Inland Natural Gas Co. Ltd. 1981 Annual Report

Contents

ABOUT THE COVER

The front cover depicts the image of our 100,000th meter placed in service June 1981. It was created graphically through the use of numerals and actual customer names. The line between numbers and names forms an eight year flow-graph of customer growth from 50,000th to 100,000th ending with the 100,000th customer name. The same flow-graph is represented on inside picture layouts.

This page illustrates a torch commissioned by Inland this year for use at all B.C. Games. The 12 foot steel sculpture incorporates 5 rings representing both B.C.'s dogwood flower and the olympic circles. The torch was used for the first time at the B.C. Summer Games on Vancouver Island.

ABOUT THE COMPANY

Inland Natural Gas Co. Ltd. is an investor-owned utility which transmits and distributes natural gas to over 100,000 customers in 58 communities located in the interior of British Columbia. Its service area stretches over 1,000 miles from the Peace River area in the north, through the Cariboo and Okanagan to the West Kootenay region in the south and continues eastward to the East Kootenays, bordering on the Province of Alberta. The area served has been one of high growth, with the current estimated population in excess of 600,000 expected to reach approximately 1,000,000 by the year 2000.

Highlights

FINANCIAL	1981	1980	% Increase (Decrease)
Total Revenue	$128,068,363	$103,241,535	24
Net Income	$ 6,777,780	$ 5,680,130	19
Earnings Available For Common	$ 5,424,092	$ 4,285,255	20
Average Common Shares Outstanding	2,972,914	2,822,122	5
Earnings Per Common Share	$ 1.82	$ 1.52	20
Dividends Per Common Share	$ 1.025	$ .925	11
Capital Expenditures	$ 12,165,076	$ 8,427,830	44
Total Plant	$153,275,842	$141,695,721	8
OPERATING			
Total Gas Sales (Thousands of Gigajoules)*	60,992	57,727	6
Total Customers at Year End	100,196	92,020	9
Degree Days (base 18°C)	3,859	3,936	(2)

ANNUAL MEETING

11:00 A.M. (Vancouver time) October 23, 1981, the Garibaldi Room, Four Seasons Hotel, 791 West Georgia Street, Vacouver, B.C.

***METRIC CONVERSION**

The Company converted from the Imperial system to a Metric base, known as International System of Units (S.I) for customer billing, effective July 1, 1980. Sales of natural gas are now reported in units of energy (GJ - gigajoules) instead of units of volume (Mcf - thousand cubic feet).

DUPLICATE ANNUAL REPORTS

Some holders of Inland securities recieve more than one copy of our annual report and other material mailed to shareholders. We make an effort to eliminate duplication of such mailings, however, if securities are registered in different names or addresses, multiple copies will be received. Those security holders receiving more than one copy of material should contact National Trust Company, Limited to either consolidate the holdings under one name if they are with respect to the same security, or in the event that they hold more than one security, advise the registrar that no material is required.

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To Our Shareholders

Left: R.L. Cliff
Chairman of the Board
Right: R.E. Kadlec
President

1981 has been a banner year for Inland Natural Gas. Revenues, earnings and dividends all reached record levels and the addition of our 100,000th customer marked another important milestone for the company.

As indicated in the highlights and detailed elsewhere in this report, total revenues increased by 24 percent, earnings per share were up by 20 percent and dividends on Common Shares moved ahead 11 percent. These results set a standard for what promises to be a decade of unusual challenge and opportunity in the 1980's.

Underlying our optimism is the Provincial government's commitment to create a natural gas based economy in British Columbia. This, combined with the considerable financial incentives provided by the Federal government, promises to bring the benefits of natural gas to an ever increasing number of energy consumers in the years ahead.

Specifically, Inland is a declared candidate to supply a potential market of 60 to 70 thousand new customers within five years of the start-up of service to Vancouver Island.

On the Mainland, government grants could facilitate expansion of our existing systems and the development of new markets. Assistance to homeowners wishing to convert from oil to natural gas will boost the already rapid rate of conversion. Another provincial initiative, which can potentially have a significant impact on our rate of expansion, is the development of the province's Northeast coal reserves and the construction of related infrastructure for the community of Tumbler Ridge. We will be making application to serve this market in the coming year.

Happily there is no shortage of gas supply and recent projections indicate proven reserves sufficient to meet our domestic needs well into the 21st century. If anything, British Columbia has a surplus of natural gas and, given a continuation of the speedy and progressive regulatory decisions we have experienced in 1981, the future seems bright for both growth and earnings.

Our business is never without its problems, however, and it would be remiss not to point out some of the more immediate difficulties facing the company and the economy in general.

Obviously high interest rates are having a considerable negative impact on our market. New housing starts are down and the forest industry, which is an important consumer of natural gas, has been depressed by greatly reduced levels of construction both here and in the United States. At the same time, high interest rates have dramatically increased the difficulty and cost of raising capital to finance expansion. Hopefully this may be only a temporary impediment which will gradually disappear if inflation wanes and interest rates return to more manageable levels.

Another area of concern is the National Energy Program announced late in 1980. While there are some positive aspects to this program, the excise tax and the tax designed to assist in "Canadianization" of the oil and gas industry are nothing short of discriminatory. While consumers of natural gas must bear the full burden of these taxes, consumers of electricity are exempt.

In spite of these difficulties, your company has reached a new level of maturity in recent years. As a consequence, there have been a number of important organizational and staff changes and there will be more as we continue to gear up for the future.

Marketing has become increasingly important as signified by the appointment of Mr. J.L. Randall as Vice-President, Marketing. To further facilitate growth and ease the load on the Operations Division, the engineering function has been split out as a separate division headed by Mr. R.T. O'Callaghan, Vice-President, Engineering.

In June the Board of Directors regretfully accepted the resignation of Ms. A.F. Clark, our Corporate Secretary, who has been with the company for the past 12 years. She contributed greatly and we wish her well. Mr. P.D. Lloyd, Manager, Legal Services was subsequently appointed Corporate Secretary.

In conclusion, the directors express their sincere appreciation and thanks to the Company's employees for a job well done. Without their considerable efforts and those of the men and women who work for our subsidiaries, we could not have achieved our current success.

On behalf of the Board of Directors.

R. Laudcliff

Chairman of the Board

President

Vancouver, B.C.
September 11, 1981

The Year Under Review

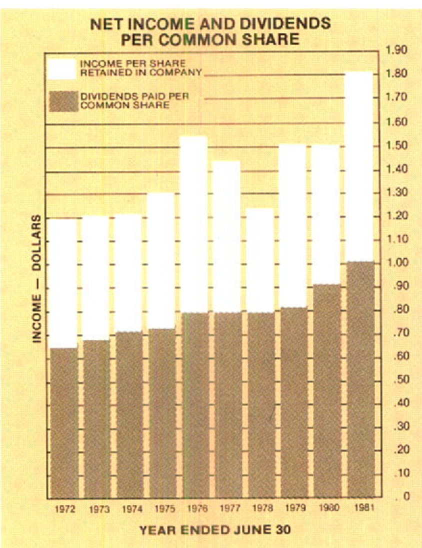
R.B. Stokes
Executive Vice-President
& Chief Financial Officer

Earnings and Dividends

Earnings available for common shareholders for the year ended June 30, 1981 were $5,424,092, or $1.82 per share on 2,972,914 average shares outstanding. This compares with earnings of $4,285,255, or $1.52 on 2,822,122 shares in 1980. The increase can be largely attributed to prompt action by the Company's regulatory commission in granting rate relief and the higher returns allowed on equity and rate base. Growth in sales to customers also contributed to better earnings.

The quarterly dividend was increased from $.25 to $.275 per share with payment of the May 15, 1981 dividend. This amounts to $1.10 on an annual basis.

In February 1981, the Company introduced an Optional Stock Dividend Program which allows common shareholders resident in Canada the option of receiving dividends in the form of additional common shares instead of cash on all or any common shares held. Participation in the Program is voluntary and may be terminated and then reinstated by the participant at any time. This program provides the holders of common shares with a convenient method of obtaining additional common shares without payment of brokerage commission or service charges. It may also make available tax benefits in the treatment of dividends.



Regulation and Rates

On June 27, 1980, the British Columbia Utilities Commission approved Inland's request for interim rate relief effective July 1, 1980. A public hearing was held before the Commission in November 1980 on the Company's application for permanent rates. This application was based on a forward test year and sought an increase in the 15.25% return on equity previously allowed.

On March 18, 1981, the Commission issued its Decision on the application granting revenues which would allow the Company to earn a return of 16.5% on common equity resulting in a return on rate base of 11.33%. The Commission also confirmed the acceptability of the forward test year. In addition, it allowed short-term debt in the capital structure and directed the Company to establish a deferred account to absorb fluctuations in actual interest rates on short-term debt from the embedded cost of 13% used by the Commission in arriving at the return on rate base.

While the Commission did order a partial refund with interest of the interim rate increase collected from July 1, 1980, the net result added significantly to the earnings this year. Moreover, the sheltering of fluctuations in short-term interest rates has increased earnings by 6¢ per share.

The introduction of Canada's National Energy Program in October 1980 resulted in the imposition of Federal Excise Taxes on natural gas purchased of 28¢ per gigajoule effective November 1, 1980 and 14¢ per gigajoule effective May 1, 1981. The Company received timely approval from the Commission to file new retail rates which recover these taxes and other related costs from all customer classifications.

In spite of the rate relief obtained this year, our forecasts indicated that the return of 16.5% on equity would not be earned in fiscal 1982. Consequently, on June 25, 1981, Inland filed an application for interim rate relief requesting additional revenues of approximately $2.3 million with rates effective July 1, 1981. The Commission approved our request for interim rates on June 30, subject to refund at 15% pending a public hearing. An application for permanent rate relief is currently underway and will be filed in the near future.

Marketing

Almost 8,200 customers were added to the Inland/Columbia system in the year under review, an all-time record for new customer attachments.

Conversions from oil to natural gas accounted for more than half of all new residential and commercial customer additions. Marketing programs to encourage conversion received added impetus in the latter part of the year through the introduction of the Canada Oil Substitution Program (COSP), as part of the National Energy Program. The Program offers taxable grants for conversion from oil to other fuels. The Government of British Columbia has agreed that such grants will not be offered for conversion from oil to electricity wherever natural gas is available.

While the number of heating oil consumers on our mains is being rapidly reduced, it is expected that conversions from oil to natural gas on existing mains will remain a major component of new customer additions for at least the next year.

J.L. Randall
Vice-President
Marketing

A Marketing program aimed at converting manufactured homes (mobile homes) from oil to natural gas was introduced in Fiscal 1980 and was expanded during the year under review. As a result natural gas has now established a presence in most quality manufactured home parks within reach of natural gas mains. Inland personnel have worked closely with both park developers and manufacturers to ensure that natural gas is available and specified in all new permanent park developments. This market promises to be a major source of new residential customers.

Inland's excellent relations with our existing customers and the Company's positive image in the communities in which they live as well as close ties with the building and heating trades continue to be major factors influencing the choice of natural gas for almost all new construction that takes place in our service area. One exception is the speculative apartment segment of residential housing.

While your Company has been successful in obtaining most of the service hot water and public area heating load, competition for unit space heating from low capital cost electric baseboard is presenting a difficult challenge. Imaginative programs and advertising together with a team of specially trained customer energy advisors backed by competent technical and economic expertise are now producing more positive results in a number of multi-family projects.

