INLAND NATURAL GAS CO. LTD.
1983 Annual Report

CONTENTS

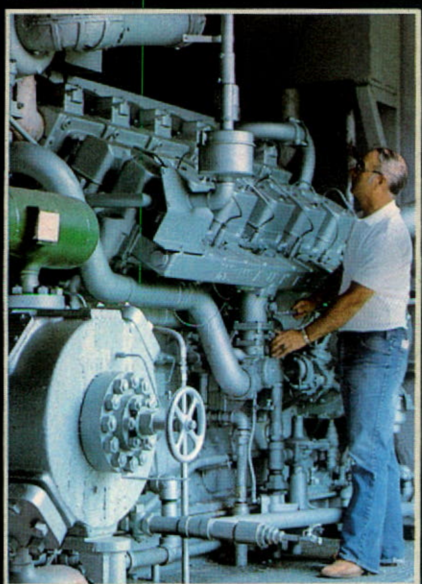
Annual Report Design

The cover and some of the inside graphics illustrate the hard hat and logos of the Inland group of energy related companies.

White hat in the foreground represents Inland, Blue Trans Mountain Pipe Line Company Ltd. White background Columbia Natural Gas Limited Red Grande Prairie Transmission Co. Ltd.

HIGHLIGHTS

Compressor facility on the Grande Prairie Transmission Co. Ltd. system.



FINANCIAL	1983	1982
Total Revenue	$215,536,000	$181,754,000
Net Income Before Extraordinary Items	$ 9,099,000	$ 6,259,000
Net Income	$ 8,791,000	$ 6,259,000
Earnings Applicable to Common Shares Before Extraordinary Items	$ 7,844,000	$ 4,964,000
Average Common Shares Outstanding	4,447,560	3,095,763
Earnings Per Common Share Before Extraordinary Items	$ 1.76	$ 1.60
Dividends Per Common Share	$ 1.10	$ 1.10
Capital Expenditures	$ 19,626,000	$ 14,441,000
Total Assets	$236,244,000	$162,982,000

OPERATING		
Total Gas Sales (Gigajoules)	62,399,000	62,984,000
Total Customers At Year End	112,790	106,886
Degree Days (Base 18 °C) — Actual	3,798	4,196

About The Company

Inland Natural Gas Co. Ltd. is an investor-owned utility which in conjunction with its wholly-owned subsidiary companies, transmits and distributes natural gas to 112,800 industrial, commercial and residential consumers. The service area stretches over 1600km from north to south in the interior of British Columbia through the Peace River, Cariboo, Okanagan and West Kootenay regions and continues eastward to the East Kootenays bordering on the Province of Alberta.

In 1983, Inland acquired a 67% interest in the ownership of Trans Mountain Pipe Line Company Ltd. which owns and operates a pipeline system for the transportation of crude oil from the northern prairies to the west coast of British Columbia and Washington State. Trans Mountain also operates a facility on Burrard Inlet for loading tankers with propane and crude oil for overseas export.

TO OUR SHAREHOLDERS

The Oceanic Plaza building — Vancouver location of Inland's corporate offices.

Opposite: R.L. Cliff and R.E. Kadlec (right).

We are pleased to report that in spite of the depressed economy and difficulties experienced over the past year, in 1983 your Company achieved the highest net income and the second highest earnings per share in the Company's history.

Net income for the year was $9.1 million (before deduction of the extraordinary items) compared with $6.3 million in 1982. Earnings per share of common stock were $1.76, before extraordinary items, compared with $1.60 in 1982.

In January, 1983, Inland acquired 67% of the common equity of Trans Mountain Pipe Line Company Ltd. ("Trans Mountain"). The additional $2.8 million net income contributed by Trans Mountain is reflected in the income statement. The increased equity contribution to Inland's common shareholders represents 13¢ per common share before extraordinary items.

The economic recession severely impacted on our industrial accounts and also resulted in a major slow-down in new home construction. Consequently sales volumes were lower than had been anticipated and this was further aggravated by weather that was 9% warmer than normal.

Emphasis during the past year was placed on getting customers to convert from oil to natural gas. Federal and Provincial grants enabled your company to expand into rural areas reducing dependency on high cost oil and giving broad service to the domestic markets served by Inland. 5,900 customers were added to the Inland and Columbia systems during the past year. A notable achievement in a slow economy. While industrial sales remain disappointing there are definite signs of continued growth in the new single family dwelling market.

During the past year, your Company has experienced major changes in its shareholding structure. As reported in last year's Annual Report, TMA Western Resources Ltd. ("TMA") and Denton Investments Ltd. ("Denton") acquired what was then 93.5% of the outstanding common shares of Inland but was denied the necessary approval of the B.C. Utilities Commission to transfer registration of the Inland shares into their names.

In its June 30, 1982 decision refusing the approval, the B.C. Utilities Commission stated, "it is in the public interest that the shares of a public utility be widely held." At the same time, the Legislature of the Province of British Columbia introduced legislation which prohibited any one person from acquiring more than 20% of the shares of a public utility unless approval from the B.C. Utilities Commission was first obtained.

Your Directors responded to these statements of regulatory and government intent by issuing additional common capital and thereby reduced TMA's and Denton's shareholdings in Inland from 93.5% to 49.9% of the total outstanding. The additional share capital was issued by way of an offer to the shareholders of Trans Mountain on a share exchange basis: three shares of Inland for each five shares of Trans Mountain.

The share exchange offer was made in November, 1982, and successfully closed in January, 1983. Approximately 59% of the shares of Trans Mountain were tendered to the offer and, in conjunction with 600,000 shares previously purchased, resulted in Inland owning 67% of Trans Mountain.

The former Directors of Trans Mountain vigorously opposed Inland's share exchange offer throughout and, at the close of the offer, continued to resist the efforts of Inland. However, in April, 1983, the shareholders of Trans Mountain convened a special meeting and voted to remove the former

Directors of Trans Mountain from office. In their place, the shareholders elected seven members of the Inland Board of Directors. This was later increased to nine members. Mr. R.B. Stokes, Inland's Executive Vice-President and Chief Financial Officer, was elected President and Chief Executive Officer of Trans Mountain.

Trans Mountain will continue to operate as a separate corporate entity and both management and the Board of Directors intend to vigorously pursue the many objectives which lie ahead.

The past year was a particularly demanding one for your Board of Directors due to the convening of numerous board meetings necessitated by the acquisition of Trans Mountain. The Board's counsel and guidance proved critical in bringing the matter to a successful conclusion.

We wish to thank the employees of both Inland and Columbia for meeting the challenges of working under restraint and attendant hiring freezes. Thanks to their efforts, the efficient operation of the Company was not severely affected even though there were a greater number of customers to serve.

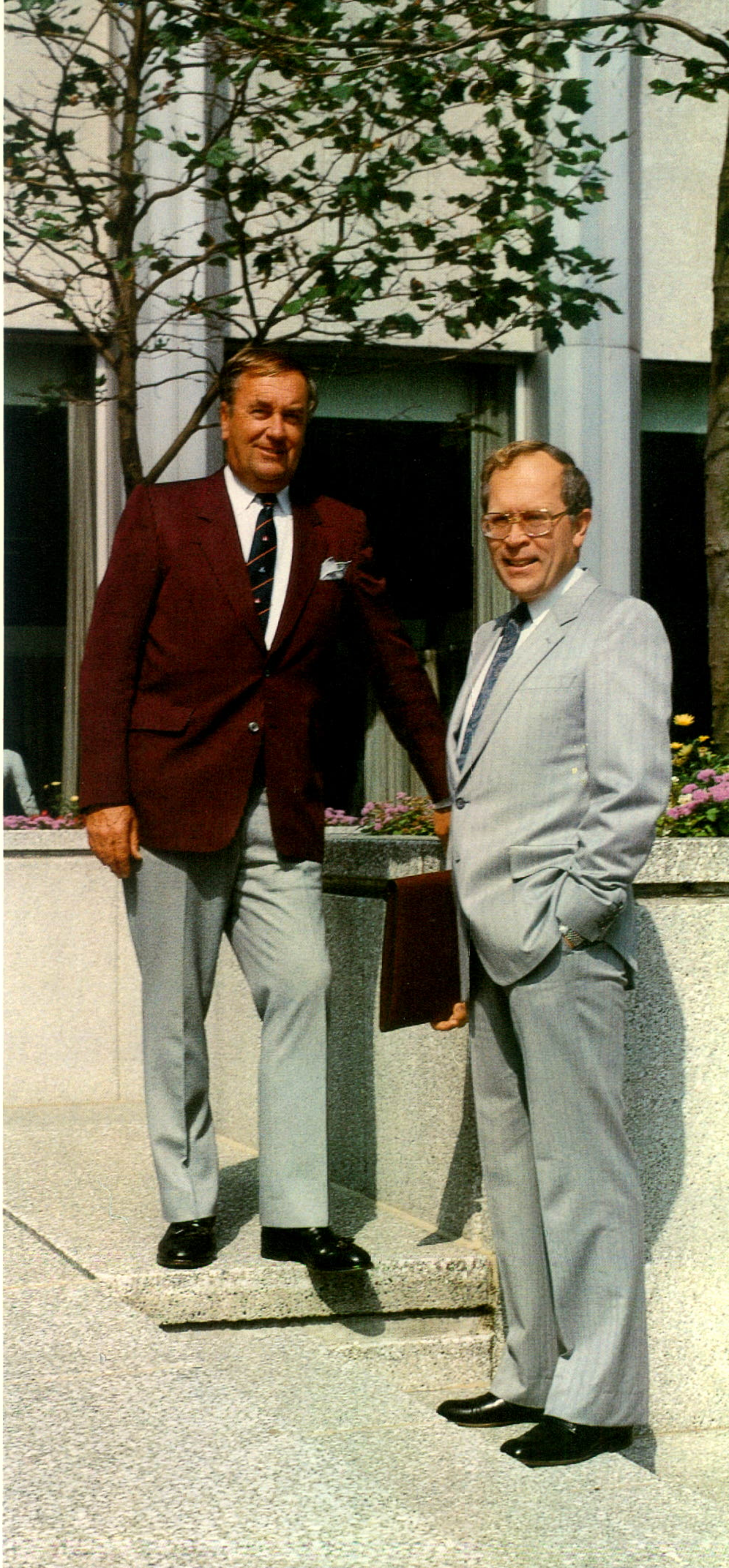
On behalf of the Board of Directors.

