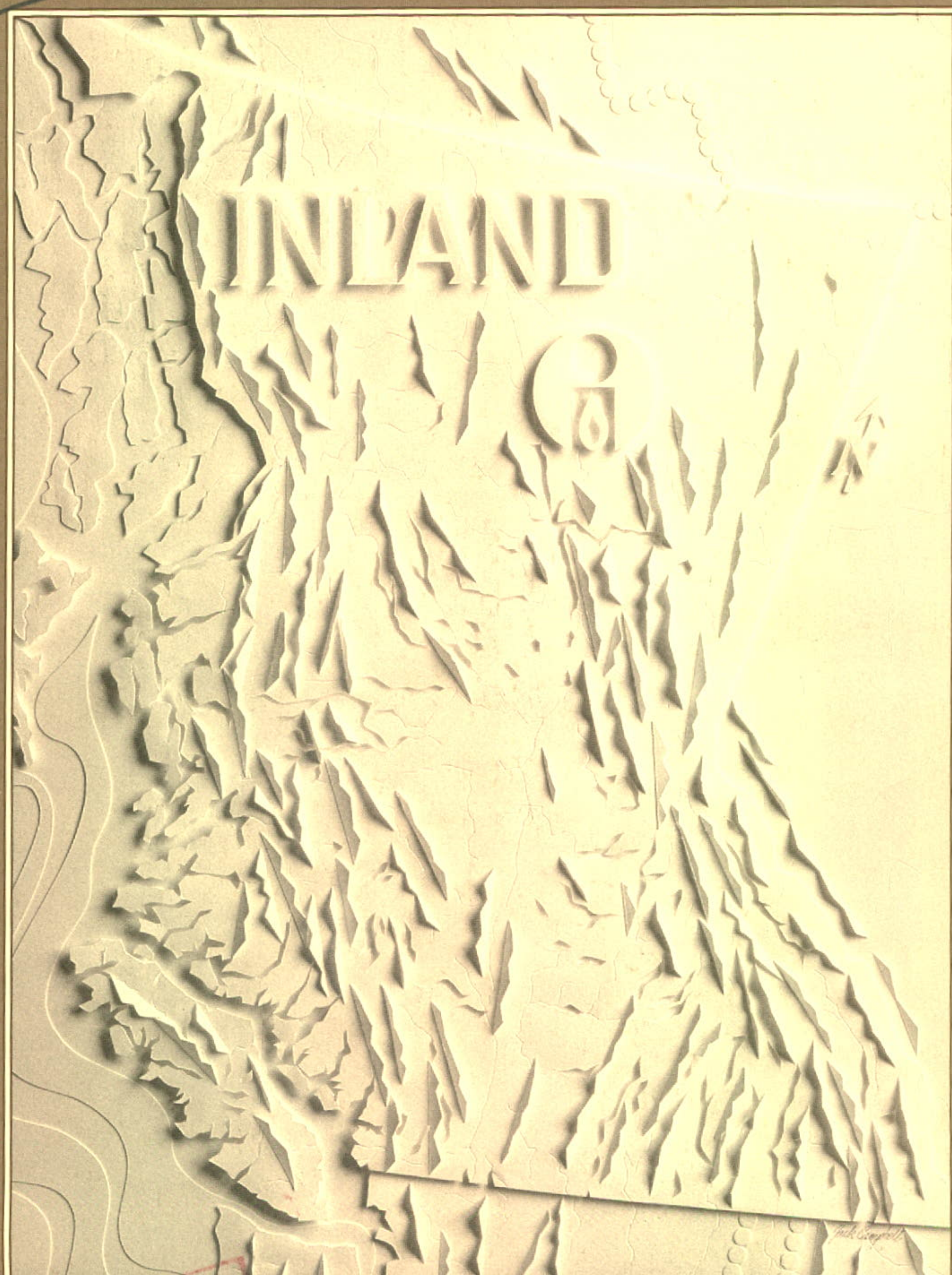
C

1984 ANNUAL REPORT
INLAND NATURAL GAS CO. LTD.



CONTENTS

THE COMPANY

Inland Natural Gas Co. Ltd. transmits and distributes natural gas to 119,000 residential, commercial and industrial customers in the interior of British Columbia. Through its 67%-owned subsidiary, Trans Mountain Pipe Line Company Ltd., the Company also participates in the transportation of crude oil from northern Alberta to the west coast of British Columbia and Washington State, and operates a facility on Burrard Inlet for loading tankers with propane and crude oil for overseas export.

ANNUAL REPORT DESIGN

The six pieces of paper sculpture used in this Report to depict various aspects of the Company's operations were created by Jack Campbell, a west coast Artist.

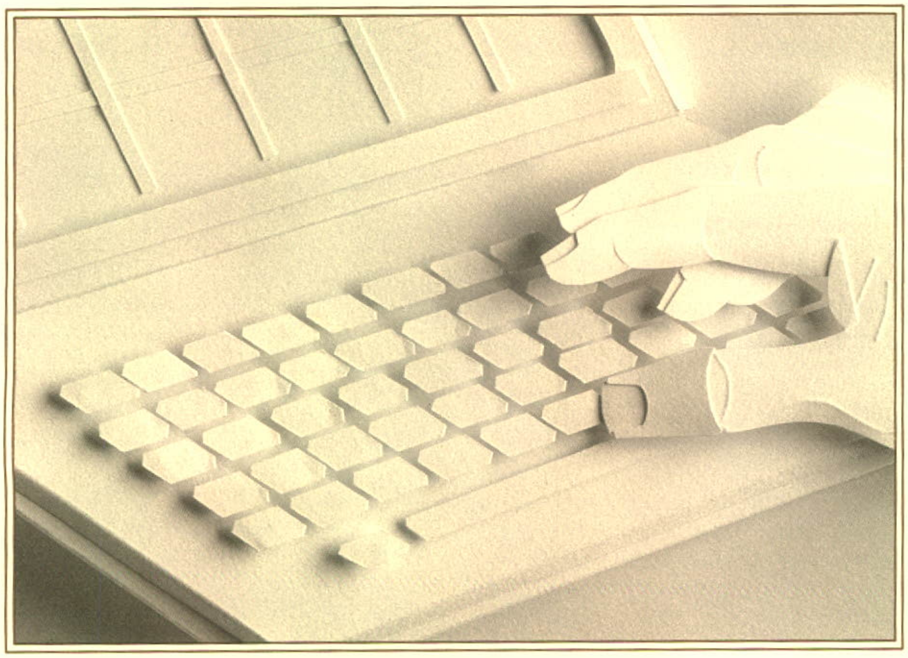
HIGHLIGHTS

FINANCIAL

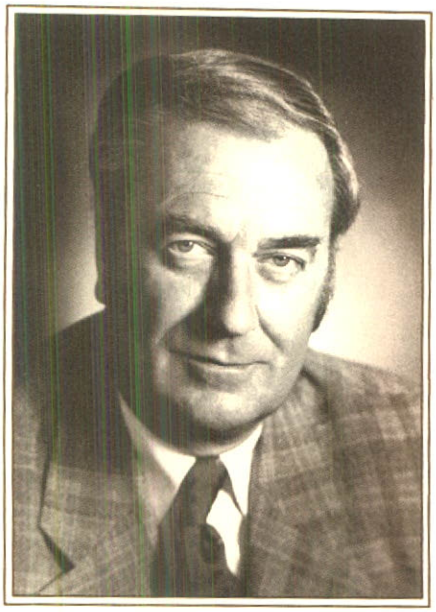
	1984	1983
Total Revenue	**$250,619,000**	$215,536,000
Net Income Before Extraordinary Items	**$ 7,872,000**	$ 9,099,000
Net Income	**$ 8,116,000**	$ 8,791,000
Earnings Applicable to Common Shares Before Extraordinary Items	**$ 6,658,000**	$ 7,844,000
Average Common Shares Outstanding	**2,905,078**	4,447,560
Earnings Per Common Share Before Extraordinary Items	**$ 2.29**	$ 1.76
Dividends Per Common Share	**$ 1.10**	$ 1.10
Capital Expenditures	**$ 20,828,000**	$ 19,626,000
Total Assets	**$248,458,000**	$236,244,000

OPERATING

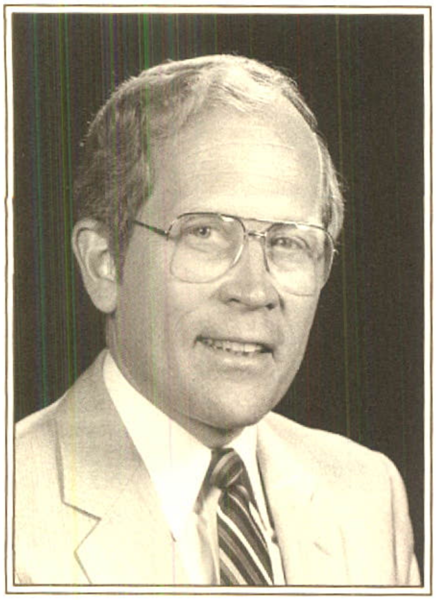
Total Gas Sales (Gigajoules)	**62,254,000**	62,399,000
Total Customers At Year End	**119,319**	112,790
Degree Days (Base 18 °C) - Actual	**4,174**	3,846



TO OUR SHAREHOLDERS



Ronald L. Cliff
Chairman of the Board



Robert E. Kadlec
President and Chief Executive Officer

The depressed economy in British Columbia, coupled with fragile foreign markets, has created serious marketing problems for our forest and mining industries in this province. Unfortunately, there are few firm signs of near-term recovery for these industries. These problems combined with work stoppages in the pulp and paper industries in the year under review resulted in depressed natural gas sales. Notwithstanding these problems we did achieve net income of $8.1 million compared to $8.8 million last year.

Earnings per common share in 1984 were based on monthly average common shares outstanding of 2.9 million, net of shares owned by Trans Mountain Pipe Line Company Ltd., as opposed to 4.4 million in 1983. No deduction was made to the average common shares outstanding in 1983 as Trans Mountain did not obtain control of the shares until June 28, 1983. This resulted in earnings of $2.29 per share of common stock before extraordinary items, compared with $1.76 for the previous year.

During the past year, your Company's capital expenditures on gas utility plant totalled $12.2 million, down from gross expenditures of $18.4 million in the previous year. About 300 kilometres of distribution main and 6,200 service line installations were added as a result of this investment.

Your Company has been an active participant but not an applicant in the public hearings initiated by the British Columbia Utilities Commission concerning the transmission of natural gas to Vancouver Island. This phase of the hearing process has concluded and we are now waiting for confirmation that satisfactory financial support for the project is forthcoming. Following confirmation, your Company will be an applicant in the next phase of the hearings which will address facilities on Vancouver Island.

Vancouver Island remains one of the largest untapped markets for natural gas in Canada and, as such, represents an opportunity for Inland.

Within our existing franchise area the transportation sector use of natural gas has exciting market growth possibilities. Our experience with Inland's Kamloops demonstration project and monitoring of other refueling facilities now operating elsewhere has confirmed our belief that natural gas is technically viable and, at half the price of gasoline, an economic fuel substitute for high usage automobiles and light trucks. During the coming months we will focus on the development of facilities and programs to make this fuel more readily available to prospective users.

Other important considerations affecting your Company's future are touched upon here.

In September 1983, the B.C. Ministry of Energy, Mines and Petroleum Resources released a report on the marketing of B.C. natural gas. With minor exceptions, the recommendations contained in this report were subsequently adopted by the government.

While we support the majority of these changes, we have at the same time expressed our concern about the magnitude of potential price increases.

Our uneasiness arises, in particular, from the decision to increase the provincial government wholesale price to a target level of 65% of the energy equivalent cost of crude oil at the Vancouver refinery gate by 1990. This could have a very negative impact on our industrial markets leading to loss of sales and large attendant price increases to our residential and commercial customers.