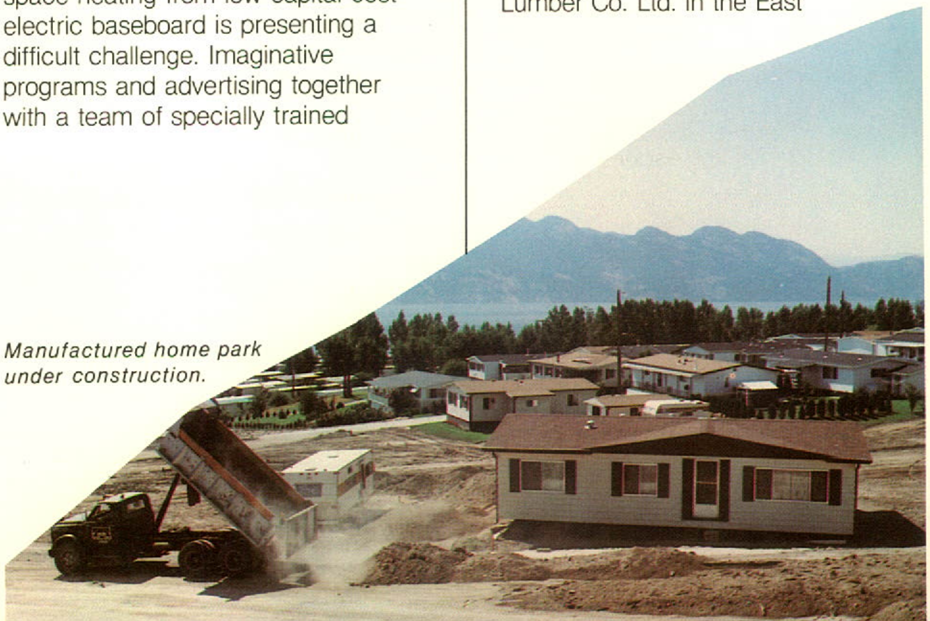
The full impact of recent wholesale increases in natural gas along with the Federal Government excise tax will be felt by consumers this coming winter. While natural gas will continue to maintain a wide price advantage over oil, and electricity in most of our service areas, a consumer information program is planned to help the user understand the reasons for the increases.

Higher energy prices will predictably result in lower average consumption in the future as present homeowners and new home builders insulate to higher standards. Further reduction in energy use will result from the progressive introduction of more efficient appliances. The Company's Marketing Department is studying the impact of these changes on our load patterns in order to counter their effects on revenue.

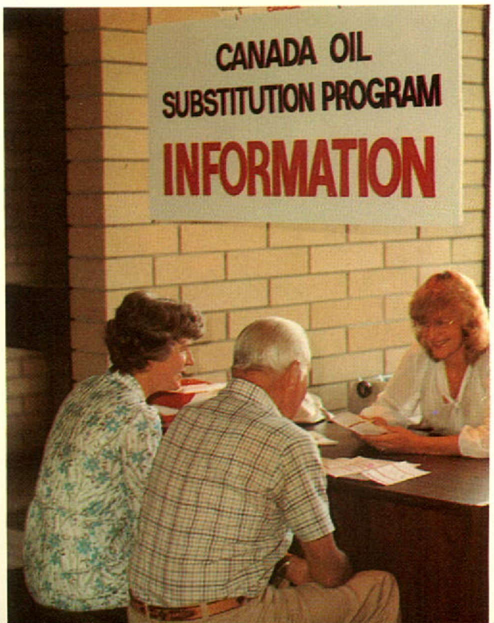
Industrial sales remained strong during the year with the addition of two major accounts; Brenda Mines, east of Peachland, and Galloway Lumber Co. Ltd. in the East Kootenays. The commencement of operations of Highmont Mines and the expansion of Lornex Mines also contributed to increased industrial sales in the mining sector.

Several major forest industry projects are in the final stages of completion, including expansion at two pulp mills and construction of a new pulp mill in Quesnel. Northeast and southeast Coal developments which are addressed elsewhere in this report will also add substantially to the Company's industrial base.

Right — 100,000th customer at special lunch.
Below — Branches process C.O.S.P. applications and provide consumer information on the program.



Manufactured home park under construction.



Outlook

Your Company is on the threshold of a period of major expansion. The Province's energy policy is clearly intended to convert oil customers to natural gas. Similarly, the National Energy Program emphasizes the need to move toward Canadian energy independence and is designed to shift the Country from dependency on imported oil to domestically produced natural gas.

A number of federal incentive programs have been introduced or are in the process of development which are of considerable interest to the Company. These include the Canada Oil Substitution Program (COSP), the Distribution System Expansion Program (DSEP), and there are indications of a substantial federal grant for the extension of gas service to Vancouver Island.

These programs are paving the way for significant expansion of Inland's plant facilities. The Canada Oil Substitution Program offers financial assistance to homeowners converting to natural gas. Announced as a component of the National Energy Program on October 28, 1980, it was made available to the public in May, 1981. While in effect for only two months of the year reviewed in this report, the program is expected to accelerate Inland's existing conversion activities. The Distribution System Expansion Program will assist utilities in extending service to communities and groups of customers hitherto outside the economic reach of the Company's existing facilities and is presently being defined. Federal and provincial officials are working on the guidelines leading to utility expansion grants. While the National Energy Program clearly indicates that financial support for the Vancouver Island gas pipeline will be available, the magnitude of such support has not yet been announced. However, Inland has commenced work on two major programs during the year under review in anticipation of these federal and provincial energy grants.

The Company's DSEP application has been filed with the B.C. Utilities Commission seeking approval in principle of a three-year plan to extend service to areas which do not yet enjoy natural gas service. There are approximately 100 such extensions in the Inland service area.

In February of this year, the Government of British Columbia announced the selection of B.C. Hydro to build the underwater natural gas pipeline from the Lower Mainland to Vancouver Island. The government also invited investor-owned utilities to make application for the distribution rights on the Island.

With the firm understanding that funds will be made available to assist in providing natural gas service to residential, commercial and industrial consumers on Vancouver Island, your Company has embarked on an extensive feasibility study with a view to applying in due course to be the transmittor and distributor of natural gas on the Island. The study, which is nearing completion, will cost the Company approximately $800,000. It involves the Company's in-house expertise supplemented by a number of prominent consulting firms.

There are many similarities between Inland's present service area and Vancouver Island which assist us to understand the opportunities and challenges of this Island market. Interior parallels exist for almost every Island community with approximately the same mix of residential, commercial and industrial business. Most are based on forest and resource economies familiar to Inland personnel. In addition, the sometimes difficult terrain is not unlike that encountered in most of our mainland service area. As the major investor-owned natural gas transmission and distribution utility in the Province, Inland stands an excellent chance of being selected to serve this important new market.

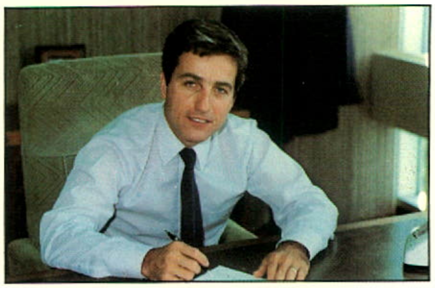
Coal Developments

The extensive coal producing area in the southeast region of the Province is presently a growing source of industrial sales for Columbia Natural Gas Limited. Gas volumes that showed gains last year will increase sharply in the near future as a result of expanded production at existing mines and the development of two new mines — B.C. Coal's Greenhills Mine at Elkford and Crows Nest Resources Mine at Sparwood. The impact of accelerated coal production in the East Kootenays will be felt in all segments of the area's economy and will play a major role in Columbia's future growth.

During the past year, agreements were reached between Teck Corporation and Denison Mines to sell 7.7 million tonnes of metallurgical coal annually to Japan from the Bullmoose and Quintette Mines in northeastern British Columbia. This area which lies south and slightly east of Chetwynd represents an important new expansion opportunity for Inland since the current contracts represent only a third of the area's potential output.

The signing of the export contract with Japan followed lengthy negotiations by the Provincial Government to develop

R.T. O'Callaghan
Vice-President
Engineering



the vast coal potential of northeastern British Columbia.

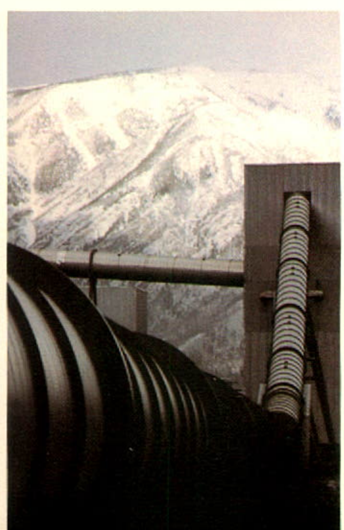
Commencing with the development of the two mines previously mentioned, the world scale project will also involve the construction of new rail and port facilities, the upgrading of the existing rail line, the construction of new highways and the creation of the new community of Tumbler Ridge. The latter will house some 5,600 people in a well-planned townsite complete with modern shopping, recreational and educational facilities.

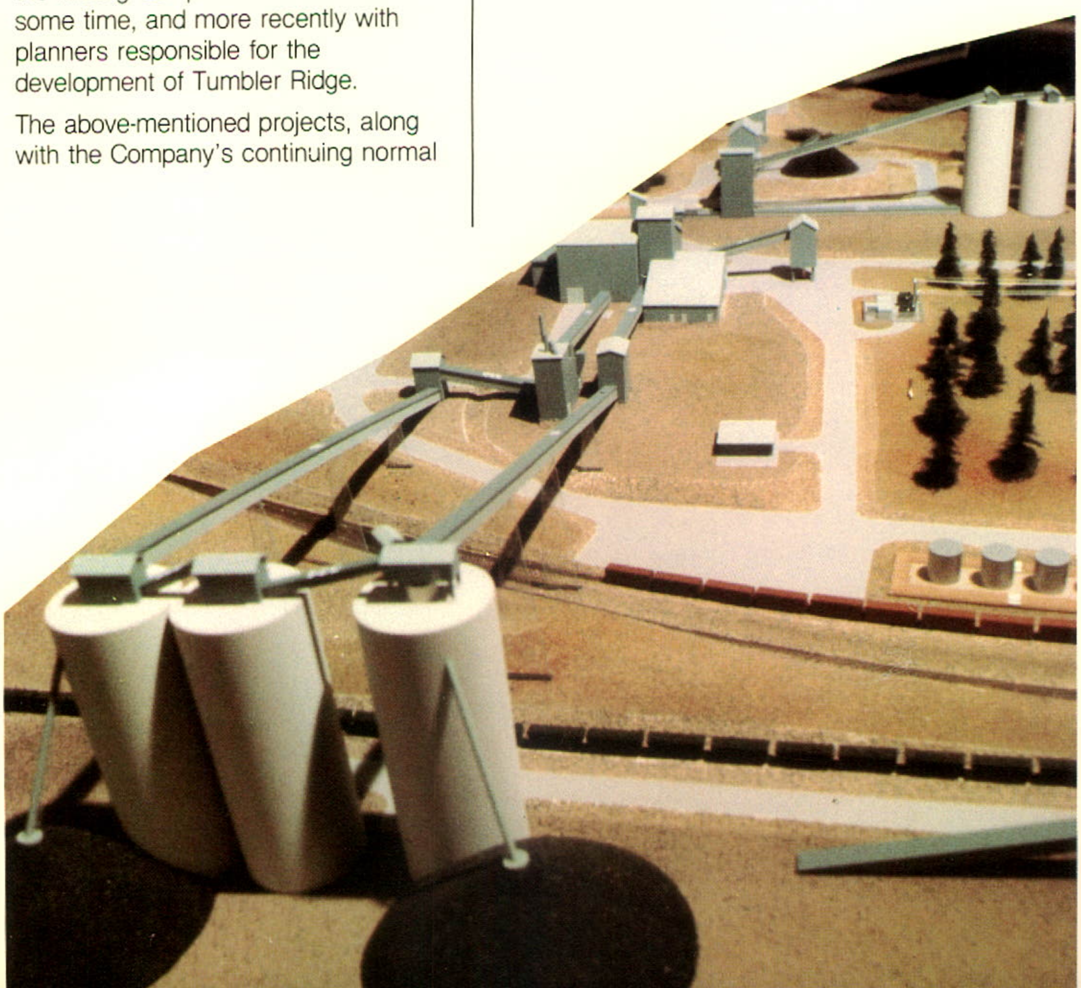
The expertise gained in the utilization of natural gas by the southeast coal industry has placed your Company in a favorable position in its discussions with Northeast developers.