R. Landell...

Chairman of the Board

President and
Chief Executive Officer

Vancouver, B.C.
September 9, 1983



THE YEAR UNDER REVIEW

GAS UTILITY OPERATIONS

Transmission valve on Columbia system.

Opposite: Greenhills recently developed coal mine in the East Kootenays.

Gas utility operations are carried out by two distribution companies, Inland Natural Gas Co. Ltd. and Columbia Natural Gas Limited and two small transmission companies, Grande Prairie Transmission Co. Ltd. and Peace River Transmission Company Limited (which is operated by Grande Prairie).

Revenues

Revenue from the sale of gas increased by 7% to $192.7 million in 1983 compared to $180.6 million recorded in 1982. The additional revenues resulted substantially from the flow-through of higher gas purchase costs to our customers with the consent of the Commission.

General rate increases during the year also contributed to the improvement in revenue from gas sales.

Total sales of natural gas by the distribution utilities declined marginally from 58.5 million gigajoules in 1982 to 58.1 million gigajoules in 1983. Increased sales to industrial customers in 1983 were offset by reduced sales to residential and commercial customers due to very mild weather.

While the Company added 5,900 new residential and commercial customers during the year, sales to these customer classifications decreased from 21.0 million gigajoules to 19.1 million gigajoules primarily as a result of weather that was 9% warmer than last year, which was considered a normal year.

Sales to our lumber manufacturing accounts in the small industrial sector showed considerable improvement over the previous year when gas sales were reduced due to strikes. On the other hand, gas sales to small industrial mining accounts were lower than last year due to depressed markets and weak metal prices. Overall, the sales to small industrial accounts increased by 18% to 7.0 million gigajoules from 5.9 million gigajoules in 1982.

Sales to large industrial customers were 32.0 million gigajoules in 1983 compared to 31.5 million gigajoules in 1982. Most of the increase this year was due to increased interruptible sales to the Company's subsidiary, Columbia. Last year the Company was unable to sell gas to Columbia during the seven month period to the end of January due to the less favourable price of gas from British Columbia. Sales to large accounts in the pulp and paper industry continue to be affected by market conditions, but showed some improvement over the previous year when their operations were shut down by strikes in the early part of the fiscal year.

However, lower sales to customers in the mining sector, particularly the coal mining accounts in Columbia's service area, tended to offset most of the increased sales to pulp and paper accounts.

Two new mines began production in 1983 in the East Kootenays and volumes from these new mines are forecast to replace the decline in gas sales to the established mines.

Gas sales by the transmission utilities were also lower this year due to warm weather. Sales by Peace River to Northland Utilities (B.C.) Limited for distribution in the Dawson Creek area of B.C. were 1,269,000 gigajoules compared to 1,399,000 gigajoules last year. Sales by Grande Prairie to Northwestern Utilities Limited for distribution to the City of Grande Prairie, Alberta, and other nearby communities decreased to 3,031,000 gigajoules in 1983 compared to 3,133,000 gigajoules in 1982.

Purchase of Gas

The cost of gas purchased during the year increased by slightly less than 6% to $140.8 million from $133.3 million in the previous year. The increase of $7.5 million is substantially less than the increase of $47.5 million (55%) which occurred in 1982. Since the amount of gas purchased in 1983 declined marginally from last year, the higher cost of gas is attributable to the timing of previous increases in the wholesale price of natural gas and the federal natural gas taxes. A reduction in the federal natural gas taxes on February 1, 1983 partially offset the earlier increases.

Under a contract with Alberta and Southern Gas Co. Ltd. the Company has available 2,750,000 gigajoules of gas for peak shaving purposes during the winter months. Due to the mild weather and the availability of interruptible gas from the Company's supplier, required peaking gas this year amounted to only 117,000 gigajoules compared to almost 900,000 gigajoules last year resulting in lower peak shaving costs.

Operation and Maintenance

Operation and maintenance expenses for the gas utilities increased to $16.8 million in fiscal 1983 compared to $15.1 million in fiscal 1982. The increase in expenses resulted mainly from higher wage rates and the wages of additional employees coupled with related benefit costs. Approximately 76% of the employees are union members who are covered by collective agreements. Negotiations concluded in a previous year provided for wage increases of 14% throughout most of the current fiscal year. This increase was in line with settlements negotiated at the time by other major employers in the province. The average number of employees increased to 409 from 393 last year.

Despite the increased wage costs noted above, the overall increase in operations and maintenance expenses was held to 11% as a result of restraint measures adopted by the Company.

After lengthy negotiations and mediation, the Company recently signed a two year agreement with the Office & Technical Employees' Union expiring March 31, 1985. This agreement provides for average increases of 2½% in the first year and 5% in the second year. The contract with the International Brotherhood of Electrical Workers expires on September 11, 1983 and preliminary discussions are in progress.

AS UTILITY PERATIONS

ars refueling at Kamloops Natural as Vehicle fuel dispensing facility. pposite: Natural gas vehicle fuel ispensing unit.

Property, Franchise and Other Taxes

While the gas utilities continued to contribute substantial tax revenues to the municipalities they serve as well as to the province, the increase of 8% this year is significantly less than the 34% increase experienced last year. Property, franchise and other taxes amounted to almost $9.5 million in 1983 compared to $8.8 million in 1982. Franchise fees paid to municipalities, which are based on 3% of gross revenues from the sale of gas within municipal boundaries, were directly affected by the reduction in federal natural gas taxes on February 1, 1983 as these savings were passed on to the customers by lower rates.

Depreciation

Depreciation provided on gas utility plant amounted to $3,869,000 in 1983 compared to $3,752,000 in the previous year. Depreciation is provided on a straight-line basis on utility plant in service at the beginning of the year at rates ranging from 2% on mains and service lines to 15% on general equipment.

Marketing

Natural gas operations continued to maintain a satisfactory level of new customer growth notwithstanding a dramatic slowdown in the major industrial segment of the Company's market as well as high levels of unemployment.

The construction of new housing has traditionally played a major role in generating new residential business; however, the economic slowdown coupled with high interest rates brought the building of new housing units to a virtual standstill this year.

In order to achieve customer addition targets, marketing efforts were therefore redirected to encourage conversion from other forms of energy (particularly oil) to natural gas. Imaginative incentive promotion complemented by the federal government's Canada Oil Substitution Program, which provides homeowners and certain commercial consumers with taxable grants for conversion, resulted in the addition of 5,900 new customers during the year; a number which is well above the average for the last ten years.

Many of the conversions attached were in areas which have only recently received natural gas service as a result of grants received by the Company from the federal government's Distribution System Expansion Program ("DSEP") and the provincial Gas Extension Assistance Program ("GEAP").

In the latter part of this fiscal year, the new single-family dwelling market began to pick up and the Company also received additional DSEP grants under the federal program. Both of these will yield future residential customers.

Annual sales to the average residential customers continue to decline due to increased insulation, the supplementary use of wood and installation of more efficient appliances. Construction of smaller housing units and the use of an increasing number of manufactured homes have also contributed to the decline in average consumption.

Consequently, one of our major marketing challenges is to maintain and increase wherever possible revenue from existing and new customers. This year, we were successful in having industry codes changed in order to facilitate the use of natural gas water heaters in manufactured homes; this has the potential for greatly increasing our revenue in this market segment.

In the industrial market, the mining sector continues to be depressed. However, the British Columbia interior lumber industry was able to increase production beyond our expectations. The latter industry has captured an increased share of the United States market and was successful in its attempt to prevent increases in tariffs for lumber shipped to the United States market.

The natural gas load at lumber mills is very important to the Company and we have recently devoted considerable effort to this sector of the market. In the past year a number of gas-fired dry kilns were installed; however, the threat represented by dry kilns using residual wood products or electricity continues. We continue to investigate methods of improving the efficiency of the natural gas-fired dry kilns in order to assist our customers in reducing their production costs and improving their competitive position.

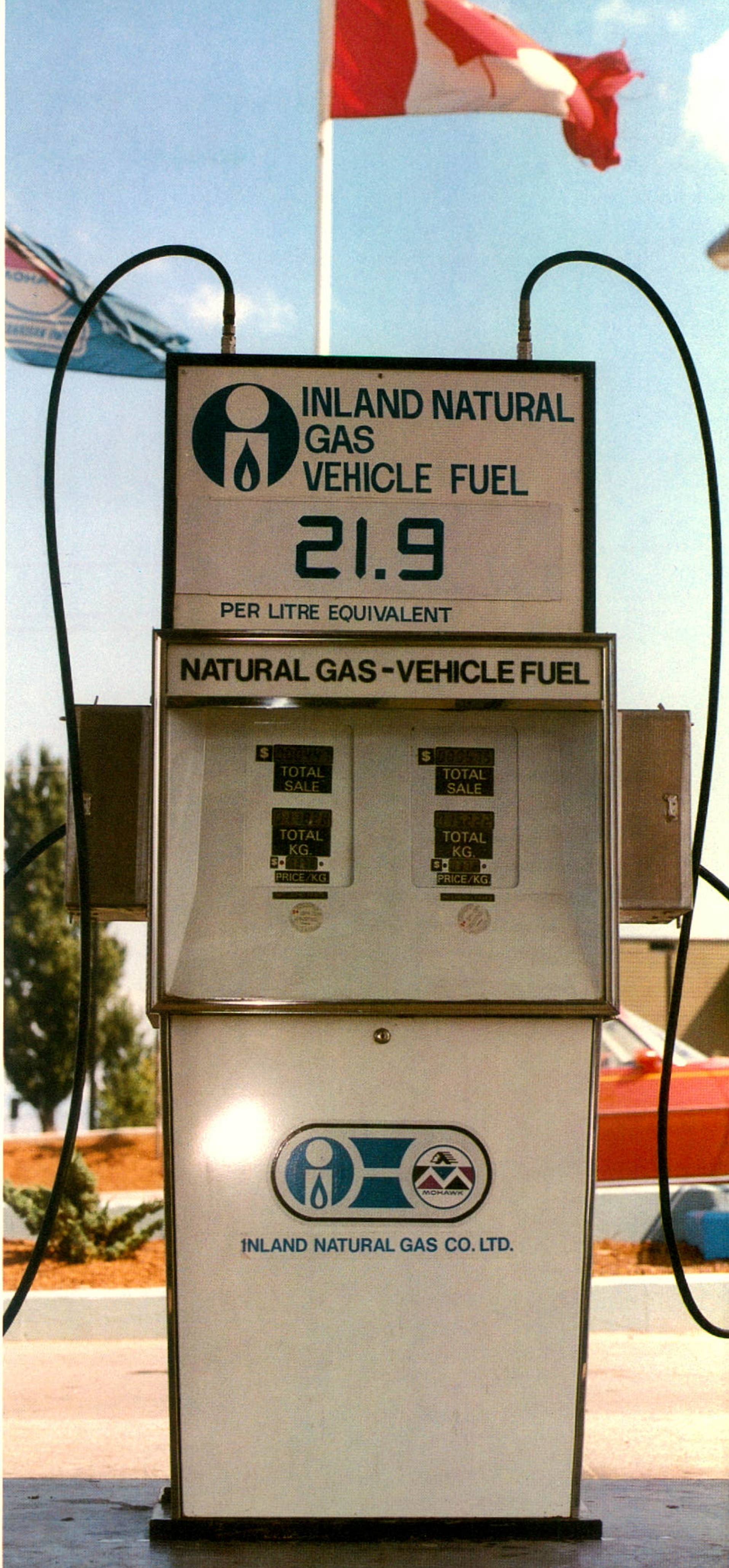
The large industrial market was affected by a slow-down in the pulp, mining and coal markets. The pulp market is expected to show improvement in the near term while the coal industry is expected to experience a more gradual recovery.

