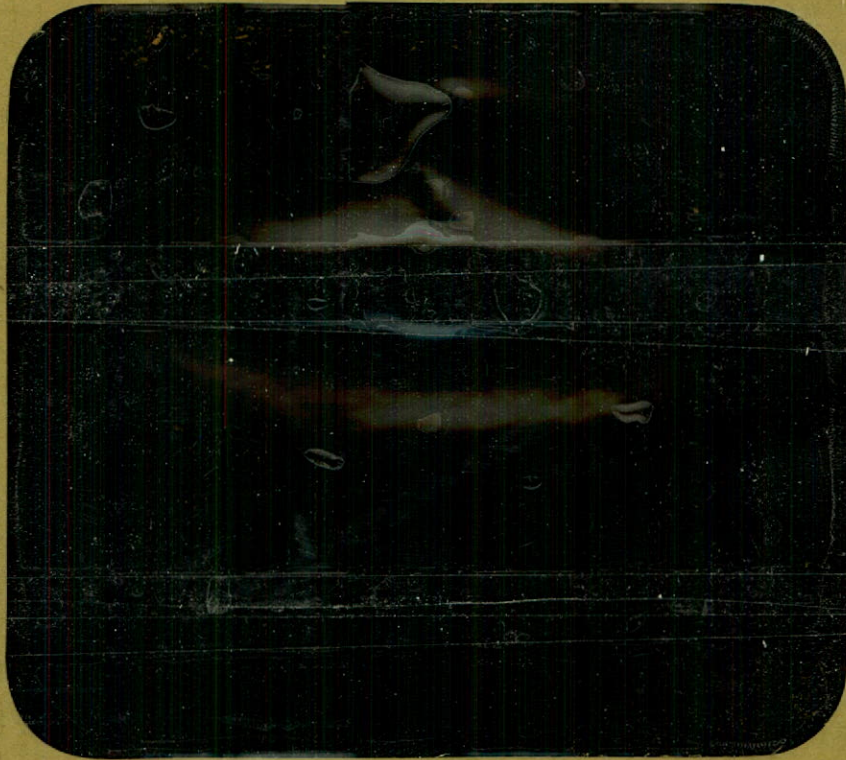
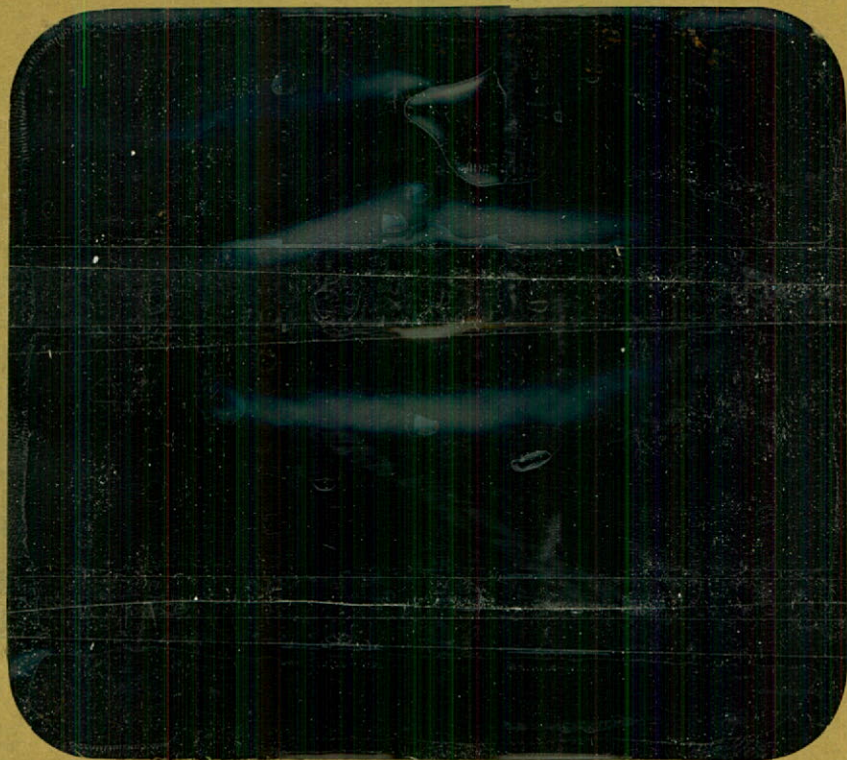


ANNUAL REPORT 1979



CANADIAN UTILITIES LIMITED

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OF MANAGEMENT
MAR 31 1980
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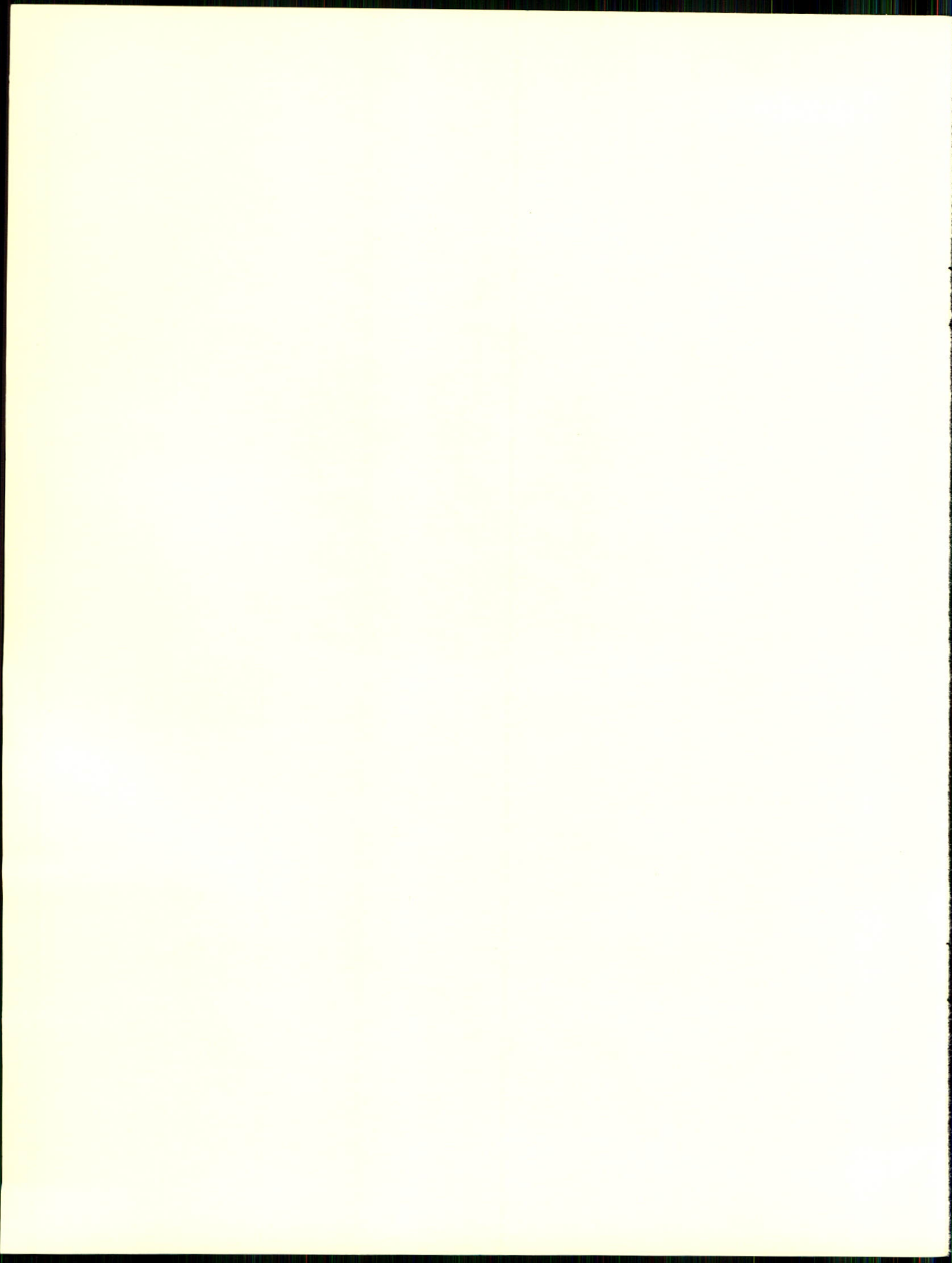


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The bronze sculpture illustrated here depicts action on a cable tool drilling rig used in the early days of oil and gas exploration in Alberta. Canadian Utilities commissioned the work by internationally acclaimed Canadian sculptor, John Weaver, to mark Alberta's 75th Anniversary in 1980. In choosing the subject, the company wished to recognize the part the petroleum industry has played in the development of the province. One casting has been presented to the people of Alberta and will be exhibited in Edmonton. A second casting has been presented to the petroleum industry and will be placed on display in Calgary.

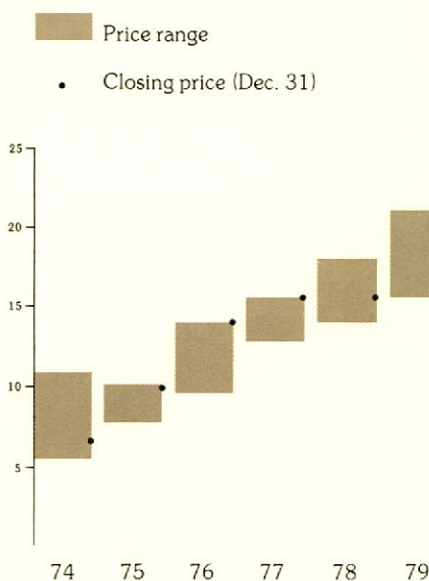


Highlights

	1979	1978	Increase
Revenues (thousands)			
Natural gas	\$ 477,929	\$ 431,726	\$ 46,203
Electric	124,647	114,714	9,933
Other	23,152	7,736	15,416
Total	625,728	554,176	71,552
Net earnings attributable to common shares (thousands)	41,809	35,650	6,159
Fully diluted earnings per common share	2.23	1.97	.26
Common shareholders' equity per share (at year-end fully diluted)	14.00	12.22	1.78
Dividends paid per share			
Annual	1.01½	.91¼	.10¼
Fourth quarter	.28	.24½	.03½
Average common shares outstanding — fully diluted	18,783,444	18,145,908	637,536
Capital expenditures (thousands)	\$ 178,775	\$ 108,018	\$ 70,757
Customers at year-end			
Natural gas	489,848	457,403	32,445
Electric	120,133	112,490	7,643

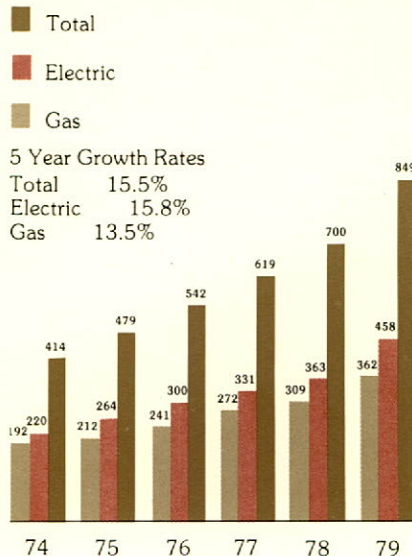
Common Stock

(dollars per share)



Asset Distribution by Type of Business

(net fixed assets in millions of dollars)



To the Shareholders

Board of Directors



J. E. Maybin



E. W. King



K. A. Biggs



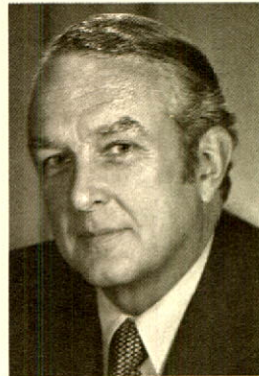
R. F. Calman



G. L. Crawford, Q.C.



W. D. H. Gardiner



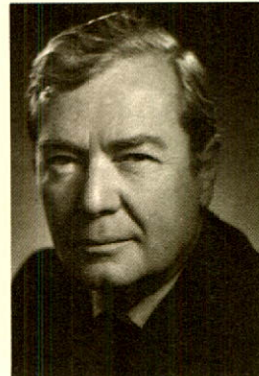
P. L. P. Macdonnell, Q.C.



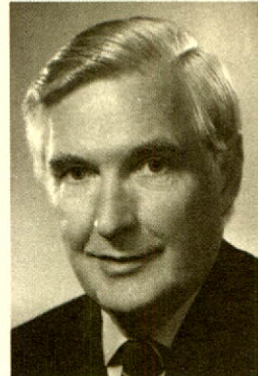
D. R. B. McArthur



W. S. McGregor



W. C. McLeese



J. M. Seabrook

Favoured by sustained buoyancy in the Alberta economy and the resulting strong demand for gas and electric utility services, Canadian Utilities Limited recorded a year of impressive growth in 1979 while discharging its responsibility to provide a high standard of service. With the increased volumes of business, the utility subsidiaries were able to achieve earnings close to those authorized by the most recent regulatory orders.

Rate increases were not required during 1979; however, this freedom from the need to ask for upward rate adjustments cannot be expected to continue in the forthcoming year.

