INLAND NATURAL GAS CO. LTD.

1982 Annual Report

CONTENTS

HIGHLIGHTS

FINANCIAL	1982	1981	% Increase (Decrease)
Total Revenue	$181,753,637	$128,068,363	42
Net Income	$ 6,259,156	$ 6,777,780	(8)
Earnings Available For Common	$ 4,963,906	$ 5,424,092	(8)
Average Common Shares Outstanding	3,095,763	2,972,914	4
Earnings Per Common Share	$ 1.60	$ 1.82	(12)
Dividends Per Common Share	$ 1.10	$ 1.025	7
Capital Expenditures	$ 14,440,960	$ 12,756,038	13
Total Plant	$168,043,426	$153,866,805	9
OPERATING			
Total Gas Sales (Thousands of Gigajoules)	58,452	60,992	(4)
Total Customers at Year End	106,886	100,196	7
Degree Days (base 18°C)	4,196	3,859	9

ANNUAL MEETING

11:00 A.M. (Vancouver time) October 26, 1982, the Garibaldi Room, Four Seasons Hotel, 791 West Georgia Street, Vancouver, B.C.

ANNUAL REPORT DESIGN

The design of this year's annual report pays tribute to British Columbia wildlife, one aspect of this Province's vast natural resources and spectacular beauty.

The sculptures carved from B.C. Interior soapstone by Kelowna artist, Catherine Jenkins, draw attention to Inland's ongoing awareness to provide responsible energy resource management with minimum environmental impact.

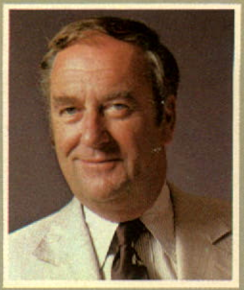
The art medium, soapstone, provides an appropriate backdrop of permanency, a quality that Inland has earned through twenty-five years of service to its consumers, during which its pride and optimism in the growth and prosperity of the province has never wavered.

DUPLICATE ANNUAL REPORTS

Some holders of Inland securities receive 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.

LITHOGRAPHED IN CANADA BY EVERGREEN PRESS LIMITED

TO OUR SHAREHOLDERS



R. L. Cliff
Chairman of the Board

R. E. Kadlec
President

The severe impact of the economic recession has been felt across Canada. While your Company has experienced encouraging growth over the past year we have not been spared the effects of this recession. Net income has declined by 8% and earnings per Common Share have declined 12% to $1.60.

The reduced earnings are a direct result of high inflation and declining sales. High interest rates and inflationary pressure reflected in operating costs have significantly increased expenses. The serious decline in markets for forestry and mining products, together with the effect of conservation, has resulted in lower natural gas sales. Details underlining these problems are outlined in the body of the report.

Last year we looked forward with enthusiasm and optimism to what we felt would be the challenging '80's. Unfortunately Canada's economy and British Columbia's in particular has taken a serious downturn. Little overall improvement can be expected until early 1983 and only gradual recovery at best is forecast for that time.

The longer term picture, however, remains encouraging. We are continuing to add customers at high levels and the Provincial Government's decision to foster natural gas-based industry in the Province should add to our future expansion. We believe that system construction will continue at its present rapid pace with the promise of continued Federal and Provincial incentives to expand service. The Govier report, the results of a provincial hearing concluded this past winter on gas supply and demand, speaks positively to a future supply of natural gas and the protection of the domestic consumer well into the 21st century.

The Company is in a sound financial and operating position. We are pleased to report that in October 1981 the Dominion Bond Rating Service raised the rating on our First Mortgage Bonds and Sinking Fund Debentures and in doing so rated Inland higher than any other natural gas utility in Canada.

In December 1980 the British Columbia Utilities Commission ordered an independent management audit of your Company. Prior to this order, we had retained a firm to carry out such an audit. The Commission felt that the two audits were appropriate and the end result was an in depth investigation into all aspects of the Company's operation. The audits were completed in the Fall of 1981 and we are pleased to report that the findings were most complimentary to the Company and its staff.

The assessment of one of these audit reports indicated that "the Company is a well run enterprise. The organization appears to function more effectively in many respects than the average company of this size and at this stage of development". The other report stated "the Company has a very successful performance record — which warrants high grades on a report card — but is also facing very complex challenges in its future — which require management attention and action". The audits and resulting reports have assisted management in its corporate planning. Areas for improvement have been identified and long term plans and objectives have been established.

A major shift in share ownership has occurred since our last Annual Report. On February 26, 1982, TMA Western Resources Ltd. ("TMA"), a B.C. company jointly owned by Trans Mountain Pipe Line Company Ltd. and two Vancouver businessmen, F. J. Anderson and C. B. Macdonald, made an offer to purchase all the Common Shares of the Company at $20.00 cash per share. This ultimately resulted in approximately 93.5% of the outstanding Common Shares of the Company being tendered pursuant to the Offer. TMA, as required by the British Columbia Utilities Commission Act, filed an application with the Commission for approval to transfer in the books of the Company the total number of shares tendered pursuant to the Offer. Prior to the hearing TMA and Denton Investments Ltd. (the holding company of TMA), registered approximately 35% of the Common Shares of Inland into their names. By Order dated June 30, 1982 the British Columbia Utilities Commission denied the application thereby continuing the situation whereby TMA and Denton Investments Ltd. are the beneficial owners of 93.5% of the voting shares, however, registered owners of only 35%.

Subsequent to TMA's successful offer, it was our pleasure to welcome to the Board of Directors Messrs. F. J. Anderson, C. B. Macdonald and K. L. Hall. Their appointments increased the Board from nine members to twelve for the year as provided in the Company's Articles. We are looking forward to working with these gentlemen in furthering the development of Inland.

We feel the employees are dedicated, enthusiastic and hard working. Their skills and efforts have enabled Inland and its subsidiaries to continue to provide a high standard of service to its customers. This acknowledgment of the vital contribution of our employees comes with the sincere thanks of the Directors.

On behalf of the Board of Directors.

Chairman of the Board

President

Vancouver, B.C.
September 14, 1982

THE YEAR IN REVIEW

Earnings and Dividends

Common share earnings for the year ended June 30, 1982 were $4,963,906 or $1.60 per share on 3,095,763 average shares outstanding. This compares with earnings of $5,424,092 or $1.82 per share on 2,972,914 average shares outstanding last year. The quarterly dividend was $.275 per share or $1.10 on an annual basis compared to $1.025 in the previous year.

In February 1981 the Company introduced an Optional Stock Dividend Program. 5,460 shares were issued under the plan until its suspension by the Board of Directors during the year.

Regulation & Rates

Inland

There have been a number of significant rate increases during the year which were brought about by actions of the Federal and Provincial Governments. Additional Federal natural gas taxes imposed on July 1, 1981 and February 1, 1982 added approximately 36¢ per gigajoule. B.C. wholesale price increases on August 1, 1981 and February 1, 1982 added approximately 50¢ per gigajoule. These increases were flowed through to our customers with the consent of the Commission with no resulting effect on the earnings of the Company.

On July 1, 1981 the Company received approval from the Commission to implement an interim rate increase which added approximately 4.3¢ per gigajoule on average to customer rates. A further interim increase on February 1, 1982 of approximately 4.1¢ per gigajoule allowed the recapture of increased property taxes and debenture interest.

The interim rates are subject to refund with interest if not justified at a public hearing.

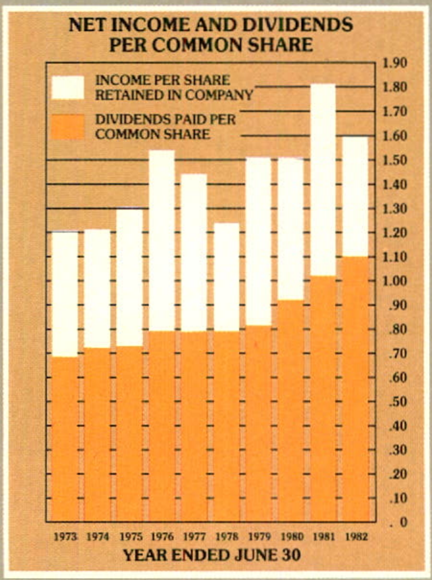
On June 21, 1982, the Company filed an application for further interim rate relief amounting to approximately 10¢ per gigajoule on average to be effective July 1, 1982. At the same time an application was filed for permanent rate relief asking confirmation of the interim rates and a further 2¢ per gigajoule representing an increase in the Company's presently allowed 16.5% return on equity to 17.5%.