Natural Gas for Vehicles

Interest in utilizing natural gas as an alternative to gasoline for motor vehicles has increased substantially in Canada. Several public and private refueling facilities have recently been established in Vancouver and other major Canadian centres. In February 1983, the Company commissioned its own public natural gas vehicle fuel demonstration project at Kamloops, the first such facility in the B.C. Interior.

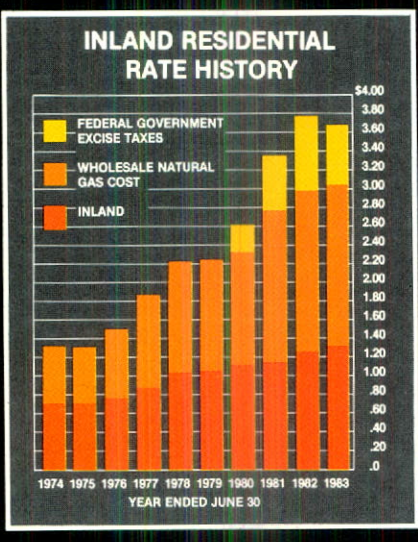
Under a federally-funded program, economic, safety and user acceptibility issues are being carefully monitored. Initial indications from the Company's perspective are encouraging: the average fleet vehicle refueling at the Kamloops facility consumes as much natural gas as a typical residence in that area on a yearly basis. At less than half the price of gasoline the retail price of this fuel is attractive from the user's perspective.

A number of fleet owners elsewhere in our service area are contemplating the installation of their own compression and dispensing equipment. The Company is providing technical assistance as requested and is participating in seminars and other activities in order to increase public awareness of this alternative fuel.



GAS UTILITY OPERATIONS

Opposite: Sails — a Kelowna municipal monument. Inland contributes substantially to municipal revenues through the payment of franchise fees.



Regulation and Rates

Inland

In September 1982 a public hearing was held before the British Columbia Utilities Commission on the Company's application for permanent rates and two previous applications for interim increases. The application was based on a fiscal 1983 test year and sought an increase in the 16.5% return on equity previously allowed.

At the commencement of the hearings, the Commission granted a further interim increase effective October 1, 1982. This increase amounted to approximately 5.1¢ per gigajoule on average customer rates and represented one-half of the requested 3.2 percent interim rate increase.

On May 25, 1983, the Commission issued its decision which confirmed all interim increases previously approved. The Commission also stated that Inland should have the opportunity to earn a return on common equity of 15.75% and the return on rate base was set at 12.47%. The Commission confirmed the continuation of the deferred interest account and directed the Company to write-off in 1983 the interest which had been deferred in 1981 and 1982.

On June 6, 1983 Inland applied to the Commission for a hearing to reconsider and vary the decision. A public hearing was held and on June 21, 1983, the Commission issued its decision which permitted the Company to carry forward the accumulated deferred interest for disposition in a future period. The Commission also granted a permanent increase of approximately 3.5¢ per gigajoule effective June 6, 1983 which would permit Inland the opportunity to earn a return of 15.75% on equity allowed previously in the decision of May 25, 1983.

At a second phase of the 1982 public hearings, the Commission requested and heard evidence on the matter of accounting for income taxes by Inland and Columbia. In its decision dated May 25, 1983, the Commission directed the companies to file additional evidence which will be heard at a public hearing on a date yet to be determined. Both companies continue to account for income taxes by the normalized method.

The federal Natural Gas and Gas Liquids Tax was reduced from 63¢ to 45¢ per gigajoule on February 1, 1983. This 18¢ reduction was flowed through to our customers with the consent of the Commission effective February 1, 1983 without affecting the earnings of the Company.

On June 27, 1983, the Company filed an application for interim rate relief amounting to approximately 4.8¢ per gigajoule on average to be effective July 1, 1983. The Commission has approved the increase as requested, subject to refund with interest if not justified at a public hearing to be held on October 18, 1983. The Company will file its application for permanent rate relief on September 15, 1983.

The Chart on this page illustrates the effect of price increases on average residential retail rates since 1974. Inland's own cost of service increases are less than 11% of the total increase.

Columbia

On June 21, 1982, Columbia also filed with the Commission applications for interim rate relief amounting to 6.8¢ per gigajoule effective July 1, 1982 and for additional permanent rate relief. The request for interim relief was approved as filed effective August 1, 1982, subject to refund with interest if not justified at the public hearing for permanent rate relief. This hearing was held in October 1982 and was continued in November 1982 when the Commission reviewed the matter of accounting for income taxes.

On July 12, 1983, the Commission issued its decision which confirmed the rates previously granted on an interim basis, and approved short-term debt in the capital structure and the creation of a deferred interest account. The rates approved by the Commission allow the Company to earn a return on common equity of 15.75%, and results in a 13.44% rate of return on rate base.

During the year, Columbia applied for numerous rate changes resulting from increases in the cost of gas purchased and from decreases in the federal Natural Gas and Gas Liquids Tax. As in Inland's case, the Commission acted expeditiously to approve the cost changes in Columbia's rates.

Grande Prairie

On February 25, 1983, Grande Prairie filed with the Public Utilities Board, Alberta, an application for permanent rate relief to be effective July 1, 1982. The application was based on 1983 and 1984 forecast test years.

The application was heard on May 16, 1983 and a decision was rendered on June 24, 1983. The Board approved an increase in the return on rate base to 12% from the 10% previously allowed.

The Board set rates which allowed the Company to recover the full amount of the estimated revenue deficiency for its 1983 fiscal year and will allow the Company to recover its estimated revenue deficiency for the year ended June 30, 1984.

During the year, the Board also approved the recovery of higher costs resulting from increases in the price of gas under the Federal-Provincial energy pricing agreement effective August 1, 1982 and February 1, 1983.

AS UTILITY PERATIONS

reek crossing — Distribution ystem Expansion Program. pposite: Worker inspects 89mm astic distribution pipe which as proved cost effective on a umber of projects.

Gas Supply

The gas supply for the Company comes from wells located principally in northeastern British Columbia. Since 1973, the British Columbia Petroleum Corporation, an agent of the Crown, has purchased this gas from producers and then resold it to Westcoast Transmission Company Limited. Westcoast owns and operates large gas gathering and processing facilities in north-eastern B.C. and also owns and operates the gas transmission system which transports gas through central B.C. to markets in the United States and to Inland and the other major gas utilities within British Columbia.

Inland purchases gas directly from Westcoast's pipeline at over 30 locations and then transports the gas through its own transmission and distribution facilities to approximately 60 communities in the Cariboo, Okanagan and West Kootenay areas, (see fold-out map).

Columbia Natural Gas Limited, which serves communities in the East Kootenay area of B.C., uses gas supplied primarily from Alberta and delivered to them through the facilities of Alberta Natural Gas Company Ltd. The Alberta supply is supplemented by gas from British Columbia when available from Inland's system supplies.

Inland also "borrows" some Alberta gas for winter peaking purposes but replaces it with B.C. gas so that effectively, Inland buys all of its gas from B.C. sources.

The wholesale pricing of pipeline gas to Inland is controlled by the provincial government. During the 1983 fiscal year the wholesale price of gas produced in British Columbia remained unchanged but the price of gas produced in Alberta and exported to British Columbia increased by 23.3¢ per gigajoule in August 1982 and by the same amount in February 1983. These price increases are in accordance with the pricing agreement of November, 1981 between the federal government and the government of Alberta. The price increases were partially offset by a February 1983 reduction of 18¢ per gigajoule in the federal natural gas tax on marketable pipeline gas.

Capital Expenditures

In spite of the downturn in the economy throughout our service area, the Company was very active this year adding new customers and facilities. This was mainly due to the extension of service into previously uneconomic areas through DSEP and GEAP grants received from the federal and provincial governments respectively. The total capital program for the year was $17 million which included $3.5 million that was offset by the grants.

Approximately 152,000 metres of service lines and 394,000 metres of distribution main were installed in the Company's service area during the year. This included 62,000 metres of service lines and 283,000 metres of main that resulted from the government assisted projects.

The volume of distribution expansion was the highest since the Company commenced operations in 1957. Other major projects during the year included the completion of a second supply line to Quesnel, two sections of transmission line upgrading and a natural gas vehicle fuel demonstration project.

Columbia's capital expenditures for the year under review totalled $1.4 million which included mains, services and meters to serve 667 new customers. Service was extended to the Jaffray area by way of DSEP funding amounting to $137,000.

Future Capital Program

The federally funded program continues in the coming year and a total of $1.6 million in grants is expected which will make natural gas available to some 2,600 potential new customers. Total capital expenditures, including DSEP projects will be $11.1 million and will include 4,643 new service lines and 238,000 metres of main.