Non-utility operations, although they will remain a small proportion of the total for the foreseeable future, are developing as planned.

Net earnings per common share from operations on an increased number of shares were up 13% to \$2.23 from \$1.97 in 1978. Total assets, net of depreciation, grew 21% during the year to \$1,022 million compared to \$844 million, while total net earnings from operations attributable to common shares rose 17.4% to \$41.8 million from \$35.6 million.

The quarterly dividend was increased 14% in the fourth quarter to 28¢ from 24½¢. In the past eight years, the common share dividend has been raised nine times to maintain a payout ratio of approximately one-half of earnings attributable to common shares.

The company's expanding investment in gas and electric facilities required two major financings during the year: a \$75 million issue of 10.40% Debentures 1979 Series and the issue of 2.1 million new common shares which netted the company \$36.8 million.

It is of interest to note since 1972 when Canadian Utilities was restructured as the parent company of the three utility subsidiaries, it has issued a total of 10,754,977 new common shares and more than seven million of these shares have been purchased by Canadian investors. All Canadian Utilities' borrowing and preferred share financings have been accomplished through issues offered in Canada.

The company's total assets of a billion dollars at the end of 1979 were more than double the figure of five years ago. With a number of multi-billion dollar resource projects on the horizon, and assuming sufficient political stability in Canada to achieve orderly resolution of oil pricing and taxation agreements between governments, the prospects for continued growth in Alberta should be the brightest of any region in North America. That outlook would seem to ensure another doubling of the company's asset base within the next five years.

Though covered in greater detail in the appropriate sections of this report, the following developments are worthy of note here:

First, the Alberta cabinet gave the go-ahead to the Sheerness generating station to be built near Hanna in southern Alberta. Alberta Power Limited will proceed with construction to meet the stipulated 1985 commissioning date for the first of two 375-megawatt units. The second unit is slated for completion the following year. While Alberta Power will manage the construction and operation of the plant, it is expected that Alberta Power and another utility will share in its financing and ownership.

Another highlight was the signing by Alberta Power of a five-year contract for the sale to the City of Edmonton of half the output of the 375-megawatt generating unit under construction at Alberta Power's Battle River Station. The sale allows Alberta Power's customers to obtain the benefit of the higher efficiency and lower cost per kilowatt of a large generating unit without having to carry the cost of the added capacity until it is required in the mid-1980's. The new \$242 million Battle River unit is proceeding on schedule with commissioning planned for 1981.

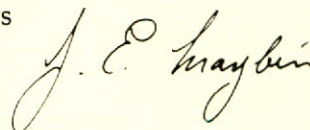
The company's two major gas utility subsidiaries, Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited, at the end of the year, served more than 489,000 customers throughout Alberta. Each of the companies was engaged in exploration and development programs which

resulted in 29 successful natural gas wells being drilled. In total, the company's gas utilities, plus CU Resources Limited, spent approximately \$12 million in gas and oil exploration.

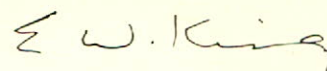
In August, 1979 the shareholders authorized the continuance of the company under the Canada Business Corporations Act and ratified a new general by-law. During the year, the Board of Directors appointed P. R. Ladouceur as Treasurer of the company, and C. K. Sheard, Assistant Secretary. The size of the Board has been reduced to 11 members following the acceptance, with regret, of R. D. Southern's resignation.

Many factors made an important contribution to the company's progress during the year, but none was more important than the commitment, energy and ability of the 4,000 employees whom we commend for their outstanding efforts. We are confident that these dedicated men and women will enable us to continue our contribution, in this 75th anniversary of the Province of Alberta, to the economic and social development of the areas we serve.

On behalf of the Board of Directors

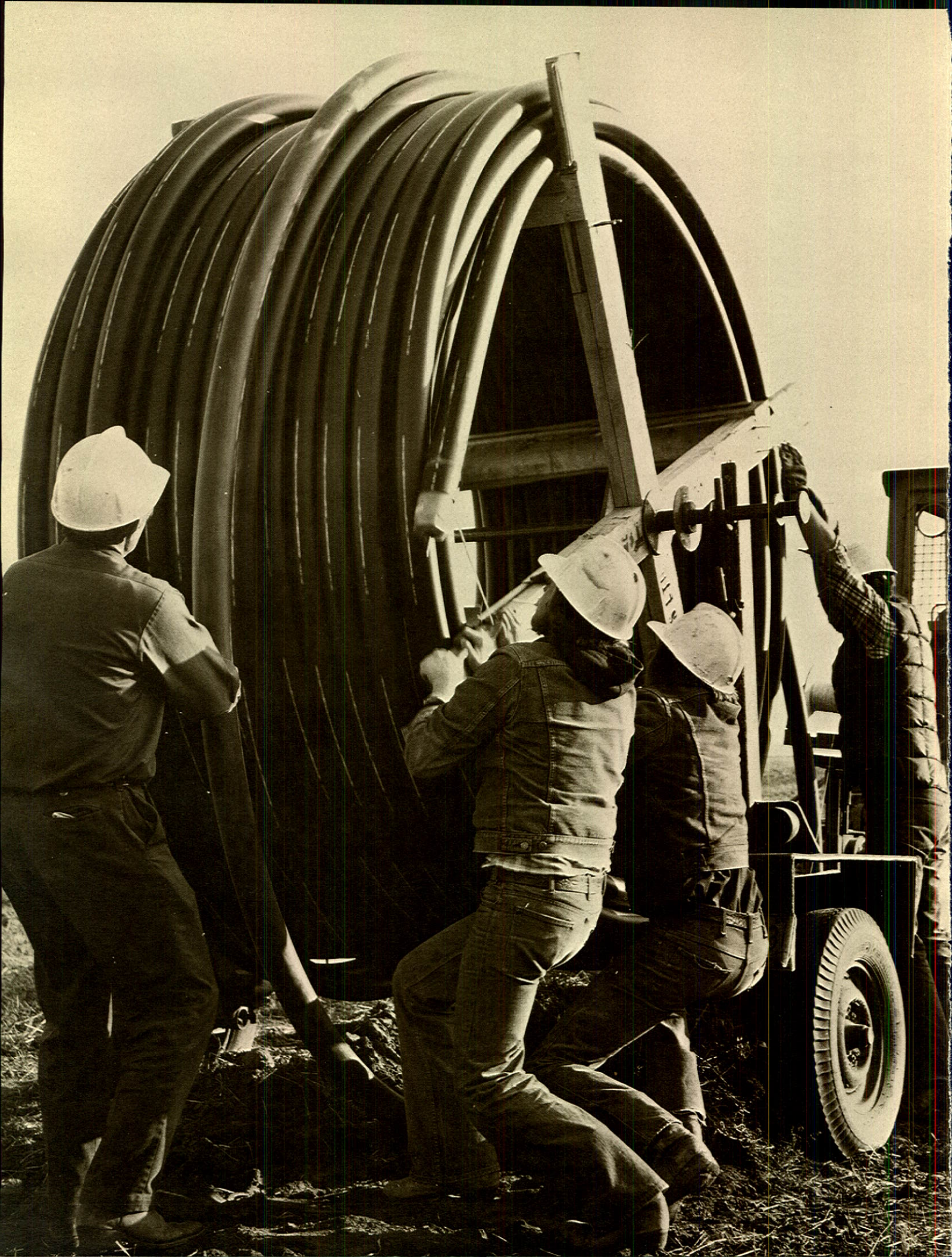


J. E. Maybin, Chairman and Chief Executive Officer



E. W. King, President

February 5, 1980



Natural Gas Operations

Canadian Utilities' natural gas operations are carried out by two subsidiaries, Canadian Western Natural Gas Company Limited, which serves southern Alberta including Calgary and Lethbridge, and Northwestern Utilities Limited, which supplies north-central Alberta including the communities of Edmonton, Red Deer, Fort McMurray and Grande Prairie. A Northwestern Utilities subsidiary, Northland Utilities (B.C.) Limited, serves Dawson Creek and district in northeastern British Columbia.

Record Year

The gas operations experienced a record year in 1979 with capital and operating expenditures, sales volume, revenues and earnings all reaching new levels. As the gas utilities responded to the demand for expanded services, 32,445 customers were added, bringing the total served at year-end to 489,848.

Earnings from gas operations attributable to common shares increased 15.3% over 1978 to \$18.1 million (97¢ a common share), while net fixed gas utility assets increased 17.1% to \$362.1 million. On the average over the years, gas operations, with regulatory approval, have been able to achieve an earnings growth rate

A Canadian Western distribution crew prepares a 300-metre spool of 88.9 mm plastic pipe for installation at a rural site near Lethbridge. The spool is mounted on a tractor-drawn plow that cuts a trench as the pipe is unreeled.

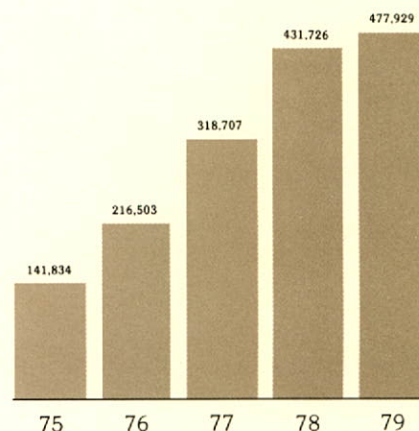
approximately equal to the rate of asset growth.

Capital expenditures rose 34% over the previous year to \$64.5 million. Outlays were mainly for expansion of transmission and distribution facilities. The largest single project was a \$12 million, 64-mile pipeline capable of bringing 300 million cubic feet of gas per day from the Viking area to industries in and near Fort Saskatchewan and to meet increasing peak demand on Northwestern Utilities' system in the Edmonton area.

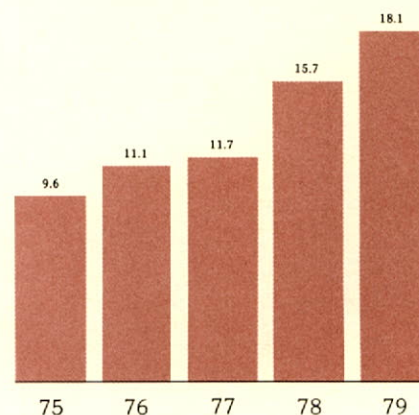
Gas revenues were \$447.9 million, up 10.7% over 1978. Operating expenses, which include the costs of natural gas, operations, maintenance, depreciation and property and franchise taxes were \$437.1 million, compared to \$396.6 million in 1978.

Purchased gas costs continue to be the largest expense item, accounting for 78.3% of operating expenses. Gas costs in 1979 were \$342.3 million, an increase of \$26.8 million from the year earlier. Gas costs were net of \$109 million in rebates received from the Alberta government under the Natural Gas Price Protection Plan. In 1978, rebates totalled \$95.3 million.

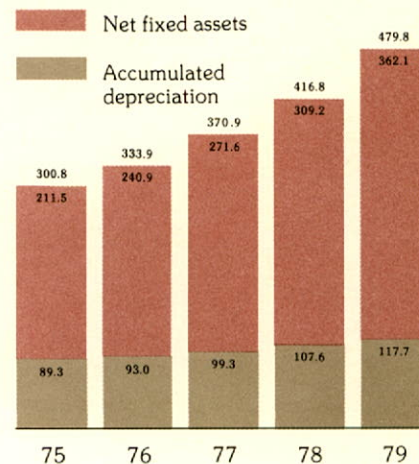
Natural Gas Revenues
(thousands of dollars)



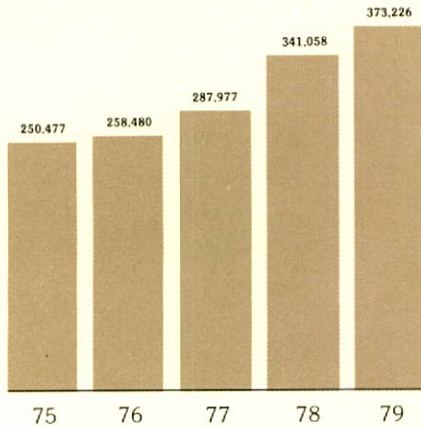
Net Earnings Attributable to Common Shares
(millions of dollars)



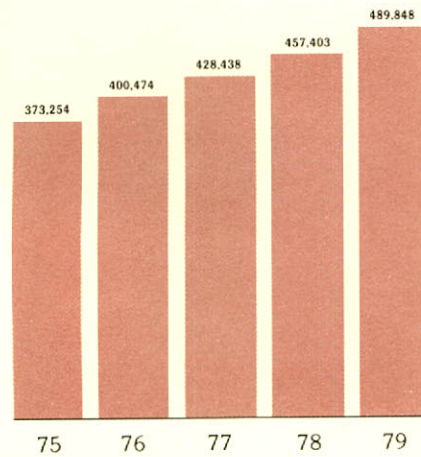
Property, Plant and Equipment
(millions of dollars)



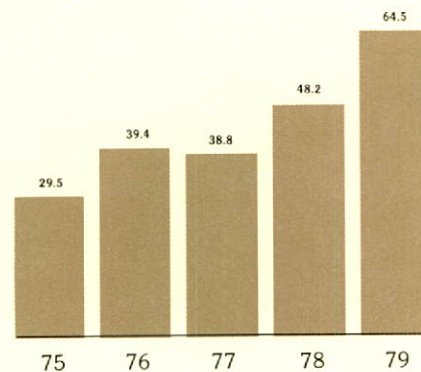
Natural Gas Sales
(millions of cubic feet)



