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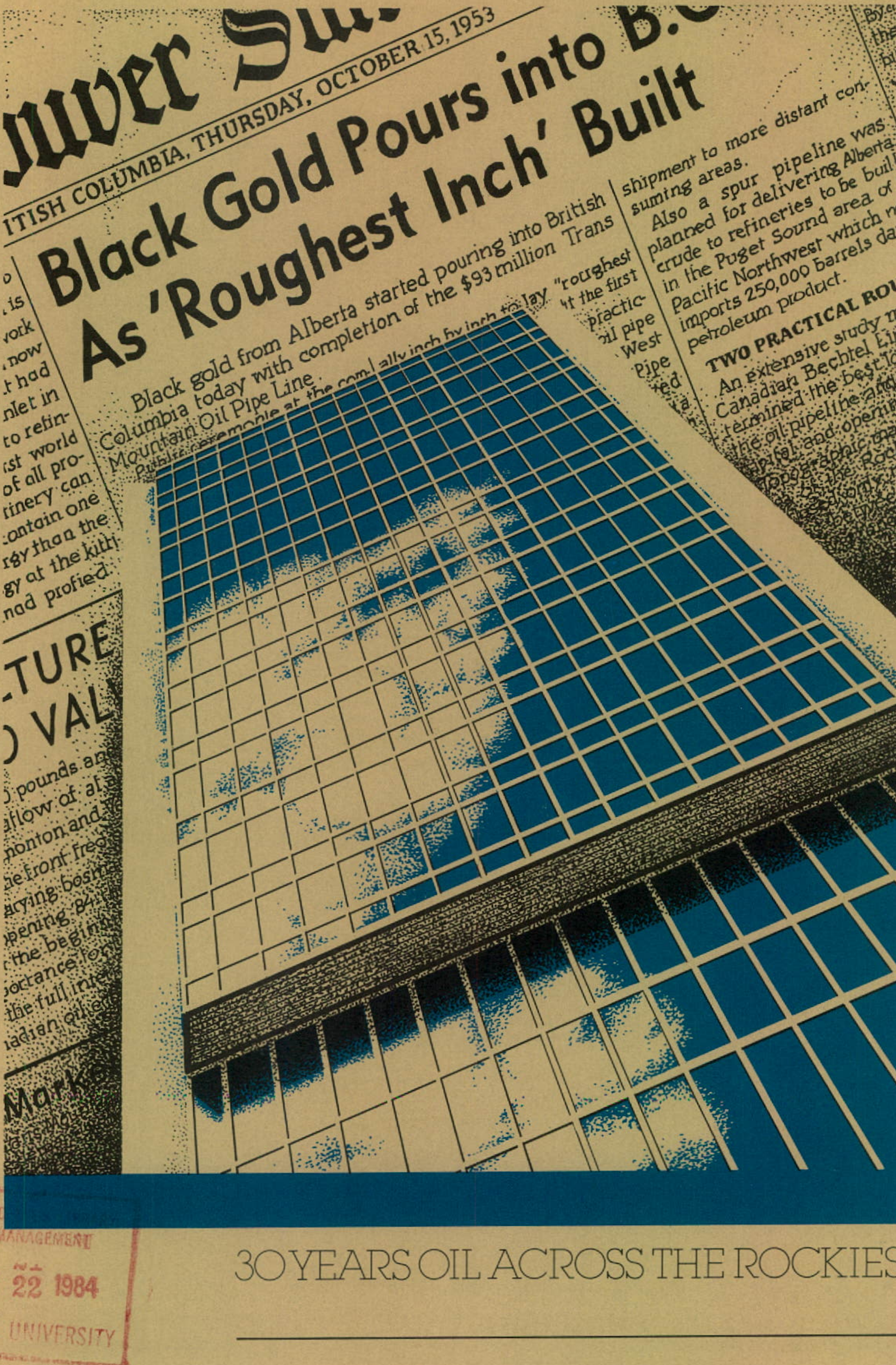
# ANNUAL REPORT 1983

## TRANS MOUNTAIN PIPE LINE COMPANY LTD.




30 YEARS OIL ACROSS THE ROCKIES

# The Company

The Company owns and operates a pipeline system for the transportation of liquid hydrocarbons from Edmonton and Edson in Alberta, and Kamloops, British Columbia, to its tank farm and marine terminal in Burnaby, British Columbia. A spur line from the main pipeline through Sumas, British Columbia to the International Boundary connects with a pipeline owned and operated by a wholly-owned subsidiary of Trans Mountain for delivery to refineries in northwestern Washington State.

Through a subsidiary company, Trans Mountain 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 major port facility in Vancouver harbour. This facility receives, refrigerates and stores propane arriving by rail from Alberta and loads both propane and crude oil tankers for overseas export.

The Company is authorized by Federal Statute to acquire rights-of-way and operate pipelines over lands and facilities of individuals, corporate bodies and government authorities. Trans Mountain provides a service and a transportation system vital to the Canadian economy and security.

Wholly-owned subsidiaries of the Company own 49.9% of all the outstanding common shares of its parent, Inland Natural Gas Co. Ltd., an investor-owned utility which transmits and distributes natural gas in the interior of the Province of British Columbia.