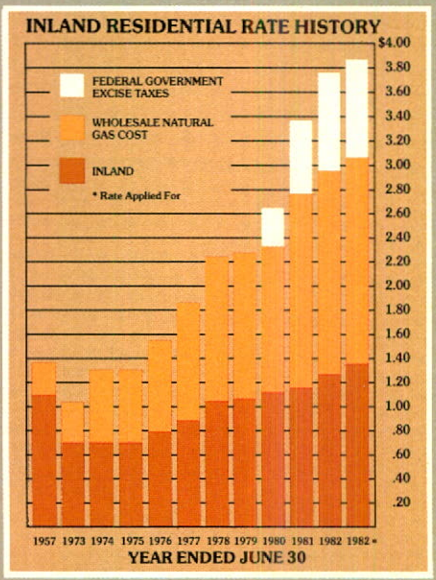
On July 13, 1982 the Commission denied the proposed July 1, 1982 interim increase and set a date of September 28, 1982 for a public hearing in Kelowna, B.C. In its Order the Commission stated that the matter of interim increases would receive the attention of the Commission promptly following the commencement of the hearing.

As illustrated by the Chart on this page, Inland's cost of service component of the average retail selling price has changed very little since the inauguration of service in 1957. Price increases which have occurred since 1973 are mainly attributable to the introduction of the Federal Excise Tax on natural gas in 1980 and increases in the wholesale price. The latter was necessary to offset increases in the wellhead price which has in turn encouraged exploration and development resulting in the Province's current surplus supply position.

Columbia

Columbia has also experienced a number of rate escalations as a result of wholesale price increases and Federal taxes. During the year under review Federal taxes added, on average 36¢ per






New pulp mill at Quesnel.


Inland assists in apartment heating design.

gigajoule to customer rates.

Wholesale price increases were the cause of a further 34.5¢ per gigajoule on average being flowed through to customer rates.

An interim rate increase was granted to the Company on February 1, 1982 amounting to 1.2¢ per gigajoule to recover additional property taxes.

On June 21, 1982 the Company applied for further rate relief amounting to 6.8¢ per gigajoule to be effective July 1, 1982. At the same time the Company applied for confirmation of the interim rates and a further permanent rate increase of 1¢ per gigajoule to bring its return on equity up to 18 percent.

The Commission granted the requested interim relief effective August 1, 1982 and set down October 5, 1982 for a public hearing in Cranbrook, B.C.

The interim rates are subject to refund with interest if not justified at the public hearing.

Subsequent to the year end, a further increase in the wholesale price of gas of 15.9¢ per gigajoule, on average, was flowed through to consumers with the consent of the Commission on August 1, 1982.

Marketing

Notwithstanding a sharp downturn in the new housing market and a general slowdown in the economy, marketing results for the year in review continued to show considerable growth in some areas. 6700 new customers were attached to the Company's system, the second largest number of customer additions experienced in your Company's history.

The conversion to natural gas of homes, businesses and institutions previously using fuel oil for heating formed the largest segment of our new customer additions.

Aggressive conversion programs created internally were complemented this year by the implementation of the Federal Government's Canada Oil Substitution Program.

In early 1980, your Company began surveying some 100 areas adjacent to its system which did not have natural gas service. In the Spring of 1982, 39 projects were entered into competitions being held by the Federal and Provincial Governments to expand natural gas service. 20 of the projects were selected by the Federal Government Distribution System Expansion Program (D.S.E.P.) for grants and one by the Provincial Government Gas Extension Assistance Program (G.E.A.P.). These expansion programs will provide more British Columbians with the opportunity to enjoy the benefits of natural gas. Inland is optimistic that these programs will continue in future years.

Mortgage rates that are high by traditional standards are forcing people to seek lower cost accommodation. In your Company's service area, manufactured home parks or multi-family dwellings are becoming an attractive alternative. A close working association with owners and developers of manufactured home parks means that your Company is well positioned to participate fully in this trend.

In the multi-family residential market, Inland continues to improve its market share through assisting the developer in the design and promotion of multi-family complexes. In the future, more effort will be devoted to innovative methods for improving our success in this market.

The combination of high efficiency equipment and smaller-sized accommodation is resulting in reduced natural gas consumption per account. Inland is looking at methods of increasing revenue from our existing and future customer base. A program will soon be developed to encourage residential heating customers who use electricity for water heating to convert to natural gas.

In the small industrial market, the depressed condition in the mining and forestry sectors continues to have negative effects on natural gas sales. These sectors were also adversely affected by labour strikes during the year under review.

Sales to large industrial customers were also negatively affected by poor market conditions and labour disruption. However, on the positive side, a new pulp mill — Quesnel River Pulp — came on stream and two pulp mills were expanded during the past year.

Coal properties continue to develop in the East Kootenays; Crows Nest Resources mine and the B.C. Coal Greenhills mine are both scheduled to be in production within the next twelve months. In addition, discussions continue with other potential mines in the East Kootenays which hold the promise of future load growth.

RESEARCH AND DEVELOPMENT

Compressed Natural Gas

The use of natural gas as a transportation fuel has been the subject of increasing interest in Canada, and most particularly in British Columbia during the last year. Transportation consumes approximately one quarter of the total energy used in British Columbia and well in excess of half the oil used in the Province, a Province which produces only one quarter of its oil requirements within its borders. British Columbia, therefore, has a particular interest in reducing oil based vehicle fuel dependence and views its indigenous supplies of natural gas as one alternative.

A number of features make natural gas an attractive alternative to gasoline. Its high octane allows its use in modern high-compression engines without auto-ignition or "knock". Since it is in a gaseous state when introduced to the engine, fuel dilution of the lubricating oil is minimized resulting in longer intervals between oil changes. Similarly, as vaporization of the fuel is not required, cold starting is greatly enhanced and since natural gas readily mixes with air, good cylinder-to-cylinder air/fuel distribution occurs resulting in smoother and more efficient running with less emission during engine warmup periods.

A major drawback at present to the widespread introduction of natural gas as a transportation fuel in our service area is the lack of refuelling and conversion outlets. Such outlets by virtue of their requirements for compression facilities are necessarily more capital intensive than gasoline or diesel fuel dispensing. Refuelling outlets are being developed at several locations in British Columbia's lower mainland and in other Canadian centres to explore the fuel's technical and economic viability.

Your Company has been following these developments with considerable interest and over the last year has conducted its own technical and economic viability studies into the potential for C.N.G. Conclusions have indicated that the next stage of development should be the construction of a refuelling centre. Kamloops has been chosen as the location for this facility as a number of fleet operators in that area have indicated a desire to convert.

Plastic Material

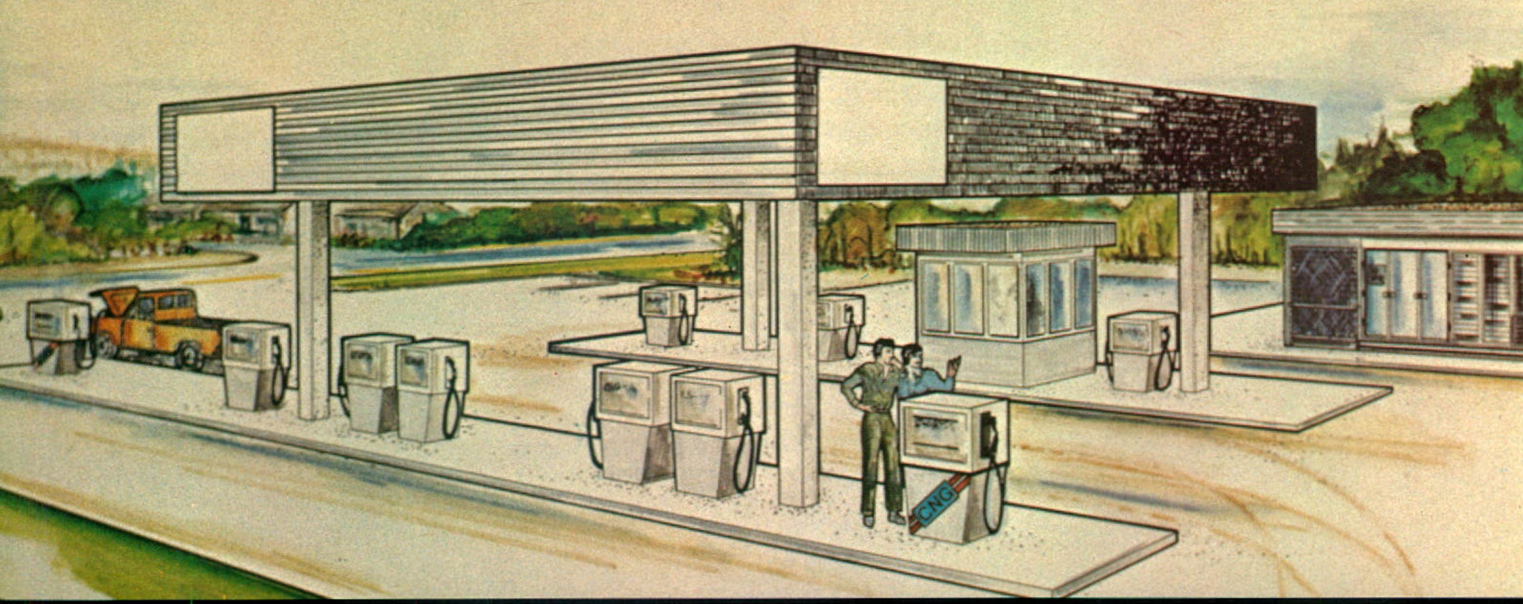
Plastic material for underground natural gas piping and fittings has experienced increased utilization in the natural gas industry in recent years. Your Company has studied the integrity and cost effectiveness of this product both from the experience of other utility companies and internal field tests. As a result, Inland plans to increase its use of plastic pipe this coming year in a number of its regions. The major benefits from the use of this product are its lower material costs, its speed of installation and ease of handling. This should reduce the capital expenditures required to expand our system.

