NOVA Corporation of Alberta

Annual Report 1987

Financial Report

Management's Statement of Financial Reporting

The December 31, 1987 consolidated financial statements of NOVA Corporation of Alberta presented in the Annual Report have been prepared by management on a consistent basis in accordance with accounting principles generally accepted in Canada. The consolidated financial statements have been prepared within reasonable limits of materiality and within the framework of the accounting policies as outlined in the consolidated financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Corporation maintains systems of internal accounting controls, policies and procedures to provide assurance as to the reliability of the financial information and the protection of assets.

Clarkson Gordon, the Corporation's independent auditors, have examined the December 31, 1987 consolidated financial statements and their report follows.

The Audit Committee of your Board of Directors, comprising directors who are not employees of the Corporation, has reviewed the consolidated financial statements, including the notes thereto, with management and the independent auditors. The consolidated financial statements have been approved by your Board of Directors on the recommendation of the Audit Committee.

Auditors' Report

To the Shareholders of
NOVA Corporation of Alberta
(formerly NOVA, AN ALBERTA CORPORATION)

We have examined the consolidated balance sheet of NOVA Corporation of Alberta as at December 31, 1987 and 1986 and the consolidated statements of income, reinvested earnings, contributed surplus and changes in financial position for each of the years in the three year period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1987 and 1986 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1987 in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Clarkson Gordon

Chartered Accountants

Calgary, Canada
February 22, 1988

CONSOLIDATED STATEMENT OF INCOME

(Thousands of dollars except for share data)

Year Ended December 31	1987	1986	1985
Revenue	$2,322,438	$2,680,966	$3,347,236
Operating Costs and Expenses			
Operating expenses	1,603,201	1,819,347	2,288,419
Depreciation and depletion	178,071	292,544	310,180
Petroleum and gas revenue tax	–	(25,620)	52,903
Loss on foreign currency translation	12,968	21,474	22,162
	1,794,240	2,107,745	2,673,664
Operating Income	528,198	573,221	673,572
Other Income (Deductions)			
Interest expense (Note 9)	(242,729)	(284,292)	(315,915)
Allowance for funds used during construction	2,501	3,480	3,171
Equity in earnings (losses) of affiliates	12,789	(15,204)	(7,235)
Loss on investments (Note 13)	(18,146)	(30,125)	–
Miscellaneous income and other (deductions)	(13,410)	(14,312)	1,921
	(258,995)	(340,453)	(318,058)
Income Before Income Taxes, Interest of Others in Income of Subsidiaries and Extraordinary Items	269,203	232,768	355,514
Income Taxes (Note 14)	(74,341)	(61,614)	(155,892)
Interest of Others in Income of Subsidiaries	(15,732)	(63,157)	(65,511)
Income Before Extraordinary Items	179,130	107,997	134,111
Extraordinary Items (Note 15)	–	(7,800)	(216,522)
Net Income (Loss)	179,130	100,197	(82,411)
Less Preferred Share Dividend Entitlement	49,296	84,071	85,511
Net Income (Loss) to Common Shareholders	$ 129,834	$ 16,126	$ (167,922)
Average Common Shares Outstanding (Thousands)	185,321	134,655	128,087
Net Income (Loss) Per Common Share			
Before extraordinary items			
Basic	$ 0.70	$ 0.18	$ 0.38
Fully diluted	$ 0.67	$ 0.17	$ 0.38
After extraordinary items			
Basic	$ 0.70	$ 0.12	$ (1.31)
Fully diluted	$ 0.67	$ 0.12	$ (1.31)

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

CONSOLIDATED BALANCE SHEET

ASSETS		(Thousands of dollars)
December 31	1987	1986
Current Assets		
Cash and short term deposits	$ 74,207	$ 48,407
Funds on deposit	–	138,050
Receivables (Note 3)	405,449	300,428
Inventories (Note 4)	117,354	110,441
Asset held for sale (Note 5)	–	358,998
Prepaid expenses	8,004	6,931
	605,014	963,255
Long Term Investments (Note 5)	768,308	505,318
Plant, Property and Equipment (Note 6)	4,455,908	4,282,265
Less accumulated depreciation and depletion	1,227,425	1,064,734
	3,228,483	3,217,531
Other Assets (Note 7)	83,943	76,848
	$4,685,748	$4,762,952

On behalf of the Board:

Director

Director

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

Liabilities and Common Shareholders' Equity

December 31 *(Thousands of dollars)*	1987	1986
Current Liabilities		
Bank loans (Note 9)	$ 72,163	$ 76,986
16-1/4% Unsecured debentures	–	138,050
Accounts payable and accrued liabilities (Note 8)	342,879	312,361
Income taxes payable	4,044	6,022
Dividends payable	29,813	35,186
Long term debt instalments due within one year (Note 9)	76,290	69,884
	525,189	638,489
Long Term Debt (Note 9)	2,358,941	2,390,999
Deferred Income Taxes	103,532	53,583
Deferred Gain	52,879	57,535
Interest of Others in Subsidiaries	13,502	146,731
Preferred Shares–Redeemable (Notes 1 and 10)	328,908	826,908
Convertible Debentures and Common Shareholders' Equity		
Convertible debentures (Note 11)	150,000	–
Common shareholders' equity		
Common shares and warrants (Notes 1 and 12)	774,430	323,406
Cumulative translation adjustment	21,323	19,800
Reinvested earnings	357,044	77,351
Contributed surplus	–	228,150
	1,302,797	648,707
Contingencies and Commitments (Note 18)		
	$4,685,748	$4,762,952

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

(Thousands of dollars)

Year Ended December 31	1987	1986	1985
Beginning of year	$ 77,351	$115,676	$336,342
Net income (loss)	179,130	100,197	(82,411)
Transfer from contributed surplus (Note 1)	226,868	–	–
	483,349	215,873	253,931
Less dividends			
Preferred shares	49,296	84,071	86,636
Common shares	77,009	54,451	51,619
	126,305	138,522	138,255
End of year	$357,044	$ 77,351	$115,676

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(Thousands of dollars)

Year Ended December 31	1987	1986	1985
Beginning of year	$228,150	$227,943	$228,171
Gain (loss) on preferred shares redeemed or purchased for cancellation	(1,282)	1,846	1,445
Capital stock and warrants issue expenses less income taxes	–	(1,639)	(1,673)
Transfer to reinvested earnings (Note 1)	(226,868)	–	–
End of year	$ –	$228,150	$227,943

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

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Thousands of dollars)

Year Ended December 31	1987	1986	1985
Operating Activities			
Income before extraordinary items	$179,130	$107,997	$134,111
Depreciation and depletion	178,071	292,544	310,180
Deferred income taxes	67,347	34,632	80,552
Interest of others in income of subsidiaries	15,732	63,157	65,511
Equity in (earnings) losses of affiliates	(12,789)	15,204	7,235
Loss on investments	18,146	30,125	–
Other	32,106	3,628	12,177
Changes in non-cash working capital (Note 16)	(82,102)	(19,345)	59,627
	395,641	527,942	669,393
Investment Activities			
Proceeds on sale of investments	358,998	157,500	14,098
Plant, property and equipment	(199,796)	(326,375)	(387,318)
Purchase of the interest of others in subsidiary (Note 5)	(215,153)	–	–
Other assets and long term investments	(101,843)	(44,010)	(48,185)
Other	3,317	3,373	3,262
Changes in non-cash working capital (Note 16)	7,921	15,894	(23,571)
	(146,556)	(193,618)	(441,714)
Financing Activities			
Preferred shares issued	–	–	96,844
Warrants issued	–	71,800	–
Common shares issued	31,184	26,089	27,540
Long term debt additions	218,235	100,189	123,788
Bank indebtedness and long term debt repaid	(118,141)	(328,512)	(234,271)
Preferred shares purchased for cancellation	(79,433)	(16,034)	(12,318)
Preferred shares of subsidiaries redeemed	(135,576)	(28,876)	(25,725)
Dividends—to shareholders of the Corporation	(126,305)	(138,522)	(138,255)
—to other shareholders of partially owned subsidiaries	(7,876)	(17,599)	(30,064)
Changes in non-cash working capital (Note 16)	(5,373)	772	2,488
	(223,285)	(330,693)	(189,973)
Increase in Cash Position	25,800	3,631	37,706
Cash Position at Beginning of Year	48,407	44,776	7,070
Cash Position at End of Year	$ 74,207	$ 48,407	$ 44,776

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

SUMMARY OF ACCOUNTING POLICIES

December 31, 1987

The consolidated financial statements have been prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada. The significant accounting policies are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of NOVA Corporation of Alberta (the "Corporation"), its subsidiaries and the proportionate share of assets, liabilities, revenues and expenses of certain of its gas transportation and marketing and petrochemical investments.