Natural Gas Customers



Capital Expenditures
(millions of dollars)

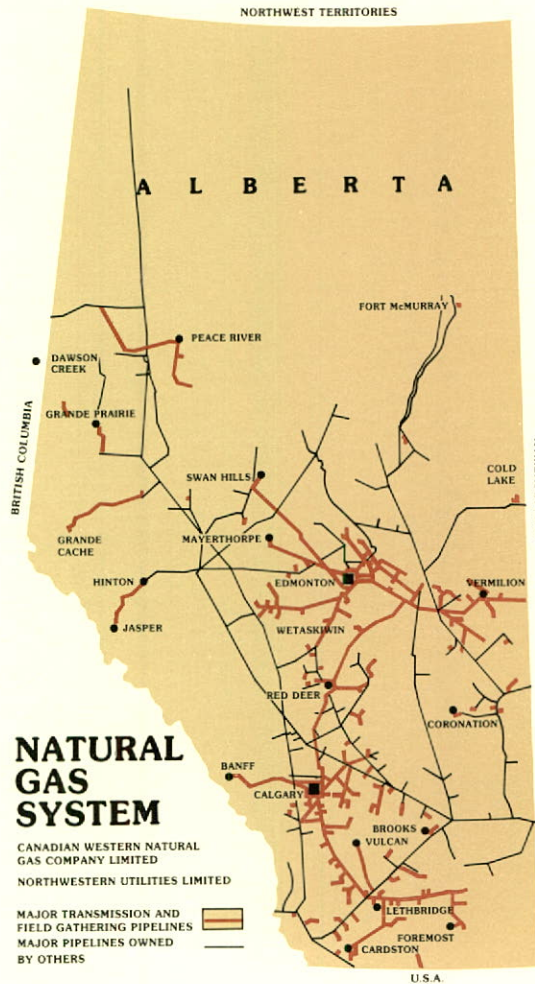


Sales Growth

Sales volume increased by 9.4% to 373 billion cubic feet from 341 billion cubic feet in 1978. The higher volume is attributable to system growth and industrial sales. Northwestern Utilities' sales reflected the first full year of operation of the Dome-CU Ethane extraction plant. Also during 1979, Northwestern commenced service to the expanded Dow Chemical plant as well as the Diamond Shamrock Alberta Gas Trunk and Alberta Food Processors' plants in the Fort Saskatchewan area.

In terms of degree days, a measure of space heating requirements, 1979 was a near normal year. Combined, the gas utilities met a new maximum daily demand in 1979 of 1,899 million cubic feet.

Growth in total sales resulting from an expanding customer base has been offset by a reduction in average usage per customer of approximately 10% in the residential and commercial markets over the past five years. The decline is the result of customer conservation efforts, together with an increasing proportion of better insulated,



smaller multiple-family housing units.

The following table shows 1979 natural gas sales to the various customer categories.

	Billions of Cubic Feet	Per Cent of Total
Industrial	206.3	55.3
Residential	80.7	21.6
Commercial	77.4	20.7
Other	8.8	2.4
Total	<u>373.2</u>	<u>100.0</u>

Rates

Canadian Western's 1979 rates were approved by the Alberta Public Utilities Board in September, 1978 on an interim refundable basis. In mid-1979 the board directed the company to refund to customers \$400,000 of revenue collected under interim rates in 1978. Another board order issued in January, 1980 confirmed the latest interim decision except for rates charged two major industrial customers who will be receiving refunds in the combined amount of \$360,000.

Northwestern Utilities did not increase rates in 1979, although the net cost of gas after rebates was higher than the previous year. The British Columbia Energy Commission in late 1979 approved a rate increase of 6.4% for customers of Northland Utilities (B.C.) Limited.

In the final disposition of Northwestern's 1975 rate case,

the Public Utilities Board of Alberta directed the company to refund to customers \$1.8 million during the latter part of 1979. A lengthy court case involving the board, the company and the City of Edmonton caused the delay in settlement.

Both gas subsidiaries are awaiting a Public Utilities Board ruling on a proposal to have uniform rates for equivalent services throughout each of their service areas.

Also, both companies are attempting to negotiate a lower price for natural gas purchased from suppliers under existing contracts. This action is being taken in response to the competitive market situation in which some Alberta producers with a surplus of gas are willing to sell it for use within the province at less than the export price. Negotiations with the producers will likely result in arbitration to determine the contractual price. Residential, small commercial and small industrial customers would not benefit directly as it is unlikely the reduction would be large enough to lower the price below the provincial support level. Industrial customers who are not sheltered by the Provincial Price Protection Plan on volumes greater than one billion cubic feet per year would benefit directly from lower gas costs.

Gas Supply

The gas utilities' main sources of natural gas are oil fields where solution gas, extracted in conjunction with oil production, is gathered and processed; gas fields from which wet gas is gathered and centrally processed before delivery to pipelines; and dry gas fields from which gas can be introduced almost directly into pipelines. Volumes of gas are also purchased from export companies and other natural gas pipeline companies. In addition, company-owned gas properties are a significant source of supply for meeting both annual and peak requirements.

During 1979 the companies continued an aggressive exploration program by participating in the purchase of petroleum and natural gas rights and carrying out drilling programs, some of which were joint ventures with others. Canadian Western participated in the drilling of six wells, of which three proved successful; another two wells were purchased. Northwestern Utilities participated in drilling 38 gas wells, 26 of which were successful. Total cost of the 1979 drilling program was \$10.9 million. The costs of unsuccessful wells will be recovered from border-flowback funds, with Public Utilities Board approval. The border-flowback program provides that all Alberta gas producers, including Canadian Western and Northwestern, receive a pro rata

Gas Operations Earnings Contribution

	1979	1978	1977	1976	1975	1974	Annual Growth Rate 1974-1979 (Per cent)
	(Millions of dollars)						
Natural gas revenues	477.9	431.8	318.7	216.5	141.8	91.2	39.3
Operating expenses							
Natural gas supply	342.3	315.5	221.3	134.8	70.9	40.2	
Operating and maintenance	61.1	49.7	42.8	36.3	29.1	21.2	
Taxes — other than income	23.4	22.5	18.1	14.3	9.6	6.2	
Depreciation	10.3	8.9	7.1	6.6	6.8	6.5	
	437.1	396.6	289.3	192.0	116.4	74.1	42.6
	40.8	35.2	29.4	24.5	25.4	17.1	19.0
Income deductions	9.6	7.5	8.0	6.7	7.6	6.5	
Income taxes	9.2	8.0	6.4	5.3	6.8	2.3	
Net earnings	22.0	19.7	15.0	12.5	11.0	8.3	21.5
Preferred dividend requirements	3.9	4.0	3.3	1.4	1.4	.9	
Balance attributable to common shares	18.1	15.7	11.7	11.1	9.6	7.4	19.6
Mid-year common equity invest- ment	100.3	86.7	75.5	68.3	60.2	55.4	12.6

share of the extra revenues generated by the differential in price between gas exported to the U.S. and that marketed in Canada.

According to current estimates, 842 billion cubic feet of gas are owned by the company and an additional 2,890 billion cubic feet are under firm contract. Another 2,993 billion cubic feet will be available for future purchase from fields where estimated gas producing life exceeds the term of existing gas purchase contracts. Agreements also exist which enable the utilities to call upon major gas exporters for large quantities of base load and peak load gas.

Under these agreements it has been possible for the company to purchase peaking volumes without penalty during the present abundant supply in Alberta. This situation is expected to continue at least until the end of 1981.

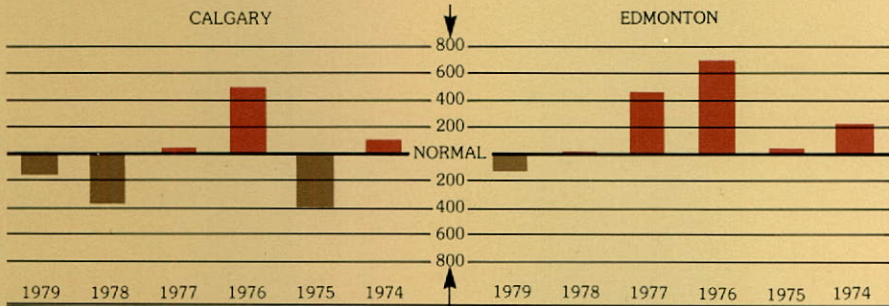
Expanded Service

In 1979 Canadian Western reached agreement with the municipality of Crows Nest Pass for the purchase of the Coleman Gas System, serving 1000 customers. After hearings in early 1980 before the Public

Utilities Board, the company expects to complete the purchase and takeover operation of the system. As mentioned in the previous annual report, Northwestern Utilities acquired in early 1979 the natural gas distribution system operated by Beaver River Utilities in the communities of Cold Lake, Grand Centre and Ardmore. Later in the year the company purchased the distribution system operated by the Town of Coronation, serving 500 customers, and also during 1979 began service to the Village of Wembley near Grande Prairie within the Bear Creek Co-op.

Temperature Variations from Normal (in Degree Days)

■ WARMER THAN NORMAL
■ COLDER THAN NORMAL



CALGARY				EDMONTON			
Normal — 5224 Degree Days				Normal — 5516 Degree Days			
Year	Degree Days	Colder or Warmer () Than Normal		Year	Degree Days	Colder or Warmer () Than Normal	
	Number	Per Cent			Number	Per Cent	
1979	5,366	142	2.7	1979	5,636	120	2.2
1978	5,592	358	6.8	1978	5,530	(10)	(0.2)
1977	5,289	(63)	(1.2)	1977	5,124	(465)	(8.5)
1976	4,885	(494)	(9.2)	1976	4,891	(709)	(12.7)
1975	5,750	397	7.4	1975	5,555	(45)	(0.8)
1974	5,230	(122)	(2.3)	1974	5,492	(218)	(4.0)

DEGREE DAYS: The number of degrees by which daily mean temperature falls below 18 degrees C. One degree day is counted for each degree of deficiency for each day on which such a

deficiency occurs. For example, if the mean temperature for a day was 10 degrees C, then there were 8 degree days during that 24 hour period.

In an effort to improve service while accommodating expanding customer numbers and their information needs, the natural gas operations introduced during the year a new computerized billing system which provides for fast, accurate response to individual customer account inquiries.

A continuing strong demand for utility services is expected throughout Alberta as population and industrial growth accompany the large-scale gas, oil and petrochemical projects planned for the province. The natural gas operations are prepared with the staff and financial resources to meet this growth.



Electric Operations

Alberta Power Limited, the company's electric utility subsidiary, serves 369 communities in east-central and northern Alberta and five communities in the Northwest Territories including the Town of Hay River. An Alberta Power subsidiary, The Yukon Electrical Company Limited, serves 18 communities in the Yukon including the City of Whitehorse.

Alberta Power experienced a good year in 1979 with increased energy sales and increased earnings without requiring a general rate increase. The company is well positioned strategically having over time acquired service area rights in and around future resource developments.

Net earnings attributable to common shares were \$21.7 million, an improvement of \$3.0 million or 16% from the previous year. This earnings growth is reflective of the continuing growth in electric utility investment, which at year-end amounted to \$458 million of net fixed assets. In terms of consolidated earnings attributable to common shares, electric operations contributed \$1.16 per CU common share, or approximately 52% of 1979 earnings.

Sunlight reflects off Alberta Power transmission lines serving the Suncor oil sands plant near Fort McMurray.

In 1979, 7,643 new customers were acquired, bringing the year-end total to 120,133, including 23,083 farm customers of whom 21,967 were members of 167 rural electrification associations.

Energy sales to ultimate customers increased by 10.6% to 2,779 million kilowatt hours. This larger-than-normal growth was caused primarily by stepped up oil field production and increased commercial activity. An additional 113 million kilowatt hours were sold to other utilities. The peak load increased to 573 megawatts from 520 megawatts the previous year.

The following table shows 1979 electric sales to the various customer categories.

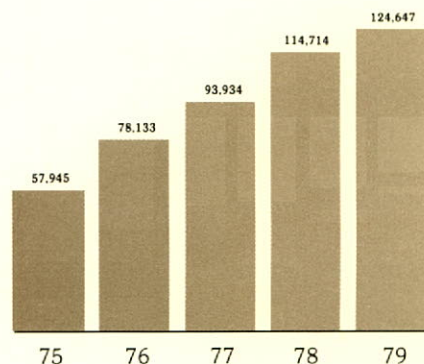
	Thousands of Kilowatt Hours	Per cent of Total
Industrial	1,367,970	49
Commercial	534,521	19
Residential	530,576	19
REA and others	345,583	13
*Total	2,778,650	100

* Does not include 113 million kilowatt hours sold to other utilities.