Dry Kilns

The lumber industry in British Columbia has, for some time, been searching for ways to reduce the cost of drying lumber. In Inland's service area, nearly all dry kilns currently use natural gas for this purpose.

One major area of investigation is the use of residual wood products to produce the heat for kiln drying, thus eliminating the need for natural gas. In order to evaluate the threat to this market, Inland employed two independent consulting firms to analyze the economics of the systems that use residual products and to analyze the current supply and future marketability of these products. The results of these studies indicate that the lumber industry is best served by continuing to use natural gas for drying lumber. This message has been communicated to the industry through seminars and published reports.

Inland has now embarked on a program which will place it in a position to help advise kiln operators in the more efficient use of natural gas for lumber drying. One test underway in Prince George, monitored by Inland, has two identical kilns, one with conservation modification and one without. The modified kiln is using 20%-30% less fuel under test conditions.



Above: Artist's rendering of proposed compressed natural gas refuelling station.

Right 2" Plastic pipe in 1000' rolls.

High Efficiency Appliances

Rising costs of energy throughout Canada have accelerated the development of a new generation of natural gas appliances considerably more efficient than their forerunners. They range from modified traditional equipment to sophisticated new burner technology that offers up to 98% efficiency and include heating systems, hot water heaters and combination heating, cooling systems.

Considerable research and design has been and continues to be conducted by the Canadian Gas Research Institute of which your company is a member.

In cooperation with manufacturers and C.G.R.I., Inland is establishing a program to identify the economic efficiencies and best utilization of new high efficiency appliances and is developing training data for Customer Energy Advisors and other employees in the correct application of these new units. Your Company sees as its responsibility, the encouragement of increased use of economically viable high efficiency equipment and views the expanding market for both retrofit and new construction as a challenge and a future opportunity.

OPERATIONS REVIEW

Gas Supply

Early in 1980, the Minister of Energy, Mines and Petroleum Resources, the Honourable R. H. McClelland, publicized principles which the Government of British Columbia had determined would guide the development of provincial energy resources in succeeding years. A key principle, one of significant benefit to your Company, was that protection of gas supplies for British Columbia's own immediate and future domestic requirements must be assured before permitting further export of natural gas.

Last year the Minister announced a program to determine the amount of natural gas surplus to domestic needs and to solicit and assess proposals for the use of surplus gas. Central to the program was a public inquiry which would evaluate and recommend procedures for estimating the extent of the natural gas surplus in the Province and would estimate the actual size of the surplus by applying the recommended procedures. The report, which followed this inquiry in which your Company participated actively, was made public earlier this year. The report to the Minister finds that the Province has used less than 20 percent of the ultimate potential marketable gas reserves located in the northeastern area of the Province. To date, more than 44 percent of these potential reserves have been found and established. Other areas of the Province such as the Deep Basin, the Queen Charlotte Basin and the Tofino Basin may contribute additional marketable supplies in the future. Your Company is confident that adequate supplies of gas can be made available within British Columbia to meet the reasonably foreseeable requirements of its existing and future customers for a period well beyond the year 2000.

Inland's Capital Expenditures

The capital program completed during the fiscal year totalled $12.8 million. It included service lines for 5850 new customers and a record 681,000 feet of distribution main. Major projects included completion of an extensive reinforcement in Salmon Arm, the facilities to serve Quesnel River Pulp, the looping of the Finlay Forest Industries lateral and expanded gate station facilities in Prince George and Kamloops.

Future Capital Expenditures

The capital budget (excluding the recently announced D.S.E.P. and G.E.A.P. Programs) for the coming year totals $12.3 million which is largely related to the facilities required to serve a projected 5150 new customers. Major projects scheduled for this year include two sections of transmission line upgrading, and a second gate station to serve Quesnel, a new customer accounting system and a demonstration project for compressed natural gas for vehicles.

We were particularly pleased to hear earlier this year that we were awarded grants under the Federal D.S.E.P. and Provincial G.E.A.P. Programs to assist in extending natural gas service to uneconomic locations within our service area. Twenty-one projects were approved that involved approximately 700,000 feet of main and related facilities to make service available to a potential of 3100 existing oil consumers. The cost of this program this year is estimated to be $7.3 million less $3.4 million in government grants. The installation of these facilities is well underway and must be completed by March 31, 1983. We recently have been advised that a further $1.8 million in Federal grants will be made available for utilities in British Columbia this year and Inland is optimistic in respect to receiving a large portion of these funds. The approval of these projects along with our regular capital program will combine to make the coming year the busiest in our history for distribution construction.

WHOLLY-OWNED SUBSIDIARIES

Columbia Natural Gas Limited

Capital expenditures for the year under review totalled $1.6 million which included the installation of distribution mains, services and meters to serve 850 new customers. An active oil conversion program and housing construction related to the new coal mining operations put customer additions at a record level. The continued high level of customer additions is forecast for the coming year with capital expenditures estimated to total $1.5 million. Columbia has received approval for a D.S.E.P. project to serve the Galloway/Jaffray area at a cost of $287,000 less a grant of $160,000.

Gas sales increased to 9,781,000 gigajoules from 9,222,000 gigajoules last year. Notwithstanding weather that was marginally warmer than normal, sales to residential and commercial customers increased during the year due to new customer loads. Sales to coal mining industrial customers were also higher this year than in the previous year.

Above Left: Dept. of Highways bridge used to carry distribution line over Kootenay Lake for D.S.E.P. Project.
Above Right: Federal Government — Inland Project sign.

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 amounted to 3,133,000 gigajoules compared to 3,114,000 gigajoules last year. Temperatures in the Grande Prairie area were near normal for the year. The Company experienced a net loss of $165,685 which was mainly attributable to the cost of short-term borrowing. The Company expects to appear before the Public Utilities Board in the coming year to seek rate relief and a change in the capital structure.

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.

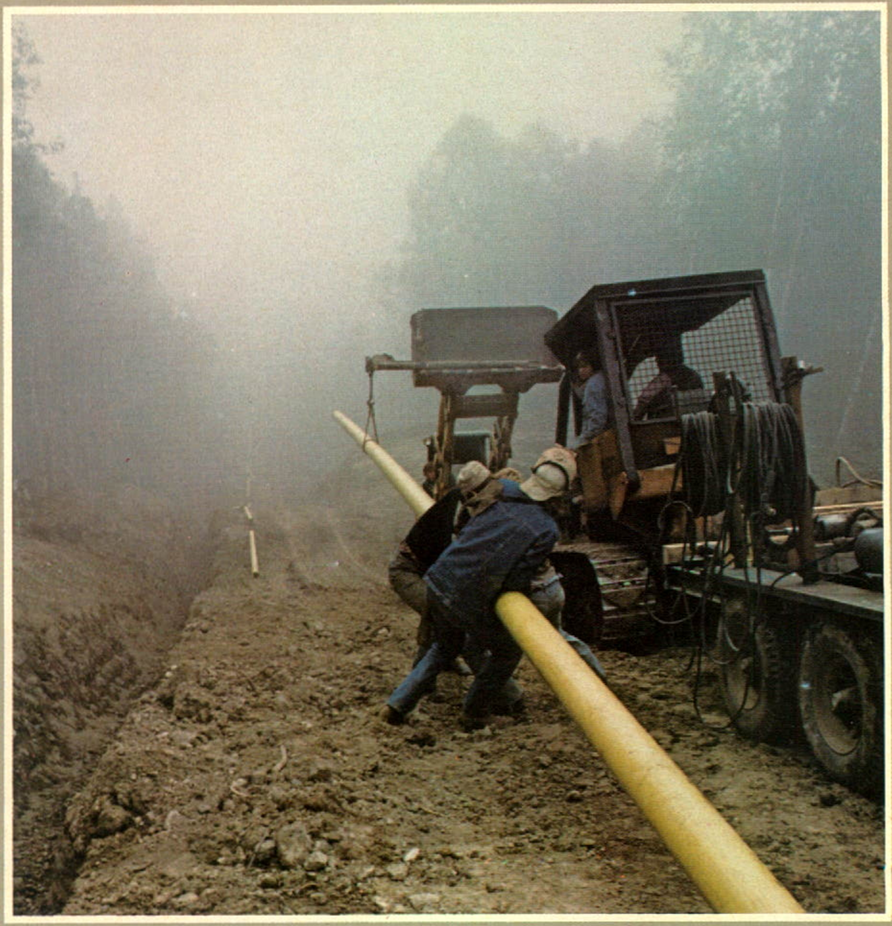
Natural gas sales for this fiscal year were 1,399,000 gigajoules compared to 1,219,000 gigajoules in the previous year. The net profit for the year was $38,930.