Cost of service

Some gas transportation and marketing and petrochemical operations are subject to cost-of-service agreements. Such agreements, as approved by governmental or regulatory bodies, provide for the recovery of reasonable and necessary operating expenses, cost of feedstock and fuel, depreciation, amortization, income and other taxes, foreign exchange losses in respect of debt service and a rate of return on investment.

Foreign currency translation

Foreign operations which are considered financially and operationally independent have been translated to Canadian dollars using the year-end rate of exchange (the "current rate") for assets and liabilities and average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of common shareholders' equity (the "Cumulative Translation Adjustment" account) until there is a realized reduction of the investment in the foreign operation.

Foreign denominated long term monetary items (principally long term debt) of Canadian operations are translated at the current rate of exchange. For foreign denominated long term monetary items of cost-of-service operations, the exchange differential is recoverable from customers and is reported as a reduction in the associated long term monetary item. The unrealized translation gains or losses related to non-cost-of-service operations are deferred and are amortized over the remaining lives of the long term monetary items.

Inventories

Inventories are carried at the lower of cost determined on a first-in, first-out basis and net realizable value.

Investments

The Corporation accounts for its investments in affiliates by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings less the amortization of the excess of the purchase price over the net book value at date of acquisition. Notes receivable and other investments are carried at cost.

Plant, property and equipment

Plant, property and equipment are carried at cost and additions include related financing costs during major plant construction.

The Corporation's investments in petroleum are accounted for under the full cost method of accounting whereby all costs of acquiring properties, exploring for and developing oil, natural gas and sulphur and related reserves are capitalized and accumulated in country-by-country cost centres. Such costs include land acquisition, drilling both productive and non-productive wells, overhead expenses and financing. The net carrying amount of each cost centre is limited to a ceiling test amount which is the estimated future net revenues from proved reserves (based on current prices and costs at the balance sheet date) plus unproved properties at cost less an allowance for impairment. The total capitalized costs less depletion and depreciation and deferred income taxes of all cost centres are further limited to the aggregate estimated future net revenues for all cost centres less recurring general and administrative costs, future financing costs and income taxes. Any costs carried on the balance sheet in excess of these ceiling test amounts are charged to income.

Depreciation and depletion

Plant and equipment are depreciated at annual rates varying from 3-1/2% to 33-1/3% which rates are designed to write these assets off over their estimated useful lives.

For oil and natural gas operations, depletion and depreciation is provided on the unit of production method based on gross proved reserves in each cost centre. Reserves are converted to equivalent units on the basis of approximate relative energy content. Costs of acquiring and evaluating unproved properties are excluded from the calculation of depletion and depreciation until it is determined that proved reserves are attributable to the properties or that impairment has occurred.

Allowance for funds used during construction

For some gas transportation and marketing and petrochemical operations, a return on capital invested in new plant while under construction, which is recoverable from customers, has been included in income.

Income taxes

The deferral method of tax allocation accounting is followed in respect of all income except for some gas transportation and marketing and petrochemical operations which are subject to cost-of-service agreements. Under this method, provision is made for income taxes deferred principally as a result of claiming capital cost allowance and exploration and development costs for income tax purposes in excess of depreciation and depletion provided in the accounts. The agreements for certain cost-of-service operations provide for the recovery of income taxes on the taxes payable method. Thus the income tax provision recorded for these operations represents only the income taxes deemed to be currently payable and thus recoverable under the billing mechanism in place. Investment tax credits are recorded as a reduction in the cost of the related asset.

Deferred gain

The gain realized from the sale and leaseback of the Corporation's head office building in 1985 has been deferred and is being credited to income over the term of the lease.

Pension plans

The cost of pension benefits earned by employees is determined using the projected benefit method prorated on service and is charged to expense as services are rendered in all operations except for those which are subject to cost-of-service agreements. The cost of pension benefits reflects management's best estimates of the expected investment yields, salary escalations, mortality rates, terminations and the age at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups.

The agreements for certain cost-of-service operations provide for the recovery of pension costs on the basis of cash contributions. Thus the pension expense represents only contributions made to the pension plans during the year and therefore recoverable under the billing mechanism in place.

Net income per common share

Basic net income per common share is calculated using the weighted average number of common shares outstanding during the respective year and after provision for preferred share dividend entitlement. The calculation of net income per common share on a fully diluted basis assumes conversion of all securities and exercise of all common share purchase warrants or options if such action would result in dilution of income per common share.

Comparative figures

Certain comparative figures for the years ended December 31, 1986 and 1985, have been reclassified to conform to the current year's financial statement presentation.

1. Restructuring of the Corporation

On September 1, 1987, the Corporation was restructured pursuant to the Business Corporations Act of Alberta and the name of the Corporation was changed to NOVA Corporation of Alberta.

At that time the Corporation redeemed its Class "B" common shares at their par value and reorganized its remaining share capital into several classes of shares, being First Preferred Shares, Second Preferred Shares, Junior Preferred Shares, Subordinated Junior Preferred Shares and Common Shares (formerly the Class "A" common shares).

Pursuant to a resolution of its Board of Directors and in anticipation of the reorganization of its share capital, the Corporation on August 31, 1987, transferred the balance in the contributed surplus account to reinvested earnings.

2. Proportionate Consolidation of Certain of the Corporation's Investments

The Corporation has proportionately consolidated some of its gas transportation and marketing and petrochemical investments. The components of the Corporation's consolidated balance sheet and consolidated statement of income relating to its share of the activities of these investments are shown below:

(Thousands of dollars)

Year Ended December 31	Assets	Liabilities	Revenue	Operating Costs and Expenses
Gas Transportation & Marketing				
1987	$694,138	$478,792	$131,899	$ 47,869
1986	706,082	478,417	143,764	50,269
1985	732,466	495,623	151,840	49,491
Petrochemicals				
1987	140,788	87,081	65,003	50,418
1986	141,932	90,230	60,185	49,291
1985	153,640	98,526	89,502	76,258
Totals				
1987	$834,926	$565,873	$196,902	$ 98,287
1986	848,014	568,647	203,949	99,560
1985	886,106	594,149	241,342	125,749

3. Receivables

(Thousands of dollars)

December 31	1987	1986
Trade	$331,667	$230,338
Other	74,748	70,572
	406,415	300,910
Less allowance for doubtful accounts	966	482
	$405,449	$300,428

4. Inventories

December 31	1987	1986
	(Thousands of dollars)	
Materials and supplies	$ 46,650	$ 44,897
Raw materials	22,354	26,251
Work in process	12,474	10,885
Finished goods	29,645	18,245
Other	6,231	10,163
	$117,354	$110,441

5. Long Term Investments

December 31	1987	1986
	(Thousands of dollars)	
Alberta Gas Chemicals Ltd. (50% owned)	$ 12,817	$ 9,941
CNG Fuel Systems (Note 13)	–	20,341
Husky Oil Ltd.	581,204	344,149
NovAtel Communications Ltd. (50% owned)	55,712	70,095
Polysar Energy & Chemical Corporation (Note 20)	72,225	–
Western Star Trucks Inc. (50% owned)	6,854	13,083
Notes receivable and other investments	39,496	47,709
	$768,308	$505,318

On April 30, 1987, the reorganization of Husky Oil Ltd. ("Husky") was completed. As a result the Corporation received $358,998,000 on May 1, 1987, reduced its interest in Husky common shares from 56.7% to 24.4% and received Husky Class "C" preferred shares. The Corporation's interest in preferred and common shares of Husky is held through two holding companies, Oil Term Investment Ltd. ("Investment") and Oil Term Holdings Ltd. ("Holdings").