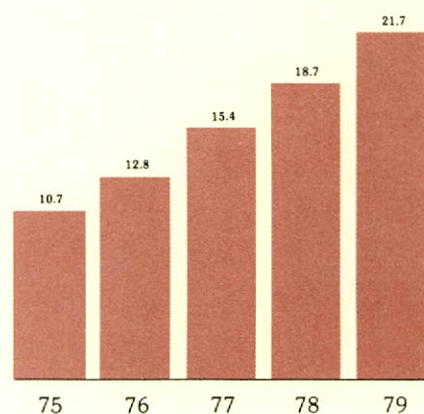
Electric revenues were \$124.6 million, up from \$114.7 million in 1978. The growth was entirely the result of increased sales as the rates charged by the company for service were not changed during the year.

No new applications for general rate increases were submitted by Alberta Power to the Public Utilities Board during 1979, but the company did receive approval from the Board to change its method of

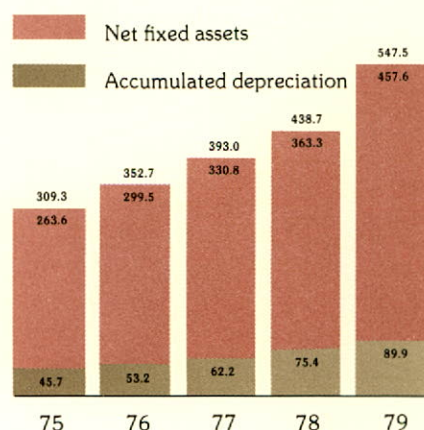
Electric Revenues
(thousands of dollars)



Net Earnings Attributable to Common Shares
(millions of dollars)

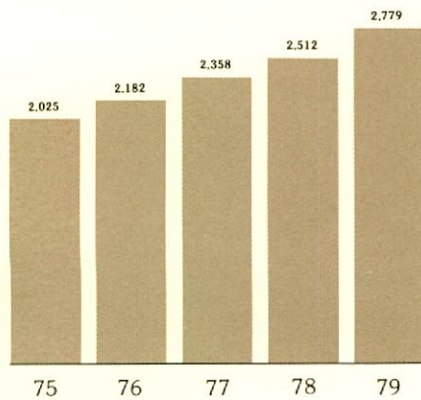


Property, Plant and Equipment
(millions of dollars)

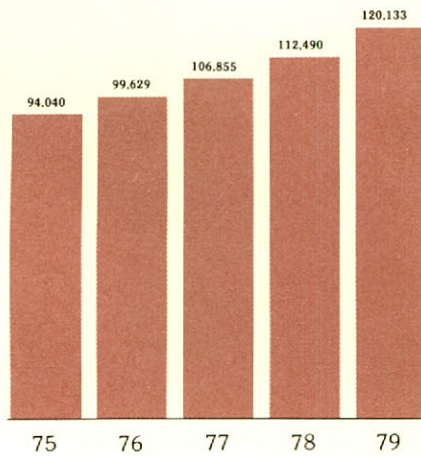


Electric Sales

(millions of kilowatt hours)

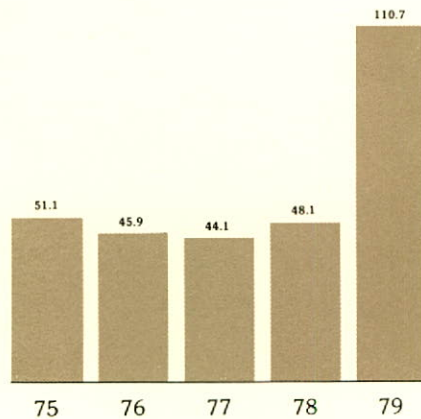


Electric Customers



Capital Expenditures

(millions of dollars)



determining income tax chargeable to utility cost of service, and an increase of 12.35% in rates effective January 1, 1980 to Alberta Power customers resident in Alberta and Saskatchewan* was authorized because of this change. All of the increase was the result of higher income taxes. However, the increase to company customers who live in Alberta was less than the 12.35% as a result of federal and

* Alberta Power serves Lloydminster which straddles the Alberta-Saskatchewan border.

provincial legislation which permits approximately 96% of income taxes paid to be rebated to the customer.

The impact on Alberta customers will be reduced even further if and when the income tax rebates can be effected on a current basis. The company is making representation to the Alberta government on the matter of expediting the rebating of income taxes, and is also exploring ways to mitigate the



effect of the rate increase on Saskatchewan customers.

The company expects to file an application by mid-1980 for a general rate increase which will be required to meet increases in cost of service and to fully implement the change in income tax accounting. The last cost of service increase in rates first took effect over two and a half years ago in August, 1977.

Construction Activity

Alberta Power's expenditures for additions to property, plant and equipment during the year were \$111 million — more than double the 1978 level. Of this total, \$69 million was spent on construction of the 375-megawatt Unit #5 at the Battle River Generating Station. The \$242 million addition will more than double that station's generating capacity to 740 megawatts when commissioned in 1981. Alberta Power signed an agreement with the City of Edmonton to sell one half the output of the new unit on a five-to-seven-year basis.

Work is progressing on the erection of a second large 60-cubic-yard dragline which will be leased by the company and used to mine coal for the Battle River Station. During the year contracts were signed with a coal mining company whereby Alberta Power acquired ownership and arranged for the mining of the additional coal that will be required by the station over its life.

A total of \$10 million was expended during the year on environmental upgrading and modifications to Alberta Power's existing H. R. Milner Generating Station at Grande Cache. Included in this amount was \$2.5 million for boiler modifications to increase the gas-fired capacity of the plant and \$7.5 million to complete the installation of a new bag house dust collector to meet provincial environmental standards.

Altogether, \$11.2 million was employed in 1979 on transmission and sub-transmission projects, including: a 36-kilometre, 144-kilovolt transmission line completed from Mildred Lake to Fort McMurray; a 7-kilometre, 72-kilovolt line from Mildred Lake to a large customer; and a 40-kilometre, 144-kilovolt line from Vegreville to Hairy Hill. The final 100-kilometre section of this line extending to Bonnyville, originally scheduled to be completed in the fall of 1979, was delayed by difficulties in obtaining rights-of-way in the area. A further \$12.6 million was applied to the construction and upgrading of various distribution systems.

In August, 1979 the company filed an application with the Energy Resources Conservation Board for approval to construct and operate transmission facilities to interconnect with the power system in Saskatchewan. The application calls for a direct current converter station with an installed capacity of 200 MW. Transmission line capacity will

limit power flow from Saskatchewan to about 100MW in the initial years. When completed in 1982, this will be the first link in Canada between the interconnected systems of the eastern and western parts of the country. The interconnection will allow Alberta and Saskatchewan to share reserve electric generating capacity, which will benefit customers in both provinces.

As noted before in reports to shareholders, the company is experiencing delays in obtaining necessary approvals on new transmission projects causing additional costs and threatening service reliability.

During the year, service franchises were renewed in 24 communities including Forestburg and St. Paul. Franchise agreement renewals generally extend for 10 years.

Future Development

Alberta Power received approval from the provincial government in June, 1979 for construction of the Sheerness generating station, with the first unit to be commissioned in 1985 and the second to follow in 1986. The new generating units will be 375 megawatts each, a size established by the Alberta Electric Utility Planning Council as the most economic for generating additions in the province. As Sheerness will initially have capacity surplus to Alberta Power's needs, negotiations with another utility are under way to share in the ownership of the plant.

Electric Operations Earnings Contribution

	1979	1978	1977	1976	1975	1974	Annual Growth Rate 1974-1979 (Per cent)
	(Millions of dollars)						
Electric revenues	124.6	114.7	93.9	78.1	57.9	46.3	21.9
Operating expenses							
Operating and maintenance	61.7	51.9	42.3	35.4	27.0	22.2	
Taxes — other than income	4.5	4.2	3.7	2.7	2.2	1.8	
Depreciation	14.6	13.8	11.4	8.8	6.3	6.4	
	80.8	69.9	57.4	46.9	35.5	30.4	22.7
	43.8	44.8	36.5	31.2	22.4	15.9	22.5
Income deductions	9.1	8.7	10.2	12.3	7.2	8.0	
Income taxes	6.7	11.1	5.8	3.1	1.6	.1	
Net earnings	28.0	25.0	20.5	15.8	13.6	7.8	29.1
Preferred dividend requirements	6.3	6.3	5.1	3.0	2.9	.6	
Balance attributable to common shares	21.7	18.7	15.4	12.8	10.7	7.2	24.7
Mid-year common equity invest- ment	149.7	113.2	98.8	84.8	65.3	55.9	21.8

Detailed engineering work is now in progress for this project and tenders have been called for the turbines and boilers. It is expected major equipment orders will be placed in mid-1980. A full-scale burn test of a representative sample of Sheerness coal was satisfactorily completed in July, 1979 at the company's Battle River Station.

Alberta Power received approval from the Alberta Energy Resources Conservation Board for a service area north of Fort McMurray which includes a new planned oil sands project and a new town associated with this development. An ERCB hearing on an application to extend Alberta Power's service area in the Cold Lake region to include the lease areas associated with

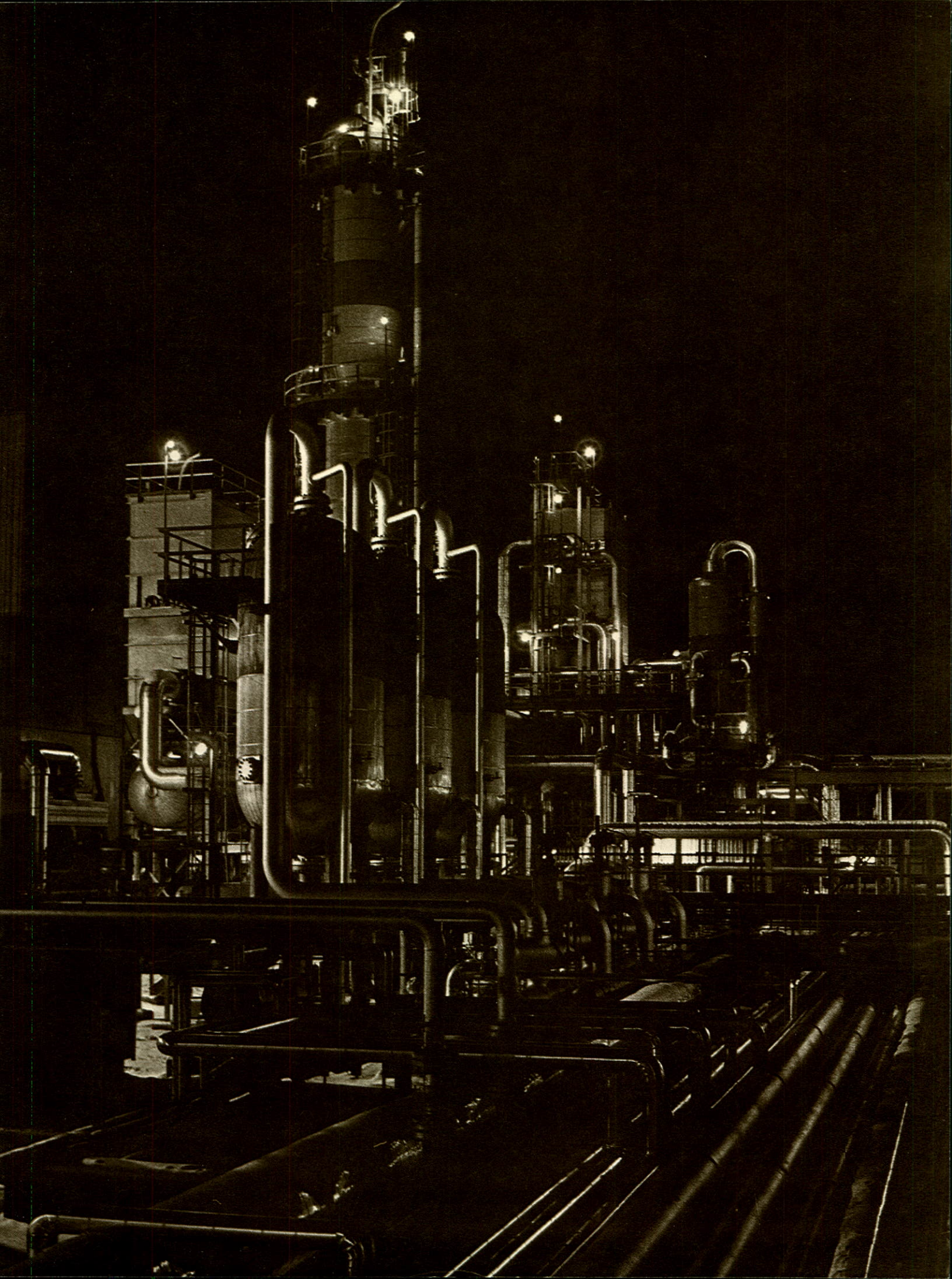
an existing in situ pilot plant and proposed full-scale projects took place in January, 1980. The hearing was necessitated by the application of another utility to serve the new load. A decision on this issue is expected in the first half of 1980.

Territories

There were no general rate increases implemented by Alberta Power or its subsidiary, The Yukon Electrical Company Limited, in the territories during 1979. Yukon Electrical implemented a number of fuel adjustments to compensate for the increasing costs of diesel fuel and purchased power for customers in various communities in the Yukon.

