings per Share		
Continuing operations	$ 1.23	$ 1.30
Discontinued operations	–	0.03
Extraordinary item [Note 11]	–	0.60
Net income	$ 1.23	$ 1.93

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

Year ended December 31 [in thousands]	1994	1993
Opening balance		
As previously reported	$ 90,364	$ 58,239
Change in accounting policy [Note 3]	[3,483]	[3,483]
As restated	86,881	54,756
Net income	31,491	49,584
Dividends	[17,475]	[17,459]
Closing balance	$ 100,897	$ 86,881

CONSOLIDATED BALANCE SHEET

December 31 (in thousands)	1994	1993
Assets		
Current Assets		
Cash and interest-bearing deposits	$ 52,120	$ 13,668
Accounts receivable	87,164	115,571
Inventories (Note 4)	57,715	57,495
Other	2,315	4,512
	199,314	191,246
Investments (Note 5)	39,926	38,532
Property, Plant and Equipment (Note 6)	428,230	376,474
Goodwill and Other	18,059	34,364
	$ 685,529	$ 640,616
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable	$ 97,609	$ 79,445
Accounts payable and accrued liabilities	90,455	101,968
Deferred income taxes	12,647	16,426
	200,711	197,839
Long-Term Debt (Note 7)	175,990	170,978
Deferred Income Taxes	67,859	55,967
Deferred Credits (Note 14)	15,320	11,559
	459,880	436,343
Shareholders' Equity		
Common shares (Note 8)	113,816	113,701
Reinvested earnings	100,897	86,881
Foreign exchange adjustment	10,936	3,691
	225,649	204,273
	$ 685,529	$ 640,616

Approved on behalf of the Board of Directors

J. E. Goudie

John E. Goudie, Director

John Beddome

John M. Beddome, Director

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended December 31 [in thousands]	1994	1993
Operating Activities		
Income from continuing operations	$ 31,491	$ 33,398
Add non-cash items included above [Note 15]	33,970	25,369
Funds from continuing operations	65,461	58,767
Change in non-cash working capital	12,499	[29,385]
Foreign exchange effect on working capital	6,304	1,938
Other	5,408	[7,584]
	$ 89,672	$ 23,736
Discontinued Operations	$ –	$ 790
Investing Activities		
Net property, plant and equipment additions	$ 68,608	$ 111,073
Proceeds from sale of assets [Note 9]	[12,603]	[15,300]
Net investments	8,844	17,599
Extraordinary item [Note 11]	[13,218]	[13,479]
Other	3,809	[4,887]
	$ 55,440	$ 95,006
Financing Activities		
Dividends	$ 17,475	$ 17,459
Long-term debt additions	–	[140,000]
Long-term debt repayments	–	140,000
Deferred credits	[3,416]	[4,068]
Common shares issued for cash	[115]	[602]
	$ 13,944	$ 12,789
Summary of Cash Provided [Used]		
Operating activities	$ 89,672	$ 23,736
Discontinued operations	–	790
Investing activities	[55,440]	[95,006]
Financing activities	[13,944]	[12,789]
	20,288	[83,269]
Cash and Cash Equivalents [Deficiency] [Note 15]		
Opening balance	[65,777]	17,492
Closing balance	$ [45,489]	$ [65,777]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1

[Description of the Business]

Alberta Natural Gas Company Ltd [ANG] owns and operates a natural gas liquids [NGL] and ethane extraction facility near Cochrane, Alberta. The plant straddles the western Alberta mainline of the pipeline system operated by NOVA Corporation of Alberta [NOVA]. The purchasers of NGL and ethane from the Cochrane extraction plant have agreed to provide for the recovery of operating expenses, taxes and capital invested together with a return on the unrecovered investment.

ANG is engaged in natural gas brokering, gathering and storage. ANG also participates in the marketing of products derived from natural gas processed at the Cochrane plant. The gas brokerage operation is managed by the CanStates Gas Marketing partnership of which ANG owns 67 per cent. ANG holds approximately a 20 per cent interest in the CrossAlta Gas Storage facility near Crossfield, Alberta.

ANGUS Chemical Company [ANGUS], a wholly-owned subsidiary of ANG, owns and operates chemical production facilities located in the United States and Germany. These facilities utilize propane and nitric acid as feedstock to produce nitroparaffins and derivative products which are then marketed worldwide.