We expect that the high level of distribution system expansion will be maintained for several more years as a result of continued DSEP funding. Three transmission pipeline and right-of-way upgradings will also be carried out in 1984.

The Company has been heavily involved in evaluating the use of plastic pipe for distribution mains and service lines. Significant savings have been experienced in the cost of materials and installation and, as a result, we will be using plastic for most distribution facilities in the future. The majority of these facilities are being installed by Company employees.

Columbia's capital program for the 1984 fiscal year is estimated at $1.1 million which includes facilities for the addition of 450 new customers. Several DSEP projects will also be installed during the year.

Vancouver Island Project

The provincial government has recently requested applications for energy project certificates from interested parties to construct and operate facilities for the transmission of natural gas to and on Vancouver Island.

In response to this request the Company has submitted an application for the transmission facilities on Vancouver Island to serve the market area from Campbell River to Victoria, including a lateral to Port Alberni.

Applications were also submitted by other companies proposing to provide transmission pipeline facilities to deliver natural gas on Vancouver Island. All applications were referred to the British Columbia Utilities Commission, which has set September 27, 1983 as the date to commence public hearings on these matters.

Public hearings for the construction and operation of the distribution facilities will be held at a later date. The Company also intends to be an applicant to provide distribution service to the various communities on Vancouver Island.

OIL PIPELINE OPERATIONS

Edson pump station on Trans Mountain's 1,146km line.

Opposite: R.B. Stokes, Trans Mountain President and Chief Executive Officer at the Company's Westridge Terminal. Oil tanker is loading in the background.

TRANS MOUNTAIN PIPE LINE COMPANY LTD.

The acquisition of 67% of the common equity of Trans Mountain, represents an investment by Inland within the energy field yet in a distinctively different type of operation.

Unlike Inland, Trans Mountain does not own any of the product it ships, but acts simply as a transporter for producing companies in Alberta and B.C. The Company employs approximately 200 people, has the second largest crude oil pipeline in Canada and operates a system approximately 1,146 kilometres long from Edmonton, Alberta, to Burnaby, B.C.

Trans Mountain is regulated by the National Energy Board and acts as a common carrier of crude oil from Alberta to the west coast including the State of Washington. A wholly-owned U.S. subsidiary delivers crude from the mainline to Washington State refineries through a spur line at Huntingdon, B.C.

In the early 1970's, the National Energy Board ruled that exports of crude oil to the United States were to be curtailed due to a growing shortage in Canadian reserves. Accordingly, exports to the Washington State refineries were virtually eliminated by 1977 with the exception of a minor amount delivered on an exchange basis.

Crude oil is also delivered to ocean going vessels at the Company's Westridge dock in Vancouver for export purposes. Since its inception a total of approximately 400 ships have been loaded. Westridge Terminal also has a plant which receives railcars of propane and refrigerates and stores the product for export by ship to Japan.

A wholly-owned subsidiary, Trans Mountain Enterprises owns and operates a jet fuel system. This system delivers jet fuel from the four Vancouver refineries through a 6″ line to a tank farm at Sea Island for distribution to airlines at Vancouver International Airport.

Regulation

In response to Trans Mountain's Rate Application of November 3, 1982, the National Energy Board granted an 18.9% tariff increase effective December 3, 1982. The new tariffs reflect an allowed rate of return on rate base of 14.38%.

In arriving at the overall rate of return, the Board deemed the rate base to be financed with 45% of long-term debt and 55% of common equity capital. The Company is allowed to earn 15.5% return on the equity component while the cost of debt is based on a 13% interest rate.

Earnings

As previously reported by Trans Mountain in the Interim Report to its shareholders, consolidated earnings (before extraordinary items) amounted to $.55 per share for the six month period ending June 30, 1983 compared to $.12 per share for the first six months of 1982. The improvement in earnings was largely due to increased volumes from crude oil tanker movements through the Westridge Terminal and tariff increases in effect through June 30, as established at the last rate hearing.

Capital Expenditures

The Company's capital program for the year ending December 31, 1983 amounts to approximately $12 million. Almost $9 million of this total involves an upgrading and re-powering program. Expenditures incurred in the six month period to June 30, 1983 amount to $4.7 million.

The capital program for the year ending December 31, 1984 is forecast to be about $6 million.

Financial Reorganization

On June 28, 1983 the Company implemented a major financial reorganization. The result of this reorganization leaves Trans Mountain indirectly 100% ownership of Denton Investments Ltd. which in turn is the beneficial owner of 49.9% of the outstanding common shares of Inland. Trans Mountain has also granted Mr. F.J. Anderson an option to acquire indirectly 50% of Denton on or before December 31, 1983 subject to the payment of approximately $32 million to Trans Mountain by Mr. Anderson. The Company would utilize these funds, if and when received, to reduce bank indebtedness incurred in settlement of the purchase of Inland shares.

Outlook

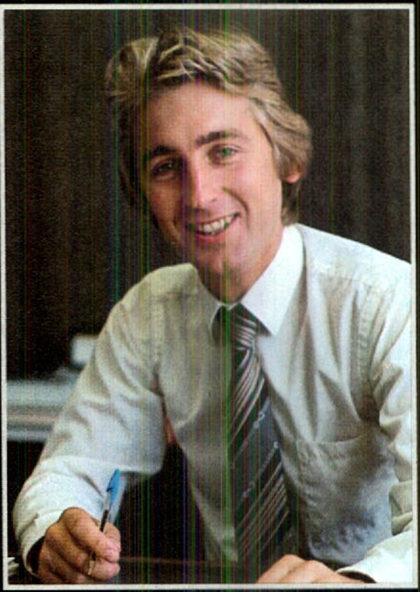
Trans Mountain's rate base is diminishing and the pipelines have excess capacity. In an effort to increase earnings, an internal project development team has been formed. The team's objectives are to find new ways to fully utilize the existing plant and to investigate projects requiring new plant additions.

One of the possibilities under consideration is the transportation of coal slurries. The pipeline passes through vast thermal coal deposits in Alberta. Studies commissioned by the Company have determined that it is technically feasible to batch coal slurries in the system and still meet the crude oil demands for Vancouver. Meetings have been held recently with principals involved in coal/water slurry and coal/methanol slurry and tests have been successfully conducted as to the burning characteristics of these fuels.

Another current project involves the shipment of clean products such as gasoline and fuel oils through the pipeline facilities. A test batch of clean product was recently pumped through the system from Edmonton to Vancouver. Further testing is planned which could result in the system ultimately becoming a crude and product pipeline. If, as and when these projects come to fruition, it will be necessary to build a new pipeline paralleling the existing one. This, of course, is one of the prime long-term objectives of the Company.

SHAREHOLDER INFORMATION

Patrick D. Lloyd
General Counsel and Secretary.



ANNUAL MEETING
The annual meeting of the shareholders of the Company will be held at 11:00 A.M. (Vancouver time) on October 26, 1983 in the Garibaldi Room, Four Seasons Hotel, 791 West Georgia Street, Vancouver, B.C.

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

REGISTRAR
National Trust Company, Limited
510 Burrard Street, Vancouver, B.C. V6C 2J7

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

AUDITORS
Thorne Riddell

STOCK EXCHANGE LISTINGS
Shares are listed for trading on the Vancouver, Toronto and Montreal Stock Exchanges

OPTIONAL STOCK DIVIDEND PROGRAM
In May 1983, the Board of Directors reinstated the Company's Optional Stock Dividend Program which had been temporarily suspended last year. This allows common shareholders resident in Canada the option of receiving dividends in the form of additional common shares, without payment of brokerage commission, 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.

SHARE DISTRIBUTION
The number of common shares outstanding increased from 3,095,763 at June 30, 1982, to 5,798,905 at June 30, 1983. Approximately 99% of the outstanding common and preference shares are owned by residents of Canada. The distribution of each class of shares is set out below:

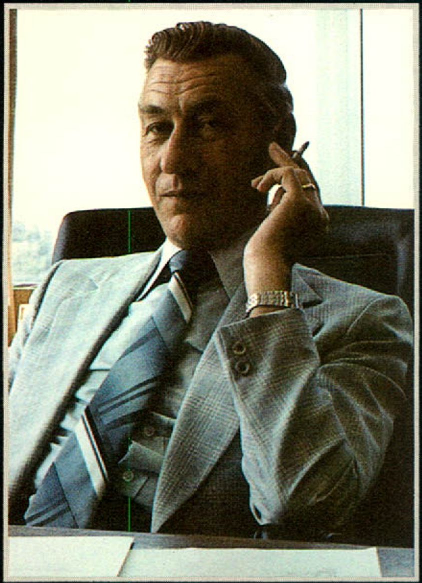
	Shareholders	Shares
Common		
Canada		
Held by public	2,482	2,848,635
Held by subsidiary	1	2,896,047
	2,483	5,744,682
U.S.A.	82	15,745
Others	40	38,478
	2,605	5,798,905
Preference		
Canada	2,250	733,080
U.S.A.	11	870
Others	2	450
	2,263	734,400

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.

FINANCIAL REPORT

Contents

Clifford I. Kleven
Vice-President, Finance.



FINANCIAL REVIEW

In January 1983 the Company acquired a 67% interest in the issued shares of Trans Mountain Pipe Line Company Ltd. The consolidated financial statements for the year 1983 include the results of Trans Mountain's oil pipeline operations for the six month period ending June 30, 1983.

Earnings

In fiscal 1983 earnings available for common shareholders were $7.84 million before extraordinary items, or $1.76 per common share on 4,447,560 average shares outstanding. This represents an increase of 16¢ per share compared to 1982 earnings of $4.96 million, or $1.60 per share on 3,095,763 average shares.

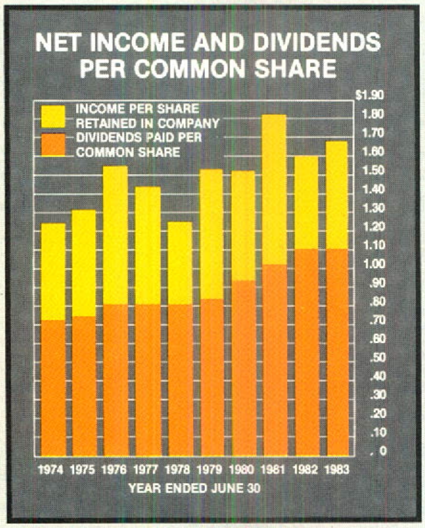
Dividends

Dividends paid on common shares increased to $4.9 million in 1983 from $3.4 million in 1982 due to the additional shares issued during the year. The quarterly dividend in fiscal 1983 was maintained at $.275 per common share or $1.10 on an annual basis, the same rate paid in 1982.