# Contents



**Head Office**
Suite 800 — 601 West Broadway, Vancouver
British Columbia, Canada V5Z 4C5

**Transfer Agent and Registrar**
National Trust Company Limited
Vancouver, Calgary, Edmonton,
Winnipeg, Toronto and Montreal,
Canada

**Auditors**
Thorne Riddell
Vancouver, British Columbia, Canada

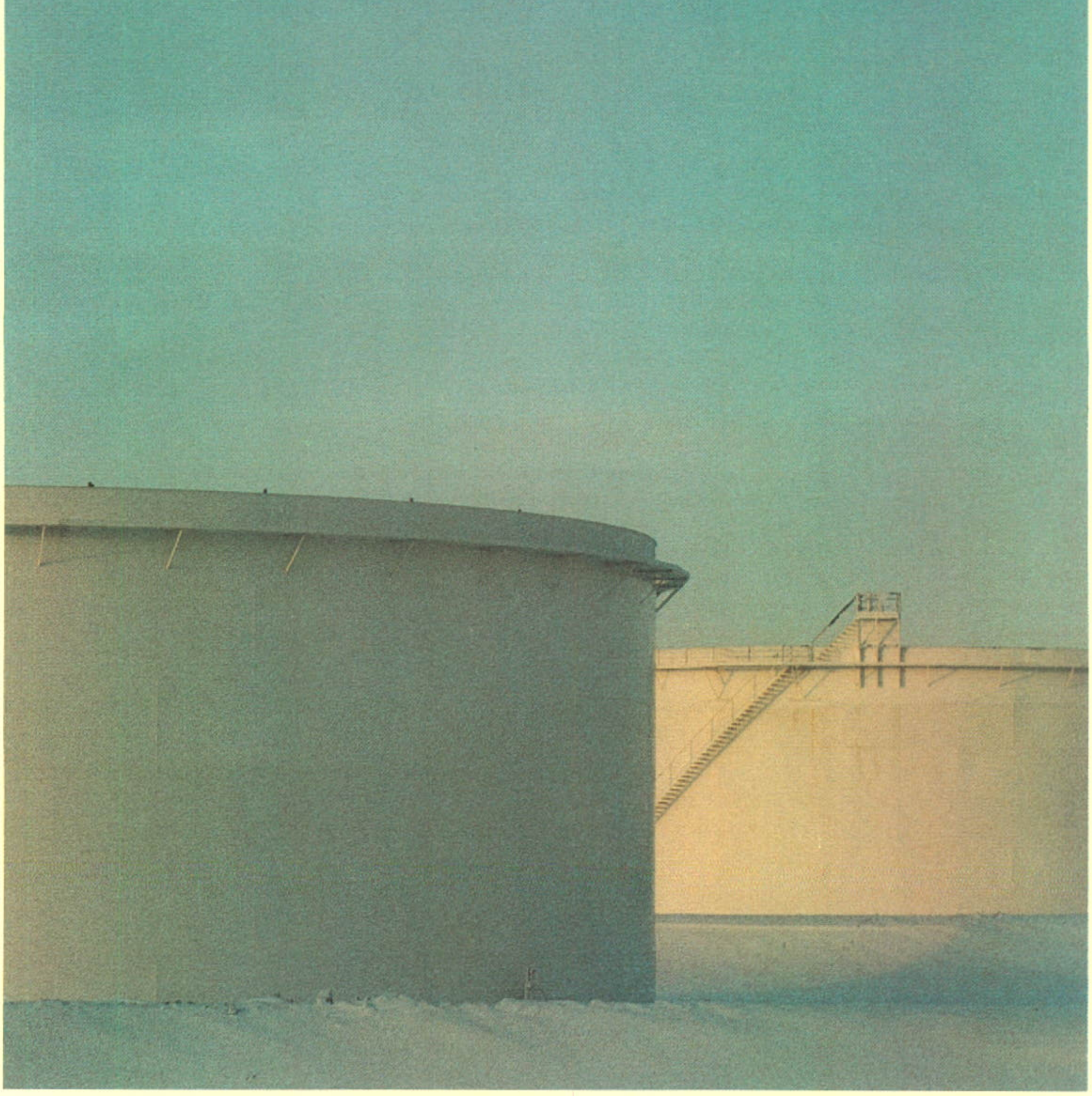
**Annual Meeting of Shareholders**
April 18, 1984 — **11:00 A.M.**
Social Suite — Hotel Vancouver
Vancouver, British Columbia, Canada

(Cover) A graphic illustration of the Company's head offices.

(Opposite page) Crude oil storage tanks are silhouetted against clear blue skies at the Company's Edmonton Terminal.

# Highlights

| | 1983 | 1982 | 1981 |
|---|---|---|---|
| Total revenue | **$ 44,068,000** | $ 39,108,000 | $ 38,007,000 |
| Income before extraordinary items | **6,075,000** | 2,878,000 | 4,853,000 |
| Net income | **6,003,000** | 2,902,000 | 1,274,000 |
| Earnings per share before extraordinary items | **0.80** | 0.38 | 0.64 |
| Dividends per share | **0.50** | 0.90 | 1.20 |
| Cash flow per share | **1.26** | 0.93 | 1.22 |
| Capital expenditures | **11,682,000** | 2,876,000 | 2,024,000 |
| Total assets | **113,526,000** | 53,753,000 | 56,434,000 |
| Total deliveries (cubic metres per day) | **24,375** | 26,446 | 28,835 |



# Report to Our Shareholders

R.L. Cliff
Chairman of the Board

We are pleased to report that net income for the year was $6 million or 79¢ per share. This represents a substantial increase over last year's $2.9 million or 38¢ per share. The improvement in earnings is particularly satisfying in light of the economic conditions that existed throughout the period under review.

Dividends of 15¢ per share were paid in each of the first two quarters of the year. Your Board of Directors, after careful review, decided, having in mind the allowed return of the Company, that a continuation of that rate would be inappropriate. Dividends of 10¢ per share were paid in the last two quarters of the year.

Earnings were enhanced by nine crude oil tanker shipments over the Westridge Terminal dock resulting in higher throughput than was originally forecast. Total petroleum deliveries for the year decreased by 7%, however, increased tariff rates emanating from our last rate hearing gave rise to a significant revenue increase.

On October 31, 1983 the Company submitted a Class 2 Rate Application to the National Energy Board for increased tariffs to become effective January 1, 1984. The new tariffs are designed to permit the Company to earn the return allowed by the Board in its March 1983 rate decision. The allowed return on rate base was determined to be 14.38% on rate base which equated to 15.5% return on deemed equity of 55%. This application, based on estimates for 1984, was made necessary by declining throughput, increase in rate base resulting from capital additions and increased operating costs.