Other Subsidiaries

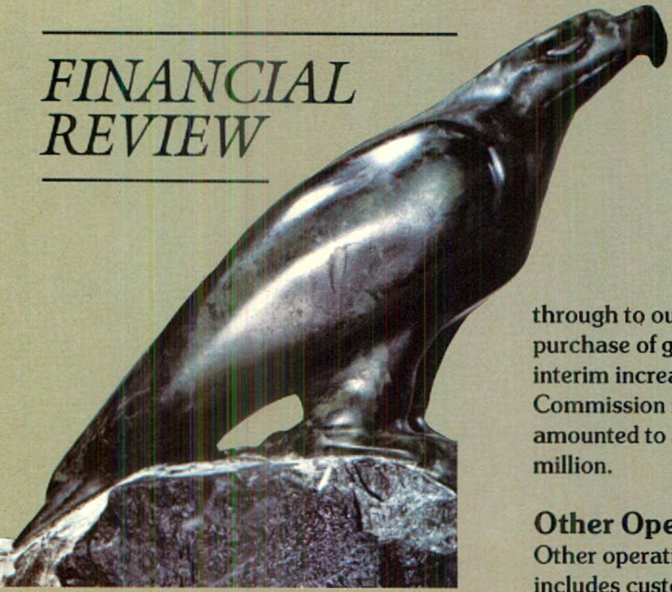
St. John Gas & Oil Ltd. (N.P.L.) holds minor interests in natural gas and oil leases in northeast British Columbia and participates in the production of natural gas and oil from these leases.

Inland Development Co. Ltd. owns a commercial property in the Okanagan Valley. During the year under review, the Company sold an industrial property and recorded a profit of $253,567.

6" distribution line under construction for industrial customer in Quesnel.



FINANCIAL REVIEW



Sale of Gas

Total sales of natural gas decreased 4% to 58.5 million gigajoules this year from 61.0 million gigajoules last year. Reduced sales to industrial customers more than offset increased sales to residential and commercial customers.

With the addition of 6700 new residential and commercial customers during the year and temperatures which were 9% colder than in the previous year, sales to these customers increased 14.7% to 21.0 million gigajoules compared to 18.3 million gigajoules in 1981. Customer additions were somewhat lower than the record level of 8170 added last year, but well above our historical average.

Sales to both large and small industrial customers were drastically reduced in the early part of the fiscal year due to prolonged strikes in the pulp, paper and lumber industries. As a result of poor market conditions, the smaller industrial accounts in the forest industry continued to operate at reduced levels throughout the remainder of the year. Interruptible sales to Columbia were also lower in the current year due primarily to the availability of lower priced gas from Alberta suppliers during the period to the end of January 1982. Total sales to all industrial customers were 37.4 million gigajoules compared to 42.6 million gigajoules in fiscal 1981.

Revenue from gas sales amounted to $180,586,641 in the current year which represents an increase of almost 42% over the $127,418,749 recorded in the previous year. The major part of this gain results solely from increased gas purchase costs which flowed through to our customers (see purchase of gas). Revenues from interim increases approved by the Commission in this fiscal year amounted to approximately $3.1 million.

Other Operating Revenue

Other operating revenue primarily includes customer connection charges and late payment charges. The increase in revenue in the current year results from the sale of property by a subsidiary, Inland Development Co. Ltd. amounting to 8¢ per share.

Purchase of Gas

Inland purchases its gas from Westcoast Transmission Company Limited in British Columbia and has a contract with Alberta and Southern Gas Co. Ltd. to supply peaking gas from Alberta during the winter months. The peaking gas must be returned during off-peak months. This arrangement enables Inland to reduce the demand charge component under its contract with Westcoast.

Columbia purchases the major portion of its gas from 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 agreement with suppliers, Columbia is able to purchase approximately 30% of its requirements during each contract year commencing November 1, from Inland. Volumes purchased from Inland are dependent upon a number of factors and will vary from one fiscal year to another. Columbia purchased approximately 21% of its gas from Inland during the current fiscal year compared to 43% in the previous year.

The cost of gas purchased during the year was $133,308,261 compared to $85,834,964 in fiscal 1981, which represents an increase of 55%. Since the amount of gas sold in 1982 declined from the previous year, the higher cost of gas is solely attributable to significant increases in wholesale prices of gas in British Columbia and Alberta together with the imposition of greater Federal natural gas taxes. The increases in unit costs per gigajoule during the year are set out under Regulation and Rates in this report.

While the wholesale price increases in B.C. were the first since 1978, they resulted in additional gas purchase costs of approximately $21 million in the current year. The 1982 fiscal year also bore the full impact of Federal natural gas taxes which were first implemented on November 1, 1980 together with subsequent increases. The imposition of these taxes increased the cost of gas by approximately $36.9 million in 1982 and $12.8 million in 1981.

Operation and Maintenance

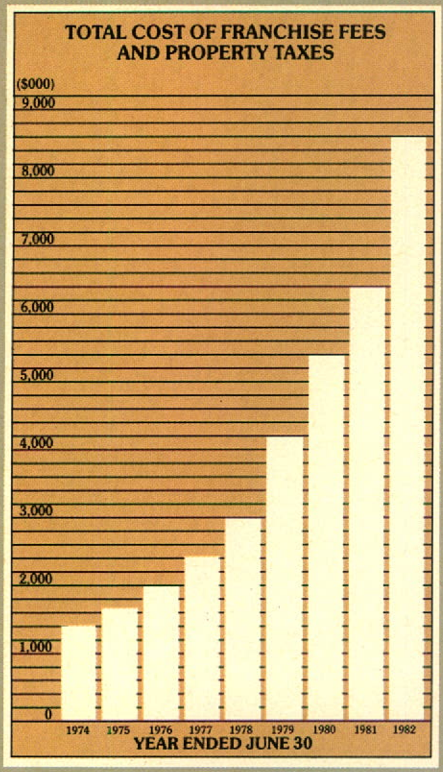
Operation and maintenance expenses amounted to $15,124,226 this year compared to $12,087,137 in the previous year, an increase of 25%. The majority of the additional expenses is directly related to higher wage rates and the salaries and wages of new employees required to adequately meet the Company's responsibilities coupled with attendant employee benefit costs. The establishment of separate departments for Engineering and Budgets and Cost Control, the reorganization of Operations and Construction in the field and the strengthening of Data Processing and other departments increased the average number of employees from 350 in 1981 to 393 in 1982.

Approximately 75% of the Company's personnel are union members who are covered by separate collective agreements with the Office & Technical Employees' Union, expiring March 31, 1983, and the International Brotherhood of Electrical Workers, expiring September 11, 1983. Negotiations concluded in fiscal 1982 reflected increases in the order of 15% which, while higher than previous settlements in recent years, were not out of line with settlements by resource industries and other major employers in the Province.

Operations and maintenance costs were also subject to strong inflationary pressures in wage related services provided by contractors and in other areas which have increased expenses in the current year.

Property, Franchise and Other Taxes

This year property, franchise and other taxes increased by almost 34% to



$8,765,962 from $6,550,561 in 1981. The municipalities in our service area were the recipients of a substantial increase in franchise fees which are based on 3% of gross revenues from the sale of gas within municipal boundaries. As a result of the significant increase in revenues, which are required to pass on increases in the wholesale price of gas purchases and federal natural gas taxes to our customers, franchise fees escalated by 49% from $2,811,993 last year to $4,180,289 this year. Property taxes paid to the Province and to municipalities also increased by 22% due to higher assessed values and mill rates.

Income Taxes

Income tax expense decreased to $6,860,263 in the current year from $7,435,882 in the previous year due to lower net income before taxes. The effective tax rate in both years was approximately 52.3%.

Interest Expense

Interest and expense on long-term debt amounted to $6,622,542 compared to $4,755,185 in the previous year. The increased expense resulted from the effect of a $20 million issue of 18¼% debentures during the year and the retirement of various debt issues under sinking fund provisions of the trust indentures.

Other interest expense of $1,061,029 showed a slight decline from $1,146,697 recorded in 1981. As a result of the debenture issue, the level of short-term borrowings by way of bank loans and commercial paper was somewhat lower this year which helped to offset the effect of higher short-term interest rates.

Borrowing costs have also been reduced by the deferral of interest in accordance with direction from the Commission, which is referred to in Note 1 to the financial statements.