Inland has been working closely with the mining companies involved for some time, and more recently with planners responsible for the development of Tumbler Ridge.

The above-mentioned projects, along with the Company's continuing normal capital program, could require expenditures over the next several years in the order of \$400 million to \$500 million. Some of this cost must be offset by grants so the precise financial requirements are not known at the present time. Needless to say, if we are successful in these endeavors, your Company could easily triple in size over the next few years.

Right — Existing coal operations in the southeast.
Below — Model of Crows Nest Resources Ltd. Line Creek Development.





Operations Review

Gas Supply

To serve new markets both in the existing Inland and Columbia service areas as well as Vancouver Island, sufficient gas supply is of paramount importance. In this regard, your Company is in an enviable position. Known reserves in British Columbia are presently surplus to the requirements of the Province, and the size of this surplus will be the subject of a public hearing this fall. The Provincial Energy Policy issued in February of 1980 addressing the matter of surpluses and exports stated, "While British Columbia produces and exports surplus quantities of some energy resources it is vital (particularly for non-renewable resources) that the long term future supply for British Columbians be the first priority."

Capital Expenditures

Capital expenditures for the year under review totalled $12.0 million. This program was $1.6 million over the original budget and was primarily due to a substantial increase in new customer additions. 7,597 service lines and 575,000 feet of distribution main were installed, both all time records of the Company. Major projects completed during the year included transmission facilities to serve Brenda Mines near Peachland and Quesnel River Pulp at Quesnel. In addition there was a continuation of the looping program on the transmission lateral serving the Salmon Arm area.

Future Capital Expenditures

In the coming year we have budgeted for a $11.7 million capital program, the majority of which includes service lines, mains and related facilities to serve 7,500 new customers. Major projects will include the rebuilding of the Northwood Pulp meter station and the looping of the Finlay Forest Industries lateral to provide for pulpmill expansion at both these locations. There will also be a major reinforcement to the Salmon Arm distribution system.

The above program does not include another $5 million of capital expenditures which could result from approval of the first stage of the Company's DSEP program.

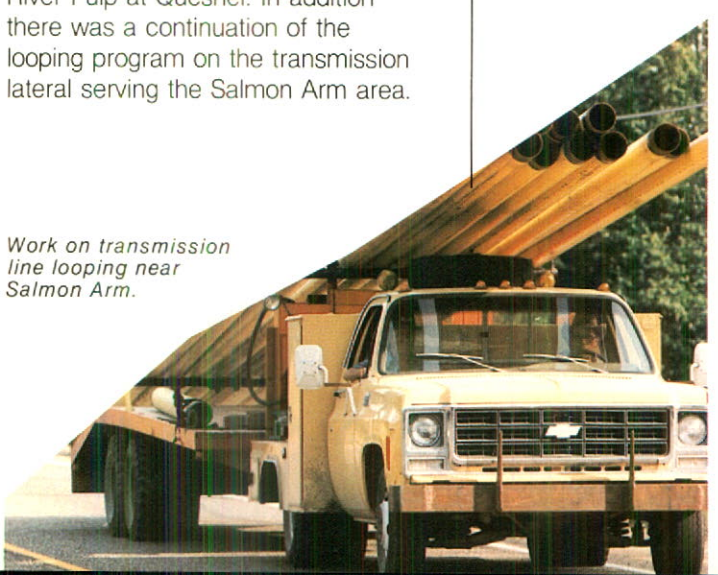
Wholly-Owned Subsidiaries

Columbia Natural Gas Limited

Capital expenditures for the year under review totalled $1.1 million which included the installation of distribution mains, service lines, meters and regulators to serve 651 new customers. The largest project completed during the year was the construction of a transmission line to serve two forest industry complexes west of Cranbrook. In the coming year a $1.3 million capital program is planned.

Included in the program are facilities to provide service for 862 new residential and commercial customers and the construction of mains and measurement stations to serve two new coal mining operations in the Elk Valley; Crows Nest Forest Products Limited at Line Creek and B.C. Coal's Greenhills operation.

Columbia experienced weather that was 5% warmer than normal. Nevertheless, total gas sales increased to 9,222,000 gigajoules compared with 8,748,000 gigajoules in the previous year as a result of higher sales to industrial customers.



Work on transmission line looping near Salmon Arm.

G.M.O. Solly
Vice-President
Operations

Grande Prairie Transmission Co. Ltd.

The Company is incorporated under the laws of the Province of Alberta and is subject to regulation by the Public Utilities Board of Alberta. It purchases natural gas from producers at various fields north of Grande Prairie in the Peace River area of Alberta and transmits the gas for resale by Northwestern Utilities Limited to the City of Grande Prairie and other communities in the immediate area. Gas sales for the year under review amount to 3,113,688 gigajoules compared with 2,775,379 gigajoules last year, this in spite of 11% warmer than normal temperatures.

Peace River Transmission Company Limited

The Company is an inter-provincial pipeline company and is subject to regulation by the National Energy Board. It purchases natural gas from Westcoast Transmission Company Limited and delivers it to the City of Dawson Creek where it is sold to Northland Utilities (B.C.) Limited for distribution in Dawson Creek, Pouce Coupe, Rolla and the surrounding area.

Natural gas sales in the fiscal year were 1,219,472 gigajoules which was a small decrease from 1,267,817 gigajoules sold in the previous year.

Other Subsidiaries

St. John Gas & Oil Co. Ltd. (N.P.L.) holds minor interests in natural gas and oil leases in northeast British Columbia and participates in the production of natural gas and oil from these leases.

Inland Development Co. Ltd. owns industrial and commercial property in the Okanagan Valley.

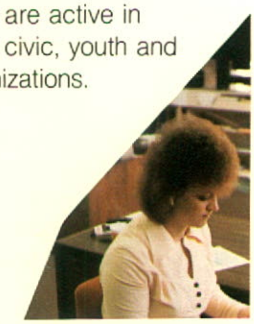
Employees

The Company employed a total of 384 personnel as at June 30, 1981 compared to 344 at the previous year end. The increase reflects continued expansion throughout our service area and the growing complexity of our operations.

Approximately 76% of the employees are members of bargaining units. Inland has recently concluded a two-year agreement with the Office and Technical Employees' Union which expires March 31, 1983. Inland's two-year agreement with the International Brotherhood of Electrical Workers expires on September 11, 1981 and negotiations for a new agreement are in progress. Columbia's agreement with its Office and Technical Employees' Union has been renewed and expires June 30, 1982. Negotiations are continuing with Columbia's International Brotherhood of Electrical Workers to renew the agreement which expired March 31, 1981.

The Company maintains training programs for operations and maintenance personnel which are designed to improve their competence within their particular disciplines. Management, supervisory and technical personnel are also encouraged to participate in specialized training programs, seminars and workshops.

Good community relations are maintained by Company employees, who are encouraged to participate in community activities. Managers and other personnel are active in various service, civic, youth and charitable organizations.



Financial Review

Revenue

Revenue increased to $128.1 million in 1981 from $103.2 million in 1980, a gain of 24%. The additional revenue resulted substantially from the federal excise tax imposed on natural gas purchases which the Company has been authorized to pass on directly to its customers. Increased sales to customers and timely general rate relief by the British Columbia Utilities Commission have also contributed to the improvement in revenue from the sale of gas. In the year under review total sales to retail customers amounted to almost 61 million gigajoules compared to 57.7 million gigajoules last year.

The Company experienced its most successful year ever in adding new customers to the system. In all, 7,321 residential and 849 commercial customers were connected during the year, representing an increase of 9%. However, as a result of weather which was almost 9% warmer than normal and 2% warmer than last year together with decreases in average consumption, energy sales to these classes of customers increased only marginally from 18,205,000 to 18,348,000 gigajoules.

Despite the economic conditions which existed throughout much of the current year and the slow down in the housing market, sales to small industrial accounts in the lumber manufacturing sector showed improvement over the previous year. In 1980 a strike by B.C. Rail had detrimental effect on lumber production by some customers in the northern part of our service area. Sales to customers in the mining industry also increased as a result of new and expanded mining operations. Small industrial sales increased by almost 13% from 6.3 million gigajoules in 1980 to 7.1 million gigajoules.

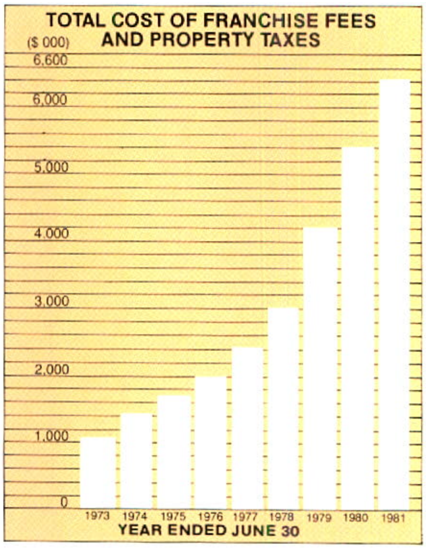
With production of pulp and paper continuing at a high level and the availability of interruptible gas this past winter, sales to large industrial customers have exceeded expectations. The additional interruptible gas was available to industrial customers because of the warmer weather and lower demand from residential and commercial customers.

Purchase of Gas

The cost of gas purchased during the year increased by 30% to $85,834,964 from $66,161,039 in the previous year. Approximately $12,800,000 of this increased cost results solely from the imposition of federal excise taxes referred to under Regulation and Rates in this report. These taxes are flowed through to our customers with the consent of our regulatory commission.

As a result of the mild winter and the availability of interruptible gas from Inland's supplier, Westcoast Transmission Company Limited, required peaking gas from Alberta and Southern Gas Co. Ltd. amounted to only 620,000 gigajoules. Under the contract with Alberta and Southern, Inland has available approximately 2,750,000 gigajoules of gas for peak shaving purposes during the winter months. This gas must be returned during off-peak months and as at June 30, 1981, all of the gas had been returned.

Columbia purchases the majority of its gas from the Province of Alberta under contracts with Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Through the use of the East Kootenay Link and an exchange arrangement with the Alberta suppliers, Columbia is able to purchase approximately 30% of its requirements during each contract year commencing November 1, from Inland. Volumes purchased during a fiscal year ending June 30 are dependent upon a number of factors and will vary from year to year. During the current fiscal year Columbia purchased approximately 43% of its gas from Inland compared to 32% in the previous year.



Operation and Maintenance

Operation and maintenance expenses increased by 15% to $12,087,137 this year compared to $10,541,320 a year ago. The increase in expenses has resulted for the most part from higher wage rates and related employee benefit costs together with the cost of additional employees. The average number of employees was 350 during 1981 compared to 325 in the previous year.

Total salaries, wages and employee benefits amounted to $10.5 million in 1981, an increase of $1.6 million from the 1980 level of $8.9 million. Since a major portion of new plant is constructed by the Company's own work force, substantial amounts of payroll and related costs are charged to property accounts.

The continuing impact of inflation, increased number of customers, effect of the federal excise taxes on purchased fuel costs and the high cost of attending to regulatory proceedings have also contributed to the increase in expenses.