During the year there were major changes in the ownership, the Board of Directors and the Management of your Company. Inland Natural Gas Co. Ltd. has become the parent company of Trans Mountain through its acquisition of 67% of the outstanding shares of Trans Mountain. This change was brought about by a share exchange offer in which three Inland shares were exchanged for five Trans Mountain shares. A Special Meeting of Shareholders was convened on April 20, 1983 culminating in the election of a new Board of Directors of the Company. The new Board elected Mr. R.L. Cliff, Chairman and Mr. R.B. Stokes, President and Chief Executive Officer of the Company. The new Board was re-elected and two other members were added at the Company's Annual Meeting on June 29, 1983. The Company which, since its inception, was basically controlled by multinational oil companies, is now controlled in the Province of British Columbia and 92.4% of its 6,902 shareholders are Canadian.

Wholly-owned subsidiaries of the Company own 2,896,047, or approximately 49.9%, of the outstanding common shares of its parent, Inland Natural Gas Co. Ltd. Pursuant to an agreement dated June 27, 1983 the Company granted to Mr. F.J. Anderson an option to acquire an equal position in that investment. The option was not exercised and expired on December 27, 1983.

The Company has lines of credit with its corporate bankers totalling $68.1 million including $53.1 million by way of a special arrangement covering the purchase of the Inland shares. During the coming year the Company intends to refinance a large portion of this debt on a long term basis.

The Company's regulated activities come under the jurisdiction of the National Energy Board. The Board presently regulates by a methodology designed to provide a return on depreciated plant plus an allowance for working capital. Therefore no increase in earnings can occur unless capital additions to plant are made. Compounding this problem is a relatively flat growth rate in demand for petroleum products.

The Company's pipeline and right-of-way connecting Edmonton, Alberta to Vancouver, British Columbia, the gateway to Pacific Rim countries, is an extremely valuable asset and we are hopeful that some improved method of regulation can be adopted so that tariffs and resulting earnings more realistically reflect the value of service offered by the pipeline.

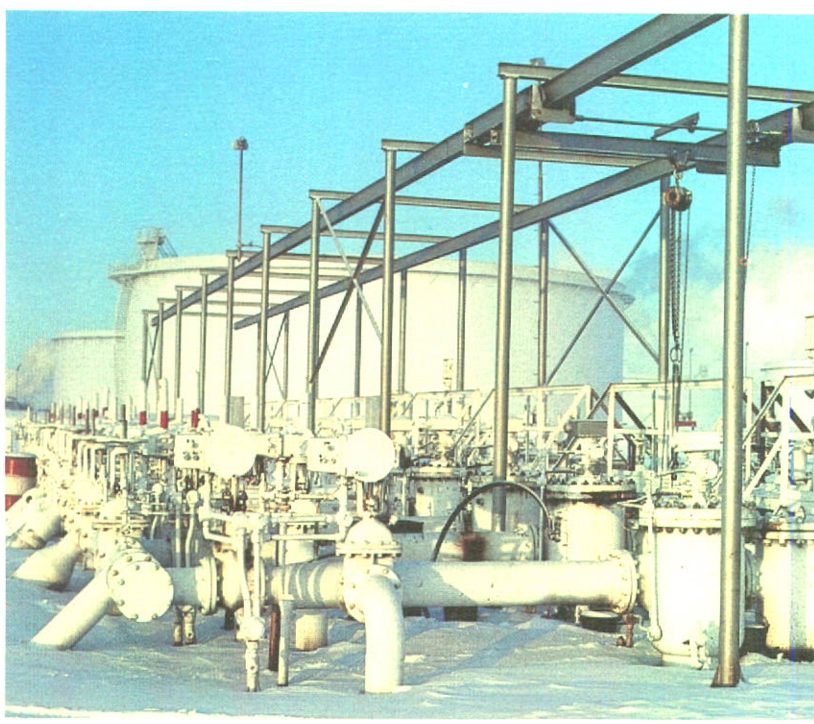
The Company owns and operates a marine terminal located on Burrard Inlet in the Port of Vancouver for the purpose of loading crude oil and propane tankers. Propane is received by rail car, refrigerated, stored and then pumped to a ship for delivery to Japan. Recently the Middle East price for propane has been drastically reduced with the result that Canadian propane is less competitive on the world market. Several shipments were cancelled during the year and the plant is operating at the minimum level required to maintain refrigeration. The Company has also been under pressure from transportation regulatory authorities to spend additional monies to modify these loading facilities. The Railway Transport Committee convened an Inquiry into this matter at which the Company testified. We believe that the propane operation will continue, at rates compensatory to the Company, although shipments will be reduced due to the competitive supply situation. Trans Mountain believes that the Westridge plant is a valuable asset and is actively investigating additional uses for the facilities.

In order to enhance its position as a major transportation link between energy-producing areas in Alberta and British Columbia, and markets in Canada, the United States and the Pacific Rim countries, Trans Mountain is actively studying a number of potential projects which would utilize its existing facilities and expertise and hopefully lead to additional capital investment.

The Company has completed significant work relating to the movement of semi-refined and refined petroleum products. A Vancouver refiner has requested that Trans Mountain add the facilities required to handle the movement of a semi-refined stream from Edmonton into special tankage at the refinery. Deliveries could commence late in 1984.

R.B. Stokes
President and Chief
Executive Officer

Following discussions with major Canadian producers and retailers, and based on visits to pipelines in the United States having experience in the co-shipment of refined products and crude oil, the Company has embarked on a program to confirm the feasibility of shipping refined products with crude oil in the existing pipeline. One successful test using gasoline was completed in 1983. A future test scheduled for early 1984 will include both diesel fuel and gasoline. The confirmation of Trans Mountain's ability to ship refined products will have a significant impact on the refining and marketing of products in Alberta and British Columbia.

The volume of crude oil entering the pipeline system in Edmonton is measured by these meters.

With the development of clean products movement the Company is studying the construction and operation of oil product distribution plants along the route of the pipeline. The plants would be 'fungible', that is they would handle product from various producers in common tankage and distribute, through separate meters, to tank trucks. Economies of scale in plants such as these should result in reduced distribution costs for the marketing companies and also provide attractive business opportunities to Trans Mountain.