Financing

In the last Annual Report to Shareholders the need for additional long-term financing was outlined. The last debt financing carried out by the Company prior to the 1982 fiscal year was a $12 million debenture issue in November 1977. This was followed by a common share rights issue which raised $3.3 million in the fall of 1980. While the Company has excellent lines of credit with its corporate bankers it was evident last fall that the short-term indebtedness which was at an all time high had to be reduced. A timely upgrading of Inland's bond and debenture ratings allowed the Company to go to the market.

On November 17, 1981, Inland issued $20 million 15 year Sinking Fund Debentures, Series B, at an interest rate of 18¼ percent. Proceeds of the issue were used to reduce short-term indebtedness. The Company applied for and has received an interim rate increase to recover from customers the increased cost of capital resulting from this financing.

The Company does not contemplate further financings during the coming year. Capital requirements will be provided by internally generated funds together with bank lines of credit which enable the Company to utilize bank loans, commercial paper and bankers acceptances.

Reporting on Inflation

As a result of high inflation rates which have prevailed in many countries over the past decade, the accounting profession and the financial community have expressed concern as to the adequacy of conventional financial reporting and the use of historical costs. There has been much debate as to the kind of accounting practices and disclosures that should replace or supplement the historical cost systems in periods of significant price changes.

The Canadian Institute of Chartered Accountants (C.I.C.A.) has studied inflation accounting for a number of years and in December 1981 issued the latest revision of its proposed current cost disclosure requirements for further consideration. The Company has serious reservations as to the appropriateness and usefulness of these requirements for regulated industries. As a regulated utility, the Company has its rate of return, costs and revenues determined by its regulatory authority based on historical costs. While the Company is aware that disclosure of the replacement cost of its property may be of some general interest, it does not share the view that disclosure of the supplementary information proposed by C.I.C.A. will assist users of the financial information in the assessment of regulated industries. Accordingly, the proposed information has not been set out in this report.

Management's Responsibility for Financial Reporting

The financial statements and related information included in this report have been prepared by management who is responsible for their integrity and objectivity. To fulfill this responsibility, management has established and 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

	1982	1981
REVENUE		
Sale of gas	$180,586,641	$127,418,749
Other operating revenue	1,166,996	649,614
	181,753,637	128,068,363
EXPENSES		
Purchase of gas	133,308,261	85,834,964
Operation and maintenance	15,124,226	12,087,137
Property, franchise and other taxes	8,765,962	6,550,561
Depreciation and amortization	3,752,198	3,480,157
Interest and expense on long-term debt	6,622,542	4,755,185
Other interest	1,061,029	1,146,697
	168,634,218	113,854,701
Income before income taxes	13,119,419	14,213,662
Income taxes		
Current	4,673,295	5,491,666
Deferred	2,186,968	1,944,216
	6,860,263	7,435,882
NET INCOME	$ 6,259,156	$ 6,777,780
EARNINGS PER COMMON SHARE, after provision for preference dividends	$ 1.60	$ 1.82

Consolidated Statement of Retained Earnings

For the year ended June 30

	1982	1981
BALANCE AT BEGINNING OF YEAR	$23,770,816	$21,475,197
Net income	6,259,156	6,777,780
	30,029,972	28,252,977
Dividends on 5% preference shares	400,000	400,000
Dividends on 10% second preference shares	895,250	953,688
Dividends on common shares — $1.10 per share in 1982; $1.025 in 1981 (Note 3)	3,403,354	3,033,633
Amortization of preference share issue costs	31,790	32,790
Common share issue costs — net of income tax	—	62,050
	4,730,394	4,482,161
BALANCE AT END OF YEAR	$25,299,578	$23,770,816

See accompanying summary of accounting policies and notes.

Consolidated Statement of Changes in Financial Position

For the year ended June 30

SOURCE OF WORKING CAPITAL	1982	1981
Operations		
Net income	$ 6,259,156	$ 6,777,780
Items not involving working capital		
Depreciation and amortization	3,774,628	3,611,303
Deferred income taxes	2,186,968	1,944,216
Other	(488,522)	—
Total from operations	11,732,230	12,333,299
Common shares issued (net)	—	3,290,213
Long-term debt issued (net)	19,784,104	—
Proceeds from sale of real estate	1,064,448	—
	32,580,782	15,623,512
APPLICATION OF WORKING CAPITAL		
Additions to property, plant and equipment	14,440,960	12,756,038
Cash dividends on preference and common shares	4,643,661	4,359,077
Reduction of long-term debt	11,703,614	2,879,266
Purchase and cancellation of second preference shares	374,440	501,000
Other	1,148,695	1,308,853
	32,311,370	21,804,234
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	269,412	(6,180,722)
Working capital deficit at beginning of year	18,631,351	12,450,629
WORKING CAPITAL DEFICIT AT END OF YEAR	$18,361,939	$18,631,351

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, 1982 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, 1982 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 20, 1982

Consolidated

As at

Assets

CURRENT ASSETS	1982	1981
Accounts receivable	$ 17,722,146	$ 11,284,313
Materials and supplies, at cost	3,353,911	2,758,140
Prepaid expenses	705,045	301,949
	21,781,102	14,344,402
PROPERTY, PLANT AND EQUIPMENT, at cost		
Natural gas transmission lines and distribution systems	154,857,993	142,113,269
Plant, buildings and equipment	9,701,419	8,698,068
Land and land rights	3,484,014	3,055,468
	168,043,426	153,866,805
Accumulated depreciation	32,833,099	29,717,697
	135,210,327	124,149,108
OTHER ASSETS		
Investment in marketable securities, mortgages and real estate, at cost	1,210,628	1,826,537
Deferred charges (Note 1)	4,780,449	4,097,438
	5,991,077	5,923,975
	$162,982,506	$144,417,485

See accompanying summary of accounting policies and notes.

Balance Sheet

June 30

Liabilities

	1982	1981
CURRENT LIABILITIES		
Bank loan and short-term notes	$ 5,578,003	$ 11,217,874
Accounts payable and accrued liabilities	11,047,260	10,079,255
Dividends payable	319,875	332,375
Income, franchise and other taxes	11,383,403	8,653,749
Current portion of long-term debt	11,814,500	2,692,500
	40,143,041	32,975,753
LONG-TERM DEBT (Note 2)	59,068,500	51,067,000
DEFERRED INCOME TAXES	9,810,037	7,623,069

Shareholders' Equity

	1982	1981
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: 351,800 shares	8,795,000	9,295,000
Common shares, par value $1 per share		
Authorized: 10,000,000 shares (1981 - 5,000,000 shares)		
Issued: 3,095,763 shares	3,095,763	3,092,106
CONTRIBUTED SURPLUS	8,770,587	8,593,741
RETAINED EARNINGS (Note 4)	25,299,578	23,770,816
	53,960,928	52,751,663
	$162,982,506	$144,417,485

Approved by the Directors

R. Laudlett Director

Director

Summary of Accounting Policies

The consolidated financial statements of the Company have been prepared on a consistent basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards on a historical cost basis. The significant accounting policies are summarized below:

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 ratemaking 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, 1982 is $5,305,434 (1981 — $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 2.38%.

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 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 5 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 $1,295,250 in 1982 and $1,353,688 in 1981 are deducted from net income for purposes of these calculations.

Pension plans

The Company and its subsidiaries have contributory defined benefit pension plans for their employees. The Company's policy is to: expense current service pension liabilities as they accrue and to amortize unfunded past service liabilities as a percentage of covered payroll over the remaining future working lifetimes of the plan members; and fund the full amount of pension expenses as they accrue, to the extent deductible under the Income Tax Act.

Based on the most recent actuarial valuations, the unfunded actuarial liability as at June 30, 1982 is $332,000 (1981 — $415,000). This amount, together with interest, is being charged in the accounts at 0.6% (1981 — 1.1%) of related payroll.

Comparative figures

Certain 1981 figures have been reclassified to conform with 1982 financial statement presentation.

Notes to Consolidated Financial Statements

1. Deferred Charges

	1982	1981
Preference share issue costs	$1,248,350	$1,280,140
Long-term debt issue costs	470,574	484,431
Goodwill	724,264	743,838
Deferred interest	1,123,693	415,750
Vancouver Island project	834,156	574,791
Other	379,412	598,488
	$4,780,449	$4,097,438

Deferred interest — Pursuant to direction from the Commission in its Decision dated March 18, 1981, Inland has deferred interest expense amounting to $707,943 in 1982 and $415,750 in 1981, both in its accounts and for regulatory purposes in setting rates to consumers, pending further direction from the Commission. In its Application for permanent rate relief (see note 7), Inland has requested that the Commission determine the disposition of the deferred interest. The deferment of this interest has increased earnings per common share by 11 cents in 1982 and 6 cents in 1981.