During this year all legal actions brought against the Company and certain of its subsidiaries by F.J. Anderson were discontinued. This effectively concludes the Trans Mountain acquisition and we can now begin to deal constructively with the considerable opportunities which we see in the future. A special section in the body of this report deals specifically with the outlook for Trans Mountain.

This acquisition has dramatically changed the scope and potential of what we like to refer to as the "new" Inland, and has necessitated a total re-evaluation of our strengths and weaknesses as well as problems and opportunities facing us in the years ahead.

In the process, our corporate mission has been revised to read: "The transportation and marketing of energy and other products; the production of energy".

The review process also involved in-depth analysis of our present and future organizational requirements. Major attention will be given to the development of definitive plans and strategies for the future development of your Company.

In spite of present economic difficulties our philosophy remains positively oriented to the future and we are actively engaged in corporate planning and reorganization designed to expand and enhance our position as the economy recovers from the worst effects of the recession.

During the year Messrs. F. James Anderson, William J. Esselmont and C. Ben Macdonald resigned from the Board. Recently appointed to the Board were Mr. Gordon F. MacFarlane, Chairman and Chief Executive Officer of British Columbia Telephone Company and Mr. Thomas A. Buell, Chairman, President and Chief Executive Officer of Weldwood of Canada Ltd. Their collective knowledge and broad business background will greatly enhance the experience we have amongst our Board members.

Mr. Richard B. Stokes, President and Chief Executive Officer of Trans Mountain Pipe Line Company Ltd., resigned from his position of Executive Vice President and Chief Financial Officer of Inland in May of this year. He will be devoting his time and energy to the management and future development of our subsidiary, Trans Mountain. We are indebted to Mr. Stokes for the significant contribution he made to Inland during his 25 years with the Company.

It is with sincere regret that we announce the retirement this coming year of Messrs. Roderick M. Hungerford and J. Norman Hyland as members of your Board of Directors. Mr. Hungerford has served since May 1966 and deserves acclaim as the most senior Director of the Board. Mr. Hyland joined the Board in February 1973 and has lent his experience to many committees. Both gentlemen are former members of the Executive Committee. These two directors have contributed greatly during their term and will be sorely missed.

In keeping with the current need for strict fiscal management, all expenses continue to be critically reviewed and we will continue to exercise restraint during the period of slow economic recovery. In this context, we particularly want to thank our employees who have assisted us in our efforts to improve productivity and efficiency in operations.

On behalf of the Board of Directors

R. Landlett

Chairman of the Board

President and
Chief Executive Officer

Vancouver, B.C.
September 19, 1984

THE YEAR UNDER REVIEW

GAS UTILITY OPERATIONS

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.

The distribution companies provide service to their residential customers for space and water heating, cooking and other domestic uses. Commercial and industrial customers use gas for space heating, manufacturing, feedstock and other functions. Natural gas sales are highly seasonal and temperature-sensitive due to the space heating requirements of residential and commercial customers. Weather variations can have a significant effect on sales to these classes of customers and impact on the Company's earnings.

REVENUES

Revenues from natural gas sales amounted to $206.4 million in 1984 compared to $192.7 million in 1983. The majority of the increase in revenue was attributable to rate increases granted by the Commission to allow for the recovery of higher costs of gas purchased.

Revenues from general rate increases during the year also contributed to the improvement in revenue from the sale of gas. Additional revenues from increased sales to residential and commercial customers, who have higher unit prices, were partially offset by a decline in sales to the lower unit-priced industrial customers.

Total natural gas sold by the distribution companies declined slightly to 58,011 terajoules this year from 58,099 terajoules last year. Increased sales to residential and commercial customers were not enough to offset the reduced sales to the industrial customers.

Sales to the temperature-sensitive residential and commercial customers increased by 8.2% to 20,690 terajoules as compared with 19,119 terajoules in the previous year, very closely related to weather variances in the two years. Heating degree days in 1984, while slightly less than normal, were 8.5% more than in 1983. This marks the fifth consecutive year where temperatures have been warmer than normal. In spite of the slowdown in construction of new housing units, the growth rate in residential and commercial customers was about 5.8%. In all, 5,951 residential and 569 commercial customers were connected during the year due mainly to conversions from oil to natural gas.

Sales to lumber, plywood and mining accounts continued at the approximate levels experienced in 1983. However, as a result of Gulf Oil closing its refinery in Kamloops, B.C. in July 1983, sales to small industrial customers decreased from 6,993 terajoules last year to 6,699 terajoules.

Sales to large industrial customers were 30,622 terajoules in 1984 compared to 31,987 terajoules in 1983. Overall, most of the decrease resulted from the ten weeks of labour disruptions experienced by the large accounts in the pulp and paper industry in early 1984. While sales to these customers had been affected by market conditions last year, there has been some improvement in the level of sales during the last quarter of fiscal 1984.

Sales to customers in the mining sector, particularly the coal mining accounts in the East Kootenay area, showed considerable improvement over the previous year. However, these increased sales only partially offset the loss of sales to the pulp and paper accounts.

Gas sales by the transmission utilities showed a decrease from the previous year. Sales by Grande Prairie to Northwestern Utilities Limited for distribution to the City of Grande Prairie, Alberta, and nearby communities increased slightly from 3,031 terajoules last year to 3,037 terajoules this year. However, sales by Peace River to Northland Utilities (B.C.) Limited for distribution in the Dawson Creek area of B.C. declined from 1,269 terajoules in 1983 to 1,206 terajoules in 1984.

EXPENSES

Operating expenses, including the purchase of gas, operation and maintenance, depreciation and amortization, and property, franchise and other taxes increased by 6.1% to $181.5 million from $171.0 million in 1983.

The cost of natural gas, which represents 82% of the operating expenses, amounted to $148.2 million this year, as compared with $140.8 million in the previous year. Since there was very little difference in the amount of gas purchased in 1984 and 1983, the higher cost was almost entirely attributable to increases in the wholesale price of gas, offset in part by reductions of the federal Natural Gas and Gas Liquids Tax.

Increases in the wholesale price of natural gas occurred in British Columbia and Alberta effective August 1, 1983 and February 1, 1984. In British Columbia, the price increases amounted to 52¢ per gigajoule and 14.6¢ per gigajoule on the respective dates. As a result of increases in the Alberta Border Price, the cost of gas from Alberta also increased by 23.3¢ and 15.6¢ per gigajoule on the dates previously noted. The Natural Gas and Gas Liquids Tax, which was first implemented by the federal government on November 1, 1980, has now been eliminated as a result of the reductions of 30¢ per gigajoule on August 1, 1983 and 15¢ per gigajoule on February 1, 1984. Gas purchase costs still include the Canadian Ownership Tax of 14¢ per gigajoule which became effective May 1, 1981.

As a result of the colder temperatures experienced last winter, the required amount of peak shaving gas increased

GAS UTILITY OPERATIONS

to 745,500 gigajoules from 117,000 gigajoules last year which added to purchased gas costs.

Operation and maintenance expenses amounted to $18.4 million this year compared to $16.4 million in the previous year. The increase in expenses has resulted in part from higher wage rates and related employee benefit costs together with the cost of additional employees.

The gas utilities continue to contribute significant tax revenues to the municipalities they serve and to the Province. Property, franchise and other taxes increased by 8.4% to $10.3 million in 1984 as opposed to $9.5 million last year. The gas distribution utilities have franchise agreements with the various municipalities in their service areas. Under the terms of these agreements, the municipalities receive franchise fees calculated at 3% of gross revenues from the sale of gas to all customers within municipal boundaries. Thus, increases in purchased gas costs due to wholesale price changes, which are passed on to our customers, result in a proportionate increase in franchise fees.

Depreciation and amortization charges were $4.6 million this year compared to $4.3 million in the previous year. A significant portion of the increase relates to the amortization of deferred interest and subsidiary acquisition costs. These charges are being amortized and recovered in rates over a five year period commencing in 1984 fiscal year.

MARKETING

Notwithstanding an almost dormant economy in the B.C. Interior, your Company continued to add new customers at an above average rate. High unemployment and rising interest rates combined to substantially reduce the number of new housing starts, traditionally the source of most new customers. On the other hand, marketing programs aimed at conversions more than off-set the new construction slowdown.

Following a market survey which identified residences within your Company's service area not using gas, homeowners were mailed attractive conversion offers, followed, in many instances, by a sales call. The success of Inland's conversion drive was further enhanced by the continuation of the federal government's Canada Oil Substitution Program which offers homeowners taxable grants to assist in the conversion or replacement of oil-fired heating appliances.

Many of the conversions were in areas which have only recently received natural gas service as a result of grants received by the Company from the federal government for its Distribution System Expansion Program. Combined, Inland and Columbia's grants totalled $1 million this year which partially funded the installation of an additional 225 kilometres of main. We have already received approval for $1.3 million for next year which will fund an additional 210 kilometres of main.

Last year Inland drew attention to lower residential gas consumption resulting from smaller housing units and conservation measures and the marketing department agreed to address the problem of declining annual usage in this sector.

A recent survey has indicated a market potential of 20,000 existing customers heating water electrically and, this spring, your Company introduced an innovative program to increase load by offering an incentive grant to heating customers to replace their electric water heaters with natural gas models.

Our lumber mill customers have had a successful year primarily due to the strength of the U.S. housing market. This, coupled with the declining exchange rate for the Canadian dollar, resulted in a continued high level of lumber shipments to the United States in the first six months of 1984 following a record year in 1983. However, natural gas sales to lumber and plywood mills continue to be threatened by residual wood products and electricity. Since last fall we have been working with a number of accounts, testing the natural gas consumption of their kilns in the hope of finding ways of increasing gas dry kiln efficiency.

Over the past year, we have been actively negotiating new contracts with our large industrial customers. As of November 1, 1983, we have set in place new contracts with Inland's industrials that not only provided for increased operating flexibility for the customers but also increased our coverage of forecast volumes. A contract based on the same principles is currently being proposed for Columbia's large industrial customers.

Last summer saw further growth in industrial sales volume with the start-up of Westar Mining's new Greenhills coal mining operation in Columbia's service area.

Sales to our large industrial pulp mill customers were negatively affected this year by labour disruptions. However, the strength of the pulp market continues to build and the forecast for the near future is very promising with shipments projected to increase by 5% over 1983 in calendar 1984.

In September of 1983 a study entitled, "A Report on the Marketing of British Columbia Natural Gas" was released. Prior to its adoption as government policy in July of 1984 your Company became actively involved with this issue through meetings with government, customers and the natural gas industry. Although the pricing scheme embodied in this policy leaves us competitive with fuel oil and B.C. Hydro's electric rates in the residential and commercial markets, we are greatly concerned with the overall impact on all of our customers.

In the future we will be striving to

meet this challenge head on by continuing to develop innovative ways of retaining our share of the market.

REGULATION AND RATES

The gas utility operations of the Company are subject to the jurisdiction of regulatory authorities on matters such as rates, issuance of securities, construction, operations and accounting practices. Rates charged to customers are designed to recover the utilities' costs of operations and provide a reasonable return on investment. Requests for permanent rate relief, which are based on forward test years, are considered by the regulatory authorities after public hearings.

1983/84 Decisions

Subsequent to receiving approval for an interim increase effective July 1, 1983, the Company filed an application for permanent rate relief on September 15, 1983. The interim increase, amounting to $2.3 million on an annual basis, was granted subject to refund with interest if not justified at a public hearing. In its application for permanent rates, the Company sought annual additional revenues of $5.4 million. This application requested approval for an increase from 15.75% to 16% in the rate of return on common equity allowed in setting rates. The application was heard before the Commission in a public hearing which commenced October 18, 1983. At the conclusion of the hearing the Company requested, and was subsequently granted, an additional interim increase of $3.1 million on an annual basis effective November 1, 1983.