Trans Mountain has also investigated the movement of a fuel grade methanol in the pipeline and determined that such movement would be possible. Fuel grade methanol, which will be produced initially from natural gas, is intended for export markets and is used as fuel for power generation or motor vehicles. Trans

Mountain is actively discussing this project with the principals of a proposed methanol plant which would be located in Alberta. The volume of methanol produced from that plant would be equivalent to nearly one-third of Trans Mountain's current throughput, and would therefore have a significant impact on the Company's business.

For many years the Company has undertaken studies concerning the movement of coal slurries from coal-producing regions in Alberta to the West Coast. The concepts studied have included the development of new pipelines and the batching of coal slurries in the existing crude oil system. More recently, attention has focused on the latter opportunity and different types of coal slurries are being examined to determine their relative economic merit based on shipment through the Trans Mountain system.

The concept of initiating coal slurry movement without the financial burden of constructing a new pipeline system may be attractive in today's market conditions. The Company is actively pursuing these opportunities and is presently participating with the Government of Alberta and a major coal company in a study to determine the economic feasibility of marketing coal slurries in Pacific Rim countries.

In 1983, Trans Mountain reached a most important milepost in its history. It has now completed thirty years of continuous service. Those employees of the Company over the past thirty years can be deservedly proud of this achievement. The year under review has been a successful one in spite of somewhat trying conditions and on behalf of the Board of Directors we would like to thank the present employees of Trans Mountain for following the example of their predecessors in their continuing dedication to the Company.

Standing on gaugers platform atop a storage tank at the Burnaby tank farm, employee verifies tank level.

On Behalf of the
Board of Directors

R. Laidlaw(?)

Chairman of the Board

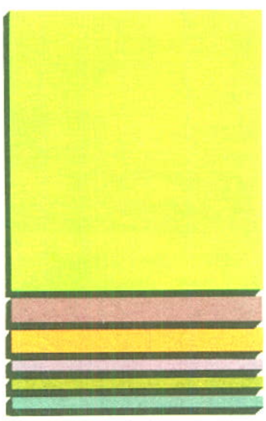
R B Stokes

President and Chief Executive Officer

Vancouver, B.C.
February 22, 1984

The Company's operations are carried out by Trans Mountain Pipe Line Company Ltd. and two of its wholly-owned subsidiaries: Trans Mountain Enterprises of British Columbia Limited and Trans Mountain Oil Pipe Line Corporation, a U.S. company. The investment in our parent, Inland Natural Gas Co. Ltd., is held by Denton Investments Ltd., a wholly-owned subsidiary of the Company.

**Source of Revenue Year Ended December 31, 1983**



Canadian Crude Oil Transportation Revenue 86%

Propane Handling Revenue 4%

Inland Natural Gas Co. Ltd. Dividends 4%

Jet Fuel Transportation Revenue 2%

U.S. Crude Oil Transportation Revenue 2%

Other 2%

## Revenue

In 1983, the transportation of crude oil through the Company's pipeline system continued to generate approximately 88% of the consolidated revenue. Crude oil transportation revenue increased by 15% to $38.8 million in 1983, compared to $33.7 million in 1982. The volume of crude oil transported declined by 7% to 8.1 million cubic metres in 1983, compared to 8.7 million cubic metres in 1982. However, as a result of the March 1983 National Energy Board rate decision, the Company's tariff rates were increased by 19% effective December 3, 1982. Due to higher than anticipated oil throughputs during the first half of 1983, these rates were reduced by the National Energy Board by 7.2% effective July 1, 1983.

Early in 1983, the Company forecast that crude oil deliveries would average 19,400 cubic metres per day ($m^3/d$). Subsequently, the National Energy Board made surplus Canadian production available for export resulting in additional

A propane (LPG) tanker bound for Japan, awaits loading at the Company's Westridge Terminal.

petroleum deliveries to refineries at Anacortes, Washington. In addition, nine crude oil tankers were loaded at Westridge for destinations in California, Japan and Chile. As a result, actual average deliveries for the year amounted to 22,213 $m^3$/d.

1983 revenues from the handling of liquid propane gas (LPG) declined by 26% to $2 million from $2.7 million in 1982. The Westridge LPG plant operated for the first three quarters of the year slightly above regular operating levels. However, there were no LPG shipments from the plant during the fourth quarter. The Company has been advised that two liftings will be made in the first quarter of 1984. Meetings with the shipper and their export customer have been held to develop shipping schedules for the balance of the year.

As a result of the economic recession in British Columbia, jet fuel delivery revenue declined in 1983 by 5% to $739,000 from $774,000 in 1982. Minor improvement is expected in 1984.

As a result of the financial reorganization in late June 1983, the Company received, during the second half of the year, $1.6 million in dividends from Inland and paid $3 million in interest on the funds borrowed to make this investment. Dividend income is non-taxable and interest expense is deductible for income tax purposes. The dividend income approximates the after-tax interest expense.

Over a three year period beginning in 1983, $789,000 of the West to East project development costs written off in 1981 will be recovered in rates and included in income. This decision is a result of the March 1983 National Energy Board public hearing. The West to East project was a proposal to construct a deep-sea port in the State of Washington and a pipeline to deliver crude oil destined for Northern Tier refineries in the United States. This project was officially abandoned during the year under review.

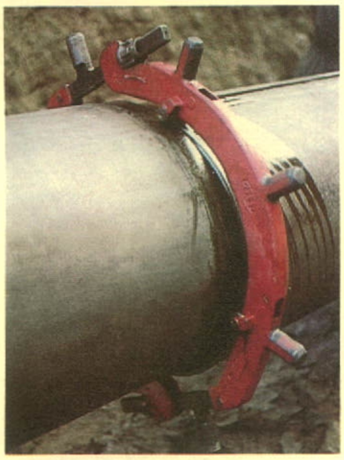
## Expenses

Operating expenses, net of interest during construction, during 1983 increased by 5% to $19.5 million from $18.6 million in 1982.