C.I. Kleven
Vice-President
Finance

Property, Franchise and Other Taxes

The Company continues to contribute substantial tax revenues to the municipalities it serves as well as to the Province. During the current year, property, franchise and other taxes increased by approximately $1,000,000 to $6,550,561. Franchise fees, which are based on 3% of gross revenues from the sale of natural gas within municipal boundaries, increased by 20% over the previous year. The majority of this increase resulted from the increased revenues required to pass on to the customers the federal excise taxes,

Income Taxes

Income tax expense for the current year was $7,435,882 compared to $5,962,519 in the previous year. This increase was due mainly to higher net income before taxes. In addition, the 1% increase in provincial income taxes effective January 1, 1981 and a full year's effect of the 5% Federal Surtax on current taxes, which was introduced January 1, 1980, have increased the overall effective income tax rate this year.

Interest Expense

Interest charges on long-term debt of $4,755,185 showed a slight decline from $4,929,439 recorded in 1980 due to the effect of debt retirements under the sinking fund provisions of the trust indentures.

Other interest expense amounted to $1,146,697 this year compared to $1,118,911 in the previous year. The main reason for incurring only a minor increase in interest costs related to short-term borrowings, in spite of higher rates, is the deferral of $415,750 in accordance with direction from the Commission. This matter is more fully described in the Notes to the Financial Statements (Note 1) and on page 2 of this report.

Financing

During the current fiscal year the Company completed a successful rights issue of common shares raising $3.3 million. Shareholders of record on November 6, 1980 were issued rights enabling them to purchase one additional common share at a price of $12.50 per share for each ten shares then held. Although this issue was not underwritten, subscriptions were received for in excess of 95% of the shares offered indicating the support given by the Company's shareholders and the investment community at large.

The remaining capital requirements this year have been provided by funds generated internally together with adequate bank lines of credit which enable the Company to utilize bank loans, commercial paper or banker's acceptances.

The capital markets for long term borrowers are most unattractive at the present time. While the common share issue mentioned above was timely and raised over $3 million, the Company's working capital position and its continuing need for plant additions necessitates additional funds. At present, these funds are available through increased bank lines and other short term instruments. We clearly recognize the need in the not too distant future to replace part of this short term borrowing with some form of long term securities. Preliminary prospectus material is prepared and we are ready to go to the market for such funds when a suitable "window" appears.

Share Distribution

Approximately 96% of the shareholders of Preference and Common Stock of the Company are resident in Canada. The distribution of each class of shares is set out below:

	Shareholders	Shares
Common		
Canada	4,072	2,871,174
U.S.A.	193	56,215
Others	67	164,717
	4,332	3,092,106
Preference		
Canada	2,516	770,445
U.S.A.	12	1,105
Others	2	250
	2,530	771,800

Management's Responsibility for Financial Reporting

The financial statements and related information included in this report have been prepared by the management of the Company which is responsible for their integrity and objectivity. To fulfill this responsibility, the Company maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable costs. The statements have been prepared in conformity with generally accepted accounting principles and where appropriate reflect informed estimates based on judgments of management.

Thorne Riddell, the auditors appointed by the shareholders, have reviewed the systems of internal control and examined the financial statements in accordance with generally accepted auditing standards to enable them to render an independent opinion, as described in their report, on the financial statements.

The Board of Directors, through its Audit Committee, oversees management's reporting responsibilities. This Committee meets with the auditors and management to review the activities of each and it reports to the Board of Directors. The auditors have full access to the Audit Committee.

INLAND NATURAL GAS CO. LTD.
and Wholly-owned Subsidiaries

Consolidated Statement of Income

For the year ended June 30

	1981	1980
REVENUE		
Sale of gas	$127,418,749	$102,728,804
Other operating revenue	649,614	512,731
	128,068,363	103,241,535
EXPENSES		
Purchase of gas	85,834,964	66,161,039
Operation and maintenance	12,087,137	10,541,320
Property, franchise and other taxes	6,550,561	5,545,625
Depreciation and amortization	3,480,157	3,302,552
Interest and expense on long-term debt	4,755,185	4,929,439
Other interest	1,146,697	1,118,911
	113,854,701	91,598,886
Income before income taxes	14,213,662	11,642,649
Income taxes		
Current	5,491,666	4,661,729
Deferred	1,944,216	1,300,790
	7,435,882	5,962,519
NET INCOME	$ 6,777,780	$ 5,680,130
EARNINGS PER COMMON SHARE, after provision for preference dividends	$ 1.82	$ 1.52

Consolidated Statement of Retained Earnings

For the year ended June 30

	1981	1980
BALANCE AT BEGINNING OF YEAR	$ 21,475,197	$ 19,834,058
Net income	6,777,780	5,680,130
	28,252,977	25,514,188
Dividends on 5% preference shares	400,000	400,000
Dividends on 10% second preference shares	953,688	994,875
Dividends on common shares — $1.025 per share in 1981; $0.925 in 1980 (Note 3)	3,033,633	2,610,463
Amortization of preference share issue costs	32,790	33,653
Common share issue costs — net of income tax	62,050	—
	4,482,161	4,038,991
BALANCE AT END OF YEAR	$ 23,770,816	$ 21,475,197

See accompanying summary of accounting policies and notes.

Consolidated Statement of Changes in Financial Position

For the year ended June 30

	1981	1980
SOURCE OF WORKING CAPITAL		
Operations		
Net income	$ 6,777,780	$ 5,680,130
Items not involving working capital		
Depreciation and amortization	3,611,303	3,436,937
Deferred income taxes	1,944,216	1,300,790
Total from operations	12,333,299	10,417,857
Common shares issued (net)	3,290,213	—
	15,623,512	10,417,857
APPLICATION OF WORKING CAPITAL		
Additions to property, plant and equipment	12,165,075	8,427,630
Cash dividends on preference and common shares	4,359,077	4,005,338
Reduction of long-term debt	2,879,266	1,849,673
Purchase and cancellation of second preference shares	501,000	206,864
Other	1,308,853	107,057
Acquisition of Columbia Natural Gas Limited	—	4,988,682
	21,213,271	19,585,244
DECREASE IN WORKING CAPITAL POSITION	5,589,759	9,167,387
Working capital deficit at beginning of year	12,450,629	3,283,242
WORKING CAPITAL DEFICIT AT END OF YEAR	$ 18,040,388	$ 12,450,629

See accompanying summary of accounting policies and notes.

AUDITORS' REPORT

To the Shareholders
Inland Natural Gas Co. Ltd.

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. as at June 30, 1981 and the consolidated statements of income, 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 June 30, 1981 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.

Thorne Riddell
Chartered Accountants

Vancouver, Canada
August 28, 1981

INLAND NATURAL GAS CO. LTD.
and Wholly-owned Subsidiaries

Consolidated

As at

ASSETS

	1981	1980
CURRENT ASSETS		
Accounts receivable	$ 11,284,313	$ 7,136,945
Materials and supplies, at cost	3,349,103	2,959,910
Prepaid expenses	301,949	371,569
	14,935,365	10,468,424
PROPERTY, PLANT AND EQUIPMENT, at cost		
Natural gas transmission lines and distribution systems	141,522,306	130,646,911
Plant, buildings and equipment	8,698,068	8,039,455
Land and land rights	3,055,468	3,009,355
	153,275,842	141,695,721
Accumulated depreciation	29,717,697	26,937,945
	123,558,145	114,757,776
OTHER ASSETS		
Investment in marketable securities, mortgages and real estate, at cost	1,826,537	1,511,194
Deferred charges (Note 1)	4,097,438	3,602,049
	5,923,975	5,113,243
	$144,417,485	$130,339,443

See accompanying summary of accounting policies and notes.

Balance Sheet

June 30

LIABILITIES

	1981	1980
CURRENT LIABILITIES		
Bank loan and short-term notes	$ 11,217,874	$ 8,332,866
Accounts payable and accrued liabilities	10,079,255	7,387,335
Dividends payable	332,375	344,875
Income, franchise and other taxes	8,653,749	5,491,477
Current portion of long-term debt	2,692,500	1,362,500
	32,975,753	22,919,053
LONG-TERM DEBT (Note 2)	51,067,000	54,166,000
DEFERRED INCOME TAXES	7,623,069	5,678,853

SHAREHOLDERS' EQUITY

	1981	1980
CAPITAL STOCK (Note 3)		
5% Cumulative redeemable preference shares, par value $20 per share		
Authorized and issued: 400,000 shares	8,000,000	8,000,000
10% Cumulative redeemable second preference shares, par value $25 per share		
Authorized: 400,000 shares		
Issued: 371,800 shares	9,295,000	9,795,000
Common shares, par value $1 per share		
Authorized: 5,000,000 shares		
Issued: 3,092,106 shares	3,092,106	2,822,122
CONTRIBUTED SURPLUS	8,593,741	5,483,218
RETAINED EARNINGS (Note 4)	23,770,816	21,475,197
	52,751,663	47,575,537
	$144,417,485	$130,339,443

Approved by the Directors

R. Landolt — Director

Director

Summary of Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Inland Natural Gas Co. Ltd. and its subsidiaries Columbia Natural Gas Limited, Peace River Transmission Company Limited, Grande Prairie Transmission Co. Ltd., Inland Development Co. Ltd., St. John Gas & Oil Co. Ltd. (N.P.L.), Inland Transmission Co. Ltd. and Inland Development (1957) Co. Ltd., all of which are wholly-owned.

Sale of gas by the Company to Columbia is recognized by the Companies' regulatory authority for rate-making purposes in each company, is subject to tariffs approved by the regulatory authority and is included in consolidated revenues and expenses respectively. The amount so included in the year ended June 30, 1981 is $6,100,580. All other inter-company balances and transactions have been eliminated.

Regulation

Inland and Columbia are primarily engaged in the transmission and retail distribution of natural gas in the interior of British Columbia and are regulated by the British Columbia Utilities Commission (the "Commission") pursuant to the Utilities Commission Act. Regulations cover such matters as rates, construction, operations and accounting practices.

Peace River and Grande Prairie are engaged in the transmission of natural gas and are regulated respectively by the National Energy Board and the Public Utilities Board (Alberta).

Property, plant and equipment

Property, plant and equipment is stated at original cost which includes all direct costs, an allocation of overhead costs and an allowance for funds used during construction.

Maintenance, repairs and minor renewals are charged to expense as incurred. Replacements and major renewals of property are accounted for as property additions. The original cost of depreciable property retired together with removal costs less salvage is charged to accumulated depreciation.

Depreciation is provided on a straight-line basis on utility plant in service at the beginning of the year at rates approved by regulatory authorities. Annual rates used for the major classifications of utility plant are:

Transmission and distribution mains	2%
Meters, compressors, buildings, measuring and regulating equipment	3%
General equipment	5% to 15%

The application of these rates in the current year is equivalent to a composite rate of 2.37%.

Deferred charges

5% preference share issue costs are amortized to retained earnings at the prescribed annual rate of 1%.

10% second preference share issue costs are amortized to retained earnings over a 21 year period commencing July 1, 1976.

Long-term debt issue costs are amortized over the original lives of the related debt. Gains or losses realized on the purchase of debt for sinking fund purposes are amortized over the remaining lives of the related debt.

Goodwill arising from the excess of the cost of investment in Columbia over the book value of net assets at date of purchase is amortized by charges against earnings over a 40 year period.

Other deferred charges are amortized over various time periods, not in excess of 6 years, as directed by the Commission.

Income taxes

Gas distribution companies

Inland and Columbia follow the tax allocation method of accounting whereby the income tax provisions are based on earnings reported in the accounts. Under this method deferred income taxes are provided to the extent that income taxes currently payable are reduced by claiming capital cost and other allowances for income tax purposes in excess of amounts recorded as expense for accounting purposes.