The Corporation owns 97.8% of Investment which in turn owns 57.9% of Holdings. Holdings owns 43% of Husky common shares. On December 31, 1987, the Corporation acquired the 42.1% of Holdings not owned by Investment for $215,153,000. As a result of this acquisition the Corporation's interest in Husky common shares increased from 24.4% to 42.5%.

Investment also owns 100% of the Husky Class "C" preferred shares which are redeemable at any time prior to April 30, 1992, for $81,000,000. After April 30, 1992, the Class "C" preferred shares are redeemable for a minimum of $54,000,000 to a maximum of $81,000,000 plus interest and are retractable for cash or an interest in certain frontier and heavy oil properties.

The Corporation consolidated the accounts of Husky to November 30, 1986, thereafter the Corporation's indirect 24.4% interest has been accounted for by the equity basis.

The following sets out summarized financial information for Husky:

December 31	1987	1986	1985
			(Thousands of dollars)
Current assets	$ 320,961	$ 276,849	$ 411,249
Long term investments	19,362	27,768	25,716
Plant, property and equipment	1,395,480	1,403,539	1,541,384
Other assets	2,636	8,047	11,106
Current liabilities	(227,454)	(221,271)	(396,332)
Long term debt	(119,654)	(172,472)	(224,892)
Deferred income taxes	(333,812)	(309,037)	(369,217)
Shareholders' equity	$1,057,519	$1,013,423	$ 999,014

(Thousands of dollars)

Year Ended December 31	1987	1986	1985
Revenue	$ 571,887	$ 637,662	$ 923,277
Operating costs and expenses	(449,758)	(465,345)	(641,504)
Interest expense	(9,427)	(7,238)	(20,118)
Gain (loss) on investments*	8,893	(182,954)	—
Income taxes	(50,865)	54,280	(135,670)
Net income	$ 70,730	$ 36,405	$ 125,985

*In 1987 Husky recorded a gain of $35,598,000 ($26,423,000 after income taxes) on the sale of investments and a loss of $26,705,000 ($15,005,000 after income taxes) on the sale of its supply vessels. In 1986 Husky incurred a loss of $154,634,000 ($78,704,000 after income taxes) on the write-down of the carrying value of certain Canadian frontier and international oil and gas properties and a loss of $28,320,000 ($15,960,000 after income taxes) on the sale of a semi-submersible drilling rig (see Note 13).

6. Plant, Property and Equipment

(Thousands of dollars)

December 31	1987			1986
	Cost	Accumulated Depreciation and Depletion	Net	Net
Gas Transportation & Marketing	$2,770,600	$ 761,956	$2,008,644	$2,023,633
Petrochemicals	1,323,752	351,440	972,312	951,921
Petroleum—full cost method	223,093	58,086	165,007	162,561
Manufacturing and other	138,463	55,943	82,520	79,416
	$4,455,908	$1,227,425	$3,228,483	$3,217,531

7. Other Assets

(Thousands of dollars)

December 31	1987	1986
Deferred project costs	$ —	$ 9,448
Unamortized debt discount and expense	16,067	10,868
Unamortized foreign exchange translation adjustments	67,876	56,532
	$ 83,943	$ 76,848

8. Accounts Payable and Accrued Liabilities

	(Thousands of dollars)	
December 31	1987	1986
Accounts payable		
Trade	$ 232,419	$ 156,051
Other	13,291	10,193
	245,710	166,244
Accrued liabilities		
Interest	53,020	76,148
Other	44,149	69,969
	97,169	146,117
	$ 342,879	$ 312,361

9. Long Term Debt

Related to Cost-of-Service Operations

Represents long term debt in operations which are subject to cost-of-service or tariff agreements under which realized foreign exchange gains or losses are for the account of the customer.

		(Thousands of dollars)	
December 31	Maturity	1987	1986
NOVA Corporation of Alberta			
Alberta Gas Transmission Division			
Unsecured Debentures			
9-3/4% Series 2	1990	$ 12,783	$ 14,071
9-1/4% Series 3	1990	11,479	12,729
8% Series 4	1991	34,561	36,409
8-1/8% Series 5	1992	25,866	26,301
11-3/8% Series 6	1995	40,953	45,986
17-1/2% Series 7		–	75,000
17-3/4% Series 8	1997	42,500	45,000
12-1/8% Series 9	1993	100,000	100,000
11-1/8% Series 12	1993	50,000	–
11.95% Series 13	2007	125,000	–
10% Series B	1996	100,000	100,000
8-3/4% Series C (1987 and 1986 - U.S. $100,000)	1994	129,930	138,050
Unsecured Term Notes			
9.65% (1987 - U.S. $35,000)	1992	45,475	–
9.95% (1987 - U.S. $75,000)	1995	97,448	–
16-1/8% - average (1986 - U.S. $110,000)		–	151,855
Other Loans* (1987 - U.S. $11,220; 1986 - U.S. $16,180)	1989	14,577	22,336
		830,572	767,737
Less exchange differential recoverable from cost-of-service customers		18,411	37,899
		812,161	729,838

December 31	Maturity	1987	1986
		(Thousands of dollars)	
Foothills (Yukon)—Phase I			
Secured Loans*	1996	$ 227,885	$ 242,149
TQM Pipeline			
First Mortgage Bonds			
13.10% Series A	1994	50,000	50,000
13.20% Series B	2004	50,000	50,000
11.70% Series C	1990	42,500	42,500
Secured Loan*	1990	7,001	19,167
		149,501	161,667
Alberta Gas Ethylene			
Ethylene Plant I			
8-1/4% Secured Notes (1987-U.S. $156,923; 1986-U.S. $171,188)	1998	203,890	236,325
Ethylene Plant II			
Secured Loan* (1987-U.S. $220,173; 1986-U.S. $233,450)	2004	286,071	322,278
Secured Notes			
13-3/4% Series A (1987-U.S. $36,458; 1986-U.S. $41,458)	2004	47,370	57,233
9.85% Series B (1987-U.S. $25,500; 1986-U.S. $27,000)	2004	33,132	37,274
Secured Bank Loan*	1991	3,919	—
		574,382	653,110
Less exchange differential recoverable from cost-of-service customers		35,232	76,596
		539,150	576,514
Other Loans*	Various	59,261	52,990
Total Related to Cost-of-Service Operations		1,787,958	1,763,158
Related to Non-Cost-of-Service Operations			
NOVA Corporation of Alberta			
Unsecured Debentures			
14% Series 10	1989	100,000	100,000
12% Series 11	1990	125,000	125,000
Unsecured Term Notes			
6-1/4% (1987 and 1986—Swiss Francs 175,000,000)	1991-1992	179,043	150,010
Unsecured Bank Loans and Notes*		273,219	209,137
Less convertible debentures (Note 11)		(150,000)	—
		527,262	584,147
Novalta Resources			
Income Debentures* (1987 - U.S. $21,258; 1986 - U.S. $24,686)	1988-1989	27,621	34,079
Other Loans*	Various	92,390	79,499
Total Related to Non-Cost-of-Service Operations		647,273	697,725
		2,435,231	2,460,883
Less instalments due within one year		76,290	69,884
		$2,358,941	$2,390,999

* *The interest rate is a function of generally prevailing money market interest rates, Canadian bank prime rates and London Inter Bank Offered Rates. The composite average interest rate for these loans at December 31, 1987 and 1986, was approximately 9-1/8%.*

In connection with various loans, security has been given as follows:

Foothills (Yukon) - Phase I

This financing is secured by the assignment of the interest of Foothills (Yukon) and three of its subsidiaries in certain agreements and floating charges on their respective properties and assets.