The Commission issued its decision on November 25, 1983 wherein it concluded that a return of 15.75% on common equity was appropriate in determining the revenue requirements. The additional revenue approved by the Commission was reduced to $5.1 million on an annual basis which resulted in a refund to customers for consumption from November 1, 1983.

The Commission heard evidence on the matter of accounting for income taxes by the Company and Columbia at public hearings held in the fall of 1982. Subsequent thereto the Commission requested that the companies file additional information. In a decision dated December 20, 1983, the Commission ordered the Company and Columbia to change their method of accounting for income taxes from the "normalized" method to the "flow-through" method effective February 1, 1984. Further, the Commission ordered that the balance of deferred taxes as at January 31, 1984 remain on the books of both companies and be applied as a reduction of rate base. Pursuant to the order, the companies filed tariff revisions which will reduce annual revenues by approximately $4.6 million commencing February 1, 1984.

The Commission also approved rate changes during the year for the Company and Columbia effective August 1, 1983 and February 1, 1984 due to increases in the wholesale price of natural gas and decreases in the federal Natural Gas and Gas Liquids Tax.

1984/85 Applications

On June 22, 1984, the Company filed an application for permanent rate relief amounting to approximately $3.3 million and requested interim relief effective July 1, 1984. This application sought to recover expected increases in the cost of providing service in 1985 and an increase in the rate of return on common equity to 16.5% from the return of 15.75% allowed by the Commission in its last decision. The Commission approved the interim rates as requested, subject to refund with interest if not justified at the public hearing to commence on October 22, 1984.

Columbia also filed an application for permanent rate relief in June 1984 and requested interim relief effective July 1, 1984. This application, which was the first for general rate relief since 1982, requested additional revenues of $.8 million due to expected increases in the cost of providing service in 1985 and an increase in the return on common equity from 15.75% to 16.75%. The request for interim rates was approved as filed, subject to refund with interest if not subsequently justified. The Commission has set down a public hearing to commence on September 25, 1984.

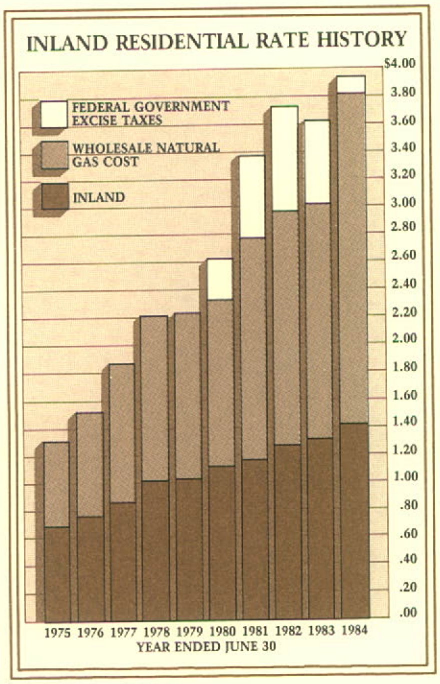
GAS SUPPLY

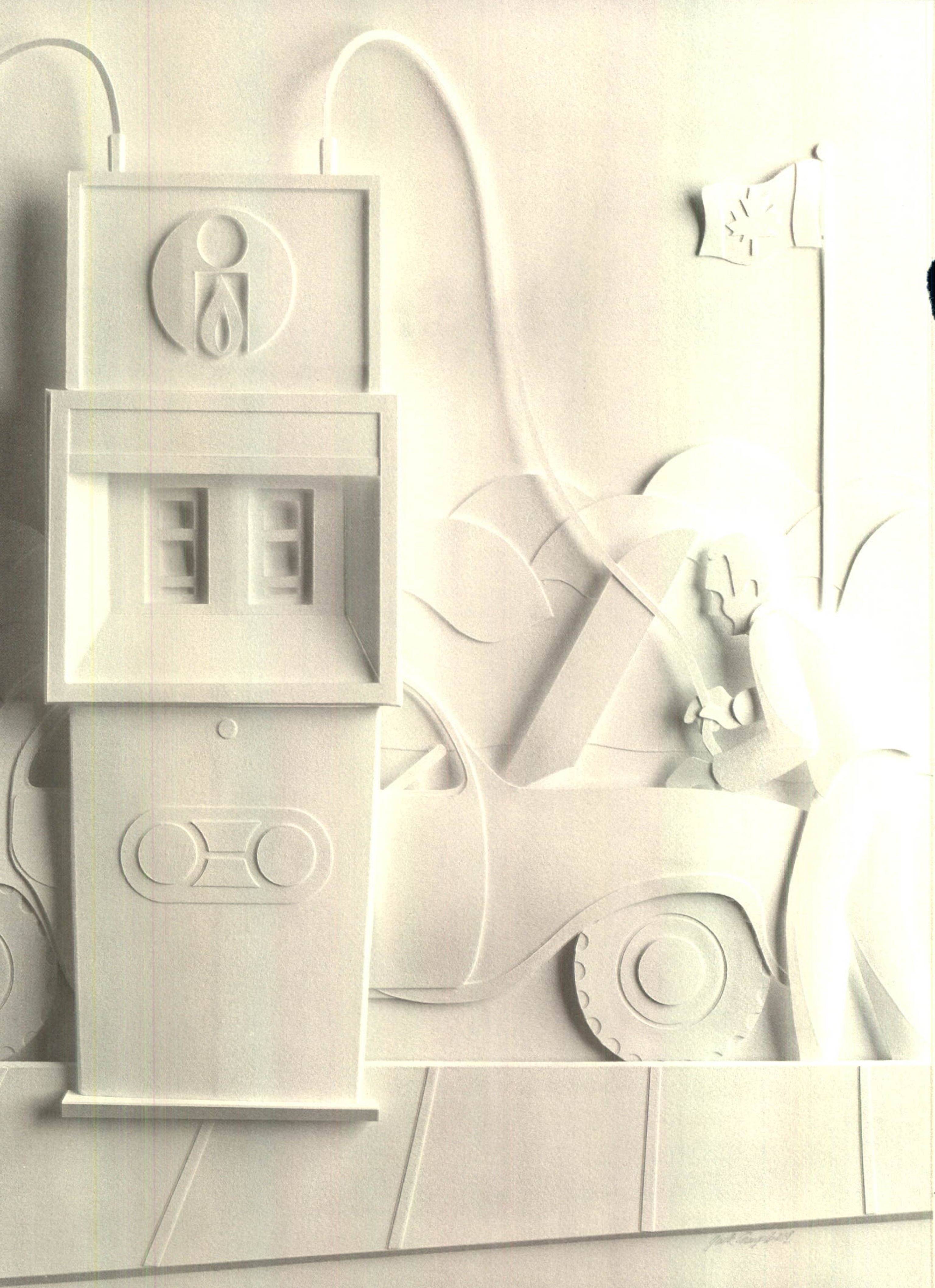
Substantially all of Inland's natural gas is supplied by Westcoast Transmission Company Limited. Westcoast gathers and processes gas supplied from wells located principally in northeastern British Columbia and transports the gas to the Company and other utilities in the Province and also to markets in the United States. Westcoast purchases its British Columbia gas supply from the British Columbia Petroleum Corporation, an agent of the Crown.

Under a contract with Alberta and Southern Gas Co. Ltd., Inland directly purchases natural gas from Alberta in periods of peak demand during the winter heating season. This arrangement enables the Company to reduce the demand charge component under its contract with Westcoast. Since the peaking gas is returned to Alberta and Southern during off-peak months, there is no net effect on Inland's annual purchase of British Columbia gas. The "East Kootenay Link" pipeline joining the facilities of Inland and the Alberta Natural Gas Company is used to transport both the peaking gas and the returned gas.

Columbia Natural Gas Limited which serves communities located in the East Kootenay area of B.C. receives most of its gas supply from Alberta. This gas, supplied under contracts with Alberta and Southern Gas Co. Ltd. and with Westcoast, is delivered through the facilities of Alberta Natural Gas Company Ltd. Columbia is able to purchase approximately 30% of its gas supply from British Columbia through Inland using the East Kootenay Link pipeline and gas exchange arrangements with Alberta and Southern Gas Co. Ltd.

In June of 1984 the Ministry of Energy, Mines and Petroleum Resources updated its forecasts of natural gas energy supply and demand for the period 1982 through the year 2000. At the end of 1983 the surplus of supply over demand has risen from the originally forecast 55.6 billion cubic metres to 71.2 billion cubic metres. This increase is due to both higher than expected additions to reserves and lower than forecasted demand, especially export demand. Using procedures developed specifically for evaluating British Columbia natural gas supply/demand by a Commissioner Inquiry (May 1982, G.W. Govier) and allowing for provincial commitments for both LNG feedstock and ammonia/urea facilities as well as an extension of existing export licences and prospective additional exports beginning in 1993, the Ministry forecasts a minimum surplus of 21.14 billion cubic metres in 1992, rising to 35.83 billion cubic metres by the year 2000. Your Company is confident that adequate supplies of natural gas are available for domestic purposes at present and well past the turn of the century.





CAPITAL EXPENDITURES

As in most years, the major part of the Company's capital program was associated with distribution facilities related to the addition of new customers. Due to the continued economic slowdown in our service area, customer additions and mains installations resulting from new housing construction were down significantly from recent years. The extension of the oil conversion program and the federal Distribution System Expansion Program (DSEP) funding has, however, resulted in substantial additional mains and service line approvals that combined to make this another very active construction year.

Inland's program for the year totalled $11.1 million. Nearly 300 kilometres of distribution mains and 5,650 service line installations were added during the year. Columbia's capital expenditures totalled $1.1 million and basically involved mains, services and meters to serve 566 new customers.

DSEP funding during the past two years has resulted in over 500 km of distribution mains being installed into rural areas throughout our service area. This has made natural gas service available to some 10,000 additional residences.

FUTURE CAPITAL EXPENDITURES

A capital program of $11.2 million is projected for the coming year which involves the installation of some 4,950 additional service lines and 310 kilometres of distribution main. Included in the program is an expenditure of $4.2 million resulting from the continuation of federal DSEP funding. This cost is offset by grants of $1.5 million.

Although not included in the above totals, the Company is optimistic that construction can proceed in 1985 on the extension of natural gas service to the Chase area of Shuswap Lake. The total cost of these projects is estimated at $6.3 million. The federal government, through the DSEP program, has tentatively approved a contribution of $1.8 million. A further contribution of $1.3 million is still required which the Company hopes to obtain from sources inside the Province.

Columbia's capital program for the 1985 fiscal year is estimated at $1.4 million and basically includes facilities for the addition of 590 new customers. Columbia is also seeking regulatory approval this fall for a transmission line looping project costing $1.5 million that will be required for the winter of 1985.

NATURAL GAS FOR VEHICLES

The use of natural gas as an alternative motor fuel to gasoline has continued to gain momentum during the past year. Across Canada in areas served by natural gas distribution systems, there is a concerted effort to make this fuel available to commercial and private users. With funding support and incentives provided by the federal and provincial governments, a number of public and fleet refueling facilities have opened or are under construction.