The tax allocation method was adopted for ratemaking and accounting purposes for current operations by Inland effective July 1, 1977, and by Columbia effective August 1, 1979 in accordance with directions from the Commission. Columbia also followed this method prior to January 1, 1975.

Prior to July 1, 1977 Inland, and during the period January 1, 1975 to August 1, 1979 Columbia, followed the taxes payable method of recording income taxes for both ratemaking and accounting purposes. Accordingly, accumulated deferred income taxes in the amount of $16,975,000 have not been recorded in the accounts nor recovered in rates. It is expected that any future increased income tax expense incurred from having followed this practice will be allowed in future rate determinations.

Gas transmission companies

Peace River and Grande Prairie follow the taxes payable method for both ratemaking and accounting purposes. Unrecorded accumulated deferred income taxes are not material.

Earnings per common share

Earnings per common share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years. Dividend requirements on preference shares of $1,353,688 in 1981 and $1,394,875 in 1980 are deducted from net income for purposes of these calculations.

Pension plans

The Company and its subsidiaries have contributory pension plans for their employees. The plans require that actuarial studies be prepared every three years. Based on the most recent studies the unfunded liability for past service benefits is approximately $415,000 as at June 30, 1981 (1980 - $364,000). This amount, together with interest, is being funded and charged in the accounts over the future working lifetimes of present members (approximately 15 years) at 1.1% of related payroll. Current service costs are funded as accrued based on actuarial determinations.

Notes to Consolidated Financial Statements

1. Deferred Charges

	1981	1980
Preference share issue costs	**$1,280,140**	$1,311,930
Long-term debt issue costs	**484,431**	687,914
Goodwill	**743,838**	763,413
Deferred interest	**415,750**	—
Vancouver Island project	**574,791**	—
Other	**598,488**	838,792
	$4,097,438	$3,602,049

Deferred interest — Inland's application for permanent rate relief dated June 16, 1980, was based on a 1981 forward test year. It included both short-term debt and a projected issue of long-term debt, at assumed interest rates, in the mid-year capital structure for purposes of determining the rate of return on mid-year rate base and revenue requirement.

In its Decision dated March 18, 1981, the Commission approved the inclusion of short-term debt in the capital structure at a rate of 13% in an amount sufficient to cover projected short-term and long-term debt requirements and to equalize the capital structure with the projected rate base. The Commission further directed Inland to create a deferred account to absorb fluctuations in actual interest rates from the rate of 13%. In accordance with this direction, interest on short-term debt in the amount of $415,750 is deferred pending further direction from the Commission. The deferment of this interest has increased earnings this year by 6 cents per common share.

Vancouver Island project — Costs incurred to date by Inland in the preparation of market, engineering, environmental and socio-economic studies for a submission to provide natural gas service to communities on Vancouver Island are being deferred.

2. Long-term debt

	Total Outstanding	Current Liability	Long-term 1981	Long-term 1980
Inland Natural Gas Co. Ltd.				
First mortgage sinking fund bonds				
6¼% Series C, due May 1, 1983	$10,778,500	$ 778,500	**$10,000,000**	$10,915,000
8% Series D, due December 31, 1989	4,075,000	148,000	**3,927,000**	4,075,000
8¼% Series E, due November 1, 1991	6,507,000	92,000	**6,415,000**	6,589,000
8⅜% Series F, due April 15, 1993	6,781,000	171,000	**6,610,000**	6,790,000
11⅛% Series G, due June 15, 1995	10,860,000	225,000	**10,635,000**	10,915,000
	39,001,500	1,414,500	**37,587,000**	39,284,000
Sinking fund debentures				
9⅞% Series A, due November 30, 1997	11,636,000	116,000	**11,520,000**	11,760,000
Columbia Natural Gas Limited				
First mortgage sinking fund bonds				
6% Series A, due June 1, 1982	1,102,000	1,102,000	—	1,102,000
9% Series B, due June 15, 1993	2,020,000	60,000	**1,960,000**	2,020,000
	$53,759,500	$ 2,692,500	**$51,067,000**	$54,166,000

The first mortgage bonds of Inland are secured by a Trust Deed which constitutes in favour of the Trustee a first, fixed and specific mortgage and charge of and upon certain property of the Company and a first floating charge on the undertaking and all other property and assets, present and future of the Company, in the manner and to the extent set forth in the Trust Deed.

The Series A debentures are unsecured obligations of the Company but are subject to the restrictions of the Trust Indenture dated November 1, 1977.

The first mortgage bonds of Columbia are secured by a Trust Deed which provides for a charge on its property and assets.

The trust agreements relating to the bonds and debentures require the companies to establish sinking funds to retire various amounts of each issue prior to maturity. The annual requirements to date have been fulfilled by retirement of the stipulated amount of such issues. Sinking fund requirements and debt maturities over the next five years, after giving effect to purchases and retirements as at June 30, 1981 are: 1982, $2,692,500; 1983, $11,248,500; 1984,$1,451,500; 1985, $1,540,500; 1986, $1,634,500.

3. Capital stock

(a) 5% cumulative redeemable preference shares
The 5% preference shares are redeemable at the option of the Company on thirty days' notice at a price of $21 per share.

(b) 10% cumulative redeemable second preference shares
The 10% second preference shares are not redeemable before July 1, 1981 but will be redeemable thereafter at the option of the Company at a price of $26.25 per share if redeemed on or before June 30, 1982, and at prices reducing annually to $25 per share if redeemed after June 30, 1986.

The Company is required, in each calendar quarter, to purchase for cancellation 5,000 10% second preference shares in the open market at prices not exceeding $25 per share. If, in any quarter, the Company is unable so to purchase 5,000 shares, its purchase obligations carry over to succeeding quarters for a total of 20,000 shares during each 12 month period ending June 30, after which date the Company has no further obligations to purchase shares for that period. During the year ended June 30, 1981 the Company purchased 20,000 shares, reducing the capital of the Company by $500,000.

(c) Common shares

Rights offering

On December 10, 1980, 268,181 common shares were issued pursuant to a rights offering to common shareholders at $12.50 per share. Cash received from the sale of these shares was credited to capital stock to the extent of par value and the remainder of $3,084,082 to contributed surplus.

Optional stock dividend program

The Company implemented an Optional Stock Dividend Program during the year which allows common shareholders a choice between a cash and a stock dividend. The Program provides that the number of common shares to be issued to each participant who elects to receive common shares in lieu of any cash dividend, will be determined by dividing the amount of the cash dividend by the weighted average closing price for the common shares of the Company traded on the Toronto Stock Exchange on the last five business days on which at least 100 common shares of the Company traded immediately prior to the declaration of the dividend. No fractional share interests are issued under the Program. Participants receive a cheque for the cash equivalent of such fractional common share interest.

As at June 30, 1981, 1803 common shares were issued under this Program. The Company has reserved 198,197 common shares to meet such future share option privileges.

Summary

	Number of Shares	Increase in Capital Stock	Increase in Contributed Surplus	Total Proceeds
Rights offering	268,181	$ 268,181	$3,084,082	$3,352,263
Optional stock dividend program	1,803	1,803	26,441	28,244
	269,984	$ 269,984	$3,110,523	$3,380,507

4. Retained earnings

The Trust Deed securing the Company's first mortgage sinking fund bonds contains certain restrictions upon the amount that may be paid as dividends. At June 30, 1981 all of the Company's retained earnings were free from limitation of such restrictions.

5. Remuneration of directors and senior officers

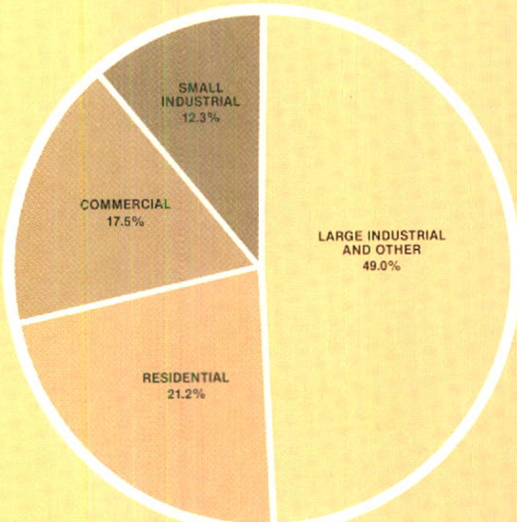
The aggregate remuneration paid by the Company to directors and senior officers (including the five highest paid employees) for the year ended June 30, 1981 was $414,352 (1980 - $358,450).

6. Capital expenditures

Capital expenditures for the 1982 fiscal year, exclusive of the proposed distribution system expansion program currently under consideration, are estimated at $13,000,000. Cash requirements will be provided by established corporate lines of credit together with cash from operations pending future permanent financing.

7. Event subsequent to June 30, 1981

On June 25, 1981 the Company applied to the British Columbia Utilities Commission for an order approving revision to its tariffs on an interim basis. By Order dated July 6, 1981 the Commission granted the Company an interim increase effective July 1, 1981 amounting to approximately $2.3 million on an annual basis. The interim rate increase is subject to refund with interest at 15% if subsequently so ordered by the Commission. The Company is preparing an application for permanent rate relief for filing with the Commission.

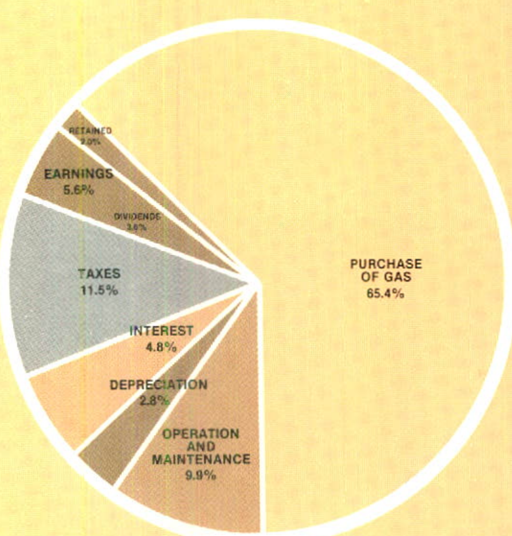


SOURCE OF REVENUE
YEAR ENDED JUNE 30, 1981

Comparative Statement of

	1981
REVENUE	
Sale of gas	$122,180,927
Transportation revenue	62,123
Other income	577,751
	122,820,801
EXPENSES	
Purchase of gas	81,249,341
Operation and maintenance	11,797,806
Property and other taxes	3,684,341
Franchise fees	2,811,993
Depreciation	3,383,618
Interest on borrowed money	6,176,964
Amortization of long-term debt issue costs	(19,212)
Allowance for funds used during construction	(66,982)
	109,017,869
INCOME BEFORE INCOME TAXES	13,802,932
Income taxes — current	5,447,701
— deferred	1,944,215
	7,391,916
NET INCOME*	6,411,016
Income from other subsidiaries	386,339
	6,797,355
Amortization of goodwill	19,575
NET CONSOLIDATED INCOME	$ 6,777,780
DIVIDENDS	
Preference shares	$ 1,353,688
Common shares	3,033,633
Total dividends	$ 4,387,321
NUMBER OF COMMON SHARES average	2,972,914
EARNINGS PER COMMON SHARE (after provision for preference dividends)	$ 1.82
DIVIDENDS PER COMMON SHARE	$ 1.025