ANG owns and operates a large-diameter pipeline for the transportation of natural gas through southeastern British Columbia. This pipeline links the systems operated by NOVA and Pacific Gas Transmission Company [PGT] to move natural gas from Alberta to California and the United States Pacific Northwest. ANG holds a 49 per cent interest in Foothills Pipe Lines [South B.C.] Ltd. [Foothills South B.C.] which owns a pipeline that parallels and interconnects with ANG's pipeline. Foothills South B.C.'s pipeline is operated by ANG as an integral part of the ANG pipeline system. A major pipeline expansion project in southeastern British Columbia, co-sponsored by ANG and Foothills South B.C., was completed and commenced service on November 1, 1993.

The pipeline system in southeastern British Columbia is subject to regulation by the National Energy Board [NEB] pursuant to the National Energy Board Act. The NEB regulates accounting matters, the export of gas, the construction and operation of gas pipelines and tolls charged for transportation service. The Foothills South B.C. pipeline is also regulated by the Northern Pipeline Agency pursuant to the Northern Pipeline Act.

Note 2

[Accounting Policies]

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies are summarized below:

Basis of Presentation The consolidated financial statements include the accounts of ANG and all of the accounts of subsidiaries and partnerships over which ANG has control. The equity method of accounting is followed for investments which are less than 50 per cent owned by ANG.

Inventories Inventories are carried at the lower of cost and market value. The last-in, first-out method is used to account for certain chemical inventories. These inventories would be $11.4 million higher at December 31, 1994 [$7.1 million at December 31, 1993] if the first-in, first-out method had been used. Average cost is used for most other inventories.

Property, Plant and Equipment Property, plant and equipment is carried at cost, less accumulated depreciation. Cost includes an allowance for funds used during the construction of assets that are devoted to cost-of-service arrangements. The rate used to capitalize this financing cost is the NEB's accepted rate of return on the rate base or, where appropriate, the rate specified in the contract. This return is included in income when it is recorded.

Note 2

[continued]

Depreciation is calculated on a straight-line basis over the estimated service life of the asset. The overall composite rate is 2.0 per cent [2.3 per cent in 1993] for extraction, 6.2 per cent [6.5 per cent in 1993] for chemicals and 4.1 per cent [3.8 per cent in 1993] for pipelines.

Goodwill Goodwill arose on the acquisition of certain subsidiaries and partnerships. It represents the portion of the purchase price in excess of the fair value of the identifiable net assets acquired and is amortized on a straight-line basis over a period of 30 years. The unamortized balance was $8.6 million at December 31, 1994 [$9.0 million at December 31, 1993].

Foreign Currency Translation The accounts of foreign subsidiaries are translated into Canadian dollars using the balance sheet date foreign exchange rate for assets and liabilities and the average foreign exchange rate during the year for revenues and expenses. ANG holds a German mark denominated long-term bank loan which is designated as a partial hedge against the German mark currency exposure from a foreign subsidiary. The cumulative effects of these foreign currency translations are included in the "Foreign exchange adjustment" component of shareholders' equity until there is a realized reduction of the net foreign investment.

Natural Gas Sales Contracts Certain natural gas sales contracts are entered into at fixed prices for up to one year. Revenues and expenses related to these contracts are recorded when deliveries are made. Anticipated future losses, if any, on specific contracts are charged to income when identified.

Income Taxes Income taxes are provided using the tax allocation basis for all income except for cost-of-service income which permits the recovery of income taxes as paid. Income taxes are provided on this source of income using the taxes payable method to the extent they are recovered as revenue. Had the tax allocation basis been used for this source of income, there would have been a deferred tax recovery of $1.3 million in 1994 [$2.4 million in 1993] on this income, and additional deferred income taxes would have been recorded in the amount of $16.3 million to December 31, 1994 [$17.6 million to December 31, 1993].

Withholding taxes are provided on undistributed earnings of foreign subsidiaries if those earnings are deemed not to be permanently invested.

Note 3

[Change in Accounting Policy]

Certain health care, dental care and life insurance benefits, provided to eligible retirees and their dependants, are now accrued as the benefits are earned by employees [see Note 14]. Previously these costs were recorded when paid by ANG. This change in accounting policy, which is not material to current or any prior year's net income, has been applied retroactively effective December 31, 1994 and has reduced the December 31, 1993 reinvested earnings by $3.5 million.