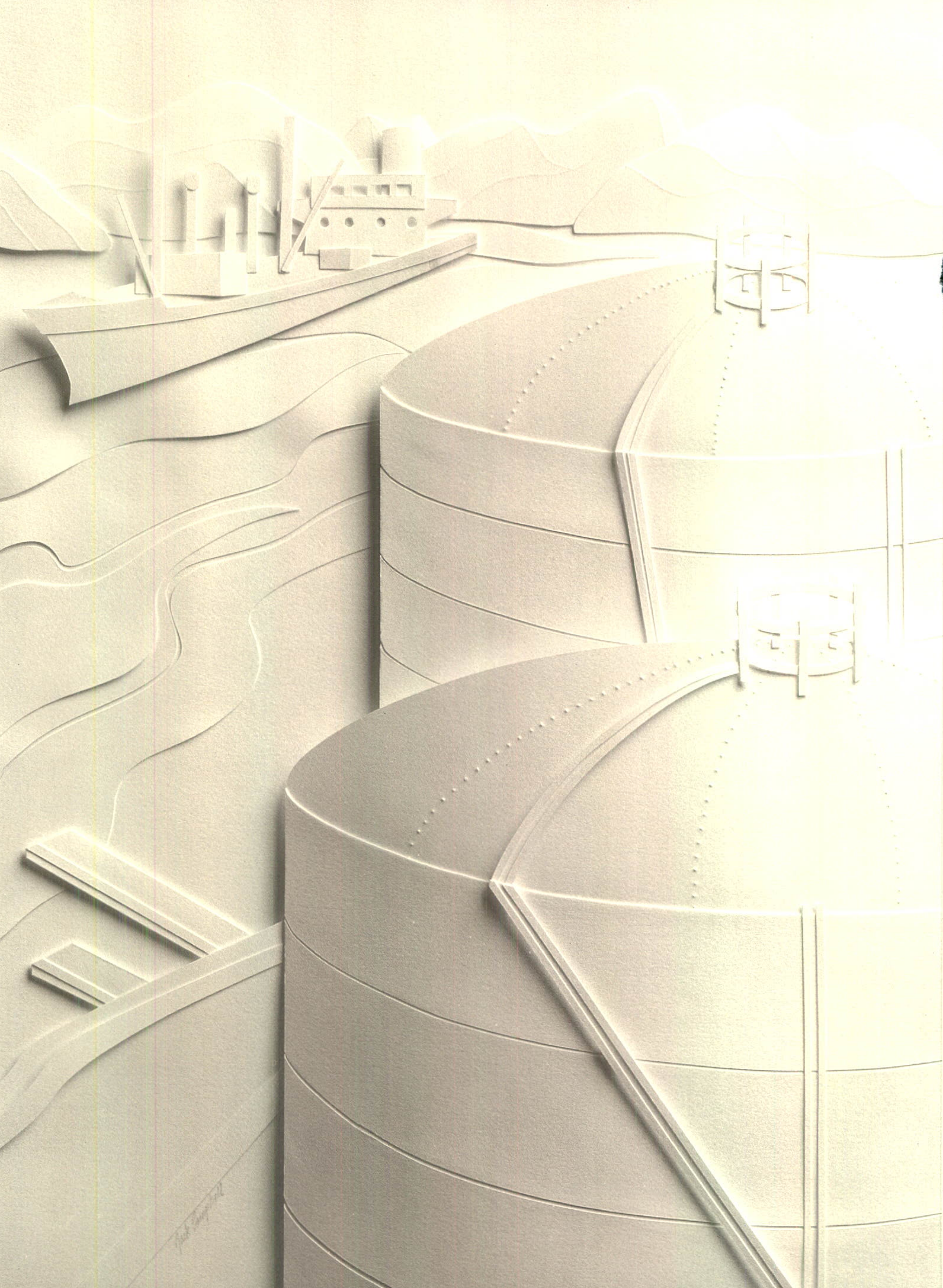
Inland's demonstration project on the site of a public service station at Kamloops has provided valuable technical and marketing insight to the Company. Under a test program funded entirely by the federal government, Inland is monitoring the performance and fuel economy of a mixed commercial fleet of 50 vehicles. Results from those tests indicate natural gas is indeed a viable substitute for gasoline and, at less than half the price of gasoline on a retail basis, it makes economic sense for most commercial and high usage private vehicles.

The Kamloops station has now been joined by public stations owned and operated by others in three other Inland communities. In addition, fleet refueling facilities at Lornex Mines, Logan Lake are now under construction. Inland has identified a target market of some 35,600 private and 11,400 commercial vehicles which meet conversion criteria in our service area and is addressing the requirement for programs which will capture a substantial portion of this potential. The Company intends to proceed with the establishment of two additional public station facilities during the next fiscal year.

VANCOUVER ISLAND PROJECT

In September 1983 the Company was an applicant in the initial phase of the public hearings dealing with potential gas markets on Vancouver Island. Following this phase, the British Columbia Utilities Commission initiated public hearings concerning the provision of natural gas transmission facilities to Vancouver Island in which the Company was a participant. In April 1984, the hearings were adjourned and in July 1984, the Honourable Stephen Rogers, Minister of Energy, Mines and Petroleum Resources, accepted in principle the Commission's recommendation that B.C. Hydro and Power Authority be awarded an Energy Project Certificate for transmission of natural gas to Vancouver Island. The Commission also determined the funding necessary to make the overall project viable for which the provincial government is currently seeking financial support from the federal government.

The Company is an applicant in the final phase which involves on-Island transmission and distribution facilities. Plans for this phase of the hearings will be announced once funding support for the project is in place. On-Island facilities will serve the market area from Campbell River to Victoria, with a lateral to Port Alberni.



OIL PIPELINE OPERATIONS

The Company owns 67% of the common equity of Trans Mountain Pipe Line Company Ltd..

Trans Mountain is a transporter of liquid hydrocarbons, which are owned by producing companies. Trans Mountain's 1,146 kilometre pipeline from Edmonton, Alberta to Burnaby, B.C., is the second longest crude oil line in Canada.

Incorporated by federal statute, Trans Mountain employs approximately 200 people and is regulated by the National Energy Board (the "N.E.B."). It is a common carrier of crude oil from Alberta to the West Coast. A wholly-owned U.S. subsidiary delivers crude oil from the mainline to Washington State refineries. Through another wholly-owned subsidiary the Company owns and operates a pipeline for the transportation of jet fuels from refineries in the Vancouver area to the Vancouver International Airport. In addition, the Company has a dual purpose port facility in Vancouver Harbour which receives, refrigerates and stores propane arriving by rail from Alberta and loads both propane and crude oil tankers for overseas export.

REGULATION

Earnings are materially influenced by unforeseen changes in throughput forecasts. The Company applied in October 1983 for toll increases averaging 20%. Of this amount 9% represented an increase due to reductions in throughput forecasts. In December 1983 this application was amended to reduce the increase to 14% to reflect revised forecasts for 1984. In April 1984 the N.E.B. advised that Trans Mountain's 1984 export deliveries would be substantially higher than the Company's forecast and accordingly directed that the Company's tolls be reduced by 6% effective May 1, 1984. Subsequently it became clear that these export volumes would not materialize, hence the Company filed an application for an increase in tolls and was granted an 8% increase effective September 1, 1984.

The Company filed a rate application on September 14, 1984 in response to the N.E.B.'s directive that a hearing be held late in 1984. To date the N.E.B. has not set a hearing date. Major issues expected to be addressed in this hearing are — rate of return on rate base, depreciation policy, and toll design.

EARNINGS

Trans Mountain's consolidated earnings for the 12 months ended June 30, 1984 were $.82 per share before extraordinary items and $.90 after such items compared to $.53 per share before extraordinary items and $.52 after such items for the six months ended June 30, 1983. 1984 earnings include dividend income of $3.2 million ($.42 per share) on shares of Inland. This non-taxable income approximates the after-tax cost of interest on funds borrowed to acquire the shares.

CAPITAL EXPENDITURES

The Company's capital expenditures for the twelve months ending June 30, 1984 were $10.9 million which included a repowering program of approximately $6.5 million. The capital program for the twelve months ending June 30, 1985 is forecast to be $7.8 million.

FINANCING

Subsequent to June 30, 1984 Trans Mountain converted $12 million of its debt to a five year term at an interest rate of 14.45% and a further $8 million to a six year term at an interest rate of 14.60%.

OUTLOOK FOR NEW PROJECTS

The Company is actively working towards developing a fungible marketing distribution plant in the Kamloops area for refined products. The plant will require an investment of approximately $14 million and the main line system will require an additional investment of $4 million. In conjunction with this plant, the Company is studying the feasibility of converting the pipeline from simply a crude oil system to a crude oil and refined products pipeline. A number of test batches of clean product have been successfully pumped through the system.

The Company continues to investigate the possible movement of coal through the pipeline. The coal would be in slurry form, mixed with either water or methanol. This slurry fuel could be shipped in batches, along with crude oil, in the existing pipeline. Various technical and economic studies have indicated the feasibility of such an operation. Recently Mr. Stokes, President and Chief Executive Officer, and Mr. Somerville, Manager of Corporate Development, visited Japan and Korea where they met with government groups, power companies, research people and major trading companies, to investigate the market for these products and to inform those Pacific Rim countries of the advantages of utilizing a pipeline transportation system which is already in place.

SHAREHOLDER INFORMATION

ANNUAL MEETING
The annual meeting of the shareholders of the Company will be held at 2:30 p.m. (Vancouver time) on October 24, 1984 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
The National Victoria and Grey Trust Company
666 Burrard Street, Vancouver, B.C. V6C 2Z9

TRANSFER AGENT
The National Victoria and Grey Trust Company
Vancouver - Calgary - Toronto - Montreal

AUDITORS
Thorne Riddell

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

Stock Symbol — INL

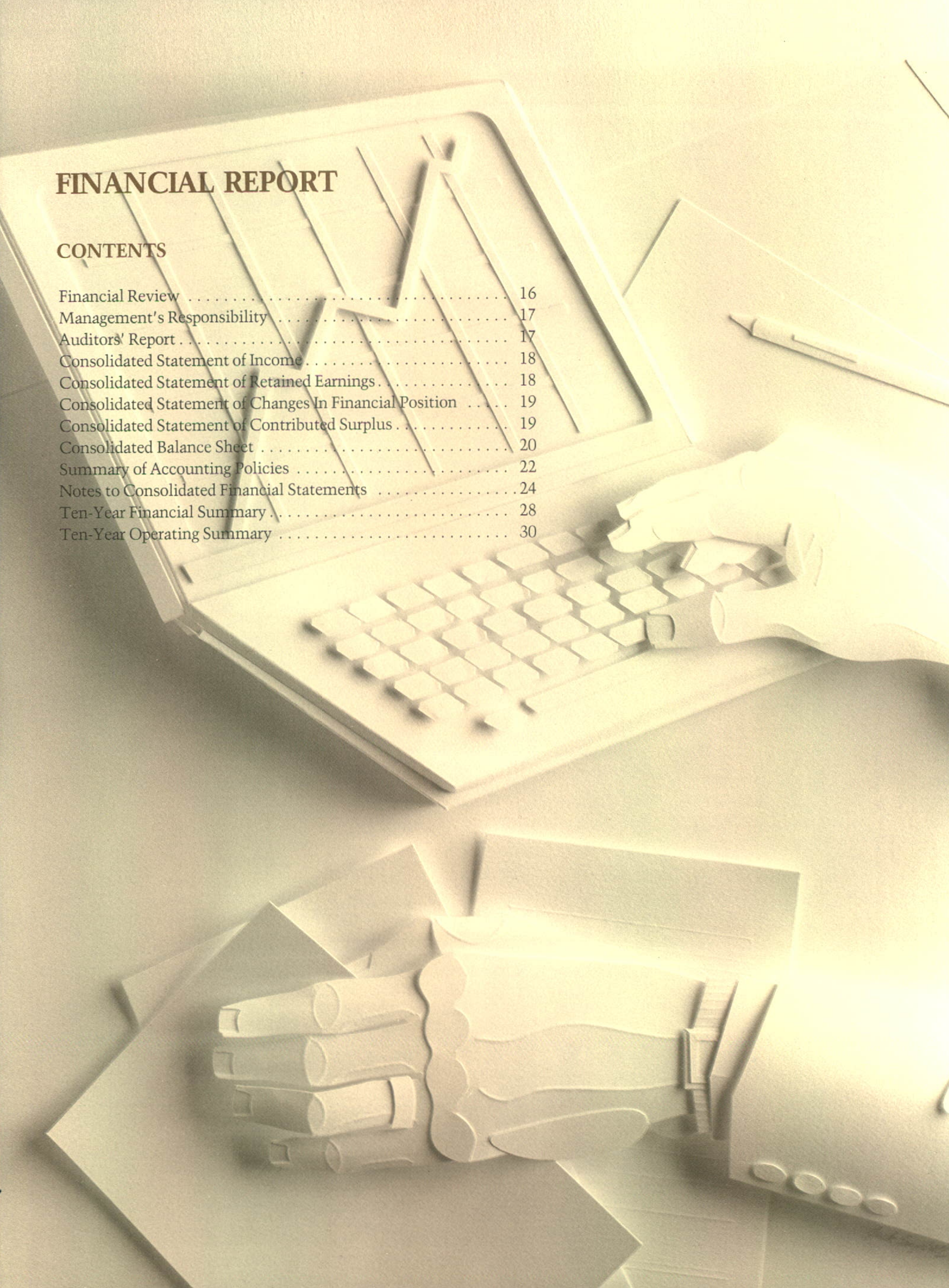
COMMON SHARE DIVIDENDS
Dividends are payable quarterly on the fifteenth day of August, November, February and May.