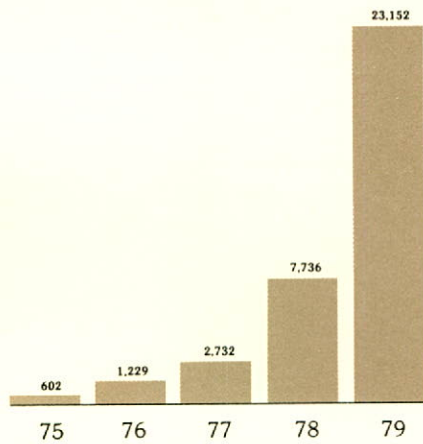
During the year distribution extensions were completed in a number of new residential subdivisions in Whitehorse in anticipation of increased construction which will accompany the building of the Alaska Highway gas pipeline. Also, increases in world metal prices have brought an upsurge in mining activity in the Yukon.

The CU Ethane-Dome Petroleum plant in Edmonton completed its first full year of operation in 1979. Ethane, extracted at the plant from natural gas, is used for the production of ethylene.

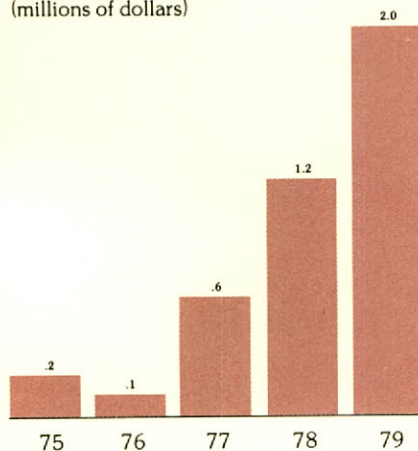


Other Operations

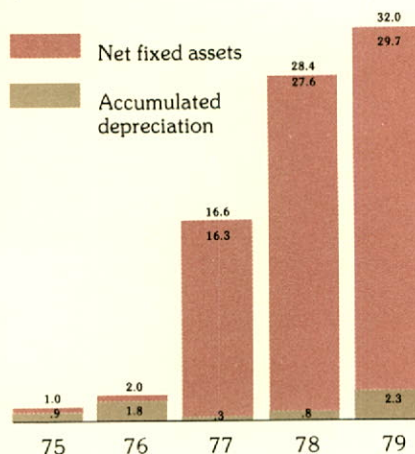
Other Revenues
(thousands of dollars)



Net Earnings Attributable to Common Shares
(millions of dollars)



Net Fixed Assets
(millions of dollars)



CU Engineering Limited

CU Engineering offers to utility owners a wide range of services, from the preparation of feasibility studies to the design, commissioning and operation of utility systems.

The company has its own experienced personnel and has access to additional staff resources elsewhere in the Canadian Utilities organization. A major portion of CU Engineering's business during 1979 came from projects related to natural gas distribution systems, principally in rural areas. The company's clients include government agencies, oil and gas producers, owners of gas transmission and distribution facilities and other industrial enterprises.

The company also provided services for municipalities in the areas of roadway, sewer and water system development. During the year the company expanded its surveying capability, thus enabling it to supply more comprehensive service on engineering construction projects.

CU Engineering was chosen by the Alberta government to participate in a technical seminar and trade mission to the People's Republic of China. Also in the international sphere, the company was involved in appraisal work on a World Bank gas distribution project in Egypt.

With its diversified capability in the utility field, CU Engineering is well prepared to capitalize on the strong growth projected for western Canada in the 1980's.

CU Ethane Limited

CU Ethane owns jointly with Dome Petroleum Limited an ethane extraction plant, located in Edmonton, which in 1979 completed its first full year of operation.

Ethane, which is removed from natural gas streams flowing into Edmonton, is used for the production of ethylene at the Alberta Gas Ethylene plant at Joffre near Red Deer. At the time of the official opening of the Joffre facility in October, 1979, Alberta Gas Ethylene announced that it planned to construct a second ethylene plant at an adjacent site.

Daily production at the ethane plant has been in excess of 17,000 barrels of ethane and 11,500 barrels of propane pluses.

CU Resources Limited

CU Resources continued during 1979 to conduct an exploration and development program of modest scale on properties in Alberta and British Columbia. Daily production from properties in which CU Resources has an interest is approximately 500 barrels of oil (mostly heavier grades) and five million cubic feet of natural gas. The company plans to spend \$1.5 million on exploration and development in 1980.

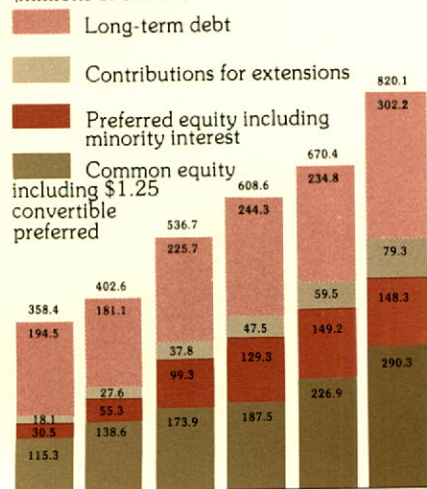
CU's computer centre in Edmonton serves the data processing needs of the company's utility and non-utility operations. In 1979 the utilities introduced a computerized billing system that provides for fast, accurate response to individual customer account inquiries.



Financial Review

Invested Capital

(millions of dollars)

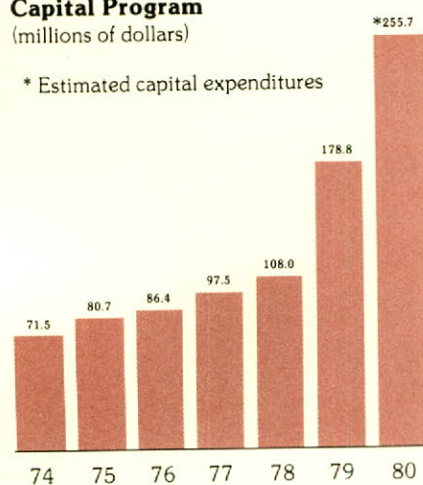


Excludes \$8 million franchise and gas rights

Capital Program

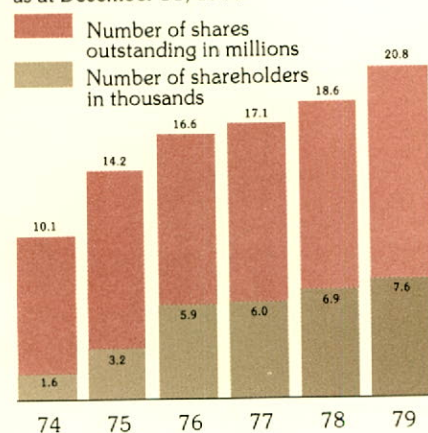
(millions of dollars)

* Estimated capital expenditures



Common Shares Outstanding and Number of Shareholders

as at December 31, 1979



Earnings Per Common Share

	1979	1978	Gain in 1979	
	\$	\$	\$	%
Electric	1.16	1.03	0.13	13
Natural Gas	0.97	0.87	0.10	11
Other	0.10	0.07	0.03	43
Total	2.23	1.97	0.26	13

Net earnings attributable to common shares increased 13% in 1979 over 1978 to \$2.23 a share, based on the average number of shares outstanding in each year. The average number of common shares outstanding increased to 18,783,000 from 18,146,000 as a result of new issues in each of 1978 and 1979.

Weather, which in Alberta can significantly affect the earnings of the company's natural gas utility operations, was near normal in the past two years.

The gain of 26¢ per common share in 1979 was due to employment of approximately one-half of the earnings in new utility investment at rates of return that, after adjustment for refunds applicable to prior periods, are about equal to the level deemed to be reasonable in recent regulatory orders received by the company.

During the year, over two million dollars were returned to customers of the natural gas utilities, reducing earnings by \$0.6 million in 1979. This refund, which was made in response to Public Utilities Board decisions on revenue requirements of previous years, was partially provided for in 1978.

Satisfactory progress was also made in the non-utility sector of company operations, although less than 5% of overall earnings at present originate from oil exploration and development, operation of the ethane plant or from the sale of engineering services.

Proceeds from the issue of common shares exceeded net book value per share and the earnings achieved on this differential adds to the per share gain recorded in 1979.

Earnings Growth

(\$ Millions)

	Electric	Natural Gas	Other	Total
Five year annual growth rate	24.7%	19.6%		23.2%
1979	\$21.7	\$18.1	\$2.0	\$41.8
1978	18.7	15.7	1.2	35.6
1977	15.4	11.7	0.6	27.7
1976	12.8	11.1	0.1	24.0
1975	10.7	9.6	0.2	20.5
1974	7.2	7.4	0.1	14.7

Total earnings attributable to common shares continue to grow apace of the growth in the investment in utility property, plant and equipment. The 1979 earnings of \$41.8 million represent a \$6.2 million or 17% improvement in the year. Growth in average net fixed assets in the year was also 17%. The high level of investment activity and earnings gains are not restricted to the electric utility sector but extend to the natural gas operations, where stepped-up programs of exploration and development and continued strong growth in demand have been experienced.

Capital Expenditures

The 1979 expenditures totalled \$179 million compared to the \$200 million forecast for the year. Capital expenditures of \$11 million anticipated in the forecast were made on behalf of the company under an agreement to lease a second dragline required for expansion of the Battle River coal field.

For the year 1980, a record spending level of \$256 million is expected as major outlays are made for completion of the fifth electric generating unit at the Battle River Station.

Distribution of Earnings

It is the policy of the company to provide shareholders with about one-half of earnings attributable to common shares and to increase the dividend each year. The quarterly common share dividend was increased in the fourth quarter of 1979 from 24½¢ to 28¢, an increase of 14%. The total common dividends paid were \$18.9 million in 1979, more than twice the amount in any year up to and including 1975.

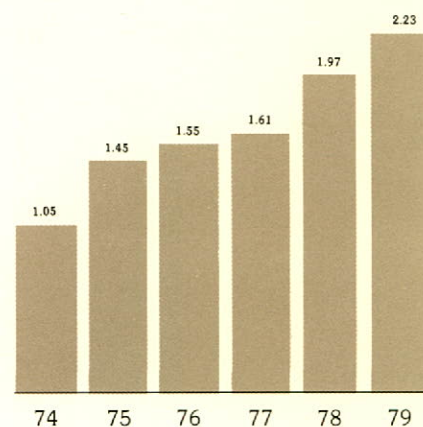
The approximately one-half of earnings not distributed as dividends are employed along with the proceeds of new share issues on new facilities. Consequently, the equity investment per common share has over the past five years increased from \$8.49 to \$14.00 for an average increase each year of 10.5%.

External Financings

To achieve for utility customers the lowest cost of capital possible, the company maximizes the use of less expensive forms of funds and makes timely issues of new securities. The two major credit rating agencies in Canada, after reviewing Canadian Utilities Limited debentures, upgraded the rating to AA or A+.

Earnings Per Share

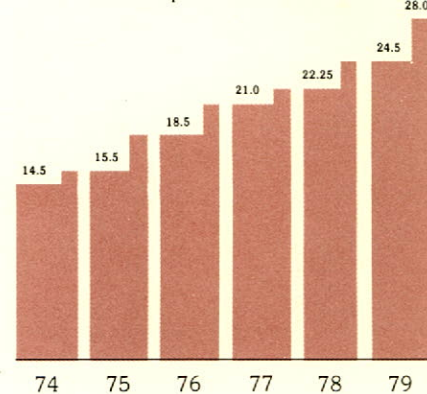
(before extraordinary items fully diluted)
— in dollars
Annual growth rate — 1974 to 1979:
16.3%



Dividends Per Common Share

(quarterly rate)

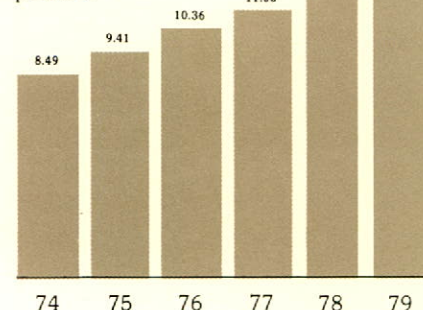
Annual growth rate — 1974 (first quarter) to 1979 (fourth quarter): 14.1% (in cents)



Common Shareholders' Equity Per Share

(year-end fully diluted basis — in dollars)
Annual growth rate — 1974 to 1979:
10.5%

Excludes \$8 million franchise and gas rights as per regulatory practice.



A record level of external financing was required during the year: In July an issue of \$75 million of sinking fund debentures with an interest rate of 10.40% was completed; and an additional \$37 million was received in December from the sale of 1.3 million common shares to about 2,000 purchasers and a concurrent placement of 0.8 million common shares to IU International. Both issues were at a price of \$17⁷/₈.