All operating facilities performed well in 1983, and maintenance and monitoring continue to play an important role. In 1983, designated sections of the pipeline were hydrostatically retested as part of an ongoing maintenance program. Approximately 85% of the 24 inch main line between Edmonton and Vancouver has been successfully retested since 1962.

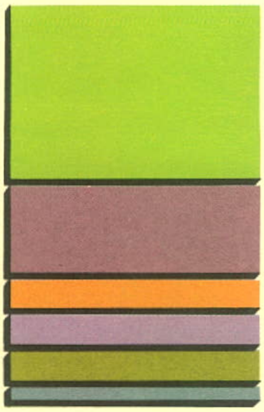
Taxes, other than income taxes, which are beyond the Company's control, increased by 3% over the previous year.

Depreciation charges in 1983 were reduced to $3 million from $5.9 million in 1982. Certain assets, specially classified by the National Energy Board in 1978 for accelerated depreciation, were fully amortized in 1982, thereby reducing depreciation during 1983 and for future years.



A pipe cutter is used to cut out a section of pipe for replacement.

**1983 Operating Expenses**



Operating Expenses 44%
Taxes 28%
Depreciation 7%
Interest 7%
Dividends 9%
Retained 5%

A section of pipe is exposed for inspection and repair at Jackman Hill in the Canadian Rockies.

## Rates

On October 31, 1983 the Company filed a Class 2 Application with the National Energy Board for a rate increase effective January 1, 1984 predicated on a forecast 1984 calendar test year. The new rates, if approved, represent an increase of 13.8%. The application was made necessary by a decline in pipeline throughput forecast in 1984, an increase in rate base resulting from capital additions and also to compensate for increased operating costs.

## Rate Base

The Company's depreciated rate base upon which the regulated income is predicated, increased in 1983 by $2 million, 7% over 1982 and is expected to increase in 1984 by a further $8.5 million, or 22% over 1983.

## Capital Additions

When the pipeline system was originally constructed in the fifties industrial electric power was not available at most of the pump station sites. The four original stations used diesel engines to drive the centrifugal pumps. When additional stations were added to the system, as demand for throughput increased, electric units were installed wherever reliable electric power was available. When the system reached its peak capacity of 65,000 $m^3/d$ in the early seventies, twelve pump stations were diesel driven and eight electrically driven, including two stations in Washington State.

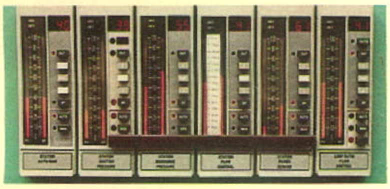
Company research early in 1982 indicated that only seven of the existing eighteen pump stations in Canada would be required to pump projected volumes for the next fifteen years. The seven stations included diesel driven stations at Edmonton, Edson and Kamloops, which had operated almost continuously for thirty years. The diesel engines had reached the end of their useful service life and were fully depreciated.

The Company was authorized by the National Energy Board to upgrade its pipeline system and abandon a number of stations which were no longer "used and useful".

Pump stations at Edmonton, Edson and Kamloops have been converted from diesel engine drivers to electric motor drivers. In addition, some upgrading of existing facilities at the Edmonton Terminal has been undertaken. At Gainford, long service electric motors have been replaced with newer motors transferred from stations scheduled to be abandoned. Jasper remains the only engine driven station in the system because industrial electric power is not available. At McMurphy and Sumas stations supervisory control and data acquisition facilities have also been improved.

At year end Gainford, Jasper, McMurphy and Sumas stations are fully operational. The new electric units at Edmonton, Edson and Kamloops are operating in a test mode in preparation for acceptance by the Operating Department. A start has been made on the upgrading of Edmonton Terminal. Former pump stations at Yellowhead, Red Pass, Blue River, Blackpool and Wahleach have been dismantled. Of the remaining six stations scheduled for abandonment in 1984, Albreda, Merritt and Kingsvale have been isolated from the main line. The others, Stony Plain, Niton and Hinton have been partially dismantled, and components from these stations have been utilized in the permanent upgraded stations.

Early in 1984, the Company implemented a Supervisory Control and Data Acquisition (SCADA) System which provides comprehensive supervision of the pipeline system from the head office in Vancouver. It includes the monitoring of the pipeline operating data and controls flow rates. The Company's data processing computer system provides back-up for the SCADA system.



New instrumentation panels now exist in all upgraded locations.

New microfilm equipment provides the facility for storing and retrieving historical financial data.

**Management Information Systems**

In 1983, the Company introduced a computerized financial management information system. The major financial systems were expanded, procedures streamlined, controls strengthened and projection capabilities added. A new budget and cost system provides detailed financial information to those responsible for monitoring expenditures and controlling budgets, thus contributing to greater control of operations and profitability.

**Reporting on Inflation**

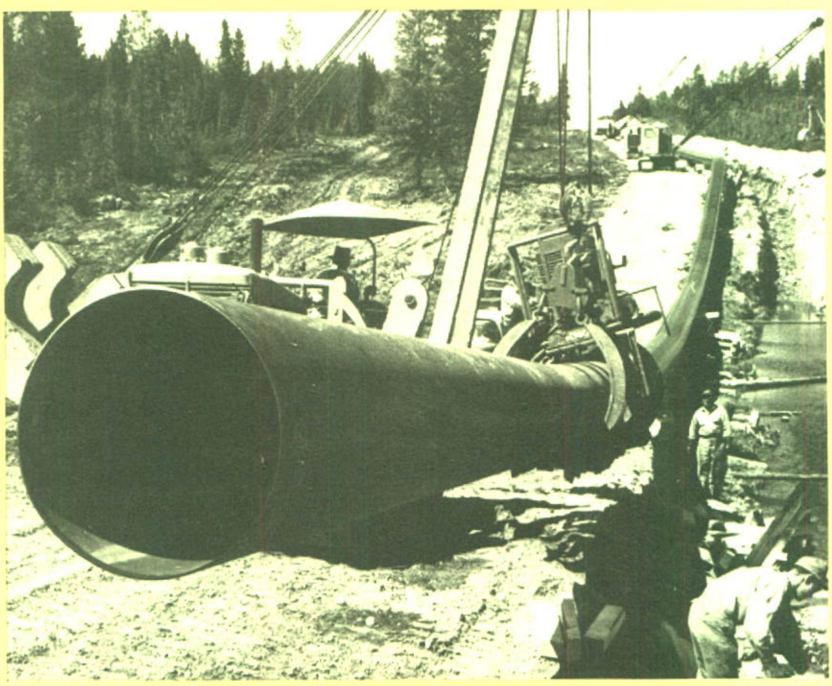
The Canadian Institute of Chartered Accountants (CICA) issued, in December 1982, its standard on "reporting the effects of changing prices". This standard recommends that, effective with annual reporting periods commencing after January 1, 1983, large Canadian public companies should supplement their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