Revenue and Expenses

Total operating revenue was $215.5 million in 1983 compared to $181.7 million in 1982. Revenue from the oil pipeline operations acquired during the year contributed $22.1 million of the total increase and gas utility operations contributed $11.7 million.

Total operating expenses amounted to $185.1 million in 1983 compared to $161 million in 1982. Expenses directly related to the oil pipeline operations represented $14.2 million of the total increase.



Interest Expense

Interest expense on long-term debt and other interest costs related for the most part to gas utility operations.

Interest charges on long-term debt of $7.8 million in 1983 increased by $1.1 million over the amount recorded in the previous year. The increased expense resulted from the effect of a full year's interest on the 18¼% debentures which were issued part way through the 1982 fiscal year.

Other interest costs amounted to $2 million compared to $1.1 million last year. While the interest rates on short-term borrowings showed a significant decline from the high rates experienced in 1982, the level of short-term borrowings was higher throughout this year.

The gas distribution utilities are provided with a degree of protection from changes in interest rates on short-term borrowings, pending long-term financing, through the use of a deferred interest account authorized by the regulatory authority. This account absorbs fluctuation in actual interest costs from the rates approved by the Commission in determining the cost of capital.

Income Taxes

Income tax expense for the current year was $10.2 million compared to $6.9 million in the previous year. The effective tax rate on income before taxes decreased from 52.3% in 1982 to 49.5% in 1983. The increased tax expense is mainly due to the income in 1983 from the oil pipeline operations. The income from these operations also attracted a lower effective tax rate (47.1%) than income from gas utility operations (51.4%).

Extraordinary Items

Events which are not typical of normal operations resulted in net extraordinary charges of $308,000 against earnings in 1983. The majority of these charges were incurred by Trans Mountain with respect to the Company's share exchange offer.

Financing

There were no new financings carried out by the Company during the year under review. Capital requirements were provided by internally generated funds together with bank lines of credit which enable the Company to utilize bank loans, commercial paper or bankers' acceptances. Short-term notes and loans are included in the total capitalization for regulatory purposes in computing capitalization ratios and the cost of capital for the gas distribution utilities. The Company intends to replace part of its short-term borrowings with more permanent financing in the near future.

Reporting on Inflation

The Canadian Institute of Chartered Accountants (CICA) issued its standard on *"Reporting the Effects of Changing Prices"* in December 1982. This standard recommends that, effective with annual reporting periods commencing after January 1, 1983, large Canadian public companies should supplement their historical cost financial statements with financial information based on current costs and disclose the effect of changes in the general price level.

The Company and most of its subsidiaries, as regulated utilities, have their rates of return and revenues determined by regulatory authorities on the basis of recorded historical costs. The Company questions whether disclosure of the supplementary information recommended by CICA will assist users of financial information in their assessment of regulated utilities. However, the Company intends to further review the recommendations and will consider presenting this information in the reporting period commencing July 1, 1983.

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, include amounts based on estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Management has established and maintains appropriate systems of internal control, policies and procedures which are designed to provide reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

Thorne Riddell, the auditors appointed by the shareholders, have reviewed the systems of internal control and examined the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an independent opinion on the financial statements. Their report is included below.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets with the auditors and management to review auditing and financial matters. The consolidated financial statements have been approved by the Board on the recommendation of the Audit Committee.

AUDITORS' REPORT

To the Shareholders of
Inland Natural Gas Co. Ltd.

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. as at June 30, 1983 and the consolidated statements of income, retained earnings, contributed surplus 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, 1983 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 26, 1983

INLAND NATURAL GAS CO. LTD.

CONSOLIDATED STATEMENT OF INCOME Year ended June 30

(thousands of dollars)

	1983	1982
REVENUE		
Sale of gas	**$192,652**	$180,587
Crude oil and other transportation	**21,507**	—
Other operating revenue	**1,377**	1,167
	215,536	181,754
EXPENSES		
Purchase of gas	**140,804**	133,308
Operation and maintenance	**25,274**	15,124
Property, franchise and other taxes	**13,682**	8,766
Depreciation and amortization	**5,366**	3,752
Interest and expense on long-term debt	**7,829**	6,623
Other interest	**2,009**	1,061
	194,964	168,634
Income before income taxes, minority interest and extraordinary items	**20,572**	13,120
Income taxes		
Current	**8,136**	4,674
Deferred	**2,042**	2,187
	10,178	6,861
Income before minority interest and extraordinary items	**10,394**	6,259
Minority interest	**1,295**	—
Income before extraordinary items	**9,099**	6,259
Extraordinary items (Note 7)	**308**	—
NET INCOME	**$ 8,791**	$ 6,259
EARNINGS PER COMMON SHARE, after provision for preference dividends		
Before extraordinary items	**$ 1.76**	$ 1.60
After extraordinary items	**$ 1.69**	$ 1.60

CONSOLIDATED STATEMENT OF RETAINED EARNINGS Year ended June 30

(thousands of dollars)

	1983	1982
BALANCE AT BEGINNING OF YEAR	**$ 25,300**	$ 23,771
Net income	**8,791**	6,259
	34,091	30,030
Dividends on 5% preference shares	**400**	400
Dividends on 10% second preference shares	**855**	895
Dividends on common shares — $1.10 per share	**4,892**	3,403
Amortization of preference share issue costs	**32**	32
	6,179	4,730
BALANCE AT END OF YEAR	**$ 27,912**	$ 25,300

See accompanying summary of accounting policies and notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Year ended June 30

(thousands of dollars)

SOURCE OF WORKING CAPITAL	1983	1982
Operations		
Net income	$ 8,791	$ 6,259
Items not involving working capital		
Depreciation and amortization	5,795	3,775
Deferred income taxes	2,042	2,187
Minority interest	1,295	—
Other	110	(489)
Total from operations	18,033	11,732
Long-term debt issued (Note 4)	53,100	19,784
Proceeds from sale of real estate	—	1,064
Common shares issued (Note 5)	40,547	54
	111,680	32,634
APPLICATION OF WORKING CAPITAL		
Acquisition of Trans Mountain Pipe Line Company Ltd. (Note 1)		
Purchase price and acquisition costs	46,859	—
Working capital acquired	(7,498)	—
	39,361	—
Additions to property, plant and equipment	19,626	14,441
Dividends on preference and common shares	6,147	4,698
Dividends to minority shareholders of subsidiary	748	—
Reduction of long-term debt	2,408	11,703
Purchase and cancellation of second preference shares	402	374
Acquisition of parent company shares by subsidiary (Note 6)	52,318	—
Other	485	1,149
	121,495	32,365
INCREASE (DECREASE) IN WORKING CAPITAL DEFICIENCY	9,815	(269)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	18,362	18,631
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ 28,177	$ 18,362

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS Year ended June 30

(thousands of dollars)

	1983	1982
BALANCE AT BEGINNING OF YEAR	$ 8,770	$ 8,594
Premium on issue of common shares (Note 5)	37,844	51
Gain on purchase of preference shares for cancellation (Note 5)	34	125
BALANCE AT END OF YEAR	$ 46,648	$ 8,770

See accompanying summary of accounting policies and notes.

INLAND NATURAL GAS CO. LTD.

CONSOLIDATED BALANCE SHEET As at June 30

(thousands of dollars)

Assets

	1983	1982
CURRENT ASSETS		
Accounts receivable	$ 22,242	$ 17,722
Inventories (Note 2)	5,599	3,354
Prepaid expenses	1,142	705
	28,983	21,781
PROPERTY, PLANT AND EQUIPMENT		
Natural gas and oil pipeline systems	320,073	154,858
Plant, buildings and equipment	31,742	9,701
Land and land rights	23,819	3,484
	375,634	168,043
Accumulated depreciation	176,911	32,833
	198,723	135,210
OTHER ASSETS		
Investment in marketable securities, mortgages and real estate, at cost	3,536	1,211
Deferred charges (Note 3)	5,002	4,780
	8,538	5,991
	$236,244	$162,982

Approved by the Directors

R. Landells Director

[signature] Director

See accompanying summary of accounting policies and notes.

Liabilities

CURRENT LIABILITIES	1983	1982
Bank loans and short-term notes	$ 32,082	$ 5,578
Accounts payable and accrued liabilities	13,805	11,047
Dividends payable	309	320
Property, franchise and other taxes	8,549	11,383
Current portion of long-term debt	2,415	11,815
	57,160	40,143
LONG-TERM DEBT (Note 4)	109,617	59,068
DEFERRED INCOME TAXES	10,950	9,810
MINORITY INTEREST	14,116	—

Shareholders' Equity

CAPITAL STOCK (Note 5)		
5% Cumulative redeemable preference shares, par value $20 per share Authorized and issued: 400,000 shares	8,000	8,000
10% Cumulative redeemable second preference shares, par value $25 per share Authorized: 400,000 shares Issued: 334,400 shares	8,360	8,795
Common shares, par value $1 per share Authorized: 10,000,000 shares Issued: 5,798,905 shares	5,799	3,096
CONTRIBUTED SURPLUS	46,648	8,770
RETAINED EARNINGS	27,912	25,300
	96,719	53,961
Less — Cost of shares held by subsidiary (Note 6)	52,318	—
	44,401	53,961
	$236,244	$162,982

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.), all of which are wholly-owned; and Trans Mountain Pipe Line Company Ltd. (67% owned — see Note 1) together with its wholly-owned subsidiaries — Trans Mountain Enterprises of British Columbia Limited, Trans Mountain Housing Limited, Alpac Construction & Surveys Limited, Denton Investments Ltd., Trans Mountain Holdings Ltd., 108195 Canada Limited and Trans Mountain Oil Pipe Line Corporation in the United States.

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, 1983 is $8,816,711 (1982 — $5,305,434). All other intercompany balances and transactions have been eliminated.

REGULATION

The Company and certain of its subsidiaries are regulated by regulatory authorities as noted hereunder. Regulation covers such matters as rates, construction, operations and accounting practices.