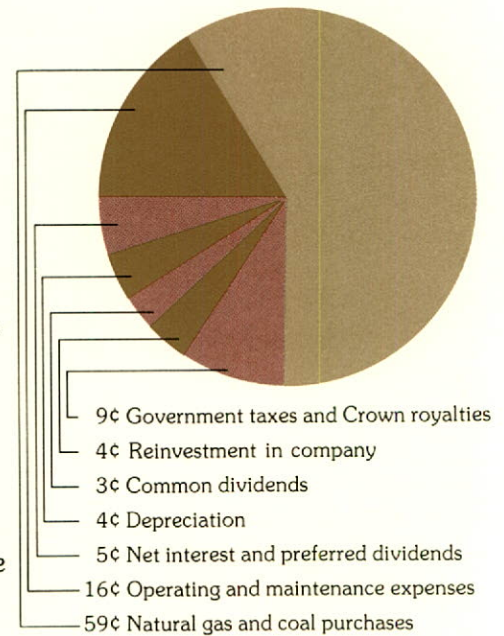
The number of shares available to investors in Canada is now 8.7 million with a market value in excess of \$175 million. This compares with 2.7 million common shares, or equivalents available for trade, with a market value of less than \$20 million at the close of 1974.

Through introduction of a savings and stock purchase plan, employees have been encouraged to participate as shareholders in the company. Nearly 800 employees applied savings to acquire 91,000 shares in 1979, and at the end of 1979, 1,500 employees were enrolled in a savings plan that will provide the opportunity to acquire over 200,000 shares in 1981.

Regulatory Activity

No general rate increases were required during the year, as the increased volume of sales and associated revenues were sufficient to offset the escalating cost of providing utility services. Apart from decisions of the Public Utilities Board of Alberta with respect to revenue requirements of previous years, mentioned earlier in this section, a decision was received on December 31, 1979 which will enable rates for electric service to be increased to provide revenues equal to an increase in taxes on income. Inasmuch as nearly all of the taxes paid by the utility companies in Alberta are rebated to the utility consumer, the net change is an improvement in earnings coverages to meet interest payments on debentures to be issued by the company. This is expected to further improve the quality rating of such securities and benefit the consumer.

Where the Revenue Dollar Was Spent



In 1979, for the second consecutive year, the value of construction permits exceeded \$1 billion in both Edmonton and Calgary. The photo shows the Milner Building, CU's Edmonton headquarters, through the steel uprights of a rising office tower.



Consolidated Statement of Earnings

Year ended December 31, 1979 with comparative figures for 1978

	1979	1978
		(Thousands)
Revenues	\$625,728	\$554,176
Operating Expenses		
Natural gas supply (Note 2)	342,265	315,509
Operating and maintenance	139,162	107,169
Taxes — other than income	27,980	26,629
Depreciation	26,520	23,148
	535,927	472,455
	89,801	81,721
Allowance for Funds Used During Construction	7,104	4,743
Other Income	1,502	2,539
	98,407	89,003
Interest Expense	27,364	22,425
	71,043	66,578
Income Taxes (Note 3)	17,559	20,073
	53,484	46,505
Minority Interests	2,296	1,460
Net Earnings	51,188	45,045
Preferred Dividend Requirements	9,379	9,395
Balance Attributable to Common Shares	\$ 41,809	\$ 35,650
Earnings — Dollars Per Common Share (Note 4)		
Basic	\$ 2.23	\$ 1.98
Fully diluted	\$ 2.23	\$ 1.97

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1979 with comparative figures for 1978

	1979	1978
		(Thousands)
ASSETS		
Current Assets		
Cash and short-term deposits	\$ 1,278	\$ 10,855
Accounts receivable (Note 5)	112,101	98,263
Materials and supplies — at average cost	15,942	11,672
Natural gas stored — at cost	286	412
Prepaid expenses	2,841	2,183
	132,448	123,385
Trust Assets Held for Rural Co-operative Lines, Per Contra	12,408	9,112
Trust Assets Held for Income Tax Rebate for Consumers, Per Contra	9,052	1,607
Property, Plant and Equipment Less Accumulated Depreciation (Note 6)	849,406	700,078
Deferred Expenses (Note 7)	18,765	9,472
	\$1,022,079	\$843,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Due to bank	\$ 13,118	\$ 20,765
Accounts payable and accrued liabilities	113,565	102,721
Dividends payable	2,923	2,868
Long-term debt — current maturities (Note 9)	1,028	5,120
Note payable to affiliated company	150	150
Deposits	2,084	3,063
Income and other taxes	4,711	12,361
	137,579	147,048
Amounts Held in Trust, Per Contras	21,460	10,719
Notes Payable (Note 8)	27,000	
Long-Term Debt (Note 9)	302,225	233,718
Contributions for Extensions to Plant	73,286	59,544
Deferred Income Taxes (Note 3)	2,522	497
Other Liabilities	11,383	8,003
Minority Interests (Note 10)	40,008	40,008
Shareholders' Equity		
Preferred shares (Note 11)		109,182
	108,282	
	1979	1978
Common shares (Note 12)	\$199,275	\$160,613
Retained earnings (Note 9)	99,059	74,322
	298,334	234,935
	406,616	344,117
	\$1,022,079	\$843,654

On behalf of the Board:

J. E. Maybin/Director **D. R. B. McArthur**/Director

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1979 with comparative figures for 1978

	1979	1978
	(Thousands)	
Sources of Working Capital		
Net earnings	\$ 51,188	\$ 45,045
Add non-cash items, principally depreciation	29,218	25,424
Provided from operations	80,406	70,469
Increase in notes payable	27,000	
Issue of long-term debt	73,612	
Issue of preferred shares by subsidiary company		20,000
Issue of common shares	37,943	20,613
Increase in contributions for extensions to plant	15,614	14,220
Disposition of property, plant and equipment	1,146	1,462
Other	3,110	955
	238,831	127,719
Uses of Working Capital		
Purchase of property, plant and equipment	178,775	108,018
Reduction in long-term debt	6,493	10,605
Dividends — preferred	9,375	9,927
— common	18,905	16,371
Redemption of preferred shares	900	118
Increase in deferred expenses	5,851	2,656
	220,299	147,695
Increase (Decrease) in Working Capital	\$ 18,532	\$ (19,976)

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

Year ended December 31, 1979 with comparative figures for 1978

	1979	1978
		(Thousands)
Balance at Beginning of Year	\$ 74,322	\$ 56,395
Add		
Net earnings	51,188	45,045
Adjustment for deferral of preferred share issue expense less related income taxes of \$541	2,548	
	128,058	101,440
Deduct		
Dividends		
Preferred shares	9,375	9,927
Common shares	18,905	16,371
	28,280	26,298
Share issue expense less related income taxes of \$638 in 1979 and \$373 in 1978	719	820
	28,999	27,118
Balance at End of Year	\$ 99,059	\$ 74,322

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Summary of Significant Accounting Policies

December 31, 1979

Basis of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies. All material inter-company balances and transactions have been eliminated.

Property, plant and equipment

Property, plant and equipment includes cost of land, resource properties, buildings and equipment. The gross cost of additions includes an allowance for funds used during construction based on the debt and equity cost of capital components. Certain additions are made with assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are amortized on the same basis as the assets to which they relate.

Depreciation is provided on classes of assets at various rates on a straight line basis over the estimated useful lives of the assets. In accordance with the orders of regulatory bodies, depreciation is provided after giving effect to contributions for extensions to plant. The major assets are depreciated at rates varying from 2.113% to 6.6%. Certain resource properties are depreciated in part on a unit withdrawal basis.

On retirement of depreciable plant, the accumulated depreciation is charged with the cost of the retirement unit less net salvage. Gains and losses on extraordinary retirements are recognized as extraordinary items in the financial statements.

Deferred expenses

Expenses of issue of long-term debt are amortized over the periods that the debt is outstanding and expenses of issue of preferred shares are amortized over 30 years from the date of issue.

Deferred charges relating to gas exploration include expenditures related to the development of gas reserves. Costs resulting in a successful venture are capitalized and depreciated on a unit withdrawal basis.

Goodwill consists of the excess cost of shares issued over the underlying net book value of shares acquired in 1972 from minority shareholders of a subsidiary company and is being amortized over a period of 40 years.

Other deferred charges are subject to amortization over varying periods of time not exceeding 40 years.

Income taxes

In fixing rates, except for the matters referred to below, the utility subsidiaries recover only taxes payable currently and, accordingly, to the extent that capital cost allowances are claimed in excess of recorded depreciation, there has been a related reduction in the amount of income taxes otherwise payable which has not been reflected in the consolidated financial statements. The reduction will become a charge to be borne by the consumer in future years when recorded depreciation exceeds capital cost allowances claimed for income tax purposes.

The utility subsidiaries are permitted to claim deferred income taxes with respect to acquisition of natural gas rights, deferred gas costs, rate case expenses and share issue costs.

Other liabilities

Other liabilities include amounts received under The Natural Gas Pricing Agreement Act. The gas subsidiaries, as Alberta gas producers, have available a pro rata share of monies under the Act which have been recorded net of royalties and income taxes. It is the company's intention, subject to approval of the Public Utilities Board of Alberta, to charge the costs of unsuccessful exploration against this amount.

Natural gas supply

The Province of Alberta enacted The Natural Gas Rebates Act effective January 1, 1974 to shelter the majority of Alberta natural gas consumers from the full impact of significant price increases for natural gas. Under the provisions of the Act, the gas subsidiaries are reimbursed for the excess price paid to their suppliers over the support price. The statement of consolidated earnings is charged with the net cost of natural gas.

Equipment Leases

The regulatory process in Alberta does not permit capitalization of leases in the determination of consumer rates. Because of this regulation, leases that would otherwise be treated as capital leases are accounted for by the companies as operating leases.

Notes to Consolidated Financial Statements

December 31, 1979

1. Incorporation

The company was incorporated under the laws of Canada by letters patent dated May 18, 1927 and was continued under the Canada Business Corporations Act on August 15, 1979.

2. Natural gas supply

The natural gas supply expense is net of Alberta government rebate amounting to \$109,007,000 in 1979 (\$95,301,000 in 1978).

3. Income taxes

The provision for income taxes in the consolidated statement of earnings includes a deferred tax provision of \$1,525,000 in 1979 (\$289,000 tax draw-down in 1978).

Total deferred income taxes increased by \$16,245,000 during 1979 (\$9,598,000 in 1978). The cumulative amount of deferred income taxes to December 31, 1979 is \$93,087,000 of which \$2,522,000 has been recorded in the accounts as a deferred credit, and \$62,000 as a reduction in deferred expenses.

4. Earnings per common share

In the calculation of fully diluted earnings per common share, it is assumed that shares reserved for the employee share purchase plan are issued at the beginning of the year and that the funds derived therefrom had been invested at an annual rate of 8% before applicable taxes. In addition the 1978 calculation assumes conversion of warrants at the beginning of the year for the purchase of common shares at \$9 and that the funds derived therefrom had been invested at an annual rate of 8% before applicable income taxes. The weighted average number of shares used in the calculation of fully diluted earnings per common share was 18,783,444 for 1979 and 18,145,908 in 1978.

5. Accounts receivable

	1979	1978
	(Thousands)	
Consumer accounts, gas and electric	\$ 67,742	\$64,364
Receivable from the Province of Alberta	26,759	19,681
Other receivables and deposits	17,600	14,218
	<u>\$112,101</u>	<u>\$98,263</u>

6. Property, plant and equipment

	1979		1978	
	Accumulated Depreciation and Depletion		Accumulated Depreciation and Depletion	
	Cost	Depletion	Cost	Depletion
	(Thousands)		(Thousands)	
Gas utility plant and equipment	\$ 470,142	\$117,711	\$407,553	\$107,604
Electric utility plant and equipment	545,742	89,886	437,354	75,264
Other plant and equipment	32,006	2,321	28,588	947
Undertakings, franchise and gas rights	8,000		8,000	
Land	3,434		2,398	
	<u>\$1,059,324</u>	<u>\$209,918</u>	<u>\$883,893</u>	<u>\$183,815</u>
	<u>\$849,406</u>		<u>\$700,078</u>	

7. Deferred expenses

	<u>1979</u>	<u>1978</u>
	(Thousands)	
Debt discount and expenses	\$ 4,577	\$3,526
Gas exploration	10,157	4,789
Goodwill	461	475
Other	3,570	682
	<u>\$18,765</u>	<u>\$9,472</u>

8. Notes payable

The company has arranged a bank loan agreement to provide up to \$60,000,000 until March 14, 1981 and issues commercial paper and assumes bank loans relying upon this commitment. At December 31, 1979 the company had notes payable of \$27,000,000 at interest rates varying from 13.95% to 15% with maturities to January 29, 1980.