OPTIONAL STOCK DIVIDEND PROGRAM
The Company maintains an Optional Stock Dividend Program which 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. Requests for information concerning this Plan should be directed to the Registrar (noted above).

SHARE DISTRIBUTION
Approximately 99% of the outstanding common and preference shares are owned by residents of Canada. The distribution of each class of shares as at June 30, 1984 is set out below:

	Shareholders	Shares
Common		
Canada		
Held by public	2,319	2,852,296
Held by subsidiary	1	2,896,047
	2,320	5,748,343
U.S.A.	81	16,922
Others	39	35,860
	2,440	5,801,125
Preference		
Canada	2,106	718,040
U.S.A.	11	910
Others	2	450
	2,119	719,400

DUPLICATE ANNUAL REPORTS
We make an effort to eliminate duplications in our shareholders' mailing list. However, if securities are registered in different names or addresses, multiple copies of our Annual Report and other material may be received. Those security holders receiving more than one copy of material may contact the Registrar to either consolidate the holdings under one name if they are with respect to the same security, or if they hold more than one security, advise the Registrar that no material is required.



FINANCIAL REPORT

CONTENTS

FINANCIAL REVIEW

The consolidated financial statements include the results of Trans Mountain's oil pipeline operations for fiscal 1984 and for the six month period January 1 to June 30 in 1983.

REVENUES

Consolidated operating revenue of $250.6 million in 1984 increased by $35.1 million compared to 1983. Revenue from oil pipeline operations for the full year in 1984 increased by $21.4 million to $43.5 million compared to $22.1 million for the six month period in 1983. Revenue from gas utility operations was also up by $13.7 million to $207.1 million in 1984 from $193.4 million in the previous year.

EXPENSES

Total operating expenses were $213.6 million this year compared to $185.1 million last year, an increase of $28.5 million. The oil pipeline operations accounted for $18.0 million of this increase due mainly to the inclusion of twelve months' expenses in 1984 and six months in 1983. Gas utility operations contributed $10.5 million to the increase in operating expenses, of which $7.4 million was attributable to higher gas purchase costs.

Interest charges on long-term debt increased from $7.8 million in 1983 to $12.8 million in 1984 as a result of the funds borrowed by Trans Mountain on June 28, 1983 to finance its investment in shares of Inland. Interest expense on long-term debt related to the gas utility operations declined slightly due to the retirement of debt under the sinking fund provisions of the trust indentures.

Other interest costs of $3.8 million in 1984 compared to $2.0 million in 1983 was up by $1.8 million due to increased short-term borrowings by the gas utility operations this year.

INCOME TAXES

Income tax expense decreased to $9.3 million this year from $10.2 million last year. The reduction in taxes is primarily attributable to the change in the method of accounting for income taxes from the tax allocation to the taxes payable basis, as ordered by the Commission. Since deferred income taxes are no longer provided on timing differences, effective February 1, 1984, there is a decrease in the effective tax rate in 1984. Current income taxes are also reduced due to the reduction in revenue previously allowed in rates to provide for deferred income taxes.

MINORITY INTEREST

Minority interest share of income of $3.2 million is up from $1.3 million last year. The increase results primarily from the minority shareholders' interest in the income from gas utility operations in 1984 subsequent to Trans Mountain obtaining control of shares in the Company on June 28, 1983. In 1983, minority interest related solely to income from Trans Mountain's oil pipeline operations.

NET INCOME

Consolidated income before extraordinary items amounted to $7.9 million in 1984 compared to $9.1 million in 1983. The most significant factors affecting income in 1984 were the increased interest charges on long-term debt and the increased minority interest. After providing for preference share dividends, earnings before extraordinary items available for common shareholders were $6.7 million this year compared to $7.8 million last year. Earnings per common share before extraordinary items amounted to $2.29 in 1984 on 2.9 million average common shares outstanding, as compared to $1.76 on 4.4 million average shares outstanding in 1983.

Net income was $8.1 million in 1984 after extraordinary income of $.2 million. In 1983, extraordinary charges of $.3 million reduced net income to $8.8 million.

DIVIDENDS

Dividends paid to holders of common shares, other than Trans Mountain in 1984, amounted to $3.2 million compared to $4.9 million in 1983. Dividends of $3.2 million paid to Trans Mountain were eliminated on consolidation in 1984. The common shareholders received total dividends equal to $1.10 per common share in 1984 and 1983.

FINANCING

The gas distribution utilities use short-term notes and bank loans to provide interim financing until permanent arrangements are made. Short-term debt is included in the capital structure of the gas distribution utilities for regulatory purposes in computing the capitalization ratios and the cost of capital which is recovered in rates.

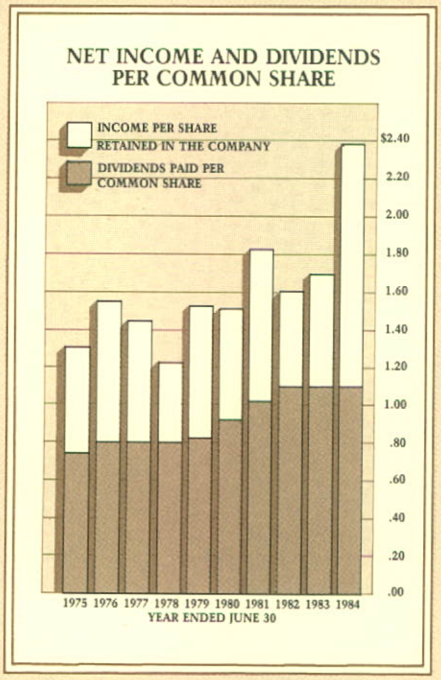
On July 11, 1983, the Company replaced $25 million of short-term borrowings with a five year issue of Series C Debentures at 14⅜%. The Company expects that capital requirements for the coming year will be provided by cash flow from operations together with bank lines of credit which enable the Company to utilize commercial paper, bank loans and banker's acceptances.

REPORTING ON INFLATION

The Canadian Institute of Chartered Accountants, in a recent standard, recommended that large public companies should supplement their historical cost financial statements with unaudited financial information based on current costs and disclose the effects of changing prices on their operations.

The Company and its major subsidiaries are subject to the jurisdiction of regulatory authorities which set rates based on the recovery of historical costs. The Company has reviewed the standard and, at the present time, does not believe that disclosure of costs based on current values will provide relevant information to its shareholders. Accordingly, the Company has not provided the supplementary information in this Annual Report.

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 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
Inland Natural Gas Co. Ltd.

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. as at June 30, 1984 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, 1984 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, except for the change in the method of accounting for income taxes as described in note 1, on a basis consistent with that of the preceding year.

Thorne Riddell

Vancouver, Canada
August 31, 1984

Chartered Accountants

INLAND NATURAL GAS CO. LTD.

CONSOLIDATED STATEMENT OF INCOME

Year ended June 30

	(thousands of dollars)	
	1984	1983
REVENUE		
Sale of gas	**$ 206,357**	$ 192,652
Crude oil and other transportation	**42,836**	21,507
Other operating revenue	**1,426**	1,377
	250,619	215,536
EXPENSES		
Purchase of gas	**148,207**	140,804
Operation and maintenance	**39,273**	24,857
Property, franchise and other taxes	**18,521**	13,682
Depreciation and amortization	**7,644**	5,783
Interest and expense on long-term debt	**12,841**	7,829
Other interest	**3,764**	2,009
	230,250	194,964
Income before income taxes, minority interest and extraordinary items	**20,369**	20,572
Income taxes		
Current	**7,169**	8,136
Deferred	**2,169**	2,042
	9,338	10,178
Income before minority interest and extraordinary items	**11,031**	10,394
Minority interest	**3,159**	1,295
Income before extraordinary items	**7,872**	9,099
Extraordinary items (note 7)	**244**	(308)
NET INCOME	**$ 8,116**	$ 8,791
EARNINGS PER COMMON SHARE, after provision for preference dividends		
Before extraordinary items	**$ 2.29**	$ 1.76
After extraordinary items	**$ 2.38**	$ 1.69

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended June 30

	(thousands of dollars)	
	1984	1983
BALANCE AT BEGINNING OF YEAR	**$ 27,912**	$ 25,300
Net income	**8,116**	8,791
	36,028	34,091
Dividends on 5% preference shares	**400**	400
Dividends on 10% second preference shares	**814**	855
Dividends on common shares - $1.10 per share	**3,194**	4,892
Amortization of preference share issue costs	**32**	32
	4,440	6,179
BALANCE AT END OF YEAR	**$ 31,588**	$ 27,912

See accompanying summary of accounting policies and notes.

INLAND NATURAL GAS CO. LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended June 30

	(thousands of dollars)	
SOURCE OF WORKING CAPITAL	1984	1983
Operations		
Net income	$ 8,116	$ 8,791
Items not involving working capital		
Depreciation and amortization	7,668	5,795
Deferred income taxes	2,169	2,042
Minority interest	3,456	1,295
Other	150	110
Total from operations	21,559	18,033
Increase in long-term debt (note 5)	25,000	53,100
Common shares issued (note 6)	35	40,547
Proceeds on redemption of marketable securities	301	—
	46,895	111,680
APPLICATION OF WORKING CAPITAL		
Additions to property, plant and equipment	20,828	19,626
Dividends on preference and common shares	4,408	6,147
Dividends to minority shareholders of subsidiary	997	748
Reduction of long-term debt	10,125	2,408
Purchase and cancellation of second preference shares	377	402
Acquisition of parent company shares by subsidiary	31	52,318
Acquisition of Trans Mountain Pipe Line Company Ltd.	—	39,361
Other	7	485
	36,773	121,495
INCREASE (DECREASE) IN WORKING CAPITAL DEFICIENCY	(10,122)	9,815
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	28,177	18,362
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ 18,055	$ 28,177

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

Year ended June 30

	(thousands of dollars)	
	1984	1983
BALANCE AT BEGINNING OF YEAR	$ 46,648	$ 8,770
Premium on issue of common shares (note 6)	32	37,844
Gain (loss) on purchase of preference shares for cancellation (note 6)	(2)	34
BALANCE AT END OF YEAR	$ 46,678	$ 46,648

See accompanying summary of accounting policies and notes.

INLAND NATURAL GAS CO. LTD.