TQM Pipeline

The First Mortgage Bonds and the secured loan are secured by a first fixed and specific charge on the TQM Pipeline system, a pledge, charge and assignment of gas transportation service contracts and gas sales agreements and a floating charge on other property.

Alberta Gas Ethylene

Ethylene Plant I

The Secured Notes are secured by a first fixed and floating charge on the first ethylene plant, the ethylene pipeline and related assets of Alberta Gas Ethylene and by the assignment of certain related contracts.

Ethylene Plant II

This financing is secured by charges on certain of the proceeds of the ethylene sales contracts for the second ethylene plant, charges on related performance guarantees and a first fixed charge on the second ethylene plant and certain related agreements.

Novalta Resources

Security for the Income Debentures includes natural gas properties and a general assignment of book debts.

Other Loans

Other loans of $166,228,000 at December 31, 1987, ($154,825,000 at December 31, 1986) are secured by certain assets and agreements.

Sinking Fund and Repayment Requirements

Sinking fund and repayment requirements in respect to long term debt maturing within five years following December 31, 1987, are: 1988 - $76,290,000; 1989 - $187,145,000; 1990 - $278,698,000; 1991 - $173,298,000; 1992 - $238,791,000.

Current Bank Loans

Current bank loans of $72,163,000 at December 31, 1987, ($76,986,000 at December 31, 1986) include loans of $62,620,000 ($60,265,000 at December 31, 1986) which are secured by certain assets and agreements.

Lines of Credit

At December 31, 1987, the Corporation had committed credit facility agreements with several Canadian banks aggregating $750,000,000.

Interest Expense (Net)

(Thousands of dollars)

Year Ended December 31	1987	1986	1985
Interest on long term debt	$244,576	$307,919	$336,648
Interest on short term debt	12,428	22,181	19,222
Interest capitalized	(2,064)	(26,510)	(18,839)
Interest income	(12,211)	(19,298)	(21,116)
	$242,729	$284,292	$315,915

10. Preferred Shares—Redeemable

(a) Authorized

Unlimited number of cumulative first, second and junior preferred shares without par value.

100,000,000 subordinated junior preferred shares without par value.

(b) Issued and Outstanding

	(Number of shares)			(Thousands of dollars)		
December 31	1987	1986	1985	1987	1986	1985
Related to Cost-of-Service Operations						
First preferred shares						
4-3/4% Series C	42,071	50,331	61,638	$ 4,207	$ 5,033	$ 6,164
7-3/4%	650,871	677,871	702,531	16,272	16,947	17,564
9-3/4%	780,573	792,939	971,091	19,514	19,824	24,277
9.76%	1,196,778	1,293,578	1,389,448	29,919	32,339	34,736
7.60%	2,211,400	2,302,800	2,394,200	55,285	57,570	59,855
15%	–	2,500,000	2,500,000	–	62,500	62,500
				125,197	194,213	205,096
Related to Non-Cost-of-Service Operations						
First preferred shares						
11.24%	4,000,000	4,000,000	4,000,000	100,000	100,000	100,000
9-1/8%	3,997,700	4,000,000	4,000,000	99,943	100,000	100,000
Second preferred shares						
6-3/8%	150,733	166,633	877,650	3,768	4,166	21,941
6-1/2%	–	6,946,004	7,200,525	–	173,650	180,013
12%	–	10,195,170	10,196,270	–	254,879	254,907
				203,711	632,695	656,861
				$328,908	$826,908	$861,957

(c) Commentary

The following is a summary of material characteristics of the issued and outstanding preferred shares:

Preferred Share Issue	Stock Exchange Symbol	Annual Dividend Per Share	Redemption Features	Sinking Fund and Purchase Fund Requirements (1)
4-3/4% Series C	C	$4.75	at $101.00 per share	purchase obligation of $825,000 annually, to the extent the shares are available at a price not in excess of $100.00 per share; any purchase deficiency must be satisfied by partial redemption at a price of $101.00 per share within 15 days in the following year
7-3/4%	E	$1.94	at $26.00 per share on or before May 15, 1989, and at reducing amounts thereafter	purchase obligation of $750,000 annually, to the extent the shares are available at a price not in excess of $25.00 per share; the purchase obligation is cumulative to a maximum of $1,500,000

Preferred Share Issue	Stock Exchange Symbol	Annual Dividend Per Share	Redemption Features	Sinking Fund and Purchase Fund Requirements (1)
9-3/4%	F	$2.44	at $25.00 per share	purchase 64,000 shares annually at a price not in excess of $25.00 per share by May 15 of each year under a cumulative mandatory sinking fund
9.76%	G	$2.44	at $25.00 per share	purchase 96,000 shares annually at a price not in excess of $25.00 per share by November 15 of each year under a cumulative mandatory sinking fund
7.60%	H	$1.90	at $25.25 per share on or before February 15, 1988, and at reducing amounts thereafter	purchase 90,000 shares annually at a price not in excess of $25.00 per share
11.24%	N	$2.81	at $26.25 per share on or after May 15, 1988, to May 15, 1989, and at reducing amounts thereafter; retractable on May 15, 1988, at $25.00 per share	purchase 80,000 shares annually at a price not in excess of $25.00 per share to May 15, 1988, and thereafter 4% of the outstanding balance on an annual basis
9-1/8% (2)	O	$2.28	at $25.00 per share on or after February 15, 1990; retractable on February 15, 1995, at $25.00 per share	purchase 3% of the shares outstanding annually, commencing February 16, 1995, at a price not in excess of $25.00 per share
6-3/8%	J	$1.59	at $25.25 per share on or before November 15, 1988, and at reducing amounts thereafter	purchase 216,000 shares annually at a price not in excess of $25.00 per share

(1) The Corporation must make all reasonable efforts to satisfy the sinking and purchase fund requirements at prices not in excess of the stated price per share plus accrued and unpaid dividends and costs of purchase. In addition to the cumulative mandatory sinking funds, the Corporation may call for redemption and redeem annually, through the operation of non-cumulative optional sinking funds, 48,000 9-3/4% Preferred Shares and 72,000 9.76% Preferred Shares at par value plus accrued and unpaid dividends.

The redemption requirements within the five years following December 31, 1987, are: 1988 - $15,874,000; 1989 - $11,665,000; 1990 - $11,511,000; 1991 -$11,364,000 and 1992 - $11,222,000.

(2) Commencing in 1990, the dividend payment on the 9-1/8% Preferred Shares will be equal to 70% of the average of the Canadian prime rate for the dividend period.

(d) Purchases

The Corporation purchased for redemption or cancellation 3,101,211 shares in 1987, 681,289 shares in 1986, and 520,335 shares in 1985.