9. Long-term debt

	<u>1979</u>	<u>1978</u>
	(Thousands)	
Canadian Utilities Limited		
Sinking fund debentures 8 $\frac{3}{8}$ % to 11 $\frac{1}{2}$ % due to 2002	\$213,120	\$142,701
Alberta Power Limited		
First mortgage sinking fund bonds 4 $\frac{1}{8}$ % to 6 $\frac{1}{2}$ % due to 1992	27,697	31,038
Sinking fund debentures 7 $\frac{1}{4}$ % to 9 $\frac{5}{8}$ % due to 1991	20,261	20,863
Northwestern Utilities Limited		
First mortgage sinking fund bonds 4 $\frac{3}{4}$ % to 9 $\frac{3}{4}$ % due to 1994	18,805	20,001
Sinking fund debentures 7 $\frac{1}{4}$ % due 1985	2,600	2,706
Canadian Western Natural Gas Company Limited		
First mortgage sinking fund bonds 5 $\frac{3}{8}$ % to 7% due to 1992	13,437	13,914
Sinking fund debentures 9 $\frac{3}{4}$ % due 1990	7,333	7,615
Total long-term debt	303,253	238,838
Deduct current maturities	1,028	5,120
Long-term debt less current maturities	<u>\$302,225</u>	<u>\$233,718</u>

The long-term debt outstanding and current maturities thereof have been reduced by bonds and debentures purchased for future sinking fund payments and exclude requirements which may be satisfied by certification of property additions. Annual sinking fund requirements for each of the following years are:

	(Thousands)
1980	\$ 1,028
1981	6,576
1982	12,083
1983	14,198
1984	10,198

The bond and debenture indentures executed by the company and its subsidiaries place limitations on the company and its subsidiaries, including restrictions on the payment of dividends. Of the consolidated retained earnings at December 31, 1979, approximately \$63,418,000 (1978 — \$59,624,000) were free from such restrictions.

10. Minority interests

	<u>1979</u>	<u>1978</u>
	(Thousands)	
Minority interest in the preferred shares of subsidiaries:		
Northwestern Utilities Limited		
105,000 4% Cumulative Redeemable Preference Shares of the par value of \$100 each	\$10,500	\$10,500
Canadian Western Natural Gas Company Limited		
275,410 4% Cumulative Redeemable Preference Shares of the par value of \$20 each	5,508	5,508
200,000 5½% Cumulative Redeemable Preference Shares of the par value of \$20 each	4,000	4,000
CU Ethane Limited		
800,000 Floating Rate Cumulative Redeemable Preferred Shares Series A of the par value of \$25 each		
The rate of dividend is one-half of the average prime bank rate of three chartered banks plus 1¼%		
The company is obligated to redeem 80,000 shares per year commencing in 1989	20,000	20,000
	<u>\$40,008</u>	<u>\$40,008</u>

11. Preferred shares

Authorized:

40,000 5% Cumulative Redeemable Preferred Shares.

150,000 series preferred shares, issuable in series, of which 15,000 shares have been designated as Cumulative Redeemable Preferred Shares, 4¼% Series and 50,000 shares have been designated as Cumulative Redeemable Preferred Shares, 6% Series.

An unlimited number of series second preferred shares, issuable in series, of which 1,152,000 shares have been designated as 10¼% Cumulative Redeemable Second Preferred Shares Series A, 1,600,000 shares have been designated as 9.24% Cumulative Redeemable Second Preferred Shares Series B and 1,159,280 have been designated as 7.30% Cumulative Redeemable Second Preferred Shares Series C.

Issued:

	1979		1978	
	Number	Value (Thousands)	Number	Value (Thousands)
5% preferred shares with a stated value of \$100 each redeemable at a premium of 4%	40,000	\$ 4,000	40,000	\$ 4,000
Preferred shares 4¼% series with a stated value of \$100 each redeemable at a premium of 2½%	15,000	1,500	15,000	1,500
Preferred shares 6% series with a stated value of \$100 each redeemable at a premium reducing from 3% to 1%	50,000	5,000	50,000	5,000
10¼% second preferred shares Series A with a stated value of \$25 each redeemable at a premium reducing from 5% to nil	1,152,000	28,800	1,152,000	28,800
9.24% second preferred shares Series B with a stated value of \$25 each redeemable at a premium reducing from 5% to nil	1,600,000	40,000	1,600,000	40,000
7.30% second preferred shares Series C with a stated value of \$25 each redeemable at a premium reducing from 4% to nil	1,159,280	28,982	1,195,280	29,882
		<u>\$108,282</u>		<u>\$109,182</u>

The preferred shares may be redeemed at the option of the company subject to premiums listed plus dividends accrued and unpaid.

The company is required to make all reasonable efforts to purchase for cancellation in the open market 12,000 of the 10¼% series, 12,000 of the 9.24% series and 9,000 of the 7.30% series, in each quarter at a price not exceeding \$25 per share plus costs of purchase, such obligation to carry over to the succeeding quarterly periods in the same year. If after all reasonable efforts the company is unable to so purchase 48,000 of the 10¼% series, 48,000 of the 9.24% series and 36,000 of the 7.30% series in the four quarters of any year, the company's obligation to purchase shares with respect to such year is extinguished. During the year ended December 31, 1979 the company purchased 36,000 shares of the 7.30% series reducing the capital of the company by \$900,000 (4,720 shares in 1978 reducing the capital of the company by \$118,000).

12. Common shares

Authorized:
Unlimited

Issued:

	1979		1978	
	Number	Value (Thousands)	Number	Value (Thousands)
Balance at beginning of year	18,625,868	\$160,613	17,121,584	\$139,143
Issued on exercise of share purchase warrants			154,284	1,389
Issued under employee share purchase plan	91,755	1,125		
Issued during the year for cash	2,100,000	37,537	1,350,000	20,081
Balance at end of year	<u>20,817,623</u>	<u>\$199,275</u>	<u>18,625,868</u>	<u>\$160,613</u>

At December 31, 1979 the company had reserved 200,303 unissued common shares for issuance under the employee share purchase plan. The rights to purchase are exercisable for \$16.36 per share on December 31, 1981.

13. Remuneration of directors and officers

During the year ended December 31, 1979 the company paid aggregate remuneration of \$87,000 to 13 directors as directors (\$80,000 to 14 directors in 1978) and \$533,000 to seven officers as officers (\$467,000 to seven officers in 1978).

Three officers were also directors.

14. Commitments and contingencies

The cost of the company's planned construction and expansion program for 1980 will amount to approximately \$255,676,000 of which \$132,036,000 was under contract at December 31, 1979. Total commitments under contract for 1980 and future years were approximately \$151,195,000.

Minimum yearly equipment lease payments for 1979 were \$5,716,000 and \$5,673,000, \$7,069,000, \$8,301,000, \$7,121,000, \$7,084,000 for the years 1980 — 1984 respectively. Leases range in length from three to 12 years. Under the normal course of business, leases will generally be renewed or replaced by other leases.

The company has a pension plan covering substantially all its employees. The aggregate unfunded past service liability amounted to approximately \$12,134,000 at December 31, 1979. Of this amount \$4,009,000 must be funded by December 31, 1981 and the balance over a period not exceeding 14 years.

15. Comparative figures

Certain of the 1978 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1979.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canadian Utilities Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Canada
January 29, 1980

Peat, Marwick, Mitchell & Co.
Chartered Accountants

The company's natural gas utilities and CU Resources are engaged in exploration programs which in 1979 resulted in a number of successful gas and oil wells. The drilling site pictured is in the Viking area in Northwestern Utilities' service area.

CORPORATE STRUCTURE



CANADIAN UTILITIES LIMITED



ALBERTA
POWER
LIMITED



CANADIAN WESTERN
NATURAL GAS
COMPANY LIMITED



NORTHWESTERN
UTILITIES
LIMITED



CU
ETHANE
LIMITED



CU
RESOURCES
LIMITED



CU
ENGINEERING
LIMITED

THE YUKON
ELECTRICAL
COMPANY
LIMITED

YUKON
HYDRO
COMPANY
LIMITED

NORTHLAND
UTILITIES
(B.C.)
LIMITED

CONSOLIDATED TEN-YEAR FINANCIAL SUMMARY

(Dollars in millions, except as indicated)

	1979	1978	1977	1976
Operating Revenues				
Natural gas	477.9	431.8	318.7	216.5
Electric	124.6	114.7	93.9	78.1
Other	23.2	7.7	2.8	1.3
	625.7	554.2	415.4	295.9
Operating Expenses				
Natural gas supply	342.3	315.5	221.3	134.8
Operating and maintenance	139.1	107.2	87.2	72.8
Taxes — other than income	28.0	26.6	21.8	17.0
Depreciation	26.5	23.2	18.8	15.6
	535.9	472.5	349.1	240.2
Allowance for Funds Used During Construction	89.8	81.7	66.3	55.7
Other Income	7.1	4.7	2.3	1.3
	1.5	2.5	1.4	2.3
Interest Expense	98.4	88.9	70.0	59.3
	27.4	22.4	21.4	22.3
Income Taxes	71.0	66.5	48.6	37.0
	17.5	20.0	12.5	8.6
Minority Interests	53.5	46.5	36.1	28.4
	2.3	1.5	.9	.9
Net Earnings before Extraordinary Items	51.2	45.0	35.2	27.5
Extraordinary Items — Non-Recurring Gain (Loss)			(1.6)	
Net Earnings	51.2	45.0	33.6	27.5
Preferred Dividend Requirements	9.4	9.4	7.5	3.8
Balance Attributable to Common Shares	41.8	35.6	26.1	23.7
Contribution by Operating Segment*				
Before Extraordinary Items				
Electric	21.7	18.7	15.4	12.8
Natural gas	18.1	15.7	11.7	10.8
Other	2.0	1.2	.6	.1
	41.8	35.6	27.7	23.7
Common Shares Outstanding (thousands)				
End of year	20,818	18,626	17,122	16,634
Average for year — fully diluted	18,783	18,146	17,312	15,567
Earnings — Dollars Per Fully Diluted Common Share				
Net earnings before extraordinary items	2.23	1.97	1.61	1.55
Net earnings after extraordinary items	2.23	1.97	1.52	1.55
Common Dividends Paid*				
Dividends per share (dollars)	1.015	.9125	.8525	.765
Total dividends paid	18.9	16.4	14.4	11.0
Payout Ratio*				
Dividends paid ÷ earnings available	45.2%	45.9%	55.2%	46.4%
Common Shareholders' Equity Dollars Per Share*				
At year-end — fully diluted	14.00	12.22	11.06	10.36
Rate of Return on Common Shareholders' Equity*				
Before extraordinary items	15.9%	16.1%	14.6%	14.9%
After extraordinary items	15.9%	16.1%	13.7%	14.9%
Stock Market Record of Common Shares* (dollars)				
High	21	18	15-1/2	14-3/8
Low	16	14-1/8	12-5/8	9-1/2
Close	19	16-1/8	15-1/2	14-3/8
Gross Fixed Assets	1059.3	883.9	780.5	688.6
Net Fixed Assets	849.4	700.1	618.8	542.3
Total Assets	1,022.1	843.7	744.3	644.3
Capitalization*				
Long-term debt	302.2	233.7	244.3	225.7
Contributions	79.3	59.5	47.5	37.8
Preferred shares	148.3	149.2	129.3	99.3
Common equity	290.3	226.9	187.5	173.9
Total capitalization	820.1	670.4	608.6	536.7
Capitalization Ratio*				
Long-term debt	37%	35%	40%	42%
Contributions	10%	9%	8%	7%
Preferred shares	18%	22%	21%	19%
Common equity	35%	34%	31%	32%
Times Debt Interest Earned (pretax)*	3.60	3.97	3.26	2.66

*Not applicable prior to 1972 corporate reorganization.

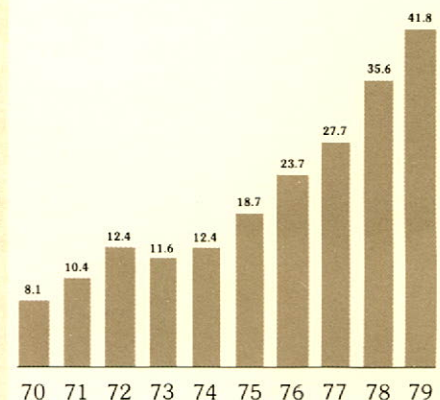
Note: Comparative figures for years prior to 1972 have been reclassified to conform with financial presentation following corporate reorganization in 1972.