Note 4

[Inventories]

December 31 [in thousands]	1994	1993
Extraction	$ 2,346	$ 2,203
Chemicals	46,657	42,283
Pipeline	7,154	5,865
Other	1,558	7,144
	$ 57,715	$ 57,495

Note 5

[Investments]

December 31 [in thousands]	1994	1993
Foothills Pipe Lines [South B.C.] Ltd.	$ 20,476	$ 25,717
CrossAlta Gas Storage joint venture	16,372	–
Foothills Pipe Lines [Yukon] Ltd.	2,354	2,420
Amoco Centre joint venture	–	6,092
St. Clair Underground Storage partnership	–	3,618
Other	724	685
	$ 39,926	$ 38,532

Foothills South B.C. has a $90.0 million bank line of credit to provide interim financing for its portion of the pipeline expansion project in southeastern British Columbia. This line was drawn to $83.7 million as at December 31, 1994. ANG has guaranteed 49 per cent of any outstanding loan balance. The guarantee will terminate upon replacement of the interim financing with long-term debt, which management anticipates will occur in 1995.

ANG acquired its interest in the CrossAlta Gas Storage joint venture during 1994. Also in 1994, ANG sold its interest in the Amoco Centre joint venture and the St. Clair Underground Storage partnership. Net proceeds from the sale of these investments were $12.6 million.

Note 6

[Property, Plant and Equipment]

December 31 [in thousands]	1994	1993
Cost		
Extraction	$ 207,249	$ 153,661
Chemicals	219,425	184,436
Pipeline	220,520	210,756
Under construction	9,694	24,109
Other	6,482	6,039
	663,370	579,001
Accumulated depreciation		
Extraction	81,768	77,537
Chemicals	81,960	59,956
Pipeline	69,623	63,102
Other	1,789	1,932
	235,140	202,527
	$ 428,230	$ 376,474

Note 7

[Long-Term Debt]

December 31 [in thousands]	Interest rate [%]	Due date	1994	1993
Debentures	8.40	2003	$ 110,000	$ 110,000
Notes [US $25 million]	6.56	1997 to 2003	35,070	33,100
Bonds [US $13 million]	6.75	1998 to 2008	18,246	17,223
Bank loan [DM 14 million]	7.75	1996	12,674	10,655
			$ 175,990	$ 170,978

All debt is unsecured except for the US $13.0 million bonds which are secured by certain ANGUS pollution control assets costing US $11.2 million. All long-term debt matures after 1999 except for $12.7 million in 1996, $5.0 million in 1997 and $5.2 million in each of 1998 and 1999. Interest on long-term debt was $13.7 million in 1994 [$9.0 million in 1993].

Note 8

[Common Shares]

The authorized share capital consists of an unlimited number of preference shares and an unlimited number of common shares.

Year ended December 31	1994	1993
Number of common shares issued and fully paid:		
Opening balance	25,697,508	25,654,365
Issued for cash	7,670	43,143
Closing balance	25,705,178	25,697,508
Amount [in thousands]:		
Opening balance	$ 113,701	$ 113,099
Issued for cash	115	602
Closing balance	$ 113,816	$ 113,701

ANG has reserved common shares for issuance under a senior management stock option plan. At December 31, 1994, options for 572,333 shares were outstanding [339,903 at December 31, 1993]. The options are exercisable for cash at prices ranging from $13.38 to $17.38 per share during specified periods that expire no later than 10 years from the grant date.

Note 9

[Other Income]

Year ended December 31 [in thousands]	1994	1993
Gain on sale of assets	$ 1,161	$ 5,157
Allowance for funds used during construction	1,948	4,204
Equity income	4,241	3,729
Other	2,468	615
	$ 9,818	$ 13,705

The "Gain on sale of assets" in 1994 relates to the disposition of certain investments [see Note 5]. Net proceeds of $15.3 million from the sale of ANG's Peace River natural gas pipeline resulted in a gain of $5.2 million in 1993.