The Company 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.

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

Trans Mountain is primarily engaged in the transportation of crude oil from the northern prairies to the west coast of British Columbia and Washington State and is regulated in Canada by the National Energy Board and in the United States by the Federal Energy Regulatory Commission.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at original cost to the respective regulated companies which includes all direct costs, an allocation of overhead costs, an allowance for funds used during construction and acquisition costs referred to in Note 1.

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 the net cost of removal less salvage, is charged to accumulated depreciation.

Depreciation is provided on a straight-line basis on plant in service at rates approved by regulatory authorities. The application of these rates in the current year is equivalent to a composite depreciation rate of 2.4%.

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 five years.

INCOME TAXES

The Company and its subsidiaries, except Peace River and Grande Prairie, 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.

Prior to July 1, 1977 the Company, 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 of the respective companies.

PENSION PLANS

The Company and its subsidiaries have contributory defined pension plans available for their employees. The plans require that actuarial valuations be prepared at least every three years. The unfunded liabilities for past service benefits are approximately $1,642,000 as at June 30, 1983 (1982 — $332,000). Based on actuarial advice, $1,298,000 will be funded and charged to operations over the next five years; the balance of $344,000 will be funded and charged to operations over the remaining future working lifetimes of plan members at 0.6% of annual payroll costs related to plan members.

FOREIGN CURRENCY TRANSLATION

United States dollar amounts have been translated into Canadian dollars on the following bases.

Current assets and liabilities — at the rates of exchange in effect at the balance sheet dates; other assets and liabilities — at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets; income and expenses, except depreciation — at month-end rates of exchange. Gains and losses on translation, which are not material, are included in income.

EARNINGS PER COMMON SHARE

Earnings per common share were computed by dividing the earnings applicable to common shares by the weighted monthly average number of common shares outstanding during each year. No deduction has been made for common shares of the Company owned by a subsidiary in the determination of the weighted average common shares outstanding in 1983 as the subsidiary did not obtain control of the shares of the Company until June 28, 1983. Dividend requirements on preference shares of $1,254,750 in 1983 and $1,295,250 in 1982 have been deducted from net income to determine the earnings applicable to common shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts in thousands)

1. ACQUISITION OF TRANS MOUNTAIN PIPE LINE COMPANY LTD.

On November 19, 1982, the Company purchased 600,000 shares of Trans Mountain at a cost of $5,421,000. Pursuant to the terms of its Offer dated November 22, 1982 to shareholders of Trans Mountain, whereby the Company offered three of its common shares for each five Trans Mountain shares, the Company acquired 4,487,840 shares of Trans Mountain at the date of closing on January 14, 1983. As consideration for the acquired shares, the Company issued 2,692,691 treasury common shares at an assigned value of $40,390,000. The Company's shareholdings represent a 67% interest in the issued shares of Trans Mountain.

The acquisition has been accounted for by the purchase method with the results of operations included in these financial statements from January 1, 1983. On consolidation, $19,159,000, being the excess of the total investment over the book value of net assets acquired, has been allocated to land and land rights. The assets acquired and total consideration, including fees and other costs relating to the acquisition of $1,048,000 (net of income tax), are summarized below:

Working capital acquired		$ 7,498
Property, plant and equipment	$188,728	
Less — accumulated depreciation	139,290	49,438
Marketable securities		2,230
Deferred income taxes		902
Other non-current assets		360
		60,428
Less — minority interest		13,569
Total consideration		$46,859

2. INVENTORIES

Materials and supplies are valued at the lower of cost, determined mainly on a moving-average basis, and replacement cost. Crude oil inventories are valued at net realizable value. Inventories consist of:

	1983	1982
Materials and supplies	**$4,488**	$3,354
Crude oil	**1,111**	—
	$5,599	$3,354

3. DEFERRED CHARGES

	1983	1982
Preference share issue costs	**$1,216**	$1,248
Long-term debt issue costs	**412**	471
Goodwill	**705**	724
Deferred interest	**1,163**	1,124
Vancouver Island project	**924**	834
Other	**582**	379
	$5,002	$4,780

Deferred interest — Pursuant to direction from the Commission, interest expense has been deferred both in the accounts and for regulatory purposes in setting rates to consumers. The ultimate disposition of deferred interest will be determined by the Commission.

Vancouver Island project — Costs incurred to date relating to this project which may benefit future periods are being deferred. The Company is one of the applicants to construct and operate a transmission line on Vancouver Island and will appear at a public hearing before the Commission commencing on September 27, 1983.

4. LONG-TERM DEBT

	Total Outstanding	Current Liability	Long-term 1983	Long-term 1982
Inland Natural Gas Co. Ltd.				
First mortgage sinking fund bonds				
8% Series D, due December 31, 1989	$ 3,767	$ 173	**$ 3,594**	$ 3,767
8¼% Series E, due November 1, 1991	6,161	186	**5,975**	6,205
8⅝% Series F, due April 15, 1993	6,405	200	**6,205**	6,415
11⅛% Series G, due June 15, 1995	10,291	311	**9,980**	10,325
	26,624	870	**25,754**	26,712
Sinking fund debentures				
9⅞% Series A, due November 30, 1997	11,231	311	**10,920**	11,280
18¼ Series B, due November 15, 1996	19,250	1,100	**18,150**	19,250
	57,105	2,281	**54,824**	57,242
Columbia Natural Gas Limited				
First mortgage sinking fund bonds				
9% Series B, due June 15, 1993	1,827	134	**1,693**	1,826
Trans Mountain Pipe Line Company Ltd.				
Term bank loan	53,100	—	**53,100**	—
	$112,032	$2,415	**$109,617**	$59,068

The first mortgage bonds of the Company 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, 1983, are: 1984, $2,414,500; 1985, $2,640,500; 1986, $2,734,500; 1987, $2,845,000; 1988, $2,958,500.

The term bank loan of Trans Mountain was obtained for the purpose of refinancing bank loans, referred to in Note 6. Interest at the prime rate is payable monthly from July 1, 1983 to January 31, 1984 at which date it is expected that the term will be extended and interest rate renegotiated, and accordingly the loan is shown as a non-current liability. The loan outstanding at January 31, 1984 will be reduced if the Anderson option, referred to in Note 6, is exercised. The bank loan is primarily secured by the hypothecation of the shares of the subsidiary which holds the shares in the Company.

5. 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 a price of $25.75 per share on or before June 30, 1984 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, 1983, the Company purchased for cancellation 17,400 shares. The excess of the subscription price of the second preference shares cancelled over their purchase cost amounts to $33,532 (1982 — $125,560) and is included in contributed surplus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts in thousands)

(c) Common shares
Common shares issued during the year are summarized below:

	Number of Shares	Capital Stock	Contributed Surplus (Premium)	Total Amount
Issued during 1983				
For cash	10,000	$ 10	$ 141	$ 151
In exchange for shares of a subsidiary (Note 1)	2,692,691	2,692	37,698	40,390
For cash under optional stock dividend program	451	1	5	6
	2,703,142	2,703	$37,844	$40,547
Outstanding beginning of year	3,095,763	3,096		
Outstanding end of year	5,798,905	$5,799		

The Company has an Optional Stock Dividend Program available to its common shareholders which allows shareholders a choice between a cash and a stock dividend. During the year ended June 30, 1983, 451 common shares (1982 — 3,657) were issued under the program for $6,050, of which $5,599 has been credited to contributed surplus. The Company has reserved 194,089 of its authorized but unissued common shares to meet future share option privileges.

6. COST OF SHARES HELD BY SUBSIDIARY

(a) Purchase of Trans Mountain Pipe Line Company Ltd.
In 1982 Trans Mountain Pipe Line Company Ltd. together with 108195 Canada Limited, a company controlled by F. James Anderson, indirectly acquired 93.5% (2,896,047 shares) of the outstanding common shares of Inland. The purchasers were denied the approval of the British Columbia Utilities Commission to transfer the registration of the Inland shares. Accordingly, Inland's directors responded with the share exchange offer described in Note 1 which resulted in Inland acquiring 67% of Trans Mountain and reducing Trans Mountain's and 108195's shareholding in Inland to 49.9%.

(b) Purchase of 108195 Canada Limited
On June 28, 1983 Trans Mountain acquired from Anderson all of the shares of 108195. 108195 and Trans Mountain each hold indirectly 50% of 49.9% of the outstanding common shares of Inland. Trans Mountain, with the acquisition of 108195 now beneficially owns 49.9% of the shares of Inland.

(c) Cost of Inland shares held by subsidiary
The cost of the Inland common shares owned as at June 30, 1983 comprises:

On purchase of Trans Mountain	$21,720
On purchase of 108195	30,598
	$52,318

(d) Anderson Option
Trans Mountain has granted F. James Anderson an option to repurchase the shares of 108195 at any time on or before December 27, 1983. In order to exercise the option, Anderson must pay Trans Mountain a sum equivalent to one-half of all debt associated with the purchase of the Inland shares together with accrued interest to the date the option is exercised. It is estimated that this amount will be approximately $32,000,000 at December 27, 1983.

7. EXTRAORDINARY ITEMS

Costs incurred by Trans Mountain related to the share exchange offer by Inland, net of current income tax reduction of $339,000	$323
Gain on sale of land, net of current income taxes of $22,000	(65)
Regulatory disallowance, net of deferred income tax reduction of $60,958	50
	$308

8. RATE APPLICATIONS

During the year decisions rendered by the Commission subsequent to public hearings have confirmed all previously granted interim increases and further approved an additional increase in the filed rates of the Company effective June 6, 1983.

On June 27, 1983, the Company filed an application for interim rate relief based on estimated revenue requirements for 1984. The Commission approved the interim rates filed by the Company effective July 1, 1983, subject to refund with interest if the rates are not confirmed by the Commission after a public hearing. The Company is preparing an application for permanent rate relief which will be filed by September 15, 1983. The Commission has set down a public hearing to commence on October 18, 1983.

9. SEGMENTED INFORMATION

The Company operates principally in two business segments:

1. Gas utility, primarily involving the transmission and distribution of natural gas, and
2. Oil pipeline, primarily involving the transportation of crude oil and petroleum products.

Oil pipeline operations are carried out through Trans Mountain Pipe Line Company Ltd., a 67% owned subsidiary (see Note 1). At the present time the United States oil pipeline operations are not of significant size to be classified as a reportable geographic segment.