1975	1974	1973	1972	1971	1970	1969
141.8	91.2	82.0	78.9	70.3	62.9	59.2
57.9	46.3	38.3	33.8	30.6	27.7	22.0
.7	.3	.1				
200.4	137.8	120.4	112.7	100.9	90.6	81.2
70.9	40.2	36.0	32.4	27.0	22.6	21.3
56.5	43.6	34.7	33.4	29.1	26.4	23.8
11.8	8.0	6.8	6.5	6.0	5.3	4.8
13.3	12.9	11.0	10.1	9.7	9.4	7.9
152.5	104.7	88.5	82.4	71.8	63.7	57.8
47.9	33.1	31.9	30.3	29.1	26.9	23.4
4.0	1.6	.8	2.2	.8	.2	1.1
1.4	1.0	.8	.8	1.3	.7	.6
53.3	35.7	33.5	33.3	31.2	27.8	25.1
19.9	17.2	13.7	12.2	9.9	9.1	7.7
33.4	18.5	19.8	21.1	21.3	18.7	17.4
8.7	2.4	4.5	5.0	7.2	6.9	5.7
24.7	16.1	15.3	16.1	14.1	11.8	11.7
.9	.9	.9	1.0	1.2	1.2	1.2
23.8	15.2	14.4	15.1	12.9	10.6	10.5
2.4	.5		(.1)	.2	.2	2.9
26.2	15.7	14.4	15.0	13.1	10.8	13.4
5.1	2.8	2.8	2.7	2.5	2.5	2.5
21.1	12.9	11.6	12.3	10.6	8.3	10.9

10.7	7.2	6.8	9.1
7.9	5.2	4.8	3.3
.1			
18.7	12.4	11.6	12.4
14,198	10,075	10,065	10,063
14,258	14,216	14,216	14,216
1.45	1.05	.99	1.05
1.61	1.08	.99	1.04
.91	.80	.82	.81
.65	.59	.55	.52
7.1	5.9	5.5	5.2
33.6%	45.7%	47.4%	42.3%
9.41	8.49	8.04	7.61
15.4%	12.4%	12.3%	13.8%
17.1%	12.7%	12.3%	13.7%
9-7/8	11	13-3/4	14-5/8
7-5/8	6-1/2	8-5/8	9-1/4
9-3/4	7-1/4	9-1/4	13-1/2
613.6	538.7	470.3	435.8
478.6	413.5	355.8	330.2
573.9	475.5	391.1	363.1
			397.2
			359.4
			333.0
			300.0
			270.8
			328.4
			306.9
			283.9
181.1	194.5	167.5	156.0
27.6	18.1	14.4	12.7
55.3	30.5	30.5	30.5
138.6	115.3	108.9	102.8
402.6	358.4	321.3	302.0
45%	54%	52%	52%
7%	5%	5%	4%
14%	9%	9%	10%
34%	32%	34%	34%
2.68	2.08	2.45	2.32

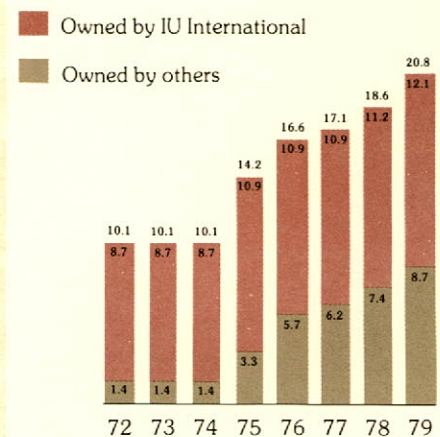
Net Earnings Attributable to Common Shares

(excluding extraordinary items)
(millions of dollars)



Common Shares Outstanding

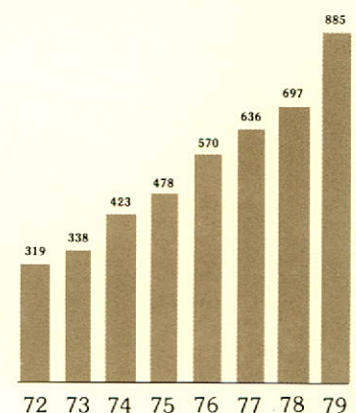
(millions)



Net Assets

(millions of dollars)

Total assets less current liabilities



TEN-YEAR OPERATING SUMMARY

(Dollars in millions, except as indicated)

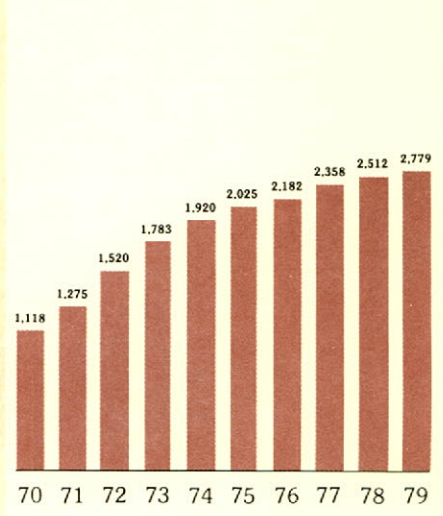
	1979	1978	1977	1976
Electric Operations				
Construction work in progress	107.7	31.5	34.4	20.0
Other	439.8	407.2	358.6	332.7
Gross fixed assets at cost	547.5	438.7	393.0	352.7
Accumulated depreciation	89.9	75.4	62.2	53.2
Net fixed assets	457.6	363.3	330.8	299.5
% growth over prior year	26%	10%	10%	14%
Capital additions in the year	110.7	48.1	44.1	45.9
Sales (millions of kilowatt hours)	2,779	2,512	2,358	2,182
% growth over prior years	11%	7%	8%	8%
Average annual use per residential customer (kWh)	7,281	7,183	6,879	6,877
Average annual billing per residential customer (\$)	372	364	302	273
Maximum hourly demand (thousands of kilowatt hours)	573	520	524	455
Generating capacity (thousands of kilowatt hours)	668	668	671	686
Customers at year-end (thousands)	120.1	112.5	106.9	99.6
Number of communities served	392	387	385	368
Power lines (thousands of kilometres)	23.0	22.3	20.8	20.1
Gas Operations				
Gross fixed assets at cost	479.8	416.8	370.9	333.9
Accumulated depreciation	117.7	107.6	99.3	93.0
Net fixed assets	362.1	309.2	271.6	240.9
% growth over prior year	17%	14%	13%	14%
Capital additions in the year	64.5	48.2	38.8	39.4
Sales (billions of cubic feet)	373	341	288	258
% growth over prior year	9%	18%	12%	3%
Average annual use per residential customer (Mcf)	196	191	180	185
Average annual billing per residential customer (\$)	308	299	241	190
Maximum daily demand (thousands of cubic feet)	1,899	1,876	1,594	1,430
Degree days — Edmonton	5,636	5,530	5,124	4,891
— Calgary	5,366	5,592	5,289	4,885
Customers at year-end (thousands)	489.8	457.4	428.4	400.5
Number of communities served	272	265	260	257
Pipelines (thousands of kilometres)	27.1	25.0	23.1	21.8
Other operations				
Gross fixed assets at cost	32.0	28.4	16.6	2.0
Accumulated depreciation	2.3	.8	.3	.2
Net fixed assets	29.7	27.6	16.3	1.8
Total Number of Employees	3,870	3,592	3,367	3,161

1975	1974	1973	1972	1971	1970	1969
14.3	42.9	11.7	38.9	26.9	4.5	1.3
295.0	217.8	206.5	159.3	148.6	143.0	131.0
309.3	260.7	218.2	198.2	175.5	147.5	132.3
45.7	41.2	36.0	31.8	28.3	24.6	21.1
263.6	219.5	182.2	166.4	147.2	122.9	111.2
20%	20%	9%	13%	20%	11%	12%
51.1	44.8	21.3	24.5	29.1	16.4	15.5
2,025	1,920	1,783	1,520	1,275	1,118	967
5%	8%	17%	19%	14%	16%	26%
6,774	6,339	6,069	5,961	5,550	5,209	5,127
217	184	166	164	156	152	130
445	388	376	342	295	281	245
686	523	512	370	367	367	344
94.0	88.8	84.6	80.5	77.2	74.2	72.0
365	364	365	365	359	355	343
19.3	18.8	18.1	17.4	16.0	15.6	14.8

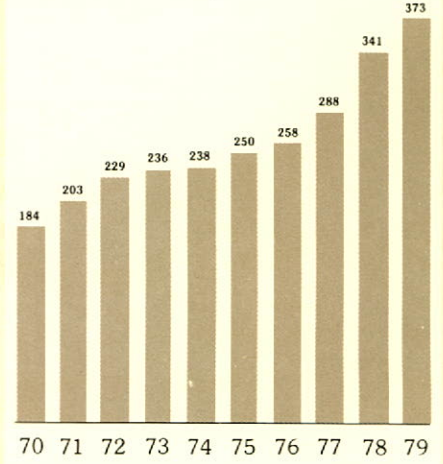
300.8	275.5	251.7	236.9	221.2	211.3	200.1
89.3	83.9	78.6	73.8	68.9	64.0	59.3
211.5	191.6	173.1	163.1	152.3	147.3	140.8
10%	11%	6%	7%	3%	5%	5%
29.5	25.7	17.1	16.5	10.6	11.8	11.5
250	238	236	229	203	184	170
5%	1%	3%	13%	10%	8%	13%
212	208	212	230	218	217	223
156	115	113	120	114	108	111
1,318	1,228	1,109	1,132	1,115	969	894
5,555	5,492	5,538	6,028	5,737	5,899	5,840
5,750	5,230	5,428	5,973	5,532	5,579	5,760
373.3	353.3	335.5	317.8	303.3	289.5	278.4
253	253	253	251	249	240	238
19.5	16.7	15.8	15.2	14.8	14.1	13.0

1.0	1.0					
.1						
.9	1.0					
3,133	2,933	2,746	2,576	2,298	2,255	2,289

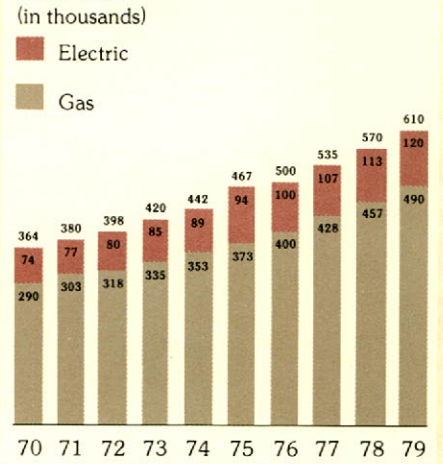
Electric Sales
(millions of kilowatts)



Gas Sales
(billions of cubic feet)



Gas and Electric Customers at Year-end
(in thousands)



CORPORATE INFORMATION

CANADIAN UTILITIES LIMITED

(Incorporated under the laws of Canada)

Board of Directors

K. A. Biggs

Senior Vice-President, Finance
Canadian Utilities Limited
Edmonton, Alberta

* **R. F. Calman**

Vice-Chairman
IU International Corporation
Philadelphia, Pennsylvania

* **G.L. Crawford, Q.C.**

Barrister and Solicitor
McLaws & Company
Calgary, Alberta

W. D. H. Gardiner

Vice-Chairman
The Royal Bank of Canada
Toronto, Ontario

E. W. King

President
Canadian Utilities Limited
Edmonton, Alberta

P. L. P. Macdonnell, Q.C.

Barrister and Solicitor
Milner & Steer
Edmonton, Alberta

J. E. Maybin

Chairman and Chief Executive Officer
Canadian Utilities Limited
Edmonton, Alberta

* **D. R. B. McArthur**

Corporate Director
Edmonton, Alberta

* **W. S. McGregor**

President
Numac Oil & Gas Ltd.
Edmonton, Alberta

W. S. McLeese

President
Trans Canada Freezers Limited
Toronto, Ontario

J. M. Seabrook

Chairman and Chief Executive Officer
IU International Corporation
Salem, New Jersey

* Member of audit committee

Honorary Director

D. K. Yorath

Edmonton, Alberta

Senior Officers

J. E. Maybin

Chairman and Chief Executive Officer

E. W. King

President

K. A. Biggs

Senior Vice-President, Finance

Staff Executives

D. R. Brandt

Vice-President

A. M. Anderson

Secretary

H. N. Bottomley

Controller

P. R. Ladouceur

Treasurer

C. K. Sheard

Assistant Secretary

Subsidiary Company Executives

ALBERTA POWER LIMITED

E. W. King

President and Chief Executive Officer

W. G. Sterling

Senior Vice-President

Keith Provost

Vice-President

R. H. Choate

Vice-President, Administration

D. B. Mitchell

Vice-President, Industrial Relations

J. E. A. Morin

Vice-President, Engineering and Construction

G. N. Paicu

Vice-President, Energy Supply

C. O. Twa

Vice-President, Customer Services

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

and

NORTHWESTERN UTILITIES LIMITED

E. W. King

President and Chief Executive Officer

J. H. Pletcher

Senior Vice-President

D. L. Weiss

Vice-President, Gas Supply

D. B. Mitchell

Vice-President, Industrial Relations

B. M. Dafeo

Vice-President and General Manager
Northwestern Utilities Limited

A. J. L. Fisher

Vice-President and General Manager
Canadian Western Natural Gas Company Limited

CU ENGINEERING LIMITED

D. M. Murray

General Manager

CU ETHANE LIMITED

D. R. Brandt

President

CU RESOURCES LIMITED

D. L. Weiss

Manager

Registered Head Office

10040 - 104 Street
Edmonton, Alberta, Canada T5J 2V6
Telephone: (403) 420-7310

Transfer Agent and Registrar

Common Shares and Preferred Shares:
Montreal Trust Company
Montreal/Toronto/Winnipeg/Regina
Calgary/Edmonton/Vancouver

Trustee and Registrar

Debentures:
National Trust Company, Limited
Montreal/Toronto/Winnipeg
Calgary/Edmonton/Vancouver

Stock Exchange Listings

Common Shares:
Toronto, Montreal and Alberta
Stock Exchanges

Preferred Shares:
10¼% second preferred Series A
9.24% second preferred Series B
7.30% second preferred Series C
Toronto and Montreal Stock Exchanges

5% preferred
4¼% Series preferred
6% Series preferred
Toronto Stock Exchange

Auditors

Peat, Marwick, Mitchell & Co.
2500 Alberta Telephone Tower
10020 - 100th Street
Edmonton, Alberta

Valuation Day

The Valuation Day price for Canadian Utilities' common shares adjusted for the stock split of September 15, 1972 was \$9.31.

Annual Meeting

The annual meeting of shareholders will be held at 10:00 a.m., April 22, 1980 at the Hotel Macdonald, Edmonton, Alberta.