Note 10

[Income Tax Rate]

The provision for income taxes varies from the amount determined by applying the combined statutory Canadian federal and provincial income tax rates to "Income from Continuing Operations before Income Taxes." The following is a reconciliation of the combined statutory rates to the effective income tax rate:

Year ended December 31	1994	1993
Statutory income tax rates	44.0%	44.0%
Effect of the taxes payable method for cost-of-service arrangements	[3.9]	[0.1]
Effect of foreign tax rates	[5.6]	[3.4]
Non-deductible expenses	0.7	3.7
Other	[0.4]	1.9
Effective income tax rate	34.8%	46.1%

Note 11

[Litigation Settlement]

Following the May 1, 1991 explosion at the Sterlington, Louisiana nitroparaffins plant, ANGUS entered into a settlement agreement with the former plant operator. The agreement, signed in 1993, entitled ANGUS to US $35 million plus interest over a three-year period. ANGUS received US $15 million by December 31, 1993. The remaining balance of US $20 million was received in 1994. The net settlement [CDN $44.4 million] was recorded in 1993 as an extraordinary item of CDN $31.8 million [$15.4 million net of taxes and other expenses] and income from continuing operations of CDN $12.6 million [$7.0 million after tax or $0.27 per share]. The collection of $26.7 million [the $31.8 million less related cash expenses] is reported as an extraordinary item on the "Consolidated Statement of Cash Flow" for 1994 and 1993 [$13.2 million and $13.5 million respectively].

Note 12

[Segmented Information]

Financial information by industry segment

[in thousands]	Extraction	Marketing and Services	Chemicals	Pipeline	Eliminations and Corporate Items	Total
1994						
Revenues	**$ 162,710**	**$ 285,631**	**$ 166,841**	**$ 69,245**	**$ [5,954]**	**$ 678,473***
Depreciation and amortization	**4,223**	**–**	**13,623**	**6,699**	**536**	**25,081**
Operating income	**21,489**	**10,189**	**17,910**	**15,629**	**[8,611]**	**56,606**
Identifiable assets	**153,493**	**27,943**	**277,756**	**192,885**	**33,452**	**685,529**
Net property, plant and equipment additions	**40,810**	**3,077**	**13,530**	**10,148**	**1,043**	**68,608**
1993						
Revenues	149,591	345,229	133,492	35,856	[1,475]	662,693*
Depreciation and amortization	3,415	3,973	12,068	3,163	–	22,619
Operating income	24,447	13,204	26,363	9,196	[8,543]	64,667
Identifiable assets	135,172	41,302	248,717	200,742	14,683	640,616
Net property, plant and equipment additions	16,237	25	12,415	77,966	4,430	111,073

Financial information by geographic segment

[in thousands]	Canada	Foreign	Total
1994			
Revenues	**$ 505,788**	**$ 172,685**	**$ 678,473***
Operating income	**38,274**	**18,332**	**56,606**
Identifiable assets	**391,486**	**294,043**	**685,529**
1993			
Revenues	494,380	168,313	662,693*
Operating income	38,606	26,061	64,667
Identifiable assets	379,050	261,566	640,616

* Sales to three customers account for 41.9 per cent [47.5 per cent in 1993] of these revenues.

Note 13

[Related Party Transactions]

TransCanada PipeLines Limited owns 49.9 per cent of ANG. In the normal course of its business, ANG enters into transactions with related parties which reflect prevailing market conditions. These transactions include revenues [$16.5 million in 1994 and $5.1 million in 1993] and expenses [$77.7 million in 1994 and $48.6 million in 1993] for the transportation of natural gas. The net amount due to related parties was $5.1 million at December 31, 1994 and 1993.

ANG acted as the agent for Foothills South B.C. in performing construction management services for the 1993 pipeline expansion. In that capacity, ANG recovered costs from Foothills South B.C. of approximately $100 million.

Note 14

[Post Employment Benefit Plans]

Substantially all of ANG's employees participate in defined benefit pension plans. Other post employment benefits are also provided [see Note 3]. At December 31, 1994, the actuarial present value of these accumulated benefits was $32.7 million and the fair value of the funding assets was $24.3 million. Unfunded pension and related post employment obligations are recorded as "Deferred credits" on the balance sheet.

Note 15

[Consolidated Statement of Cash Flow]

"Cash and Cash Equivalents [Deficiency]" is defined to include interest-bearing deposits and is net of notes payable included in current liabilities. Non-cash items included in "Income from continuing operations" consist of the following:

Year ended December 31 [in thousands]	1994	1993
Depreciation and amortization	$ 25,081	$ 22,619
Deferred income taxes	10,543	9,600
Gain on sale of assets	[1,161]	[5,157]
Equity income net of cash received	[952]	[2,233]
Other	459	540
	$ 33,970	$ 25,369

Note 16

[Contingencies and Commitments]

ANG has received reassessment notices for additional taxes and interest pertaining to the 1985 to 1989 taxation years. ANG disagrees with these reassessments and notices of objection have been filed. Legal counsel has advised that there are substantial arguments to support ANG's position, however, the ultimate outcome of the objection is not determinable at this time. Meanwhile, taxes and interest have been prepaid in order to avoid further assessment of non-deductible interest. If ANG's notices of objection are upheld, this amount, plus interest, will be refunded. Should the tax assessments be upheld, approximately $8.0 million [including a deferred tax adjustment of $4.4 million] would be charged directly to reinvested earnings.