CONSOLIDATED BALANCE SHEET as at June 30

	1984	1983
	(thousands of dollars)	
ASSETS		
CURRENT ASSETS		
Accounts receivable	$ 21,254	$ 22,242
Inventories (note 2)	5,878	5,599
Prepaid expenses	1,570	1,142
	28,702	28,983
PROPERTY, PLANT AND EQUIPMENT (note 3)		
Natural gas and oil pipeline systems	326,671	320,073
Plant, buildings and equipment	32,638	31,742
Land and land rights	22,470	23,819
	381,779	375,634
Accumulated depreciation	171,006	176,911
	210,773	198,723
OTHER ASSETS		
Investment in marketable securities, mortgages and real estate, at cost	3,277	3,536
Deferred charges (note 4)	5,706	5,002
	8,983	8,538
	$ 248,458	$ 236,244

Approved by the Directors

R. Laudelutt Director

Director

(thousands of dollars)		
LIABILITIES	1984	1983
CURRENT LIABILITIES		
Bank loans and short-term notes	**$ 13,576**	$ 32,082
Accounts payable and accrued liabilities	**16,921**	12,948
Dividends payable	**300**	309
Income and other taxes	**9,933**	9,406
Current portion of long-term debt	**6,027**	2,415
	46,757	57,160
LONG-TERM DEBT (note 5)	**124,337**	109,617
DEFERRED INCOME TAXES (note 1)	**13,118**	10,950
MINORITY INTEREST	**16,543**	14,116

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6)		
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: 319,400 shares	**7,985**	8,360
Common shares, par value $1 per share		
Authorized: 10,000,000 shares		
Issued: 5,801,125 shares	**5,801**	5,799
CONTRIBUTED SURPLUS	**46,678**	46,648
RETAINED EARNINGS	**31,588**	27,912
	100,052	96,719
Less cost of shares held by subsidiary	**52,349**	52,318
	47,703	44,401
	$ 248,458	$ 236,244

See accompanying summary of accounting policies and notes.

SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared, except for the change in the method of accounting for income taxes as described in Note 1, 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) 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, 1984 is $8,037,565 (1983 — $8,816,711). All other intercompany balances and transactions have been eliminated.

REGULATION

The Company and certain of its subsidiaries are subject to the jurisdiction of 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 northern Alberta 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 are stated at cost which includes all direct costs, an allocation of overhead costs and an allowance for funds used during construction and the excess of the cost of the investment in Trans Mountain over the book value of net assets acquired.

Maintenance, repairs and minor renewals are charged to expense as incurred. Replacements and major renewals of property are accounted for as property additions. The 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 approximately 2.2%.

DEFERRED CHARGES

Preference share and long-term debt issue costs

5% and 10% preference share issue costs are amortized to retained earnings at the prescribed annual rates of 1% and 4.8% respectively.

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

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.

Deferred interest

Pursuant to direction from the Commission Inland and Columbia, in 1981 and 1983 respectively, created deferred accounts to absorb fluctuations in actual interest costs on short-term borrowings from the rates approved by the Commission in determining the cost of capital.

The Commission instructed the Company to amortize to cost of service and recover in its rates the June 30, 1982 deferred interest balance of $1,123,693 over five years commencing November 1, 1983. Additional deferrals subsequent to June 30, 1983 amount to $110,850, the ultimate disposition of which will be determined by the Commission.

Vancouver Island project

The Company is one of the applicants to construct and operate transmission and distribution facilities on the Island. Costs incurred to date relating to this project which may benefit future periods are being deferred. With the recent awarding to B.C. Hydro of the energy project certificate for transmission of natural gas to the Island, the Company expects to appear at a public hearing before the Commission in the near future.

Deferred subsidiary acquisition costs

The Commission instructed the Company to amortize to cost of service and recover in its rates over a five year period commencing November 1, 1983 the after-tax cost of the expenses incurred in acquiring its interest in Trans Mountain which amounted to $1,047,757.

INCOME TAXES (see Note 1)

The Company and its wholly-owned subsidiaries follow the taxes payable method of recording income taxes for both ratemaking and regulated utility accounting purposes. Under this method no provision is made for income taxes deferred as a result of differences in timing between the treatment for income tax and accounting purposes of various items of expenditure.

The Company follows the tax allocation method for its non-regulated operations whereby the income tax provisions are based on earnings reported in the accounts. Under this method provision is made for income taxes deferred as a result of differences in timing between the treatment for income tax and accounting purposes of various items of expenditure.

Trans Mountain and its subsidiaries follow the tax allocation method of accounting.

PENSION PLANS

The Company and its subsidiaries have contributory defined benefit pension plans available for their employees. The plans require that actuarial studies be prepared at least every three years. The unfunded liabilities for past service benefits are approximtely $1,361,860 as at June 30, 1984 (1983 — $1,642,000). Based on actuarial advice, $1,028,860 will be funded and charged to operations over the next three years; the balance of $333,000 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

The United States operations, which are considered to be operationally dependent on the parent company, have been translated to Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities and average rates for the year for revenue and expense, except depreciation which is translated at the rate of exchange applicable to the related asset. Gains and losses arising on translation 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 1984 net of 2,896,047 shares owned by a subsidiary. No such deduction was made to the weighted average common shares outstanding in 1983 as the subsidiary did not obtain control of the shares until June 28, 1983. Dividend requirements on preference shares of $1,213,750 in 1984 and $1,254,750 in 1983 have been deducted from net income to determine the earnings applicable to common shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

1. CHANGE IN ACCOUNTING PRACTICE

During the year the Commission ordered the Company and Columbia to adopt, effective February 1, 1984, the taxes payable method of accounting for income taxes and directed that the deferred income taxes accumulated to January 31, 1984 remain in the accounts and be applied as a reduction of rate base.

The Company, for the period July 1, 1977 to January 31, 1984, and Columbia for the periods August 1, 1979 to January 31, 1984 and prior to January 1, 1975, followed the tax allocation method.

The Company, during the period prior to July 1, 1977, and Columbia, during the period January 1, 1975 to July 31, 1979, followed the taxes payable method of recording income taxes as directed by the Commission and its predecessors. As a result of using the taxes payable method, the companies have not recorded in their accounts nor recovered in their rates deferred income taxes of $996,931 in the current fiscal year and $18,152,835 in total to June 30, 1984.

It is expected that all future income taxes payable will be included in the cost of service and recovered in revenues at that time.

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:

	1984	1983
Materials and supplies	$ 4,455	$ 4,488
Crude oil	1,423	1,111
	$ 5,878	$ 5,599

3. PROPERTY, PLANT AND EQUIPMENT

A number of fully depreciated pump stations in the oil pipeline system were demolished during the year and written off. Accordingly, plant and accumulated depreciation have been reduced by $12,431,253.

4. DEFERRED CHARGES

	1984	1983
Preference share issue costs	$ 1,185	$ 1,216
Long-term debt issue costs	258	412
Goodwill	685	705
Deferred interest	863	1,163
Vancouver Island project	1,304	924
Deferred subsidiary acquisition costs	908	—
Other	503	582
	$ 5,706	$ 5,002

5. LONG-TERM DEBT

	Total Outstanding	Current Liability	Long-term 1984	Long-term 1983
Inland Natural Gas Co. Ltd.				
First mortgage sinking fund bonds				
8% Series D, due December 31, 1989	$ 3,594	$ 187	$ 3,407	$ 3,594
8¼% Series E, due November 1, 1991	5,931	201	5,730	5,975
8⅜% Series F, due April 15, 1993	6,148	173	5,975	6,205
11⅛% Series G, due June 15, 1995	9,951	356	9,595	9,980
	25,624	917	24,707	25,754
Sinking fund debentures				
9⅞% Series A, due November 30, 1997	10,896	336	10,560	10,920
18¼% Series B, due November 15, 1996	18,150	1,100	17,050	18,150
Bank loans and short-term notes refinanced [See (b) below]	25,000	—	25,000	—
	79,670	2,353	77,317	54,824

	Total Outstanding	Current Liability	Long-term 1984	Long-term 1983
Columbia Natural Gas Limited				
First mortgage sinking fund bonds 9% Series B, due June 15, 1993	$ 1,694	$ 134	$ 1,560	$ 1,693
Trans Mountain Pipe Line Company Ltd. Term bank loan [See (b) below]	49,000	3,540	45,460	53,100
	$130,364	$ 6,027	$124,337	$109,617

The Trans Mountain term bank loan used to acquire Inland common shares is repayable at $295,000 per month principal plus interest at bank prime rate to January 31, 1985 at which time it is expected that the term will be extended and interest rate renegotiated. Accordingly, the loan is classified as a non-current liability.

a) Security

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, 1984 are: 1985, $6,026,500; 1986, $2,734,500; 1987, $2,845,500; 1988, $2,958,500; 1989, $3,207,500.

The Trans Mountain term bank loan is primarily secured by a hypothecation of 1,080,000 Inland common shares and the shares of the subsidiary which holds the Inland shares.

b) Refinancing

On July 11, 1984 the Company issued $25,000,000 principal amount of 14⅜% Series C debentures due July 15, 1989 to refinance bank loans and short-term notes.

On July 13, 1984 Trans Mountain converted $12,000,000 of its bank loan to a 5 year term at 14.45% and a further $8,000,000 was converted to a 6 year term at 14.60%.

6. 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 on or before June 30, 1985 at the option of the Company at $25.50 per share 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, 1984 the Company purchased for cancellation 15,000 shares. The excess of the purchase cost of the second preference shares cancelled over their subscription price amounts to $2,415 (1983 — $33,532 gain) and is deducted from contributed surplus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(c) Common shares

Common shares issued during the year are summarized below:

	Number of Shares	Capital Stock	Contributed Surplus	Total Amount
Issued during 1984				
For cash under optional stock dividend program	2,220	$ 2	$ 32	$ 34
Outstanding beginning of year	5,798,905	5,799		
Outstanding end of year	5,801,125	$ 5,801		

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, 1984, 2,220 common shares (1983 — 451) were issued under this program for $34,656, of which $32,436 has been credited to contributed surplus. The Company has reserved 191,869 of its authorized and unissued common shares to meet future share option privileges under this program.

7. EXTRAORDINARY ITEMS

	1984	1983
Reduction of current income taxes on application of losses carried forward	**$ 260**	$ —
Costs incurred by Trans Mountain related to the share exchange offer by Inland, net of current income tax reduction	—	(323)
Other	**(16)**	15
	$ 244	$ (308)

8. INCOME TAXES

Consolidated income tax expense varies from the amount that would be computed by applying the Federal and British Columbia statutory corporate income tax rates to income before income taxes, minority interest and extraordinary items as shown in the following table:

	1984 Amount	**1984** Rate %	1983 Amount	1983 Rate %
Income before income taxes, minority interest and extraordinary items	**$ 20,369**		$ 20,572	
Statutory corporate income taxes in Province of British Columbia	**$ 10,684**	**52.45%**	$ 10,975	53.35%
Add (deduct)				
Non-taxable dividend income	**(106)**	**(0.52)**	(110)	(0.53)
Earnings of non-British Columbia subsidiaries with lower income tax rates	**(205)**	**(1.01)**	(246)	(1.19)
Overheads capitalized and claimed for income tax purposes	**(580)**	**(2.85)**	(34)	(0.17)
Excess of capital cost allowance claimed for income tax purposes over depreciation booked for accounting purposes	**(415)**	**(2.04)**	(24)	(0.12)
Other, net	**(40)**	**(0.19)**	(383)	(1.87)
Actual consolidated corporate income taxes	**$ 9,338**	**45.84%**	$ 10,178	49.47%

9. SEGMENTED INFORMATION

The Company operates principally in two business segments:

(a) Gas utility, primarily involving the transmission and distribution of natural gas, and

(b) 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. 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