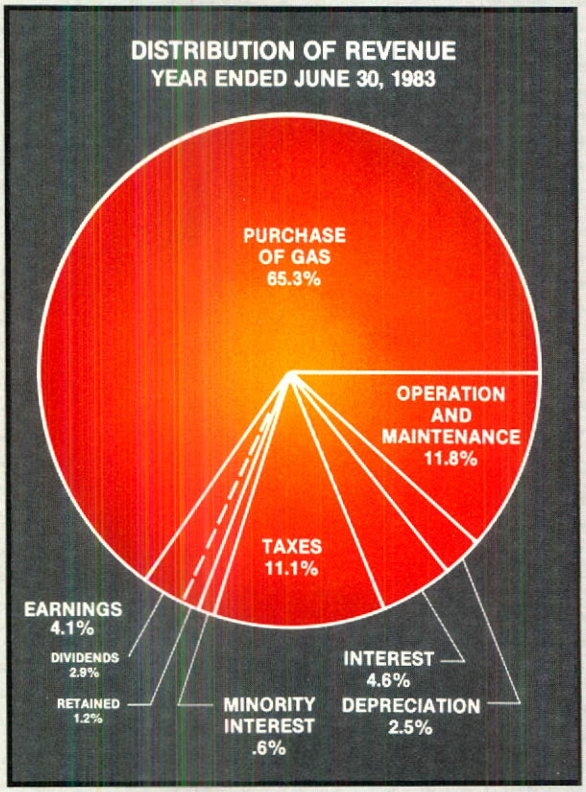
Operating segments

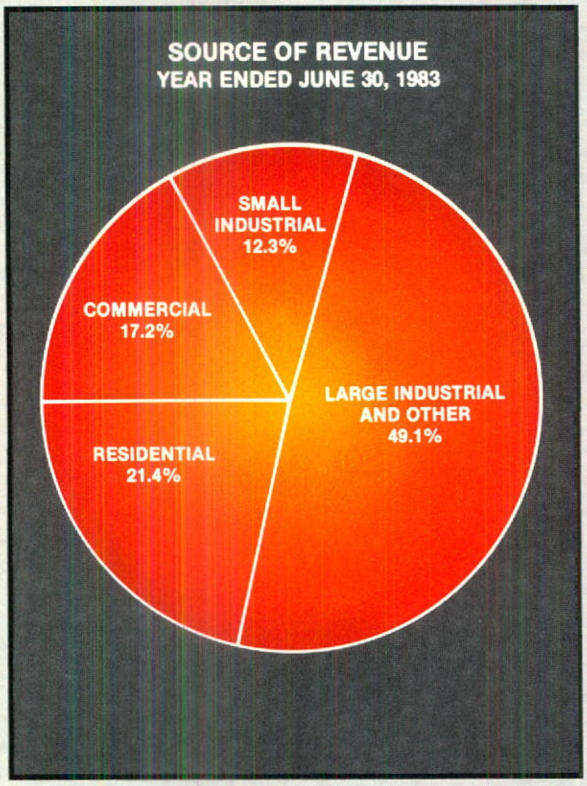
	Gas Utility Operations		Oil Pipeline Operations	Consolidated	
	1983	1982	**1983** (6 months)	**1983**	1982
Revenue	**$193,475**	$181,754	**$ 22,061**	**$215,536**	$181,754
Expenses					
Purchase of gas	**140,804**	133,308	**—**	**140,804**	133,308
Operating	**16,825**	15,124	**8,449**	**25,274**	15,124
Property, franchise and other taxes	**9,477**	8,766	**4,205**	**13,682**	8,766
Depreciation	**3,869**	3,752	**1,497**	**5,366**	3,752
	170,975	160,950	**14,151**	**185,126**	160,950
Segment operating income	**$ 22,500**	$ 20,804	**$ 7,910**	**30,410**	20,804
Interest expense				**(9,838)**	(7,684)
Income taxes				**(10,178)**	(6,861)
Minority interest				**(1,295)**	—
Extraordinary items				**(308)**	—
Net income				**$ 8,791**	$ 6,259
Total assets	**$173,455**	$162,982	**$ 62,789**	**$236,244**	$162,982
Capital expenditures	**$ 14,914**	$ 14,441	**$ 4,712**	**$ 19,626**	$ 14,441

INLAND NATURAL GAS CO. LTD.

TEN-YEAR FINANCIAL SUMMARY

(dollar amounts in thousands)





Distribution Utilities

STATEMENT OF INCOME	1983**
Revenue	
Sale of gas — distribution utilities	$ 185,674
— transmission utilities	6,978
	192,652
Crude oil and other transportation	21,507
Other operating revenue	1,377
	215,536
Expenses	
Purchase of gas	140,804
Operation and maintenance	25,274
Property, franchise and other taxes	13,682
Depreciation and amortization	5,366
	185,126
Operating income	30,410
Interest charges	9,990
Allowance for funds used during construction	(152)
Income before undernoted items	20,572
Income taxes	10,178
Minority interest	1,295
Income before extraordinary items	9,099
Extraordinary items	308
Net income	8,791
Dividends on preference shares	1,255
Common share earnings	$ 7,536
COMMON SHARES OUTSTANDING —	
Weighted average	4,447,560
PER COMMON SHARE DATA	
Earnings before extraordinary items	$ 1.76
Dividends	$ 1.10
PROPERTY, PLANT AND EQUIPMENT	
Gas utility operations — Transmission	$ 73,558
— Distribution	101,292
— General	7,395
	182,245
Oil pipeline operations	193,389
	375,634
ACCUMULATED DEPRECIATION	
Gas utility operations	36,175
Oil pipeline operations	140,736
	176,911
NET CONSOLIDATED PLANT	$ 198,723
CAPITALIZATION	
Long-term debt (including current maturities)	$ 112,032
Short-term notes and bank loans	32,082
Total debt	144,114
Preference shares	16,360
Common equity	80,359
Cost of shares held by subsidiary	(52,318)
	$ 188,515
CAPITALIZATION RATIO (%)	
Long-term debt (including current maturities)	59.5
Short-term notes and bank loans	17.0
Total debt	76.5
Preference shares	8.7
Common equity	42.6
Cost of shares held by subsidiary	(27.8)
	100.00
RATIOS	
Total debt interest — times earned	2.88
Preference dividends — times earned	7.00

*Including Columbia Natural Gas Limited from July 1, 1979

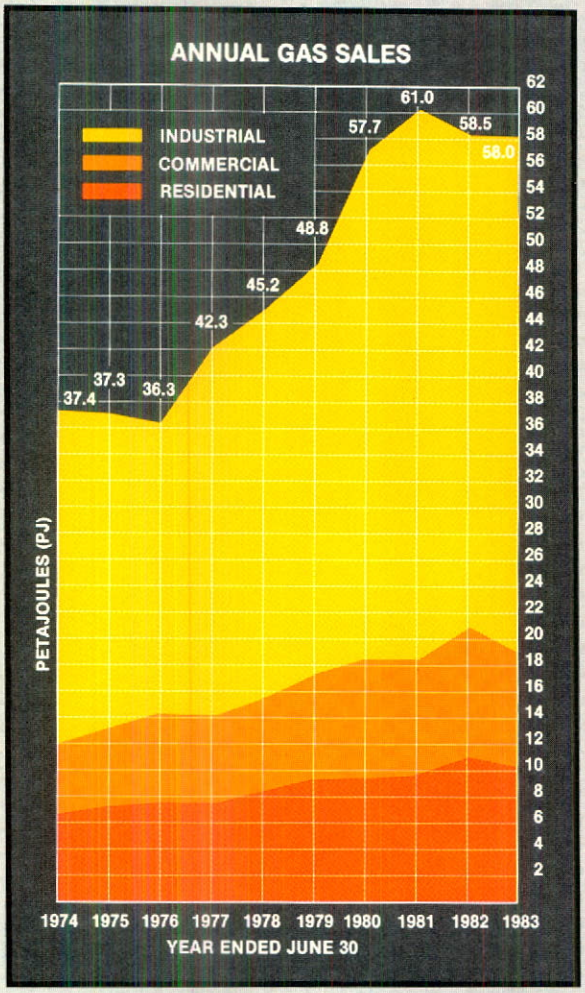
**Including Trans Mountain Pipe Line Company Ltd. from January 1, 1983