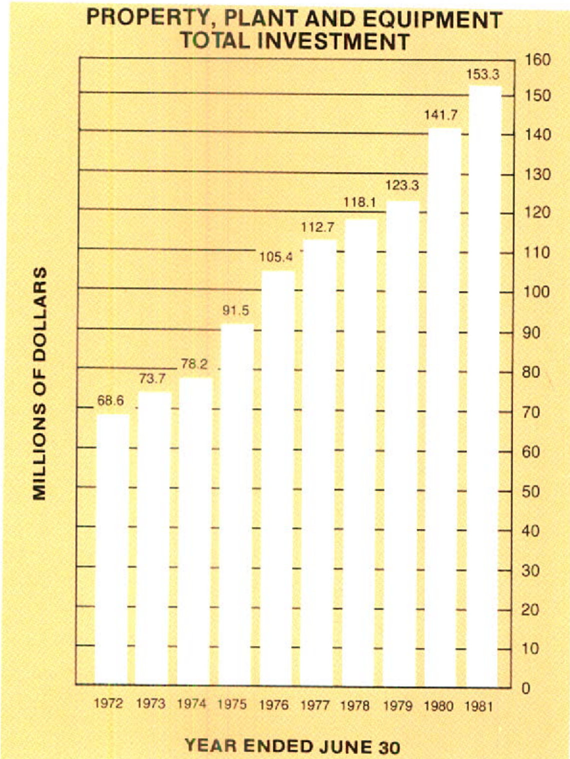
*Including Columbia Natural Gas Limited from 1980

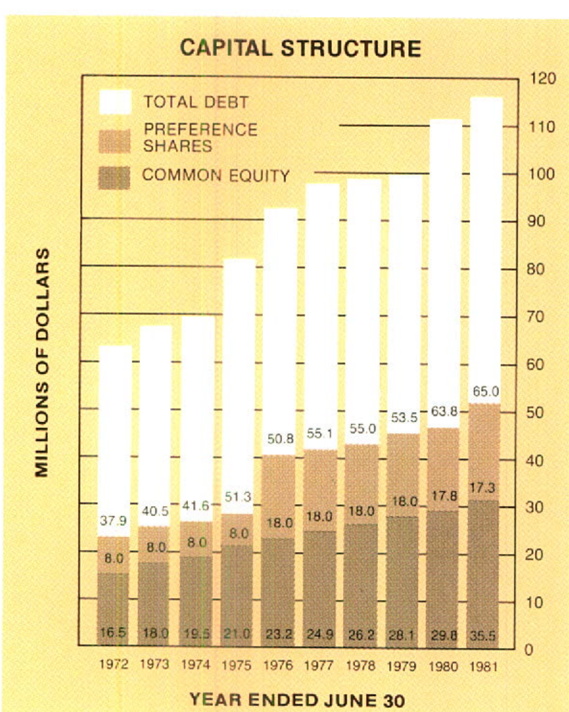


DISTRIBUTION OF REVENUE
YEAR ENDED JUNE 30, 1981

Consolidated Income and Dividends

1980	1979	1978	1977	1976	1975	1974	1973	1972
98,831,356	82,043,327	65,980,460	49,324,042	35,786,016	32,414,184	27,272,202	22,664,204	18,269,877
8,366	70,876	879,070	825,950	296,700	296,700	296,700	288,880	260,023
494,393	465,013	450,159	429,984	445,086	328,971	488,703	352,712	331,191
99,334,115	82,579,216	67,309,689	50,579,976	36,527,802	33,039,855	28,057,605	23,305,796	18,861,091
62,916,257	50,816,594	41,164,288	29,515,461	19,423,365	18,663,501	14,155,016	10,403,343	8,117,278
10,294,713	8,551,225	5,924,602	5,013,262	4,042,170	3,197,242	2,723,477	2,382,680	2,015,214
3,155,286	2,098,186	1,482,429	1,271,164	1,153,879	920,547	791,251	650,950	541,075
2,346,927	2,177,975	1,606,534	1,253,327	922,528	839,649	649,628	455,525	381,973
3,205,179	2,833,680	2,673,205	2,240,407	1,732,656	1,661,278	1,554,102	1,447,087	1,192,131
6,208,672	5,093,363	4,941,831	4,505,881	4,982,241	3,678,765	3,019,393	2,662,467	2,331,595
22,135	39,458	55,972	33,252	54,665	47,009	60,190	63,323	67,179
(41,870)	(15,449)	(81,913)	(30,682)	(563,583)	(529,712)	(15,240)	(38,663)	(264,894)
88,107,299	71,595,032	57,766,948	43,802,072	31,747,921	28,478,279	22,937,817	18,026,712	14,381,551
11,226,816	10,984,184	9,542,741	6,777,904	4,779,881	4,561,576	5,119,788	5,279,084	4,479,540
4,628,724	4,050,417	3,092,259	1,615,707	212,678	703,700	1,446,269	1,495,561	994,769
1,300,790	1,593,330	1,829,733	—	—	—	—	—	—
5,929,514	5,643,747	4,921,992	1,615,707	212,678	703,700	1,446,269	1,495,561	994,769
5,297,302	5,340,437	4,620,749	5,162,197	4,567,203	3,857,876	3,673,519	3,783,523	3,484,771
402,403	374,871	319,291	334,844	238,714	236,357	216,009	99,708	281,130
5,699,705	5,715,308	4,940,040	5,497,041	4,805,917	4,094,233	3,889,528	3,883,231	3,765,901
19,575	—	—	—	—	—	—	—	—
5,680,130	5,715,308	4,940,040	5,497,041	4,805,917	4,094,233	3,889,528	3,883,231	3,765,901
1,394,875	1,400,000	1,400,000	1,444,000	400,000	400,000	400,000	400,000	400,000
2,610,463	2,328,251	2,257,698	2,257,698	2,257,698	2,088,370	2,031,928	1,947,264	1,777,937
4,005,338	3,728,251	3,657,698	3,701,698	2,657,698	2,488,370	2,431,928	2,347,264	2,177,937
2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122
1.52	1.53	1.25	1.44	1.56	1.31	1.24	1.23	1.19
.925	.825	.80	.80	.80	.74	.72	.69	.63



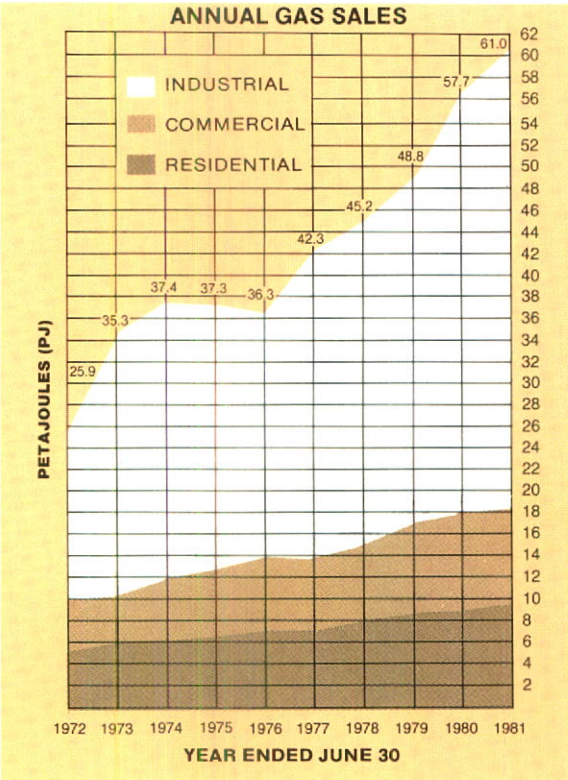


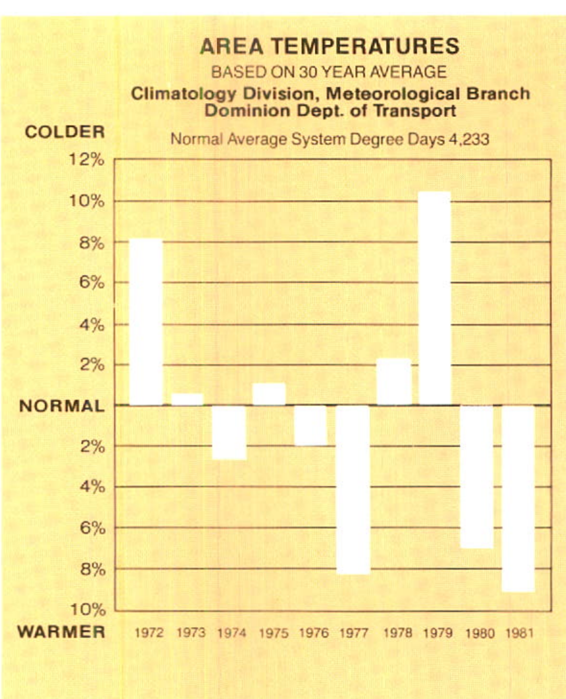
Consolidated Balance

	1981
MILES OF COMPANY OWNED LINES	
Distribution Utilities	
Transmission	1,135
Distribution	1,691
Services	1,397
Other subsidiaries	122
UTILITY PLANT ($000)	
Distribution Utilities	
Transmission	$ 67,727
Distribution	75,248
Stand-by	830
General	5,012
Construction work in process	891
Total distribution utility plant	149,708
Other Subsidiaries' Plant	3,568
	153,276
ACCUMULATED DEPRECIATION	
Distribution utilities	28,271
Other subsidiaries	1,447
	29,718
NET CONSOLIDATED PLANT	$123,558
CAPITALIZATION ($000)	
First mortgage bonds	$ 42,124
Debentures	11,636
Short-term notes and bank loan	11,218
Total debt	64,978
Preference shares	17,295
Common shares	3,092
Contributed surplus	8,594
Retained earnings	23,771
	$117,730
PERCENTAGE OF TOTAL CAPITALIZATION	
First mortgage bonds	35.8
Debentures	9.9
Short-term notes and bank loan	9.5
Total debt	55.2
Preference shares	14.7
Common shares	2.6
Contributed surplus	7.3
Retained earnings	20.2
	100.0
RATIOS	
First mortgage bond interest—times earned	5.58
Total debt interest—times earned	3.37
Preference dividends—times earned	5.01

Sheet Information

1980	1979	1978	1977	1976	1975	1974	1973	1972
1,095	915	907	903	889	816	781	777	769
1,589	1,353	1,304	1,270	1,211	1,141	1,082	1,000	898
1,287	1,058	1,020	985	937	871	814	740	671
122	122	122	122	122	122	116	116	115
65,543	59,566	58,957	55,996	53,981	34,839	34,047	33,190	31,680
67,005	55,074	50,977	47,774	43,613	39,322	36,374	33,000	29,558
827	883	881	881	882	882	882	883	913
4,424	3,802	3,467	2,852	2,728	2,671	2,601	2,537	2,528
405	506	388	1,860	461	10,095	739	618	591
138,204	119,831	114,670	109,363	101,665	87,809	74,643	70,228	65,270
3,492	3,483	3,446	3,376	3,713	3,711	3,517	3,470	3,343
141,696	123,314	118,116	112,739	105,378	91,520	78,160	73,698	68,613
24,973	19,959	17,465	15,317	13,494	12,106	10,594	9,267	8,225
1,390	1,318	1,244	1,171	1,148	1,066	989	912	844
26,363	21,277	18,709	16,488	14,642	13,172	11,583	10,179	9,069
115,333	102,037	99,407	96,251	90,736	78,348	66,577	63,519	59,544
43,769	41,484	42,965	44,347	45,498	46,277	35,137	35,810	28,960
11,760	12,000	12,000	—	4,151	4,151	4,384	4,623	4,879
8,333	—	—	10,715	1,187	863	2,116	76	4,071
63,862	53,484	54,965	55,062	50,836	51,291	41,637	40,509	37,910
17,795	18,000	18,000	18,000	18,000	8,000	8,000	8,000	8,000
2,822	2,822	2,822	2,822	2,822	2,822	2,822	2,822	2,822
5,483	5,483	5,483	5,483	5,483	5,483	5,483	5,483	5,483
21,475	19,834	17,879	16,628	14,865	12,729	11,136	9,691	8,168
111,437	99,623	99,149	97,995	92,006	80,325	69,078	66,505	62,383
39.3	41.6	43.3	45.3	49.4	57.6	50.8	53.8	46.4
10.5	12.1	12.1	—	4.5	5.2	6.3	7.0	7.8
7.5	—	—	10.9	1.3	1.1	3.2	.1	6.5
57.3	53.7	55.4	56.2	55.2	63.9	60.3	60.9	60.7
16.0	18.1	18.2	18.3	19.6	10.0	11.6	12.0	12.8
2.5	2.8	2.9	2.9	3.1	3.5	4.1	4.2	4.5
4.9	5.5	5.5	5.6	5.9	6.8	7.9	8.3	8.8
19.3	19.9	18.0	17.0	16.2	15.8	16.1	14.6	13.2
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
4.75	4.59	4.01	3.09	2.62	3.30	3.22	3.80	3.89
2.92	3.28	3.03	2.60	2.02	2.32	2.78	3.04	3.09
4.07	4.08	3.53	3.81	12.01	10.24	9.72	9.71	9.41