The Company, being regulated by the National Energy Board, has its rates of return and revenue determined by regulatory authority on the basis of recorded historical costs. Because the Company questions whether the disclosure of the supplementary information recommended by CICA will assist users of financial information in their assessment of the Company, this supplementary information has not been included in this Annual Report.


1947 was a landmark in the history of Canadian oil. Prior to that, thirty years of drilling in the Prairie region and over 2000 wells had produced only two oil fields of consequence capable of meeting approximately 10% of Canada's annual requirement. In February 1947, a coral reef 32 km. southwest of the City of Edmonton was penetrated and the great Leduc Oilfield was discovered. Shortly thereafter, significant discoveries were made at other locations and by December 1952, Canadian oil reserves amounted to approximately ten years of Canada's national requirement at the time. Once these Alberta reserves had been identified, the need for a pipeline to move the crude oil to West Coast markets became very evident since the West Coast relied on tanker shipments from California.

During December of 1950 preliminary line surveys were initiated to determine the best route for bringing the new Alberta resource to the West Coast. Two potential routes were studied, however, a route from Edmonton westward to the Yellowhead Pass in Jasper National Park and then southwestward through Kamloops, Merritt and Hope to Vancouver was ultimately chosen.

A Dominion Charter was granted to Trans Mountain Oil Pipe Line Company on March 21, 1951. On December 13, 1951 a permit was granted by the Board of Transport Commissioners for Canada for construction and operation of a crude oil pipeline by the all-Canadian route. Then the work began in earnest. Construction commenced in February 1952 and the first Alberta crude oil arrived at the Company's Burnaby Terminal at 11:13 p.m.,



Cleaned and primed pipe ready for coating, Edson 1952.

October 17, 1953. It is a tribute to all involved in the planning and construction that such a major project was completed within two and one-half years of preliminary route selection.

In December 1951, when plans for the pipeline were discussed, the Vancouver area was considered to be the initial market for the transport of Alberta crude oil. For this reason the original pipeline was designed with only two pump stations, one at Edmonton and the other at Kamloops, for a capacity of 11,924 cubic metres per day ($m^3/d$). As construction proceeded, international crude oil market conditions changed, indicating potentially larger markets for Alberta crude oil. In September 1952, the Company's Board of Directors authorized the construction of a third pump station at Edson. While construction was still in progress in 1953, construction of a fourth pump station was authorized at Blackpool to increase capacity to 23,850 $m^3/d$.

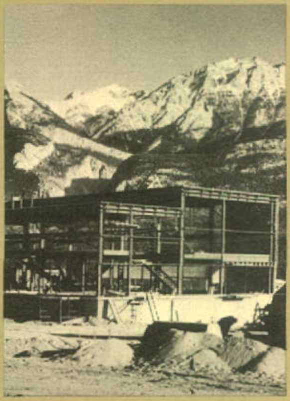
As an integral part of the pipeline system, tank farms were constructed at Edmonton and Burnaby and a single berth marine terminal was built at Westridge on Burrard Inlet to permit the loading of tankers and barges. Prior to the 1953 year end the Company had also agreed to deliver Alberta crude oil to the new General Petroleum refinery (now Mobil Oil) then under construction, near Ferndale, Washington. The new facilities required a 24 inch main line to Laurel and a 16 inch lateral line to the Ferndale refinery. First delivery to Washington State was made in October 1954 and the following year, the pipeline was extended to Anacortes to service the new Shell Oil refinery.

The Company's average deliveries of crude oil for the first full operating year were 6,322 $m^3/d$. The second year volumes doubled but 1956 proved to be the most exciting year of all. On New Year's Day the first crude oil tanker was 'loaded' at the Westridge dock. By December 31, a total of fifty-three tankers had been loaded (largely as a result of the Suez crisis) and average deliveries were up to 20,515 $m^3/d$.

Also in 1956, a new electric station was completed at Laurel and construction was underway on new pump stations at Gainford and Jasper. The addition of these new facilities raised capacity to 29,412 $m^3/d$.

1957 was a boom construction year for the Company. The addition of a permanent electric pumping station and tank farm at Sumas, the addition of temporary diesel pumping stations at Albreda and Kingsvale and a temporary electric pumping station at Niton, and the construction of two 82 km. sections of 30 inch loop line raised system capacity to 40,000 $m^3/d$. Niton, Albreda and Kingsvale were designed for short-term service because the expectation was that looping of the original line would continue, in stages, until there was a completed parallel delivery system. That expectation has not yet been realized. Although deliveries for 1957 were up 20% over the previous year, 1958 deliveries

Pulling of 16 inch pipe across Swinomish Slough to Anacortes, March 1955.



Jasper Station under construction, November 1956.

Pipe is coated and weighted for Thompson River crossing, April 1957.

Sumas Station under construction, August 1957.

Construction of reinforced concrete dock at Westridge, July 1958.