11. Convertible Debentures

In mid-December 1987, the Corporation reached a definitive agreement to issue adjustable rate convertible subordinated debentures (the "Convertible Debentures") in the amount of $150,000,000. On January 11, 1988, the Convertible Debentures were issued and the proceeds were applied against unsecured bank loans and notes classified as long term debt at December 31, 1987. The Corporation has included the proceeds of the Convertible Debentures as a reduction in unsecured bank loans and notes classified as long term debt at December 31, 1987.

The Convertible Debentures, which are unsecured and mature on February 15, 2008, pay a minimum interest rate of 6-1/4%. They are convertible at the holder's option until February 15, 2008, into common shares of the Corporation at an initial conversion price of $10.70 per share, subject to adjustment in certain events, which equates to 14,018,692 common shares. The debentures are also redeemable at par after February 15, 1993, and at any time prior to this date, at 105% of par if at least 85% of the original principal amount of the debentures has been converted.

The Convertible Debentures have been reported under the heading "Convertible Debentures and Common Shareholders' Equity" on the balance sheet. At its option at maturity, the Corporation can issue common shares in respect of the principal amount of the outstanding debentures at then prevailing market prices. The Corporation anticipates that the Convertible Debentures will ultimately be converted into common shares.

12. Common Shares and Warrants

(a) Authorized

Unlimited number of voting common shares without par value.

5,000,000 warrants.

(b) Issued and Outstanding

	(Number of shares and warrants)			*(Thousands of dollars)*		
December 31	1987	1986	1985	1987	1986	1985
Common Shares	211,483,734	141,839,334	130,656,702	$770,606	$264,262	$205,140
Class "B" Common Shares	–	1,717	1,665	–	9	8
	211,483,734	141,841,051	130,658,367	770,606	264,271	205,148
Warrants	254,950	3,942,315	–	3,824	59,135	–
				$774,430	$323,406	$205,148

(c) Common Shares Issued

Changes in the common share capital for the three years ended December 31, 1987, are summarized as follows:

		(Thousands of dollars)
	Number of Shares	Common Share Capital
December 31, 1984	125,251,870	$172,726
For cash under the Dividend Reinvestment and Share Purchase Plan	4,518,987	27,072
On conversion of–		
194,805 6-3/8% Preferred Shares	818,181	4,870
150 6-1/2% Preferred Shares	387	4
For cash on exercise of stock options (at prices ranging from \$6.625 to \$7.375)	67,277	468
	5,404,832	32,414
December 31, 1985	130,656,702	205,140
For cash under the Dividend Reinvestment and Share Purchase Plan	5,141,443	26,088
On conversion of–		
675,417 6-3/8% Preferred Shares	2,836,751	16,885
10,221 6-1/2% Preferred Shares	27,665	256
1,100 12% Preferred Shares	3,718	28
On exercise of 1,057,685 Warrants	3,173,055	15,865
	11,182,632	59,122
December 31, 1986	141,839,334	264,262
For cash under the Dividend Reinvestment and Share Purchase Plan	2,475,270	20,822
On conversion of–		
6,712,368 6-1/2% Preferred Shares	19,617,432	167,809
10,081,621 12% Preferred Shares	34,993,228	252,040
On exercise of 3,687,365 Warrants	11,062,095	55,311
For cash on exercise of stock options (at prices ranging from \$4.85 to \$8.75)	1,496,375	10,362
	69,644,400	506,344
December 31, 1987	211,483,734	$770,606

(d) Common Shares Reserved for Future Issue

		(Number of shares)
December 31	1987	1986
Under the Dividend Reinvestment and Share Purchase Plan	**6,094,909**	2,570,043
For conversion of 6-1/2% Preferred Shares	**–**	18,858,401
For conversion of 12% Preferred Shares	**–**	34,459,675
For exercise of Warrants	**764,850**	11,826,945
Under the Incentive Stock Option Plan (1982), options are outstanding to officers and employees to purchase 6,644,225 common shares at prices ranging from \$4.85 to \$10.375 per share (4,486,850 shares at December 31, 1986, at prices ranging from \$4.85 to \$7.375 per share) with expiration dates between 1988 to 1994, and 1,199,750 common shares are reserved but unallocated (403,500 shares at December 31, 1986)	**7,843,975**	4,890,350
	14,703,734	72,605,414

(e) Warrants

The Warrants were issued in 1986 at a price of $15.00 per Warrant. Each Warrant entitles the holder at his option to obtain on exercise three common shares at any time before July 31, 1996, or either one no par value first preferred share or one no par value second preferred share from August 1, 1991, to July 31, 1996. The Corporation may purchase for cancellation any or all of the Warrants outstanding in the market.

13. Loss on Investments

(a) For the Year Ended December 31, 1987

(Thousands of dollars)

	Per Statement Caption	Net Income Effect*
Gain on sale of investments	$ 16,004	$ 9,991
Loss by Husky on sale of supply vessels	(6,450)	(3,660)
Provision for loss on shutdown of CNG Fuel Systems	(27,700)	(21,700)
	$(18,146)	$(15,369)

* After income taxes and interest of others in income of subsidiaries.

(b) For the Year Ended December 31, 1986

Share of certain non-operating costs incurred by equity accounted affiliates:

Write-down by Husky of the carrying value of oil and gas properties	$(19,176)	$(19,176)
Loss by Husky on sale of semi-submersible drilling rig	(3,889)	(3,889)
Loss by Alberta Gas Chemicals on sale of New Zealand methanol plant interest	(7,060)	(7,060)
	$(30,125)	$(30,125)

14. Income Taxes

For certain gas transportation and marketing and petrochemical operations, charges to customers are based on cost-of-service agreements. Since income taxes related to these operations are a component of the charges, the billing for such income taxes on either a taxes payable or tax allocation basis does not affect net income.

Income tax expense varies from the amounts that would be computed by applying the Canadian federal and provincial income tax rates to income before income taxes, interest of others in income of subsidiaries and extraordinary items as shown in the following table:

Year Ended December 31	1987	1986	1985
			(Thousands of dollars)
Income before income taxes, interest of others in income of subsidiaries and extraordinary items	$269,203	$232,768	$355,514
Add (deduct)			
Cost of service activities			
Gas Transportation & Marketing	(185,884)	(199,267)	(203,304)
Petrochemicals	(70,826)	(70,460)	(66,240)
Equity component in allowance for funds used during construction	(1,046)	(1,859)	(1,587)
Equity in (earnings) losses of affiliated companies	(12,789)	15,204	7,235
Loss on investments	18,146	30,125	—
	$ 16,804	$ 6,511	$ 91,618
Effective Canadian tax rate	50.6%	48.8%	47.9%
Calculated income tax expense	$ 8,503	$ 3,177	$ 43,885
Add (deduct) adjustments to income taxes resulting from—			
Royalties, lease rentals and mineral taxes payable to the Crown	3,685	11,848	35,797
Petroleum and gas revenue tax	—	(12,250)	24,388
Resource allowance on Canadian production income	(4,174)	(17,482)	(50,671)
Earned depletion	—	(4,831)	(9,507)
Provincial income tax abatement	—	2,338	4,578
Alberta royalty tax credit	(3,174)	(4,771)	(4,000)
Non-allowable depreciation and depletion	1,265	11,627	13,566
Earnings from foreign subsidiaries with lower effective tax rates	(5,827)	(2,737)	(5,047)
Utilization of losses for tax purposes	(35,659)	(34,762)	—
Other	(64)	(5,175)	(2,200)
	(35,445)	(53,018)	50,789
Add income taxes billed under cost-of-service contracts	109,786	114,632	105,103
Income tax expense	$ 74,341	$ 61,614	$155,892
Current income taxes	$ 6,994	$ 26,982	$ 75,340
Deferred income taxes	67,347	34,632	80,552
	$ 74,341	$ 61,614	$155,892

Deferred income taxes in each of the three years arose from differences of a timing nature between income for accounting purposes and taxable income in the jurisdictions in which the Corporation and its subsidiaries operate. The principal timing difference relates to the deductions for tax purposes, in respect to plant, property and equipment, in excess of amounts currently charged to operations.