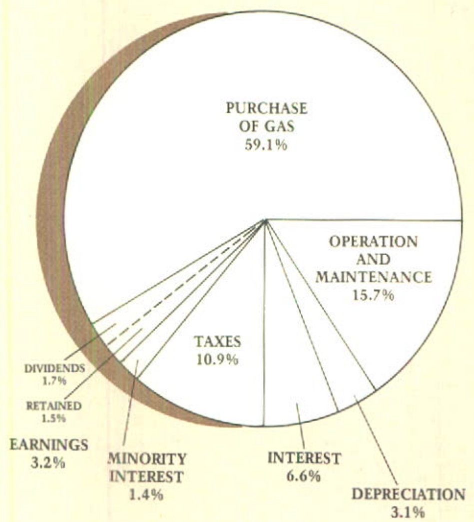
	Gas Utility Operations		Oil Pipeline Operations		Consolidated	
	1984	1983	1984	1983 (6 Months)	1984	1983
Revenues	$207,146	$193,475	$43,473	$22,061	$250,619	$215,536
Expenses						
Purchase of gas	148,207	140,804	—	—	148,207	140,804
Operating	18,352	16,408	20,921	8,449	39,273	24,857
Property, franchise and other taxes	10,281	9,477	8,240	4,205	18,521	13,682
Depreciation and amortization	4,633	4,286	3,011	1,497	7,644	5,783
	181,473	170,975	32,172	14,151	213,645	185,126
Segment operating income	$ 25,673	$ 22,500	$11,301	$ 7,910	36,974	30,410
Interest expense					(16,605)	(9,838)
Income taxes					(9,338)	(10,178)
Minority interest					(3,159)	(1,295)
Extraordinary items					244	(308)
Net income					$ 8,116	$ 8,791
Total assets	$180,551	$173,455	$67,907	$62,789	$248,458	$236,244
Capital expenditures	$ 11,352	$ 14,914	$ 9,476	$ 4,712	$ 20,828	$ 19,626

10. COMPARATIVE FIGURES

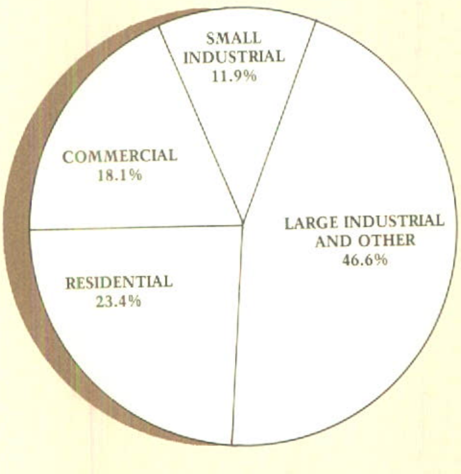
Certain 1983 figures have been reclassified to conform with 1984 financial statement presentation.

TEN-YEAR FINANCIAL SUMMARY

DISTRIBUTION OF REVENUE
YEAR ENDED JUNE 30, 1984



SOURCE OF REVENUE
YEAR ENDED, JUNE 30, 1984



Distribution Utilities

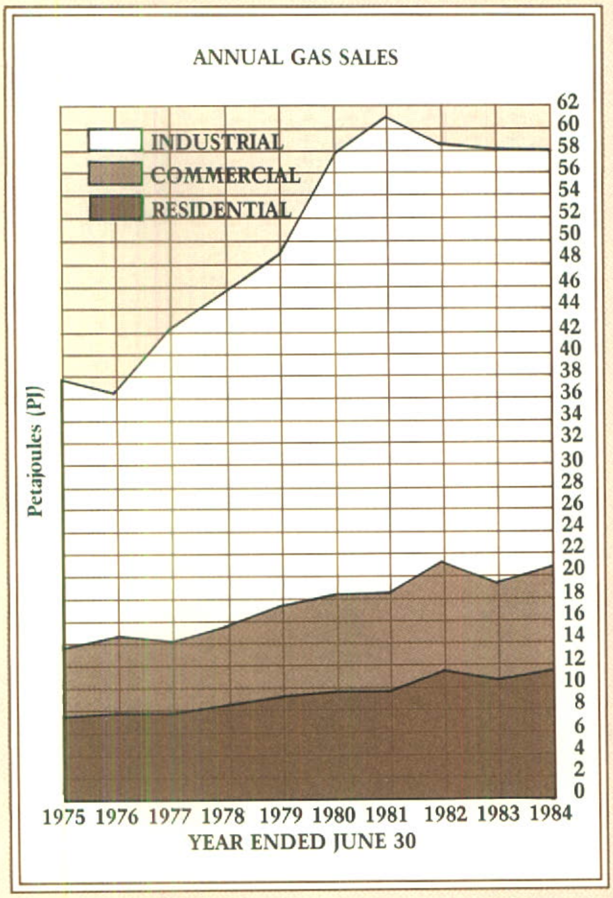
*Including Columbia Natural Gas Limited from July 1, 1979
**Including Trans Mountain Pipe Line Company Ltd. from January 1, 1983.

(dollar amounts in thousands)

STATEMENT OF INCOME	**1984**
Revenue	
Sale of gas — distribution utilities	$198,196
— transmission utilities	8,161
	206,357
Crude oil and other transportation	42,836
Other operating revenue	1,426
	250,619
Expenses	
Purchase of gas	148,207
Operation and maintenance	39,273
Property, franchise and other taxes	18,521
Depreciation and amortization	7,644
	213,645
Operating income	36,974
Interest charges	16,954
Allowance for funds used during construction	(349)
Income before undernoted items	20,369
Income taxes	9,338
Minority interest	3,159
Income before extraordinary items	7,872
Extraordinary items (credit)	(244)
Net income	8,116
Dividends on preference shares	1,214
Common share earnings	$ 6,902
COMMON SHARES OUTSTANDING	
Weighted average	2,905,078
PER COMMON SHARE DATA	
Earnings before extraordinary items	$ 2.29
Dividends	$ 1.10
PROPERTY, PLANT AND EQUIPMENT	
Gas utility operations — Transmission	$ 74,412
— Distribution	110,329
— General	8,380
	193,121
Oil pipeline operations	188,658
	381,779
ACCUMULATED DEPRECIATION	
Gas utility operations	39,793
Oil pipeline operations	131,213
	171,006
NET CONSOLIDATED PLANT	$210,773
CAPITALIZATION	
Long-term debt (including current maturities)	$130,364
Short-term notes and bank loans	13,576
Total debt	143,940
Preference shares	15,985
Common equity	84,067
Cost of shares held by subsidiary	(52,349)
	$191,643
CAPITALIZATION RATIO (%)	
Long-term debt (including current maturities)	68.0
Short-term notes and bank loans	7.1
Total debt	75.1
Preference shares	8.3
Common equity	43.9
Cost of shares held by subsidiary	(27.3)
	100.0
RATIOS	
Total debt interest — times earned, before taxes and minority interest	2.24

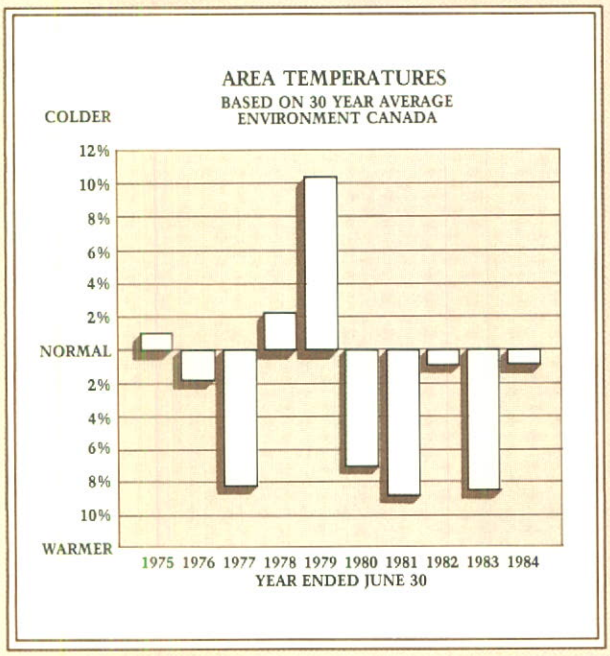
	1983**	1982	1981	1980*	1979	1978	1977	1976	1975
	185,674	174,515	122,181	98,831	82,043	65,980	49,324	35,786	32,414
	6,978	6,072	5,237	3,898	3,944	3,422	2,298	1,686	1,412
	192,652	180,587	127,418	102,729	85,987	69,402	51,622	37,472	33,826
	21,507	—	—	—	—	—	—	—	—
	1,377	1,167	650	513	604	1,334	1,472	825	707
	215,536	181,754	128,068	103,242	86,591	70,736	53,094	38,297	34,533
	140,804	133,308	85,835	66,161	54,113	43,955	31,255	20,516	19,489
	24,857	15,124	12,087	10,541	8,784	6,143	5,263	4,295	3,462
	13,682	8,766	6,551	5,546	4,319	3,128	2,568	2,119	1,792
	5,783	3,752	3,480	3,303	2,910	2,749	2,323	1,819	1,745
	185,126	160,950	107,953	85,551	70,126	55,975	41,409	28,749	26,488
	30,410	20,804	20,115	17,691	16,465	14,761	11,685	9,548	8,045
	9,990	7,810	5,968	6,090	5,061	4,953	4,547	5,056	3,744
	(152)	(126)	(67)	(42)	(15)	(82)	(31)	(564)	(530)
	20,572	13,120	14,214	11,643	11,419	9,890	7,169	5,056	4,831
	10,178	6,861	7,436	5,963	5,704	4,950	1,672	250	737
	1,295	—	—	—	—	—	—	—	—
	9,099	6,259	6,778	5,680	5,715	4,940	5,497	4,806	4,094
	308	—	—	—	—	—	—	—	—
	8,791	6,259	6,778	5,680	5,715	4,940	5,497	4,806	4,094
	1,255	1,295	1,354	1,395	1,400	1,400	1,444	400	400
	7,536	4,964	5,424	4,285	4,315	3,540	4,053	4,406	3,694
	4,447,560	3,095,763	2,972,914	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122
	1.76	1.60	1.82	1.52	1.53	1.25	1.44	1.56	1.31
	1.10	1.10	1.025	.925	.825	.80	.80	.80	.74
	73,558	72,897	71,079	68,822	62,840	62,198	60,787	57,500	47,887
	101,292	89,124	77,560	68,237	56,463	52,246	48,903	44,956	40,779
	7,395	6,022	5,228	4,637	4,011	3,672	3,049	2,922	2,854
	182,245	168,043	153,867	141,696	123,314	118,116	112,739	105,378	91,520
	193,389	—	—	—	—	—	—	—	—
	375,634	168,043	153,867	141,696	123,314	118,116	112,739	105,378	91,520
	36,175	32,833	29,718	26,363	21,277	18,709	16,488	14,642	13,172
	140,736	—	—	—	—	—	—	—	—
	176,911	32,833	29,718	26,363	21,277	18,709	16,488	14,642	13,172
	198,723	135,210	124,149	115,333	102,037	99,407	96,251	90,736	78,348
	112,032	70,883	53,760	55,529	53,484	54,965	44,347	49,649	50,428
	32,082	5,578	11,218	8,333	—	—	10,715	1,187	863
	144,114	76,461	64,978	63,862	53,484	54,965	55,062	50,836	51,291
	16,360	16,795	17,295	17,795	18,000	18,000	18,000	18,000	8,000
	80,359	37,167	35,457	29,780	28,139	26,184	24,933	23,170	21,034
	(52,318)	—	—	—	—	—	—	—	—
	188,515	130,423	117,730	111,437	99,623	99,149	97,995	92,006	80,325
	59.5	54.3	45.7	49.8	53.7	55.4	45.3	53.9	62.8
	17.0	4.3	9.5	7.5	—	—	10.9	1.3	1.1
	76.5	58.6	55.2	57.3	53.7	55.4	56.2	55.2	63.9
	8.7	12.9	14.7	16.0	18.1	18.2	18.3	19.6	10.0
	42.6	28.5	30.1	26.7	28.2	26.4	25.5	25.2	26.1
	(27.8)	—	—	—	—	—	—	—	—
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	3.00	2.66	3.37	2.92	3.28	3.03	2.60	2.02	2.32