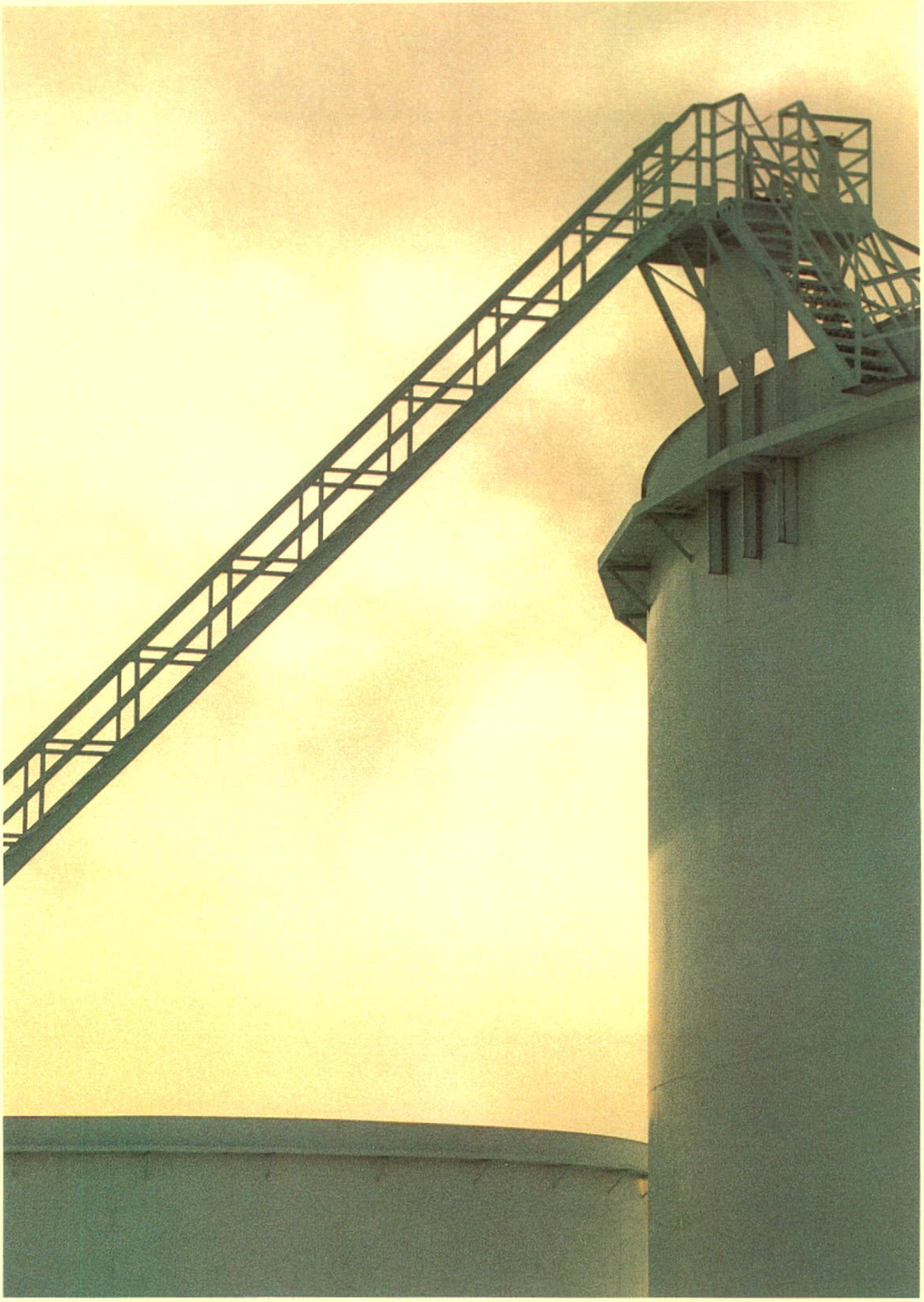
(Opposite page) The walkway up to the gaugers platform atop a crude oil storage tank.

declined to 12,872 m³/d. Although no off-shore deliveries were made in 1958, the main structure of the new reinforced concrete dock at Westridge was completed. Two newly constructed refineries at Port Moody and Anacortes were tied in to the delivery system. Company personnel, whose numbers had peaked at 326, were reduced by one-third when anticipated new business failed to materialize.

It was 1961 before pipeline deliveries again reached the level attained in 1957. Also, for the first time since 1957, 1961 deliveries to Washington State refineries exceeded deliveries to refineries in British Columbia. Deliveries continued to increase through the early years of the sixties, until in 1966 the system was operating at close to maximum capacity. Further steps were taken during the late sixties and early seventies to increase pipeline capacity out of Kamloops from 40,000 m³/d to 65,000 m³/d. Additional power was installed at several existing pump stations and nine new stations were built. Red Pass and Burlington stations were constructed in 1967, Blue River and Merritt stations were completed in 1970. The following year new stations were brought on line at Hinton, Yellowhead, McMurphy and Wahleach, followed by Stony Plain in mid 1973. Pipeline deliveries peaked that year at 60,669 m³/d with 67% of total volume delivered into Washington State. One month during 1973, deliveries out of the pipeline exceeded the new capacity.

These were challenging exciting years, when all the Company employees were striving to have new construction work completed on schedule and new stations brought on stream in the shortest possible time. This major new capacity increase was short-lived for in 1973 the Government of Canada announced its intention to phase out deliveries of crude oil to the U.S.A. The U.S. Government quickly responded by establishing user priorities. Because they were on tidewater Trans Mountain's U.S. customers were required to find alternatives to the Canadian crude and to bring in their crude oil supplies by tanker. Subsequently U.S. deliveries were drastically curtailed. During 1974 U.S. deliveries were only 78% of the 1973 level; by 1976 a further reduction of 39% had occurred, and by 1978 U.S. deliveries were only 6.5% of their 1973 level. Some minor exchange volumes still continue to the refineries at Anacortes. With the closure of the Gulf Canada refinery in Kamloops, B.C. during May 1983, Trans Mountain has only the four Vancouver refineries to supply. After 30 years of continuous service, during which time the Company has delivered 358.7 million cubic metres of crude oil, present deliveries are approximately equal to the 1956 volume.