Comparative Statement of Sales,

	1981
REVENUE ($000)	
Residential	$ 25,920
Commercial	21,440
Small industrial	14,984
Large industrial and other	59,837
Total natural gas revenue	$122,181
SALES UNITS (TJ)**	
Residential	9,814
Commercial	8,534
Small industrial	7,063
Large industrial and other	35,581
Total natural gas sales units	60,992
CUSTOMERS AT YEAR END	
Residential	87,858
Commercial	12,218
Small industrial	120
Customers at year end	100,196
CUSTOMER STATISTICS**	
Average use per customer (GJ)	
Residential	117
Commercial	724
Average rate per GJ	
Residential	$ 2.64
Commercial	$ 2.51
COST OF NATURAL GAS PURCHASED ($000)	$ 81,249
UNITS OF NATURAL GAS PURCHASED (TJ)**	62,513
MAXIMUM DAY SENDOUT (GJ)**	
Including interruptible	277,262
DEGREE DAYS (base 18 °C.)	3,859
PAYROLL STATISTICS	
Wages and benefits ($000)	$ 10,450
Number of employees (average)	350

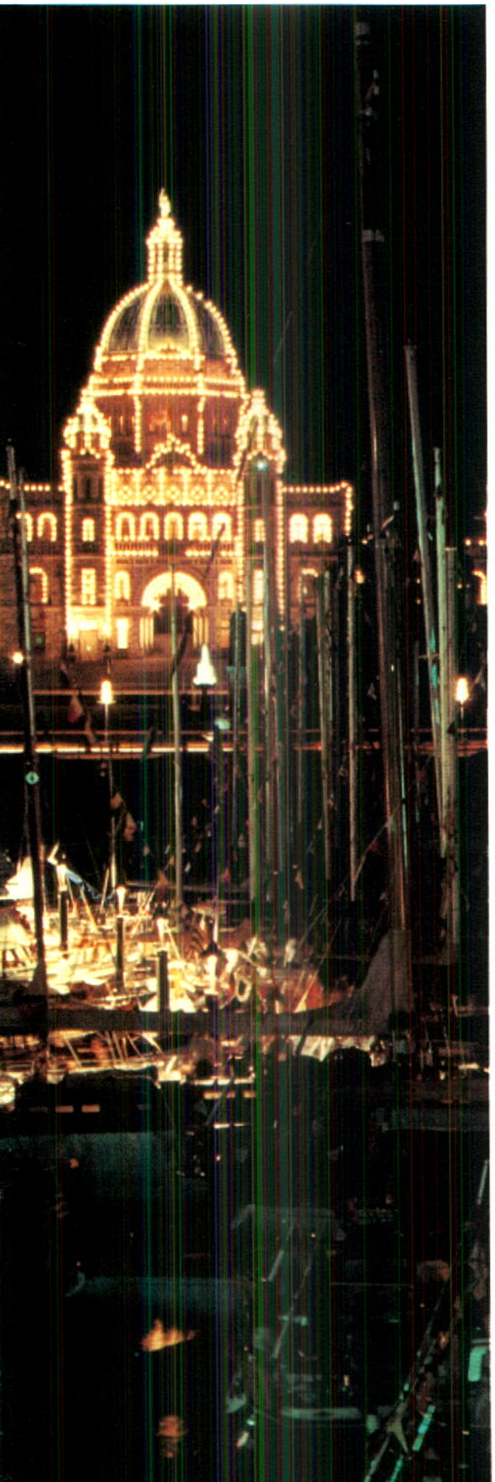
*Including Columbia Natural Gas Limited from 1980

**All sales and related statistics are stated in SI (metric) units.
GJ — Gigajoules, TJ — Thousands of Gigajoules.
PJ — Millions of Gigajoules.

Purchases and Other Statistics*

1980	1979	1978	1977	1976	1975	1974	1973	1972
21,862	20,022	16,253	12,465	10,561	9,531	7,633	6,406	6,224
18,577	17,021	13,286	9,869	8,318	7,567	5,759	4,593	4,375
11,492	12,024	10,113	7,772	5,053	3,787	3,509	3,158	2,426
46,900	32,976	26,328	19,218	11,854	11,529	10,371	8,507	5,245
98,831	82,043	65,980	49,324	35,786	32,414	27,272	22,664	18,270
9,641	9,277	8,486	7,673	7,745	7,387	6,717	6,176	5,746
8,564	8,142	7,192	6,398	6,414	6,147	5,367	4,884	4,631
6,253	6,715	6,507	6,091	4,839	3,943	4,180	4,276	3,485
33,269	24,664	23,062	22,102	17,319	19,858	21,135	19,976	12,077
57,727	48,798	45,247	42,264	36,317	37,335	37,399	35,312	25,939
80,537	67,358	65,206	62,763	59,300	54,910	51,027	45,870	41,094
11,369	9,385	8,942	8,580	8,034	7,481	6,955	6,362	5,800
114	105	104	108	100	90	86	90	98
92,020	76,848	74,252	71,451	67,434	62,481	58,068	52,322	46,992
123	140	133	126	136	139	139	142	147
777	888	821	770	827	852	806	803	830
2.27	2.15	1.92	1.62	1.36	1.29	1.14	1.04	1.08
2.17	2.09	1.85	1.54	1.30	1.23	1.07	0.94	0.94
62,917	50,817	41,164	29,515	19,423	18,664	14,155	10,403	8,117
58,172	48,234	44,647	41,830	35,924	36,931	37,013	34,744	25,511
274,016	245,835	216,478	178,019	165,700	155,917	143,640	134,201	110,553
3,936	4,524	4,191	3,763	4,018	4,140	4,002	4,130	4,443
8,878	7,397	6,248	5,996	4,887	3,831	3,142	2,625	2,328
325	278	262	271	249	240	224	213	205

Victoria



Communities Served

Armstrong
Ashcroft
Cache Creek
Castlegar
Chetwynd
Clinton
Coldstream
Cranbrook
Creston
Elkford
Enderby
Falkland
Fernie
Fruitvale
Grand Forks
Hedley
Hudson Hope
Kamloops
Kelowna
Keremeos
Kimberley
Lac La Hache
Lakeview Heights
Logan Lake
Lumby
Mackenzie
Merritt
Midway
Montrose
Naramata
Nelson
Oliver
Okanagan Falls
Osoyoos
Oyama
Peachland
Penticton
Prince George
Princeton
Quesnel
Robson
Rossland
Savona
Salmo
Salmon Arm
Shelley
Spallumcheen
Sparwood
Summerland
Trail
Vernon
Warfield
Westbank
Williams Lake
Winfield
Yahk
100 Mile House
150 Mile House

Roberts Bank Coal Port

Development Areas

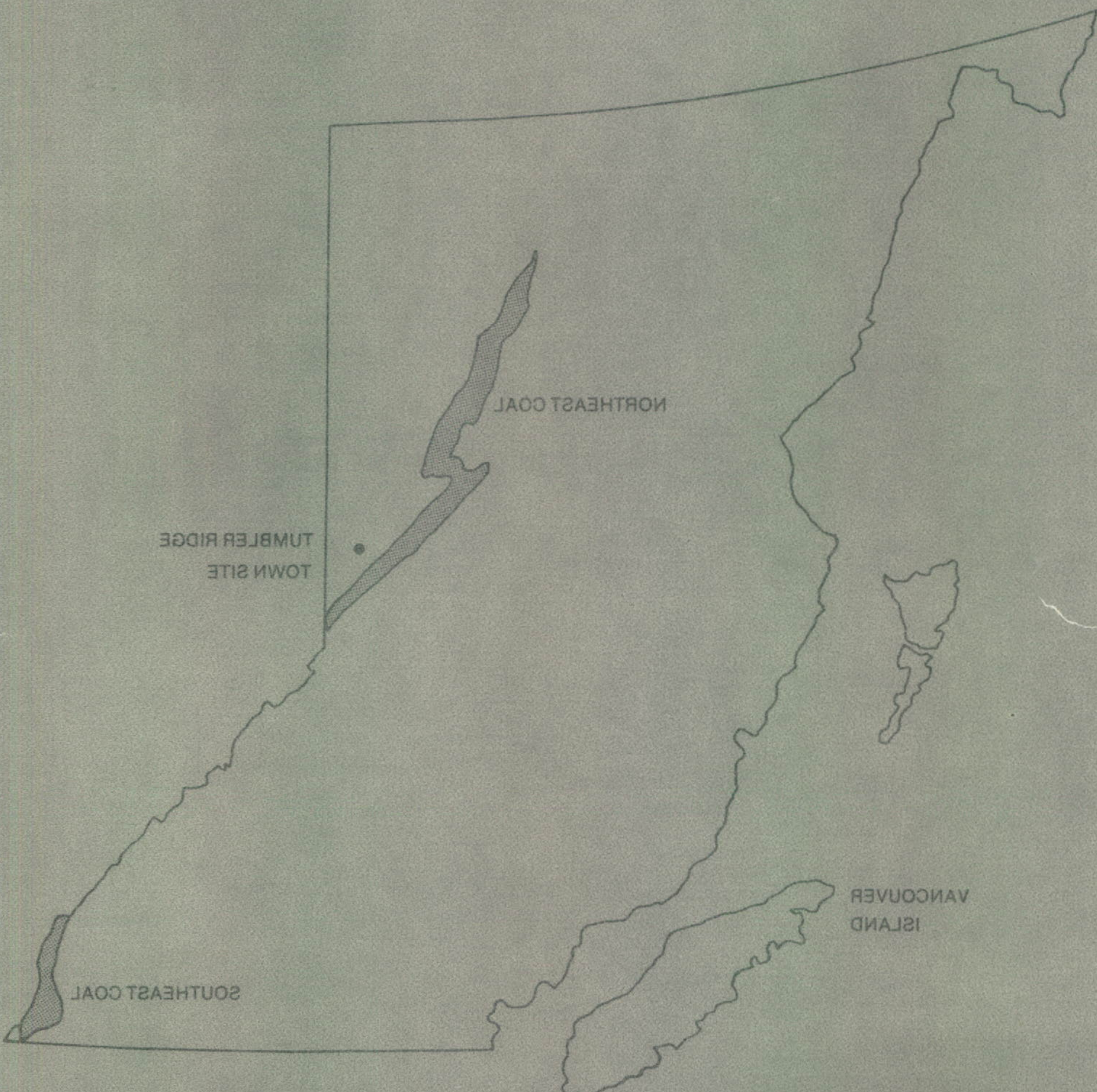
Vancouver Island
With the understanding that an underwater line will be built to transport natural gas from the Mainland to Vancouver Island and that funds will be made available to assist in providing gas service to homes, business and industries on the Island, Inland is in the final stages of a major study which will lead to an application for the right to serve this important new market.