In some cost-of-service operations the Corporation recovers in current revenues only taxes payable and not deferred taxes. Accordingly, the above provision for income taxes excludes deferred income taxes of $12,502,000 in 1987, $12,957,000 in 1986 and $16,400,000 in 1985 and an accumulated amount of $249,317,000 at December 31, 1987. These deferred income taxes relate principally to the deduction for tax purposes, in respect of plant, property and equipment, in excess of amounts charged to operations.

15. Extraordinary Items

(a) For the Year Ended December 31, 1986

	(Thousands of dollars)
Provision for write-down to estimated net realizable value of the portion of the investment in Husky Oil Ltd. held for sale (net of income taxes of \$6,900)	\$ (7,800)

In December 1986, the Corporation's Board of Directors approved an agreement whereby 57% of the investment in Husky was held for sale with the remainder being held as a long term investment. For accounting purposes, effective December 1, 1986, the accounts of Husky ceased to be consolidated and the remaining long term interest of approximately 24.4%, being approximately 43% of the previous investment in Husky, was accounted for by the equity method. The portion of the Corporation's investment in Husky held for sale was written down to estimated net realizable value, and after providing for all estimated expenses relating to this transaction, an extraordinary loss of \$7,800,000 was recorded.

(b) For the Year Ended December 31, 1985

	(Thousands of dollars)
Provision for the write-down of the linear low-density polyethylene plant (net of income taxes of \$144,658)	\$(157,342)
Loss on dilution of ownership in Husky Oil Ltd.	(58,921)
Provision for write-down of an engineering division to estimated realizable value (net of income taxes of \$6,099)	(10,523)
Gain on disposition of polyvinyl chloride plant (net of income taxes of \$2,304)	10,264
	\$(216,522)

The Corporation reduced the carrying value of its investment in its linear low-density polyethylene plant to approximately \$125,000,000, because at the time it was not certain that the investment would be recovered from future cash flow.

The Corporation recorded a loss relating to the dilution of its ownership in Husky due to the conversion by other shareholders of Husky's convertible preferred shares into common shares.

16. Changes in Non-Cash Working Capital

Year Ended December 31	1987	1986	1985
			(Thousands of dollars)
Funds on deposit	$ 138,050	$(138,050)	$ —
Secured bond	—	157,500	(157,500)
Receivables	(105,021)	378,554	(18,744)
Inventories	(6,913)	114,976	(1,320)
Assets held for sale	358,998	(358,998)	111,142
Prepaid expenses	(1,073)	409	975
Bank loans	(4,823)	5,839	(19,269)
16-1/4% Unsecured debentures	(138,050)	138,050	—
Bank indebtedness	—	(154,625)	154,625
Accounts payable and accrued liabilities	30,518	(342,440)	(3,173)
Income taxes payable	(1,978)	(68,527)	(5,999)
Dividends payable	(5,373)	772	2,488
Changes in non-cash working capital	264,335	(266,540)	63,225
Reclassification and other items not having a cash effect			
Estimated cash proceeds on disposition of the Husky investment less the net working capital effect from deconsolidation in 1986	(358,998)	294,540	—
Other items	15,109	(30,679)	(24,681)
Changes in non-cash working capital having a cash effect	$ (79,554)	$ (2,679)	$ 38,544

These changes relate to the following activities:

Year Ended December 31	1987	1986	1985
			(Thousands of dollars)
Operating activities	$ (82,102)	$ (19,345)	$ 59,627
Investment activities	7,921	15,894	(23,571)
Financing activities	(5,373)	772	2,488
	$ (79,554)	$ (2,679)	$ 38,544

17. Pension Plans

The Corporation has pension plans covering substantially all employees. Pensions at retirement are related to years of service and remuneration during the last years of employment. Actuarial reports are prepared annually by independent actuaries for accounting and funding purposes. Assumed future rates of return on assets of the plans averaged 7%. Estimated projected benefit obligations of the plans were determined using discount rates averaging 7% and long term salary and wage escalation rates averaging 6%.

Net pension expense for 1987 consisted of the following:

	(Thousands of dollars)
Current service costs	$ 11,159
Interest cost on projected benefit obligations	8,224
Estimated return on assets	(9,906)
Net total of other components	(521)
	8,956
Less amounts recoverable under cost-of-service contracts	(4,801)
Net pension expense	$ 4,155

The status of the pension plans at December 31, 1987, is as follows:

	(Thousands of dollars)
Estimated obligations	
Projected benefits based on service to date and present remuneration	$ 78,006
Additional amounts related to projected salary and wage increases	58,835
Total projected benefit obligations	136,841
Assets available at adjusted market value	158,370
Excess of assets over projected benefit obligations	$ 21,529
Amount recognized in the consolidated balance sheet	
Accrued pension obligation	$ 4,512

18. Contingencies and Commitments

(a) The Corporation has a lease agreement in connection with its head office building. At December 31, 1987, the future minimum rental payment provided in the agreement, which expires in 1997, is approximately $16,099,000 for 1988 and 1989 and $17,749,000 for 1990 to 1992. Rental expense in 1987 was $16,099,000.

The agreement provides that, on or after January 1, 1995, the Corporation offers to purchase the property at the expiration of the lease for $157,500,000.

The annual cost of other leases is not material.

(b) Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or operating results of the Corporation.

19. Segmented Information

(a) Financial Information by Business Segment

The management of the Corporation has determined that the following are the principal business segments of the Corporation:

Gas Transportation & Marketing	– transportation and marketing of natural gas.
Petrochemicals	– production, transportation and marketing activities for various petrochemical products.
Petroleum	– exploration, development, production, refining and marketing activities for crude oil and natural gas, together with consulting and research.
Manufacturing	– design, development, manufacture and marketing of various products primarily for use in the resource, transportation and telecommunications industries.

(Thousands of dollars)

Year Ended December 31	1987	1986	1985
Revenue			
Gas Transportation & Marketing	$1,167,650	$1,245,429	$1,529,957
Petrochemicals	1,021,406	724,790	756,819
Petroleum	49,900	626,153	978,886
Manufacturing	103,482	105,911	97,404
	2,342,438	2,702,283	3,363,066
Less intersegment revenue			
Gas Transportation & Marketing	11,627	10,102	2,172
Petroleum	8,373	11,215	13,658
	20,000	21,317	15,830
	$2,322,438	$2,680,966	$3,347,236
Operating income (loss)			
Gas Transportation & Marketing	$ 320,221	$ 338,670	$ 345,478
Petrochemicals	202,886	73,640	48,036
Petroleum	(2,284)	158,179	266,531
Manufacturing	7,375	2,732	13,527
	528,198	573,221	673,572
Interest expense	(242,729)	(284,292)	(315,915)
Allowance for funds used during construction	2,501	3,480	3,171
Equity in earnings (losses) of affiliates	12,789	(15,204)	(7,235)
Loss on investments	(18,146)	(30,125)	–
Miscellaneous income and other (deductions)	(13,410)	(14,312)	1,921
Income taxes	(74,341)	(61,614)	(155,892)
Interest of others in income of subsidiaries	(15,732)	(63,157)	(65,511)
Income before extraordinary items	179,130	107,997	134,111
Extraordinary items	–	(7,800)	(216,522)
Net income (loss)	$ 179,130	$ 100,197	$ (82,411)
Identifiable assets			
Gas Transportation & Marketing	$2,231,529	$2,224,273	$2,308,412
Petrochemicals	1,195,117	1,083,575	1,108,049
Petroleum	758,173	895,144	2,270,621
Manufacturing	240,047	275,641	265,863
Other	260,882	284,319	265,409
	$4,685,748	$4,762,952	$6,218,354