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 1982	Long-term 1981
Inland Natural Gas Co. Ltd.				
First mortgage sinking fund bonds				
6¼% Series C, due May 1, 1983	$10,000,000	$10,000,000	$ —	$10,000,000
8% Series D, due December 31, 1989	3,927,000	160,000	3,767,000	3,927,000
8¼% Series E, due November 1, 1991	6,383,000	178,000	6,205,000	6,415,000
8⅜% Series F, due April 15, 1993	6,588,000	173,000	6,415,000	6,610,000
11⅛% Series G, due June 15, 1995	10,589,000	264,000	10,325,000	10,635,000
	37,487,000	10,775,000	26,712,000	37,587,000
Sinking fund debentures				
9⅞% Series A, due November 30, 1997	11,436,000	156,000	11,280,000	11,520,000
18¼% Series B, due November 15, 1996	20,000,000	750,000	19,250,000	—
	68,923,000	11,681,000	57,242,000	49,107,000
Columbia Natural Gas Limited				
First mortgage sinking fund bonds				
9% Series B, due June 15, 1993	1,960,000	133,500	1,826,500	1,960,000
	$70,883,000	$11,814,500	$59,068,500	$51,067,000

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 and B 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, 1982, are: 1983, $11,814,500; 1984, $2,551,500; 1985, $2,640,500; 1986, $2,734,500; 1987, $2,845,500.

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 redeemable at the option of the Company at $26.00 per share on or before June 30, 1983 plus accrued and unpaid dividends and at reducing amounts thereafter.

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, 1982, the Company purchased for cancellation 20,000 shares. The excess of the subscription price of the second preference shares cancelled over their purchase cost amounts to $125,560 and is included in contributed surplus.

(c) Common shares

Optional stock dividend program

The Company implemented an Optional Stock Dividend Program during the 1981 fiscal year which allowed common shareholders a choice between a cash and a stock dividend. Effective with the May 15, 1982 dividend declaration, the Board of Directors elected to suspend the issue of dividends in common shares in lieu of cash under this program.

During the year ended June 30, 1982, 3,657 common shares (1981 — 1803) were issued under the program for $54,943, of which $51,286 has been credited to contributed surplus. The Company has reserved 194,540 common shares to meet future share option privileges.

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, 1982 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 who numbered 7 in 1982 and 6 in 1981, was 1982 — $584,665; 1981 — $414,352.

6. Capital expenditures

Capital expenditures for the 1983 fiscal year are estimated at $17.8 million net of Federal and Provincial Grants in the amount of $3.6 million. The balance of cash requirements will be provided by established corporate lines of credit together with cash from operations pending future permanent financing.

7. Rate applications

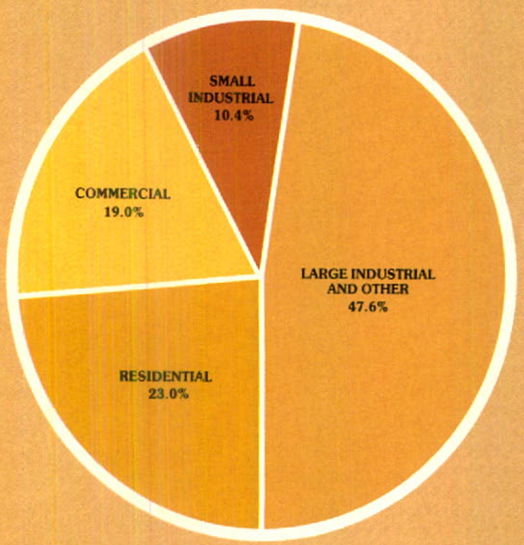
In June 1981 Inland, and January 1982 Inland and Columbia, applied to the Commission for orders approving revisions to their tariffs on an interim basis. By Orders dated July 1981 and February 1982, the Commission granted the interim increases requested effective July 1, 1981, and February 1, 1982 subject to refund, with interest, if subsequently so ordered by the Commission. Revenue from interim increases amounts to approximately $3,100,000 in the 1982 fiscal year.

In June 1982 Inland and Columbia applied to the Commission for additional rate increases, both on an interim and permanent basis. By Orders dated July 1982, the Commission denied Inland's request for an interim increase and approved Columbia's request for an interim increase effective August 1, 1982, subject to refund with interest. The Commission has set down public hearings to commence September 28, 1982 (Inland), and October 5, 1982 (Columbia), in connection with applications for permanent rate relief and the ratification of interim increases.

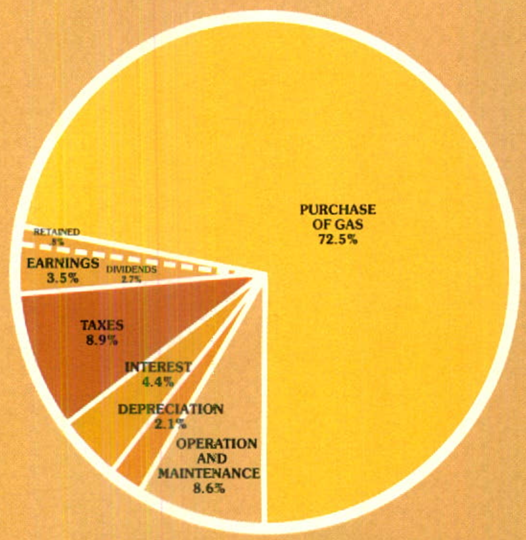
8. Segmented information

Substantially all of the Company's operations is comprised of the domestic distribution and transmission of natural gas.

Comparative Statement of



SOURCE OF REVENUE
YEAR ENDED JUNE 30, 1982



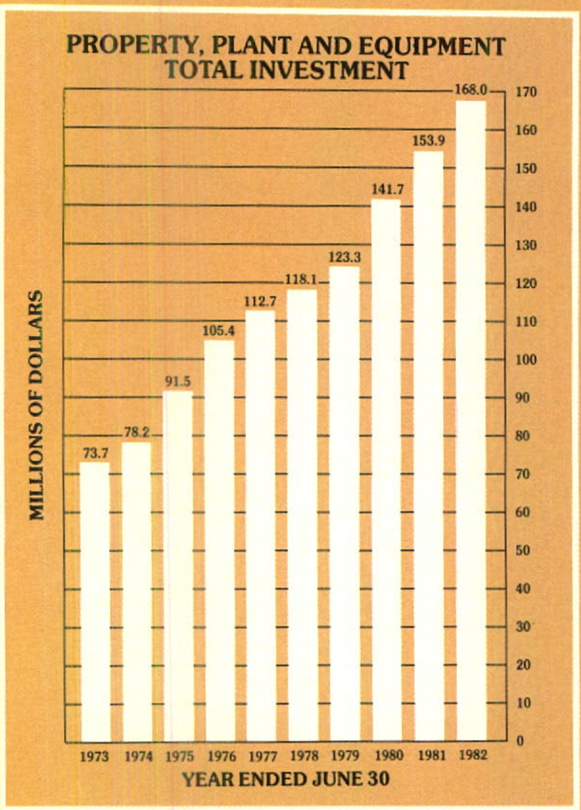
DISTRIBUTION OF REVENUE
YEAR ENDED JUNE 30, 1982

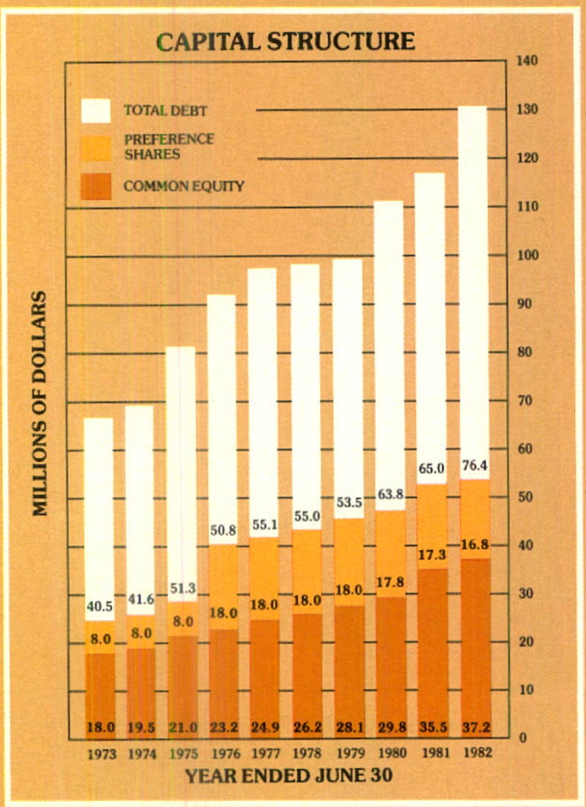
	1982
REVENUE	
Sale of gas	$174,514,769
Transportation revenue	—
Other income	669,599
	175,184,368
EXPENSES	
Purchase of gas	127,926,357
Operation and maintenance	14,797,565
Property and other taxes	4,506,492
Franchise fees	4,180,289
Depreciation	3,651,553
Interest on borrowed money	8,069,355
Amortization of long-term debt issue costs	(65,018)
Allowance for funds used during construction	(126,376)
	162,940,217
INCOME BEFORE INCOME TAXES	12,244,151
Income taxes — current	4,420,891
— deferred	2,186,968
	6,607,859
NET INCOME*	5,636,292
Income from other subsidiaries	642,439
	6,278,731
Amortization of goodwill	19,575
NET CONSOLIDATED INCOME	$ 6,259,156
DIVIDENDS	
Preference shares	$ 1,295,250
Common shares	3,403,354
Total dividends	$ 4,698,604
NUMBER OF COMMON SHARES average	3,095,763
EARNINGS PER COMMON SHARE (after provision for preference dividends)	$ 1.60
DIVIDENDS PER COMMON SHARE	$ 1.10