System Expansion
Inland introduced natural gas to 26 communities in 1957. Since that time the Company has maintained a policy of extending its facilities to additional areas and communities whenever possible. Inland and Columbia now serve the communities listed

The Company is presently seeking approval to further expand its transmission and distribution system to serve a number of additional areas over the next several years.

Coal Developments
Coal production is becoming a significant contributor to the provincial economy. Coal developments in the southeast area of the province served by Columbia are resulting in substantial industrial gas sales and residential expansion.

Recent northeast coal developments hold the promise of further industrial and residential sales for Inland. Project plans include the creation of Tumbler Ridge townsite which will house over 5,000 people.



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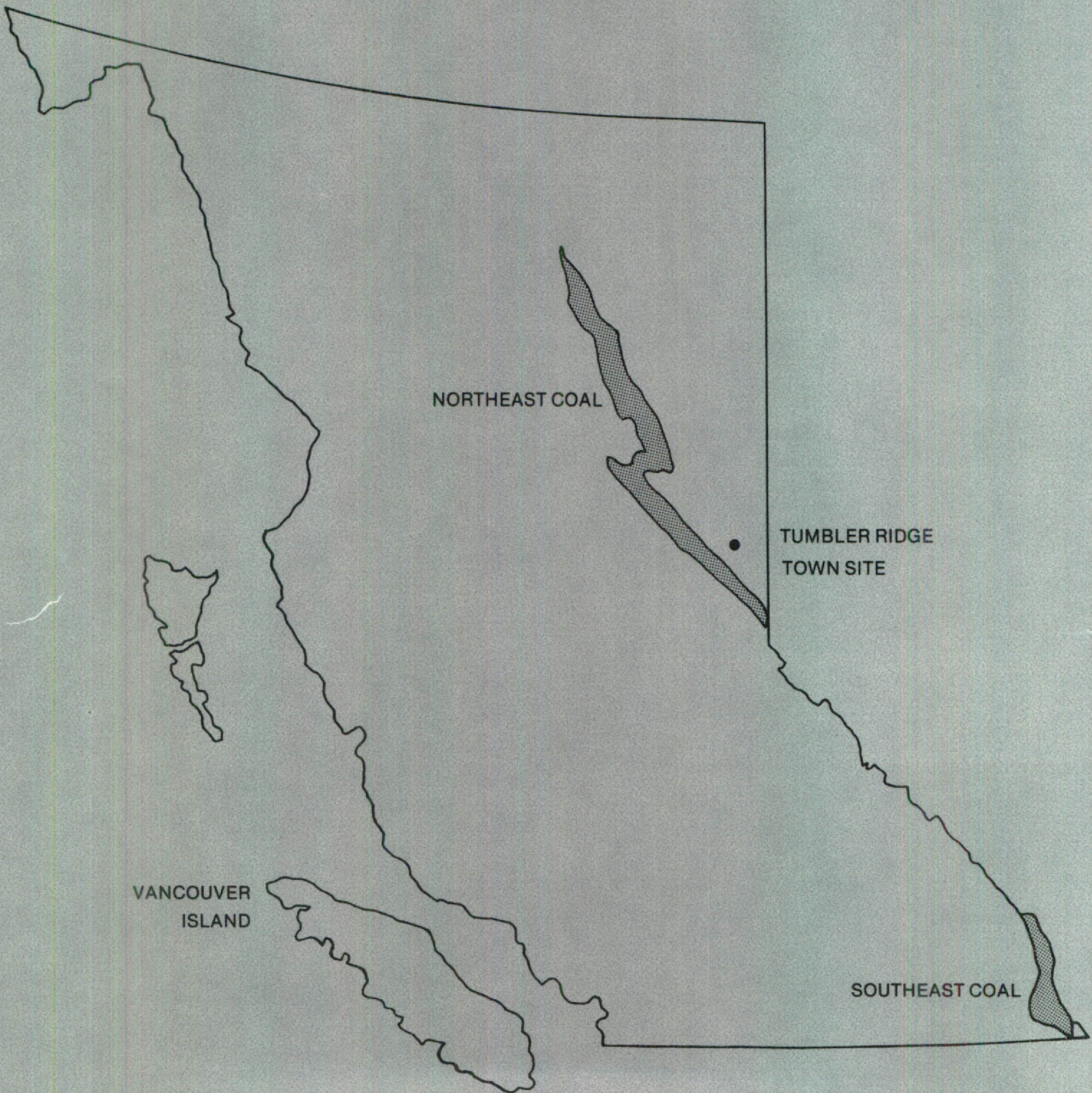


Corporate Data

DIRECTORS

	Robert G. Brodie	President Cardiff Estates Limited
+	Ronald L. Cliff	Chairman of the Board, Inland Natural Gas Co. Ltd.
*	Roderick M. Hungerford	President, Flex-Lox Industries Ltd.
+ *	J. Norman Hyland	Corporate Director
+	Robert E. Kadlec	President, Inland Natural Gas Co. Ltd.
	Thomas G. Rust	President and Chief Executive Officer, Crown Zellerbach Canada Limited
*	Horace B. Simpson	Vice-President, Okanagan Holdings Ltd.
+	Richard B. Stokes	Executive Vice-President and Chief Financial Officer, Inland Natural Gas Co. Ltd.
*	H. Richard Whittall	Partner, Richardson Securities of Canada

+ Member of the Executive Committee
* Member of the Audit Committee.

All Directors reside in British Columbia.

OFFICERS

Ronald L. Cliff	Chairman of the Board
Robert E. Kadlec	President
Richard B. Stokes	Executive Vice-President and Chief Financial Officer
Geoffrey M.O. Solly	Vice-President, Operations
Clifford I. Kleven	Vice-President, Finance
James L. Randall	Vice-President, Marketing
Richard T. O'Callaghan	Vice-President, Engineering
Patrick D. Lloyd	Secretary

HEAD OFFICE
1066 West Hastings Street, Vancouver, B.C. V6E 3G3

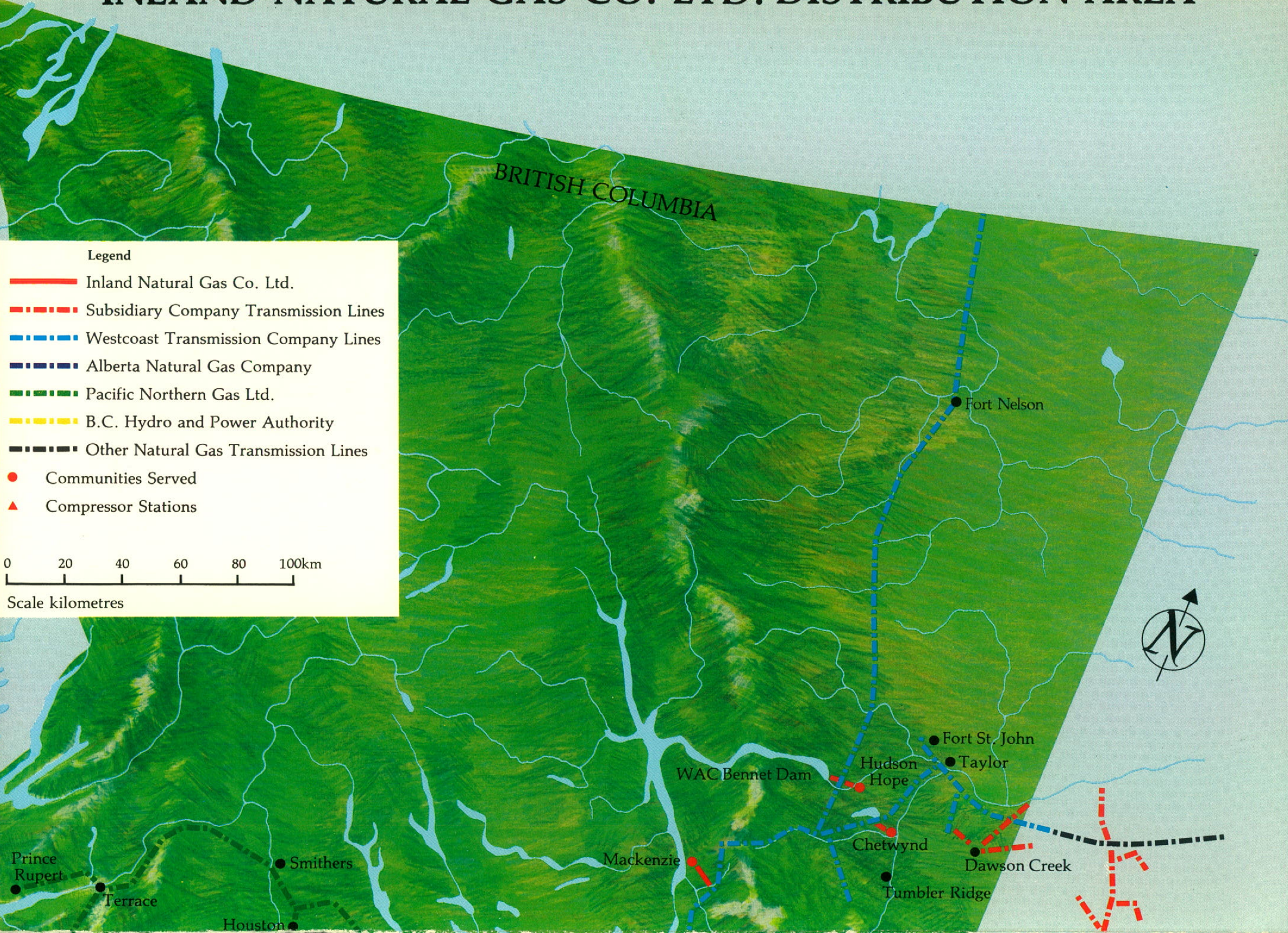
REGISTRAR
National Trust Company, Limited, Vancouver, B.C.

TRANSFER AGENT
National Trust Company, Limited
Vancouver — Calgary — Toronto — Montreal

AUDITORS
Thorne Riddell

Kitimat
Burns Lake
Bear Lake
Fort St. James
Endako
Endako Mines
Fraser
Lake
Vanderhoof
PRINCE
GEORGE
Shelley
Grande Prairie
Dunkley
Quesnel
Jasper
Gibraltar Mines
Williams Lake
150 Mile House
Lac La Hache
100 Mile House
Clinton
Cache Creek
Ashcroft
Savona
KAMLOOPS
Golden
Revelstoke
Banff
Salmon Arm
Enderby
Armstrong
Spallumcheen
Highland Valley
Logan Lake
Falkland
Campbell River
Gold River
Cumberland
Courtenay
Comox
Powell River
Craigmont Mines
Merritt
Vernon
Lumby
Oyama
Coldstream
Invermere
Fording
Winfield
Qualicum-Parksville
Port Alberni
Brenda Mines
Westbank
KELOWNA
Elkford
Peachland
Summerland
Nanaimo
Vancouver
Naramata
PENTICTON
Skookumchuck
Kimberley
Sparwood
Hope
Hedley
Princeton
Okanagan Falls
Robson
Nelson
CRANBROOK
B.C. Coal
Fernie
Ladysmith
Huntington
Keremeos
Oliver
Castlegar
Salmo
Duncan
Osoyoos
Midway
Fruitvale
Rossland
Trail
Montrose
Victoria
U.S.A.
Grand Forks
Yahk
Creston

INLAND NATURAL GAS CO. LTD. DISTRIBUTION AREA



LITHO'D IN CANADA
AGENCY PRESS LIMITED