Year Ended December 31	1987	1986	1985
			(Thousands of dollars)
Plant, property and equipment additions			
Gas Transportation & Marketing	$ 85,288	$ 79,506	$ 79,201
Petrochemicals	84,690	61,429	11,313
Petroleum	16,286*	182,390*	295,424*
Manufacturing and Other	13,532	3,050	1,380
	$ 199,796	$ 326,375	$ 387,318
Depreciation and depletion			
Gas Transportation & Marketing	$ 96,573	$ 97,258	$ 91,620
Petrochemicals	61,967	59,559	74,949
Petroleum	13,855	130,480	138,267
Manufacturing	5,676	5,247	5,344
	$ 178,071	$ 292,544	$ 310,180

** Net of Petroleum Incentive Program grants of $1,489 in 1987, $84,591 in 1986 and $123,953 in 1985.*

(b) Financial Information by Geographic Area

Year Ended December 31	1987	1986	1985
			(Thousands of dollars)
Revenue			
Canada	$2,124,427	$2,532,691	$3,197,026
United States	119,081	83,241	87,955
Other	78,930	65,034	62,255
	$2,322,438	$2,680,966	$3,347,236
Operating income (loss)			
Canada	$ 510,899	$ 572,744	$ 658,562
United States	13,628	827	6,795
Other	3,671	(350)	8,215
	528,198	573,221	673,572
Interest expense	(242,729)	(284,292)	(315,915)
Allowance for funds used during construction	2,501	3,480	3,171
Equity in earnings (losses) of affiliates	12,789	(15,204)	(7,235)
Loss on investments	(18,146)	(30,125)	—
Miscellaneous income and other (deductions)	(13,410)	(14,312)	1,921
Income taxes	(74,341)	(61,614)	(155,892)
Interest of others in income of subsidiaries	(15,732)	(63,157)	(65,511)
Income before extraordinary items	179,130	107,997	134,111
Extraordinary items	—	(7,800)	(216,522)
Net income (loss)	$ 179,130	$ 100,197	$ (82,411)
Identifiable assets			
Canada	$4,441,402	$4,556,257	$5,961,224
United States	131,210	86,097	127,479
Other	113,136	120,598	129,651
	$4,685,748	$4,762,952	$6,218,354

(c) Principal Customers

The following information discloses the revenue generated by customers who individually account for more than 10% of the Corporation's consolidated revenue:

(Thousands of dollars)			
Year Ended December 31	1987	1986	1985
Northwest Alaskan Pipeline Company (i)	$ 455,974	$ 567,253	$ 834,083
TransCanada PipeLines Limited (ii)	$ 290,592	$ 322,074	$ 324,788
Dow Chemical Canada Inc. (iii)	$ 307,636	$ 313,846	$ 295,082

(i) Most of the sales of natural gas to the United States are to Northwest Alaskan Pipeline Company, which in turn sells the gas to other U.S. pipeline companies.

(ii) TransCanada PipeLines Limited is one of the major shippers of natural gas through the pipeline systems of the Alberta Gas Transmission Division and TQM Pipeline.

(iii) Dow Chemical Canada Inc. is under a long term purchase contract for ethylene production.

(d) Export sales

Export sales from the Corporation's Canadian operations amounted to the following:

(Thousands of dollars)			
Year Ended December 31	1987	1986	1985
United States	$ 838,869	$ 751,954	$1,032,518
Other	88,899	7,831	15,248
	$ 927,768	$ 759,785	$1,047,766

20. Subsequent Event

On February 22, 1988, the Corporation acquired 13,004,175 common shares of Polysar Energy & Chemical Corporation ("Polysar"), formerly Canada Development Corporation, for a total purchase price of $208,067,000. At December 31, 1987, the Corporation owned 6,000,000 common shares of Polysar or approximately 9.7% of Polysar's issued and outstanding common shares (see Note 5). The Corporation now owns 19,004,175 common shares of Polysar or approximately 31% of the issued and outstanding common shares and approximately 25% of the outstanding voting securities.

Summarized Quarterly Financial Data

(Thousands of dollars except for share data)

Three months ended	March 31		June 30		September 30		December 31	
	1987	1986	1987	1986	1987	1986	1987	1986
Revenue	$541,980	788,921	528,357	639,399	585,323	641,027	666,778	611,619
Operating income	$110,030	131,128	133,403	165,068	127,671	152,190	157,094	124,835
Income before extraordinary items	$ 33,557	26,257	45,030	37,033	47,016	35,472	53,527	9,235
Extraordinary items	$ –	–	–	–	–	–	–	(7,800)
Net income (loss)	$ 33,557	26,257	45,030	37,033	47,016	35,472	53,527	1,435
Net income (loss) per common share before extraordinary items								
Basic	$ 0.09	0.04	0.19	0.12	0.20	0.11	0.22	(0.09)
Fully diluted	$ 0.08	0.04	0.19	0.12	0.20	0.10	0.20	(0.09)
Net income (loss) per common share after extraordinary items								
Basic	$ 0.09	0.04	0.19	0.12	0.20	0.11	0.22	(0.15)
Fully diluted	$ 0.08	0.04	0.19	0.12	0.20	0.10	0.20	(0.14)
Market price per common share								
High	$ 9¼	7¼	9½	5¾	11½	5⅜	11½	6½
Low	$ 5⅝	5⅝	7¾	4.60	9	4.35	7	5⅛

Oil and Gas Activities

Reserves

The following information provides estimated quantities of the Corporation's proved oil and gas reserves, which are all in Canada.

	Oil	Gas
Proved developed and undeveloped reserves*		
At January 1, 1986*	4,098	284,346
Revisions of previous estimate*	(1,439)	(92,588)
Extensions, discoveries and other additions	760	17,400
Production	(160)	(8,600)
At December 31, 1986	3,259	200,558
Revisions of previous estimate	**62**	**15,186**
Extensions, discoveries and other additions	**79**	**12,994**
Production	**(242)**	**(11,062)**
At December 31, 1987	**3,158**	**217,676**
Proved developed reserves		
At December 31, 1985*	2,332	153,281
At December 31, 1986*	2,543	149,153
At December 31, 1987	**2,414**	**152,387**

*Restated

	Oil	Gas
Corporation's proportionate interest in proved reserves of Companies accounted for by the equity method*		
At December 31, 1985**	49,212	125,643
At December 31, 1986**	37,890	115,671
At December 31, 1987	**36,252**	**137,228**

** Represents the Corporation's proportionate interest in proved developed oil and gas reserves of Husky.*
*** For comparative purposes the Corporation's indirect proportionate interest in Husky of 42.5% at December 31, 1987 has been used (Note 5 of the Notes to Consolidated Financial Statements).*

Crude oil, including natural gas liquids, is expressed in thousands of barrels. A barrel represents a stock tank barrel equivalent to 42 U.S. gallons or 35 Imperial gallons. Natural gas is expressed in millions of cubic feet measured at 60° F and 14.65 psia.

Volumes represent the net reserves owned after deduction of royalties, reversionary interests, and net profit interests owned by others.