Numerous claims have been made by third parties against ANGUS as a result of the Sterlington fire and explosion. Many of these claims have been settled. The outcome of outstanding claims is unknown, however, their ultimate impact on these consolidated financial statements is not expected to be material as management believes insurance adequately covers the risk of material exposure.

The CanStates Gas Marketing partnership has entered into long-term and short-term agreements for the purchase and sale of natural gas. The agreements specifically provide for the recovery of virtually all transportation costs from its customers. As a result, CanStates has entered into agreements providing for pipeline transportation capacity. Approximately 90 per cent of these transportation commitments are also directly guaranteed by one customer of CanStates. Amounts committed for transportation in the next five years are approximately $48 million per annum. The commitments subsequent to 1999 aggregate approximately $175 million.

Building lease commitments in each of the next five years are approximately $3 million. The commitments subsequent to 1999 aggregate approximately $28 million.

FIVE YEAR SUMMARY

[in thousands of dollars except share data and other statistics]	1994	1993	1992	1991	1990
Operations					
Revenues	**678,473**	662,693	527,819	467,556	346,683
Operating income	**56,606**	64,667	47,918	44,663	60,144
Income from continuing operations	**31,491**	33,398	17,799	15,659	29,921
Net income [loss]	**31,491**	49,584	17,905	[44,620]	25,728
Total assets	**685,529**	640,616	509,272	441,919	439,966
Capitalization					
Short-term debt	**97,609**	79,445	22,009	49,879	6,044
Long-term debt, including current portion	**175,990**	170,978*	167,523*	195,287*	175,595*
Shareholders' equity	**225,649**	204,273†	165,993†	101,909†	165,045†
Total capitalization	**499,248**	454,696	355,525	347,075	346,684
Cash flow					
Funds from continuing operations	**65,461**	58,767	40,837	38,020	57,410
Net property, plant and equipment additions	**68,608**	111,073	85,409	78,519	11,070
Net long-term debt additions [repayments]	**–**	4,068	[28,758]	19,022	88,558
Common shares issued [purchased]	**115**	602	59,277	[3,668]	[2,263]
Dividends paid	**17,475**	17,459	15,066	14,273	14,470
Share data					
Earnings per share					
Continuing operations	**$ 1.23**	$ 1.30	$ 0.82	$ 0.74	$ 1.41
Net income [loss]	**$ 1.23**	$ 1.93	$ 0.82	$ [2.12]	$ 1.21
Funds from continuing operations per share	**$ 2.55**	$ 2.29	$ 1.87	$ 1.81	$ 2.70
Dividends paid per share	**$ 0.68**	$ 0.68	$ 0.68	$ 0.68	$ 0.68
Outstanding shares in thousands					
– year end	**25,705**	25,698	25,654	20,990	21,233
– average	**25,698**	25,672	21,831	21,021	21,284
Shareholders' equity per share at year end	**$ 8.78**	$ 7.95†	$ 6.47†	$ 4.86†	$ 7.77†
TSE market price per share					
– high	**$ 17.63**	$ 18.50	$ 16.00	$ 17.25	$ 19.50
– low	**$ 13.25**	$ 14.50	$ 12.00	$ 12.38	$ 11.50
– close	**$ 15.25**	$ 16.50	$ 15.75	$ 13.88	$ 12.88
Other statistics					
Return on average shareholders' equity‡	**14.65%**	18.04%	13.29%	11.73%	19.04%
Return on average capital employed‡	**9.09%**	10.43%	8.03%	7.79%	12.58%
Dividend yield on year-end market price	**4.46%**	4.12%	4.32%	4.90%	5.28%
Debt to debt plus equity ratio	**54.8%**	55.1%	53.3%	70.6%	52.4%
Interest coverage ratio‡	**3.66**	4.80	2.71	2.38	4.00

* Restated to exclude deferred credits.

† Restated for post employment benefit costs other than pensions due to a change in accounting policy.

‡ Based on income from continuing operations.