*Including Columbia Natural Gas Limited from 1980

Consolidated Income and Dividends

1981	1980	1979	1978	1977	1976	1975	1974	1973
122,180,927	98,831,356	82,043,327	65,980,460	49,324,042	35,786,016	32,414,184	27,272,202	22,664,204
62,123	8,366	70,876	879,070	825,950	296,700	296,700	296,700	288,880
577,751	494,393	465,013	450,159	429,984	445,086	328,971	488,703	352,712
122,820,801	99,334,115	82,579,216	67,309,689	50,579,976	36,527,802	33,039,855	28,057,605	23,305,796
81,249,341	62,916,257	50,816,594	41,164,288	29,515,461	19,423,365	18,663,501	14,155,016	10,403,343
11,797,806	10,294,713	8,551,225	5,924,602	5,013,262	4,042,170	3,197,242	2,723,477	2,382,680
3,684,341	3,155,286	2,098,186	1,482,429	1,271,164	1,153,879	920,547	791,251	650,950
2,811,993	2,346,927	2,177,975	1,606,534	1,253,327	922,528	839,649	649,628	455,525
3,383,618	3,205,179	2,833,680	2,673,205	2,240,407	1,732,656	1,661,278	1,554,102	1,447,087
6,176,964	6,208,672	5,093,363	4,941,831	4,505,881	4,982,241	3,678,765	3,019,393	2,662,467
(19,212)	22,135	39,458	55,972	33,252	54,665	47,009	60,190	63,323
(66,982)	(41,870)	(15,449)	(81,913)	(30,682)	(563,583)	(529,712)	(15,240)	(38,663)
109,017,869	88,107,299	71,595,032	57,766,948	43,802,072	31,747,921	28,478,279	22,937,817	18,026,712
13,802,932	11,226,816	10,984,184	9,542,741	6,777,904	4,779,881	4,561,576	5,119,788	5,279,084
5,447,701	4,628,724	4,050,417	3,092,259	1,615,707	212,678	703,700	1,446,269	1,495,561
1,944,215	1,300,790	1,593,330	1,829,733	—	—	—	—	—
7,391,916	5,929,514	5,643,747	4,921,992	1,615,707	212,678	703,700	1,446,269	1,495,561
6,411,016	5,297,302	5,340,437	4,620,749	5,162,197	4,567,203	3,857,876	3,673,519	3,783,523
386,339	402,403	374,871	319,291	334,844	238,714	236,357	216,009	99,708
6,797,355	5,699,705	5,715,308	4,940,040	5,497,041	4,805,917	4,094,233	3,889,528	3,883,231
19,575	19,575	—	—	—	—	—	—	—
6,777,780	5,680,130	5,715,308	4,940,040	5,497,041	4,805,917	4,094,233	3,889,528	3,883,231
1,353,688	1,394,875	1,400,000	1,400,000	1,444,000	400,000	400,000	400,000	400,000
3,033,633	2,610,463	2,328,251	2,257,698	2,257,698	2,257,698	2,088,370	2,031,928	1,947,264
4,387,321	4,005,338	3,728,251	3,657,698	3,701,698	2,657,698	2,488,370	2,431,928	2,347,264
2,972,914	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122
1.82	1.52	1.53	1.25	1.44	1.56	1.31	1.24	1.23
1.025	.925	.825	.80	.80	.80	.74	.72	.69





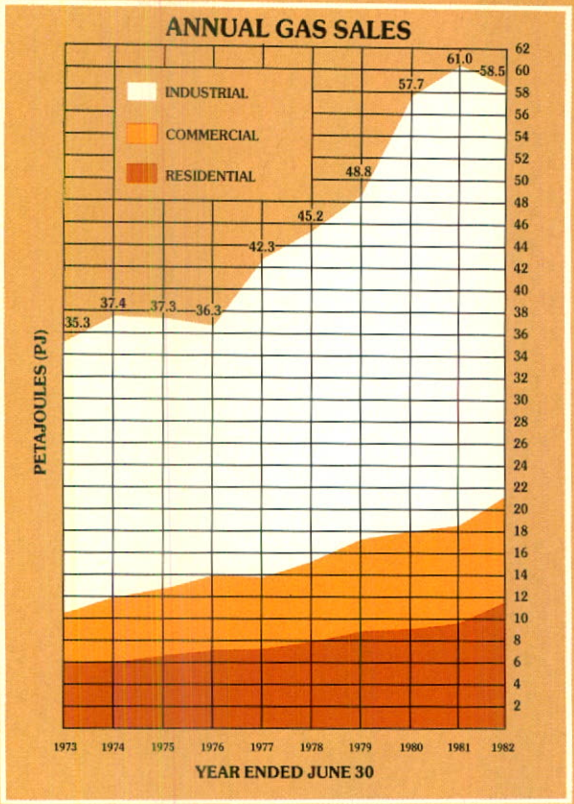
Consolidated Balance

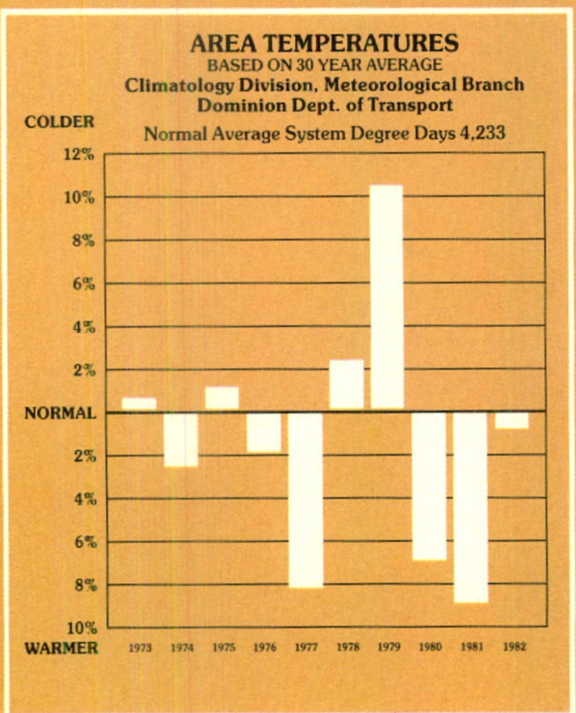
	1982
MILES OF COMPANY OWNED LINES	
Distribution utilities	
Transmission	1,140
Distribution	1,825
Services	1,490
Other subsidiaries	122
UTILITY PLANT ($000)	
Distribution utilities	
Transmission	$ 69,490
Distribution	87,593
Stand-by	831
General	5,801
Construction work in process	700
Total distribution utility plant	164,415
Other subsidiaries' plant	3,629
	168,044
ACCUMULATED DEPRECIATION	
Distribution utilities	31,324
Other subsidiaries	1,510
	32,834
NET CONSOLIDATED PLANT	$135,210
CAPITALIZATION ($000)	
First mortgage bonds	$ 39,447
Debentures	31,436
Short-term notes and bank loan	5,578
Total debt	76,461
Preference shares	16,795
Common shares	3,096
Contributed surplus	8,771
Retained earnings	25,300
	$130,423
PERCENTAGE OF TOTAL CAPITALIZATION	
First mortgage bonds	30.2
Debentures	24.1
Short-term notes and bank loan	4.3
Total debt	58.6
Preference shares	12.9
Common shares	2.4
Contributed surplus	6.7
Retained earnings	19.4
	100.0
RATIOS	
First mortgage bond interest—times earned	5.98
Total debt interest—times earned	2.66
Preference dividends—times earned	4.83