TEN-YEAR OPERATING SUMMARY (DISTRIBUTION UTILITIES*)



(dollar amounts in thousands)

	1984
REVENUE	
Residential	$ 46,321
Commercial	35,916
Small industrial	23,571
Large industrial and other	92,388
Total natural gas revenue	$198,196
SALES UNITS (TJ)**	
Residential	11,446
Commercial	9,244
Small industrial	6,699
Large industrial and other	30,622
Total natural gas sales units	58,011
CUSTOMERS AT YEAR END	
Residential	105,485
Commercial	13,719
Small industrial	115
Customers at year end	119,319
CUSTOMER STATISTICS**	
Average use per customer (GJ)	
Residential	112
Commercial	688
Average rate per GJ	
Residential	$ 4.05
Commercial	$ 3.89
UNITS OF NATURAL GAS PURCHASED (TJ)**	58,648
MAXIMUM DAY SENDOUT (GJ)**	
Including interruptible	319,390
DEGREE DAYS (base 18 °C.) — Actual	4,174
— Normal	4,206
PAYROLL STATISTICS	
Wages and benefits	$ 16,927
Number of employees (average)	418
COMPANY-OWNED LINES — Kilometres	
Gas Utilities — Transmission	2,040
— Distribution	3,675
— Services	2,707
Oil Pipeline	1,477
	9,899



*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)

1983	1982	1981	1980	1979	1978	1977	1976	1975
39,799	40,061	25,920	21,862	20,022	16,253	12,465	10,561	9,531
31,897	33,080	21,440	18,577	17,021	13,286	9,869	8,318	7,567
22,778	18,297	14,984	11,492	12,024	10,113	7,772	5,053	3,787
91,200	83,077	59,837	46,900	32,976	26,328	19,218	11,854	11,529
185,674	174,515	122,181	98,831	82,043	65,980	49,324	35,786	32,414
10,444	11,372	9,814	9,641	9,277	8,486	7,673	7,745	7,387
8,675	9,676	8,534	8,564	8,142	7,192	6,398	6,414	6,147
6,993	5,940	7,063	6,253	6,715	6,507	6,091	4,839	3,943
31,987	31,464	35,581	33,269	24,664	23,062	22,102	17,319	19,858
58,099	58,452	60,992	57,727	48,798	45,247	42,264	36,317	37,335
99,534	93,957	87,858	80,537	67,358	65,206	62,763	59,300	54,910
13,141	12,812	12,218	11,369	9,385	8,942	8,580	8,034	7,481
115	117	120	114	105	104	108	100	90
112,790	106,886	100,196	92,020	76,848	74,252	71,451	67,434	62,481
108	125	117	123	140	133	126	136	139
669	773	724	777	888	821	770	827	852
3.81	3.52	2.64	2.27	2.15	1.92	1.62	1.36	1.29
3.68	3.42	2.51	2.17	2.09	1.85	1.54	1.30	1.23
58,579	59,138	61,892	58,172	48,234	44,647	41,830	35,924	36,931
299,560	291,362	277,262	274,016	245,835	216,478	178,019	165,700	155,917
3,846	4,196	3,859	3,936	4,524	4,191	3,763	4,018	4,140
4,206	4,233	4,233	4,233	4,099	4,099	4,099	4,099	4,099
15,067	13,156	10,450	8,878	7,397	6,248	5,996	4,887	3,831
409	393	350	325	278	262	271	249	240
2,034	2,031	2,023	1,958	1,669	1,656	1,649	1,627	1,509
3,361	2,936	2,721	2,557	2,177	2,098	2,043	1,949	1,836
2,523	2,397	2,248	2,071	1,702	1,641	1,585	1,508	1,401
1,477	—	—	—	—	—	—	—	—
9,395	7,364	6,992	6,586	5,548	5,395	5,277	5,084	4,746

DIRECTORS AND OFFICERS

DIRECTORS

Robert G. Brodie	President, Cardiff Estates Limited
Thomas A. Buell	Chairman, President and Chief Executive Officer, Weldwood of Canada Ltd.
Ronald L. Cliff	Chairman of the Board, Inland Natural Gas Co. Ltd.
Roderick M. Hungerford	President, Flex-Lox Industries Ltd.
J. Norman Hyland	Corporate Director
Robert E. Kadlec	President and Chief Executive Officer, Inland Natural Gas Co. Ltd.
Gordon F. MacFarlane	Chairman, and Chief Executive Officer, British Columbia Telephone Company
Thomas G. Rust	Chairman, Crown Forest Industries Limited
Horace B. Simpson	Vice-President, Okanagan Holdings Ltd.
Richard B. Stokes	President and Chief Executive Officer, Trans Mountain Pipe Line Company Ltd.
H. Richard Whittall	Vice-Chairman and Director, Richardson Greenshields of Canada Limited.

All Directors reside in British Columbia

Executive Committee	Audit Committee	Executive Compensation Committee
R.L. Cliff	R.L. Cliff	R.G. Brodie
R.E. Kadlec	R.M. Hungerford	R.L. Cliff
R.B. Stokes	H.B. Simpson	T.G. Rust
H.R. Whittall	H.R. Whittall	

OFFICERS

Ronald L. Cliff	Chairman of the Board
Robert E. Kadlec	President and Chief Executive Officer
Clifford I. Kleven	Vice-President, Finance and Administration
Richard T. O'Callaghan	Vice-President, Engineering
James L. Randall	Vice-President, Marketing and Utility Planning
Geoffrey M.O. Solly	Vice-President, Operations
Daniel G. Besel	Controller
Patrick D. Lloyd	General Counsel and Secretary

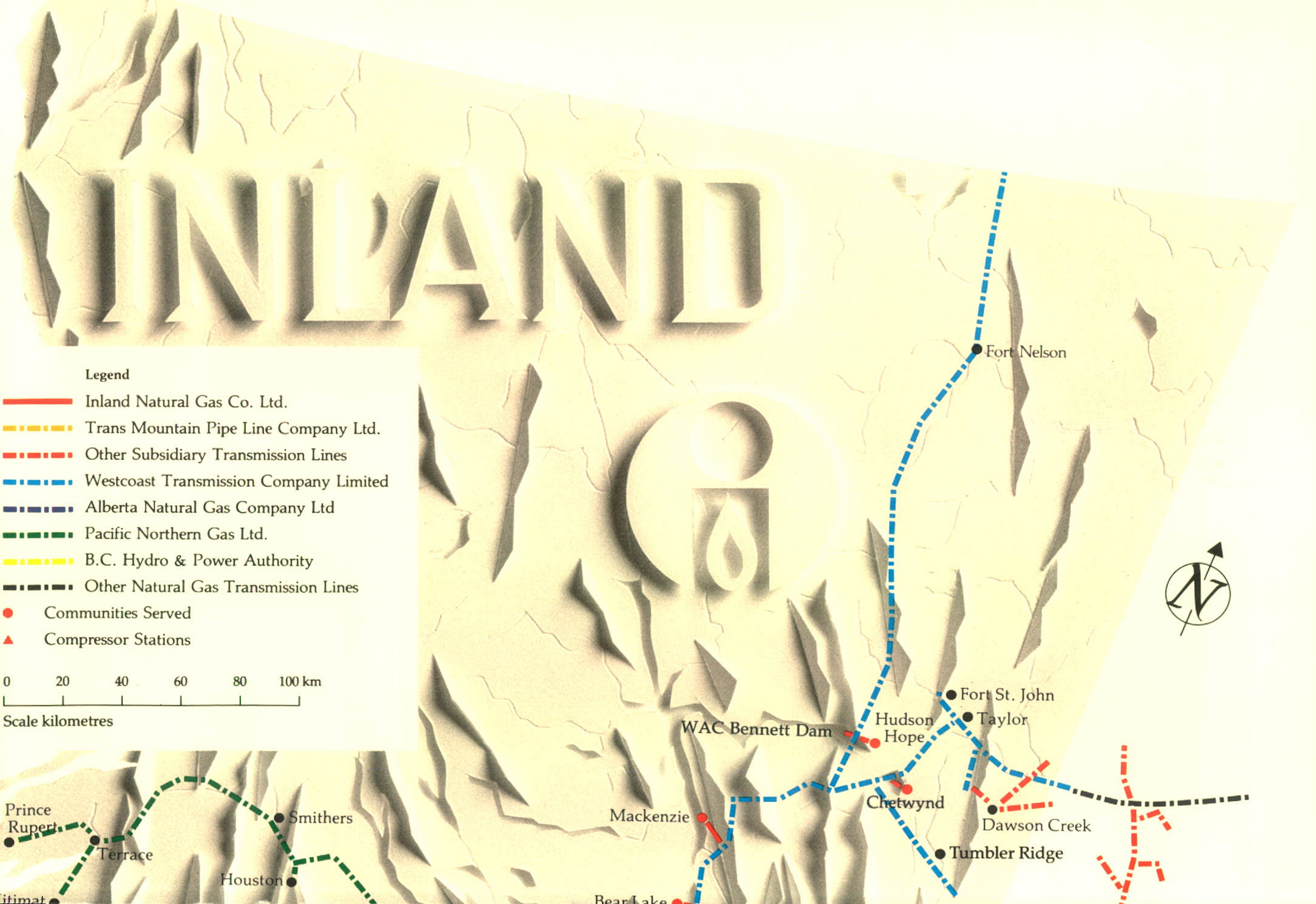
COMMUNITIES SERVED

GAS UTILITY OPERATIONS

Armstrong
Ashcroft
Cache Creek
Castlegar
Cawston
Chetwynd
Christina Lake
Clinton
Coldstream
Cranbrook
Creston
Elkford
Enderby
Falkland
Fernie
Fruitvale
Grand Forks
Grindrod
Hedley
Hixon
Hudson Hope
Kamloops
Kelowna
Keremeos
Kersley
Kimberley
Lac La Hache
Lakeview Heights
Logan Lake
Lumby
Mackenzie
Merritt
Midway
Montrose
Naramata
Nelson
Okanagan Falls
Olalla
Oliver
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
Grande Prairie
Edmonton
Edson
Jasper
Burns Lake
Fort St. James
Endako
Endako Mines
Fraser Lake
Vanderhoof
PRINCE GEORGE
Shelley
Hixon
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
Highland Valley
Logan Lake
Falkland
Craigmont Mines
Merritt
Vernon
Lumby
Oyama
Coldstream
Winfield
Westbank
KELOWNA
Brenda Mines
Peachland
Summerland
Naramata
PENTICTON
Okanagan Falls
Hedley
Princeton
Keremeos
Cawston
Oliver
Osoyoos
Midway
Rossland
Grand Forks
Christina Lake
Trail
Montrose
Fruitvale
Salmo
Robson
Castlegar
Nelson
Creston
Yahk
CRANBROOK
Kimberley
Skookumchuck
Jaffray
Fernie
Galloway
B.C. Coal
Sparwood
Coal
Line Creek
Elkford
B.C. Coal
Greenhills
Fording
Invermere
Banff
Golden
Revelstoke
Hope
Huntingdon
Vancouver
Ferndale
Anacortes
U.S.A.
Victoria
Duncan
Ladysmith
Nanaimo
Cedar
Powell River
Campbell River
Gold River
Cumberland
Courtenay
Comox
Qualicum-Parksville
Port Alberni

DISTRIBUTION AREA



LITHOGRAPHED IN CANADA
AGENCY PRESS