CORPORATE INFORMATION

Directors

John M. Beddome[3,4]
Calgary, Alberta
President and Chief Executive Officer of the Corporation

John E. Goudie[1]
Calgary, Alberta
Retired Chairman of the Board of the Corporation and of Alberta and Southern Gas Co. Ltd.

Robert A. Helman[1]
Chicago, Illinois
Partner and Chairman of the Management Committee, Mayer, Brown, & Platt

George M. Hugh[1]
Calgary, Alberta
Chief Operating Officer of TransCanada PipeLines Limited

Donald C. Lowe[1,2]
Toronto, Ontario
Chairman of the Board, Sedgwick Limited

Gerald J. Maier[2,3]
Calgary, Alberta
Chairman of the Board, TransCanada PipeLines Limited

Patrick Reid[3]
Vancouver, British Columbia
Retired Chairman, Vancouver Port Corporation

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

Norman E. Wagner[3]
Calgary, Alberta
Chairman of the Board of the Corporation

George W. Watson[2,3]
Calgary, Alberta
President and Chief Executive Officer, TransCanada PipeLines Limited

Robert A.M. Young, Q.C.[1]
Calgary, Alberta
Senior Vice President, Law
TransCanada PipeLines Limited

Officers

Norman E. Wagner
Chairman of the Board

John M. Beddome
President and Chief Executive Officer

Wayne E. Lunt[4]
Senior Vice President, Chief Financial Officer and Treasurer

Walentin Mirosh[4]
Senior Vice President, Law

Phillip R. Knoll
Vice President, Business Development and Engineering

Kenneth W. Peake
Vice President, Regulatory Affairs and Pipeline Expansion

Jerry A. Smith
Vice President, Operations

Bruce A. Stevenson
Corporate Secretary

Marilyn A. Pfaefflin
Assistant Treasurer and Manager, Finance

ANGUS Chemical Company

Officers

John M. Beddome[4]
Chairman of the Board

Gary W. Granzow[4]
Chief Executive Officer

Robert C. Dymond[4]
President and Chief Operating Officer

James E. Morrison
Vice President, Finance, Chief Financial Officer and Treasurer

Lowell D. Pals
Senior Vice President

David K. Denner
Vice President, Operations

Robert J. Frederick
Vice President, Administration

Fred L. Lieb
Vice President, General Counsel

Janet E. Mann
Vice President, Marketing

Robert L. Klein
Vice President, Research and Development

Kent S. Strong
Vice President, Sales

Mark W. Joslin
Controller

Bruce A. Stevenson
Corporate Secretary

[1] Member of the Audit Committee
[2] Member of the Compensation Committee
[3] Member of the Executive Committee
[4] Director of ANGUS

Corporate Office

2900, 240 Fourth Avenue S.W.
Calgary, Alberta
T2P 4L7
(403) 691-7777

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

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

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

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.

Auditors

Arthur Andersen & Co.
Chartered Accountants
Calgary Alberta.

This Annual Report provides information to assist in understanding ANG's businesses, its operations and the initiatives that are being taken to improve the Corporation's competitive position.
Further information on the Corporation is contained in the Annual Information Form (AIF), a document prepared pursuant to regulatory guidelines. For copies of the AIF or additional copies of the Annual Report, please write to:
The Corporate Secretary
Alberta Natural Gas Company Ltd
2900, 240 - Fourth Avenue S.W.
Calgary, Alberta T2P 4L7

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Abbreviations

ANG	Alberta Natural Gas Company Ltd
ANGUS	ANGUS Chemical Company
B.C. Pipeline System	Pipeline and the pipeline owned by Foothills South B.C.
Foothills South B.C.	Foothills Pipe Lines (South B.C.) Ltd.
Bcf	Billion cubic feet
Mbbl	Thousands of barrels
MMcf	Million cubic feet
NEB	National Energy Board
NGL	Natural gas liquids
NOVA	NOVA Corporation of Alberta
PGT	Pacific Gas Transmission Company

Conversion Table

The conversion factors set out below provide approximate conversions.
To convert from Metric to Imperial, multiply by the factor indicated.
To convert from Imperial to Metric, divide by the factor indicated.

Metric	Imperial	Factor
kilometres	miles	0.62
megawatts	horsepower	1340
million cubic metres	million cubic feet	35.3
cubic metres (liquid)	barrels	6.29

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Alberta Natural Gas Company Ltd
2900, 240 - Fourth Avenue S.W.
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