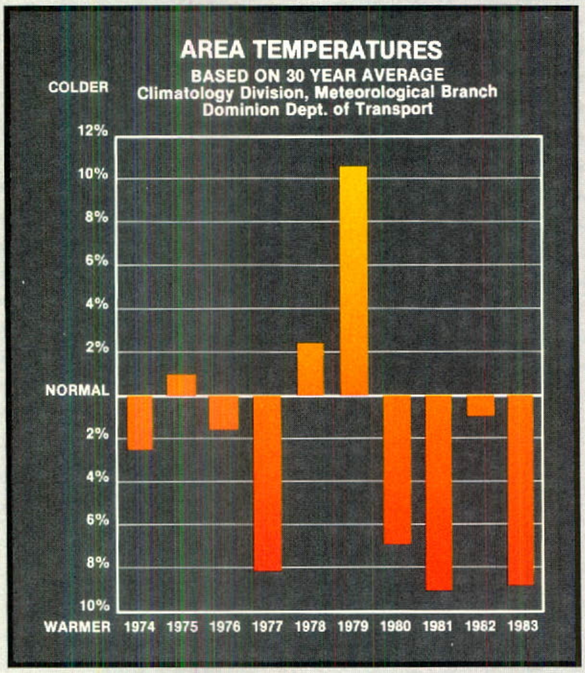
1982	1981	1980*	1979	1978	1977	1976	1975	1974
174,515	122,181	98,831	82,043	65,980	49,324	35,786	32,414	27,272
6,072	5,237	3,898	3,944	3,422	2,298	1,686	1,412	1,048
180,587	127,418	102,729	85,987	69,402	51,622	37,472	33,826	28,320
—	—	—	—	—	—	—	—	—
1,167	650	513	604	1,334	1,472	825	707	873
181,754	128,068	103,242	86,591	70,736	53,094	38,297	34,533	29,193
133,308	85,835	66,161	54,113	43,955	31,255	20,516	19,489	14,696
15,124	12,087	10,541	8,784	6,143	5,263	4,295	3,462	2,948
8,766	6,551	5,546	4,319	3,128	2,568	2,119	1,792	1,470
3,752	3,480	3,303	2,910	2,749	2,323	1,819	1,745	1,635
160,950	107,953	85,551	70,126	55,975	41,409	28,749	26,488	20,749
20,804	20,115	17,691	16,465	14,761	11,685	9,548	8,045	8,444
7,810	5,968	6,090	5,061	4,953	4,547	5,056	3,744	3,098
(126)	(67)	(42)	(15)	(82)	(31)	(564)	(530)	(15)
13,120	14,214	11,643	11,419	9,890	7,169	5,056	4,831	5,361
6,861	7,436	5,963	5,704	4,950	1,672	250	737	1,471
—	—	—	—	—	—	—	—	—
6,259	6,778	5,680	5,715	4,940	5,497	4,806	4,094	3,890
—	—	—	—	—	—	—	—	—
6,259	6,778	5,680	5,715	4,940	5,497	4,806	4,094	3,890
1,295	1,354	1,395	1,400	1,400	1,444	400	400	400
4,964	5,424	4,285	4,315	3,540	4,053	4,406	3,694	3,490
3,095,763	2,972,914	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122
1.60	1.82	1.52	1.53	1.25	1.44	1.56	1.31	1.24
1.10	1.025	.925	.825	.80	.80	.80	.74	.72
72,897	71,079	68,822	62,840	62,198	60,787	57,500	47,887	37,392
89,124	77,560	68,237	56,463	52,246	48,903	44,956	40,779	37,995
6,022	5,228	4,637	4,011	3,672	3,049	2,922	2,854	2,773
168,043	153,867	141,696	123,314	118,116	112,739	105,378	91,520	78,160
—	—	—	—	—	—	—	—	—
168,043	153,867	141,696	123,314	118,116	112,739	105,378	91,520	78,160
32,833	29,718	26,363	21,277	18,709	16,488	14,642	13,172	11,583
—	—	—	—	—	—	—	—	—
32,833	29,718	26,363	21,277	18,709	16,488	14,642	13,172	11,583
135,210	124,149	115,333	102,037	99,407	96,251	90,736	78,348	66,577
70,883	53,760	55,529	53,484	54,965	44,347	49,649	50,428	39,521
5,578	11,218	8,333	—	—	10,715	1,187	863	2,116
76,461	64,978	63,862	53,484	54,965	55,062	50,836	51,291	41,637
16,795	17,295	17,795	18,000	18,000	18,000	18,000	8,000	8,000
37,167	35,457	29,780	28,139	26,184	24,933	23,170	21,034	19,441
—	—	—	—	—	—	—	—	—
130,423	117,730	111,437	99,623	99,149	97,995	92,006	80,325	69,078
54.3	45.7	49.8	53.7	55.4	45.3	53.9	62.8	57.1
4.3	9.5	7.5	—	—	10.9	1.3	1.1	3.2
58.6	55.2	57.3	53.7	55.4	56.2	55.2	63.9	60.3
12.9	14.7	16.0	18.1	18.2	18.3	19.6	10.0	11.6
28.5	30.1	26.7	28.2	26.4	25.5	25.2	26.1	28.1
—	—	—	—	—	—	—	—	—
100.0	100.0	100.00	100.0	100.0	100.0	100.0	100.0	100.0
2.66	3.37	2.92	3.28	3.03	2.60	2.02	2.32	2.78
4.83	5.01	4.07	4.08	3.53	3.81	12.01	10.24	9.72

INLAND NATURAL GAS CO. LTD.

TEN-YEAR OPERATING SUMMARY (Distribution Utilities*)

(dollar amounts in thousands)





	1983
REVENUE	
Residential	$ 39,799
Commercial	31,897
Small industrial	22,778
Large industrial and other	91,200
Total natural gas revenue	$ 185,674
SALES UNITS (TJ)**	
Residential	10,444
Commercial	8,675
Small industrial	6,993
Large industrial and other	31,987
Total natural gas sales units	58,099
CUSTOMERS AT YEAR END	
Residential	99,534
Commercial	13,141
Small industrial	115
Customers at year end	112,790
CUSTOMER STATISTICS**	
Average use per customer (GJ)	
Residential	108
Commercial	669
Average rate per GJ	
Residential	$ 3.81
Commercial	$ 3.68
UNITS OF NATURAL GAS PURCHASED (TJ)**	58,579
MAXIMUM DAY SENDOUT (GJ)**	
Including interruptible	299,560
DEGREE DAYS (base 18 °C.) — Actual	3,798
— Normal	4,167
PAYROLL STATISTICS	
Wages and benefits	$ 15,156
Number of employees (average)	409
COMPANY OWNED LINES — Kilometres	
Gas Utilities — Transmission	2,034
— Distribution	3,361
— Services	2,523
Oil Pipeline	1,477
	9,395

*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)

1982	1981	1980	1979	1978	1977	1976	1975	1974
40,061	25,920	21,862	20,022	16,253	12,465	10,561	9,531	7,633
33,080	21,440	18,577	17,021	13,286	9,869	8,318	7,567	5,759
18,297	14,984	11,492	12,024	10,113	7,772	5,053	3,787	3,509
83,077	59,837	46,900	32,976	26,328	19,218	11,854	11,529	10,371
174,515	122,181	98,831	82,043	65,980	49,324	35,786	32,414	27,272
11,372	9,814	9,641	9,277	8,486	7,673	7,745	7,387	6,717
9,676	8,534	8,564	8,142	7,192	6,398	6,414	6,147	5,367
5,940	7,063	6,253	6,715	6,507	6,091	4,839	3,943	4,180
31,464	35,581	33,269	24,664	23,062	22,102	17,319	19,858	21,135
58,452	60,992	57,727	48,798	45,247	42,264	36,317	37,335	37,399
93,957	87,858	80,537	67,358	65,206	62,763	59,300	54,910	51,027
12,812	12,218	11,369	9,385	8,942	8,580	8,034	7,481	6,955
117	120	114	105	104	108	100	90	86
106,886	100,196	92,020	76,848	74,252	71,451	67,434	62,481	58,068
125	117	123	140	133	126	136	139	139
773	724	777	888	821	770	827	852	806
3.52	2.64	2.27	2.15	1.92	1.62	1.36	1.29	1.14
3.42	2.51	2.17	2.09	1.85	1.54	1.30	1.23	1.07
59,138	61,892	58,172	48,234	44,647	41,830	35,924	36,931	37,013
291,362	277,262	274,016	245,835	216,478	178,019	165,700	155,917	143,640
4,196	3,859	3,936	4,524	4,191	3,763	4,018	4,140	4,002
4,233	4,233	4,233	4,099	4,099	4,099	4,099	4,099	4,099
13,156	10,450	8,878	7,397	6,248	5,996	4,887	3,831	3,142
393	350	325	278	262	271	249	240	224
2,031	2,023	1,958	1,669	1,656	1,649	1,627	1,509	1,443
2,936	2,721	2,557	2,177	2,098	2,043	1,949	1,836	1,741
2,397	2,248	2,071	1,702	1,641	1,585	1,508	1,401	1,310
—	—	—	—	—	—	—	—	—
7,364	6,992	6,586	5,548	5,395	5,277	5,084	4,746	4,494

DIRECTORS AND OFFICERS

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.
William James Esselmont	Partner, Clark Wilson & Company
Roderick M. Hungerford	President, Flex-Lox Industries Ltd.
J. Norman Hyland	Corporate Director
Robert E. Kadlec	President and Chief Executive Officer Inland Natural Gas Co. Ltd.
C. Ben Macdonald	Chairman, Dawn Development Canada Limited
Thomas G. Rust	Chairman, President and Chief Executive Officer, Crown Forest Industries 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

*Elected President and Chief Executive Officer, Trans Mountain Pipe Line Company Ltd. on April 25, 1983.

All Directors reside in British Columbia.

Executive Committee

R.L. Cliff
J.N. Hyland
R.E. Kadlec
R.B. Stokes

Audit Committee

R.M. Hungerford
J.N. Hyland
H.B. Simpson
H.R. Whittall

OFFICERS

Ronald L. Cliff	Chairman of the Board
Robert E. Kadlec	President and Chief Executive Officer
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	General Counsel and Secretary

COMMUNITIES SERVED
GAS UTILITY OPERATIONS

Armstrong
Ashcroft
Cache Creek
Castlegar
Cawston
Chetwynd
Clinton
Coldstream
Cranbrook
Creston
Elkford
Enderby
Falkland
Fernie
Fruitvale
Grand Forks
Grindrod
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
Westwold
Williams Lake
Winfield
Yahk
100 Mile House
150 Mile House


ALBERTA
Edmonton
Edson
Jasper
Fort St. James
Endako
Endako Mines
Fraser Lake
Vanderhoof
PRINCE GEORGE
Shelley
Dunkley
Quesnel
Kersley
Gibraltar Mines
Williams Lake
150 Mile House
Lac La Hache
100 Mile House
Clinton
Cache Creek
Ashcroft
Savona
KAMLOOPS
Westwold
Salmon Arm
Grindrod
Enderby
Armstrong
Spallumcheen
Falkland
Highland Valley
Logan Lake
Craigmont Mines
Merritt
Vernon
Lumby
Oyama
Coldstream
Winfield
Westbank
KELOWNA
Brenda Mines
Peachland
Summerland
Naramata
PENTICTON
Hedley
Princeton
Okanagan Falls
Keremeos
Cawston
Oliver
Osoyoos
Midway
Grand Forks
Rossland
Robson
Castlegar
Nelson
Salmo
Fruitvale
Trail
Montrose
Creston
Yahk
CRANBROOK
Kimberley
Skookumchuck
Jaffray
Fernie
Galloway
Sparwood
B.C. Coal
Line Creek Coal
Elkford
B.C. Coal
Greenhills
Fording
Invermere
Banff
Golden
Revelstoke
Campbell River
Gold River
Cumberland
Courtenay
Comox
Powell River
Qualicum-Parksville
Port Alberni
Nanaimo
Cedar
Vancouver
Hope
Huntingdon
Ladysmith
Duncan
Victoria
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Anacortes
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INLAND NATURAL GAS CO. LTD. DISTRIBUTION AREA