Landholdings

The landholding acreage of the Corporation and of Husky, which is accounted for by the equity method, is summarized below in thousands of acres:

	Corporation		Husky (2)	
	Gross (3)	Net (4)	Gross (3)	Net (4)
Canada				
Western Canada				
Alberta	1,084	538	2,526	1,554
Saskatchewan	15	9	855	806
British Columbia	4	1	193	69
Total Western Canada	1,103	548	3,574	2,429
Frontier Areas (5)				
Nova Scotia (offshore)	–	–	295	114
Newfoundland (offshore)	–	–	990	166
Northwest Territories	–	–	124	2
Beaufort Sea	–	–	494	39
Total Frontier Areas	–	–	1,903	321
Total Canada	1,103	548	5,477	2,750
Total International	–	–	6,897	1,890

(1) Landholding interests in gross acreage are subject to royalties and other non-working interests. Net acreage is based on the percentage interest owned in gross acreage without allowance for production payments or special limitations which may restrict the working interests.
(2) Includes 100% of Husky's landholdings. Not included are 374,554 gross acres in Alberta, Saskatchewan and British Columbia in which Husky owns overriding royalty interests.
(3) A gross acre is an acre in which a working interest is owned. The number of gross acres is the total number of acres in which an interest is owned.
(4) The number of net acres is the sum of the fractional working interests owned in the gross acres expressed in whole numbers.
(5) Exploration Agreements, which have been negotiated with the Government of Canada, began for the Atlantic offshore, Beaufort Sea and the Northwest Territories in 1984. The terms of each agreement establish a work program which includes the drilling of at least one well and the obligation to relinquish 50% of the lands during the initial term.

		1987	1986	1985	1984
Operating Results					
Revenue	$	2,322,438	2,680,966	3,347,236	3,793,533
Operating income	$	528,198	573,221	673,572	676,988
Income before extraordinary items	$	179,130	107,997	134,111	155,268
Net income (loss)	$	179,130	100,197	(82,411)	203,350
Net income (loss) to common shareholders	$	129,834	16,126	(167,922)	125,358
Assets					
Working capital	$	79,825	324,766	32,978	43,341
Plant, property and equipment (net)	$	3,228,483	3,217,531	4,863,581	5,190,296
Total assets	$	4,685,748	4,762,952	6,218,354	6,342,683
Capitalization					
Long term debt—cost-of-service	$	1,787,958	1,763,158	1,725,949	1,769,676
—non-cost-of-service	$	647,273	697,725	978,285	1,130,870
Preferred shares—cost-of-service	$	125,197	194,213	205,096	212,286
—non-cost-of-service	$	203,711	632,695	656,861	568,308
Common equity [1]	$	1,302,797	648,707	563,270	742,923
Total capitalization	$	4,066,936	3,936,498	4,129,461	4,424,063
Cash Flow Data					
From operations	$	395,641	527,942	669,393	503,145
Spending on plant, property and equipment	$	199,796	326,375	387,318	624,073
Capital raised—long term debt	$	218,235	100,189	123,788	411,197
—preferred equity	$	—	—	96,844	—
—common shares and warrants	$	31,184	97,889	27,540	23,787
Dividends—preferred shareholders	$	49,296	84,071	86,636	77,992
—common shareholders	$	77,009	54,451	51,619	49,447
Common Share Statistics					
Net income (loss) per share					
Basic	$	0.70	0.12	(1.31)	1.02
Fully diluted	$	0.67	0.12	(1.31)	0.77
Dividends paid per share	$	0.40	0.40	0.40	0.40
Outstanding—year end (thousands)		211,484	141,841	130,658	125,254
—average (thousands)		185,321	134,655	128,087	123,203
Common equity per share at year end	$	5.76[2]	4.22[2]	4.31	5.93
Market prices—high-low	$	11-1/2 - 5-5/8	7-1/4 - 4.35	7-5/8 - 5-1/2	8-1/8 - 6-3/8
—year end	$	10.00	5-7/8	7-1/8	7-1/8
Ratios					
Common shareholder					
Return on average common equity	%	13.3	2.7	*	18.1
Dividend payout	%	59.3	*	*	39.4
Dividend yield (year-end market price)	%	4.0	6.8	5.6	5.6
Capital					
Long term debt to common equity		1.9:1	3.8:1	4.8:1	3.9:1
Interest coverage		2.0x	1.7x	2.0x	1.9x

* *Not comparable*

[1] *Includes convertible debentures and warrants.*

[2] *Calculation includes the effect from conversion of the convertible debentures and warrants.*

(Thousands of dollars except for share data)

1983	1982	1981	1980	1979	1978	1977
3,823,005	3,500,066	2,666,120	2,114,520	1,218,541	431,952	348,779
544,063	511,699	387,694	363,455	253,252	120,101	125,639
150,733	150,524	127,441	141,775	115,283	85,906	57,471
35,128	150,524	127,441	141,775	115,283	85,906	57,471
(44,435)	91,953	94,607	106,485	87,168	65,841	44,929
63,923	16,168	11,889	60,457	121,512	125,431	64,305
5,541,801	4,870,523	3,753,956	2,549,880	2,114,209	1,137,686	923,420
6,760,610	6,333,029	5,012,175	3,671,523	3,144,422	2,062,096	1,443,625
1,712,449	1,469,193	1,004,786	697,046	627,297	678,929	648,018
1,737,038	1,344,150	1,279,842	412,450	470,421	172,343	119,670
221,093	228,627	174,771	184,647	193,658	203,593	210,597
579,814	597,495	266,464	308,076	169,923	189,000	—
639,413	692,479	627,846	527,295	402,061	318,245	270,546
4,889,807	4,331,944	3,353,709	2,129,514	1,863,360	1,562,110	1,248,831
505,380	495,194	307,133	432,074	206,959	89,552	109,781
933,807	1,221,953	1,371,230	569,389	313,905	233,154	233,988
730,304	1,088,244	1,255,835	220,130	152,262	197,594	409,935
—	402,539	—	192,275	—	182,028	72,552
16,741	5,105	4,881	1,761	2,164	211	458
79,563	64,701	32,834	36,898	28,115	21,543	13,244
47,581	46,003	42,837	37,508	28,840	22,780	20,247
(0.38)	0.80	0.88	1.08	0.98	0.77	0.55
(0.38)	0.74	0.80	0.90	0.81	0.71	0.53
0.40	0.40	0.38666	0.36	0.30833	0.25907	0.2448
120,664	116,189	110,961	103,351	92,253	87,354	83,474
118,478	114,341	107,583	99,001	89,223	85,083	82,263
5.30	5.96	5.66	5.10	4.36	3.64	3.24
9-1/2-6.00	9-7/8-5-1/8	14-3/8-7-1/4	13-3/8-8.00	9-3/8-4-7/8	5-1/2-4-5/8	5-1/2-4-1/4
7-1/4	8-7/8	9-1/2	13.00	8-5/8	5.00	5-3/8
*	13.9	16.4	22.9	24.2	22.4	17.6
*	50.0	45.3	35.2	33.1	34.6	45.1
5.5	4.5	4.1	2.8	3.6	5.2	4.6
5.4:1	4.1:1	3.6:1	2.1:1	2.7:1	2.7:1	2.8:1
1.7x	1.6x	1.8x	3.4x	3.4x	2.8x	4.0x

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Foothills Pipe Lines (Yukon) Ltd. (50%)
Trans Québec & Maritimes Pipeline Inc. (50%)
Pan-Alberta Gas Ltd. (50.005%)

Petroleum
Husky Oil Ltd. (42.5%)
Novalta Resources Ltd. (100%)

Petrochemicals
Novacor Chemicals Ltd. (100%)
The Alberta Gas Ethylene Company Ltd. (100%)
Alberta Gas Chemicals Ltd. (50%)

Manufacturing
Grove Italia S.p.A. (100%)
NovAtel Communications Ltd. (50%)

Consulting & Research
Novacorp International Consulting Inc. (100%)
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