Sheet Information

	1981	1980	1979	1978	1977	1976	1975	1974	1973
	1,135	1,095	915	907	903	889	816	781	777
	1,691	1,589	1,353	1,304	1,270	1,211	1,141	1,082	1,000
	1,397	1,287	1,058	1,020	985	937	871	814	740
	122	122	122	122	122	122	122	116	116
	67,727	65,543	59,566	58,957	55,996	53,981	34,839	34,047	33,190
	75,839	67,005	55,074	50,977	47,774	43,613	39,322	36,374	33,000
	830	827	883	881	881	882	882	882	883
	5,012	4,424	3,802	3,467	2,852	2,728	2,671	2,601	2,537
	891	405	506	388	1,860	461	10,095	739	618
	150,299	138,204	119,831	114,670	109,363	101,665	87,809	74,643	70,228
	3,568	3,492	3,483	3,446	3,376	3,713	3,711	3,517	3,470
	153,867	141,696	123,314	118,116	112,739	105,378	91,520	78,160	73,698
	28,271	24,973	19,959	17,465	15,317	13,494	12,106	10,594	9,267
	1,447	1,390	1,318	1,244	1,171	1,148	1,066	989	912
	29,718	26,363	21,277	18,709	16,488	14,642	13,172	11,583	10,179
	124,149	115,333	102,037	99,407	96,251	90,736	78,348	66,577	63,519
	42,124	43,769	41,484	42,965	44,347	45,498	46,277	35,137	35,810
	11,636	11,760	12,000	12,000	—	4,151	4,151	4,384	4,623
	11,218	8,333	—	—	10,715	1,187	863	2,116	76
	64,978	63,862	53,484	54,965	55,062	50,836	51,291	41,637	40,509
	17,295	17,795	18,000	18,000	18,000	18,000	8,000	8,000	8,000
	3,092	2,822	2,822	2,822	2,822	2,822	2,822	2,822	2,822
	8,594	5,483	5,483	5,483	5,483	5,483	5,483	5,483	5,483
	23,771	21,475	19,834	17,879	16,628	14,865	12,729	11,136	9,691
	117,730	111,437	99,623	99,149	97,995	92,006	80,325	69,078	66,505
	35.8	39.3	41.6	43.3	45.3	49.4	57.6	50.8	53.8
	9.9	10.5	12.1	12.1	—	4.5	5.2	6.3	7.0
	9.5	7.5	—	—	10.9	1.3	1.1	3.2	.1
	55.2	57.3	53.7	55.4	56.2	55.2	63.9	60.3	60.9
	14.7	16.0	18.1	18.2	18.3	19.6	10.0	11.6	12.0
	2.6	2.5	2.8	2.9	2.9	3.1	3.5	4.1	4.2
	7.3	4.9	5.5	5.5	5.6	5.9	6.8	7.9	8.3
	20.2	19.3	19.9	18.0	17.0	16.2	15.8	16.1	14.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	5.58	4.75	4.59	4.01	3.09	2.62	3.30	3.22	3.80
	3.37	2.92	3.28	3.03	2.60	2.02	2.32	2.78	3.04
	5.01	4.07	4.08	3.53	3.81	12.01	10.24	9.72	9.71

Comparative Statement of Sales,





	1982
REVENUE ($000)	
Residential	$ 40,061
Commercial	33,080
Small industrial	18,297
Large industrial and other	83,077
Total natural gas revenue	$174,515
SALES UNITS (TJ)**	
Residential	11,372
Commercial	9,676
Small industrial	5,940
Large industrial and other	31,464
Total natural gas sales units	58,452
CUSTOMERS AT YEAR END	
Residential	93,957
Commercial	12,812
Small industrial	117
Customers at year end	106,886
CUSTOMER STATISTICS**	
Average use per customer (GJ)	
Residential	125
Commercial	773
Average rate per GJ	
Residential	$ 3.52
Commercial	$ 3.42
COST OF NATURAL GAS PURCHASED ($000)	$127,926
UNITS OF NATURAL GAS PURCHASED (TJ)**	59,138
MAXIMUM DAY SENDOUT (GJ)**	
Including interruptible	291,362
DEGREE DAYS (base 18°C.)	4,196
PAYROLL STATISTICS	
Wages and benefits ($000)	$ 13,156
Number of employees (average)	393

*Including Columbia Natural Gas Limited from 1980.
**All sales and related statistics are stated in SI (metric) units.
GJ — Gigajoules
TJ — Terajoules (Thousands of Gigajoules)
PJ — Petajoules (Millions of Gigajoules)

Purchases and Other Statistics*

1981	1980	1979	1978	1977	1976	1975	1974	1973
25,920	21,862	20,022	16,253	12,465	10,561	9,531	7,633	6,406
21,440	18,577	17,021	13,286	9,869	8,318	7,567	5,759	4,593
14,984	11,492	12,024	10,113	7,772	5,053	3,787	3,509	3,158
59,837	46,900	32,976	26,328	19,218	11,854	11,529	10,371	8,507
122,181	98,831	82,043	65,980	49,324	35,786	32,414	27,272	22,664
9,814	9,641	9,277	8,486	7,673	7,745	7,387	6,717	6,176
8,534	8,564	8,142	7,192	6,398	6,414	6,147	5,367	4,884
7,063	6,253	6,715	6,507	6,091	4,839	3,943	4,180	4,276
35,581	33,269	24,664	23,062	22,102	17,319	19,858	21,135	19,976
60,992	57,727	48,798	45,247	42,264	36,317	37,335	37,399	35,312
87,858	80,537	67,358	65,206	62,763	59,300	54,910	51,027	45,870
12,218	11,369	9,385	8,942	8,580	8,034	7,481	6,955	6,362
120	114	105	104	108	100	90	86	90
100,196	92,020	76,848	74,252	71,451	67,434	62,481	58,068	52,322
117	123	140	133	126	136	139	139	142
724	777	888	821	770	827	852	806	803
2.64	2.27	2.15	1.92	1.62	1.36	1.29	1.14	1.04
2.51	2.17	2.09	1.85	1.54	1.30	1.23	1.07	0.94
81,249	62,917	50,817	41,164	29,515	19,423	18,664	14,155	10,403
61,892	58,172	48,234	44,647	41,830	35,924	36,931	37,013	34,744
277,262	274,016	245,835	216,478	178,019	165,700	155,917	143,640	134,201
3,859	3,936	4,524	4,191	3,763	4,018	4,140	4,002	4,130
10,450	8,878	7,397	6,248	5,996	4,887	3,831	3,142	2,625
350	325	278	262	271	249	240	224	213

25 YEARS OF SERVICE

Transmission line construction 1957.

Twenty-five years ago, in September, 1957 Inland Natural Gas Co. Ltd. delivered natural gas to its first customer.

This event came five years after the Company's incorporation in 1952. Simultaneously, natural gas service was made available to twenty-seven British Columbia Interior communities located in a service area which extended almost 1,000 miles, from Chetwynd in the North to Nelson in the Southeast.

Initially, the system served 6,000 customers. The availability of natural gas to communities throughout the British Columbia Interior had a major impact on economic and industrial development, and as the communities grew, so did Inland.

In 1975, Inland added a major transmission facility linking the Company's existing supply system to an alternate source of gas from Alberta. This allowed Inland to buy peaking gas in winter months and return equivalent British Columbia gas to the Alberta system during the summer.

Inland activated its 50,000th customer by 1973 and eight years later in 1981 turned on its 100,000th customer.

Inland's service area, rich in natural resources, is expected to be in the forefront of economic recovery and the current population of 600,000 is estimated to reach 1,000,000 by the year 2000.

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

Vancouver Gas Control Center 1982.

CORPORATE DATA

DIRECTORS

	F. James Anderson	President, Sunmask Petroleum Corporation
	Robert G. Brodie	President, Cardiff Estates Limited
+	Ronald L. Cliff	Chairman of the Board, Inland Natural Gas Co. Ltd.
	Kenneth L. Hall	President and Chief Executive Officer, Trans Mountain Pipe Line Company Ltd.
	*Roderick M. Hungerford	President, Flex-Lox Industries Ltd.
+	*J. Norman Hyland	Corporate Director
+	Robert E. Kadlec	President, Inland Natural Gas Co. Ltd.
	C. Ben Macdonald	President and Chief Executive Officer, TMA Western Resources Ltd.
	Thomas G. Rust	Chairman, 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	Vice Chairman and Director, Richardson Greenshields of Canada Limited

+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
Clifford I. Kleven	Vice-President, Finance
Richard T. O'Callaghan	Vice-President, Engineering
James L. Randall	Vice-President, Marketing
Geoffrey M. O. Solly	Vice-President, Operations
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
Revelstoke
Golden
Banff
Salmon Arm
Enderby
Armstrong
Spallumcheen
Falkland
Logan Lake
Highland Valley
Vernon
Lumby
Coldstream
Oyama
Winfield
Craigmont Mines
Merritt
Campbell River
Gold River
Cumberland
Courtenay
Comox
Powell River
Qualicum-Parksville
Port Alberni
Nanaimo
Ladysmith
Duncan
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Brenda Mines
Westbank
KELOWNA
Peachland
Summerland
Naramata
PENTICTON
Hedley
Princeton
Okanagan Falls
Keremeos
Oliver
Osoyoos
Midway
Grand Forks
Rossland
Trail
Robson
Castlegar
Nelson
Salmo
Fruitvale
Montrose
Creston
Yahk
CRANBROOK
Kimberley
Skookumchuck
Invermere
Fording
Elkford
Sparwood
B.C. Coal
Fernie
U.S.A.

INLAND NATURAL GAS CO. LTD. DISTRIBUTION AREA