# Consolidated Financial Statements



# Consolidated Balance Sheet

as at December 31

| | (thousands of dollars) | |
|---|---|---|
| **ASSETS** | **1983** | 1982 |
| CURRENT ASSETS | | |
| Cash and term deposits | — | $ 1,811 |
| Accounts receivable | **$ 4,826** | 4,997 |
| Note receivable from Inland Natural Gas Co. Ltd. | **1,546** | — |
| Inventories (note 3) | **2,759** | 2,746 |
| Prepaid expenses and other | **1,044** | 863 |
| | **10,175** | 10,417 |
| OTHER ASSETS AND DEFERRED CHARGES | | |
| Mortgages and deferred charges | **271** | 575 |
| Marketable securities, at cost (market value $2,460; 1982 — $2,171) | **2,220** | 2,230 |
| Deferred income taxes | **430** | 902 |
| | **2,921** | 3,707 |
| INVESTMENT IN INLAND NATURAL GAS CO. LTD. (note 1) | **61,699** | 9,350 |
| PROPERTY, PLANT AND EQUIPMENT (note 4) | **171,048** | 169,569 |
| Less accumulated depreciation and amortization | **132,317** | 139,290 |
| | **38,731** | 30,279 |
| | **$113,526** | $ 53,753 |

| | (thousands of dollars) | |
|---|---|---|
| **LIABILITIES** | **1983** | 1982 |
| CURRENT LIABILITIES | | |
| Bank indebtedness | **$ 4,884** | — |
| Accounts payable and accrued liabilities | **2,810** | $ 2,919 |
| Current portion of long-term debt | **3,245** | — |
| | **10,939** | 2,919 |
| OBLIGATION UNDER CAPITAL LEASE | **—** | 215 |
| LONG-TERM DEBT (note 5) | **49,855** | — |
| **SHAREHOLDERS' EQUITY** | | |
| CAPITAL STOCK | | |
| Issued | | |
| 7,580,640 common shares | **15,786** | 15,786 |
| SHARE OPTION (note 6) | **—** | 100 |
| RETAINED EARNINGS | **36,946** | 34,733 |
| | **52,732** | 50,619 |
| | **$113,526** | $ 53,753 |

Approved by the Board of Directors:

Director

Director

(See accompanying summary of accounting policies and notes)

# Consolidated Statements of Income and Retained Earnings

year ended December 31

## INCOME

(thousands of dollars)

| | 1983 | 1982 |
|---|---|---|
| REVENUE | | |
| Crude oil and other transportation | $41,610 | $37,160 |
| Income from investments | 2,002 | 1,321 |
| Other | 456 | 627 |
| | 44,068 | 39,108 |
| EXPENSES | | |
| Operating | 19,530 | 18,639 |
| Property and other taxes | 8,362 | 8,155 |
| Depreciation and amortization | 2,994 | 5,960 |
| Interest on long-term debt | 3,007 | — |
| | 33,893 | 32,754 |
| Income before income taxes and extraordinary items | 10,175 | 6,354 |
| Income taxes | | |
| Current | 3,628 | 5,296 |
| Deferred | 472 | (1,820) |
| | 4,100 | 3,476 |
| Income before extraordinary items | 6,075 | 2,878 |
| Extraordinary items (note 8) | (72) | 24 |
| NET INCOME | $ 6,003 | $ 2,902 |
| EARNINGS PER SHARE | | |
| Before extraordinary items | $0.80 | $0.38 |
| After extraordinary items | $0.79 | $0.38 |

## RETAINED EARNINGS

| | 1983 | 1982 |
|---|---|---|
| RETAINED EARNINGS AT BEGINNING OF YEAR | $34,733 | $38,654 |
| Net income | 6,003 | 2,902 |
| | 40,736 | 41,556 |
| Dividends — $0.50 per share (1982 — $0.90 per share) | 3,790 | 6,823 |
| RETAINED EARNINGS AT END OF YEAR | $36,946 | $34,733 |

(See accompanying summary of accounting policies and notes)

# Consolidated Statement of Changes in Financial Position

### year ended December 31

(thousands of dollars)

| | 1983 | 1982 |
|---|---|---|
| WORKING CAPITAL DERIVED FROM | | |
| Operations | | |
| Income before extraordinary items | **$ 6,075** | $ 2,878 |
| Items not involving working capital | | |
| Depreciation and amortization | **2,994** | 5,960 |
| Deferred income taxes | **472** | (1,820) |
| Total from operations | **9,541** | 7,018 |
| Proceeds on disposal of property, plant and equipment, net | **323** | 1,304 |
| Decrease in mortgages and deferred charges | **304** | 422 |
| Increase in long-term debt | **49,855** | — |
| Net reduction in current income taxes arising from extraordinary items | **539** | 295 |
| Other | **—** | 315 |
| | **60,562** | 9,354 |
| WORKING CAPITAL APPLIED TO | | |
| Acquisition of subsidiary companies (note 1) | **52,561** | 9,350 |
| Working capital acquired | **(212)** | — |
| | **52,349** | 9,350 |
| Additions to property, plant and equipment | **11,682** | 2,876 |
| Dividends | **3,790** | 6,823 |
| Costs related to Inland Natural Gas Co. Ltd. (note 8) | **698** | 901 |
| Other | **305** | — |
| | **68,824** | 19,950 |
| DECREASE IN WORKING CAPITAL POSITION | **8,262** | 10,596 |
| WORKING CAPITAL AT BEGINNING OF YEAR | **7,498** | 18,094 |
| WORKING CAPITAL (DEFICIENCY) AT END OF YEAR | **$ (764)** | $ 7,498 |

(See accompanying summary of accounting policies and notes)

# Summary of Accounting Policies

### Principles of consolidation

The consolidated financial statements include the accounts of Trans Mountain Pipe Line Company Ltd. and its wholly-owned Canadian subsidiaries, Trans Mountain Enterprises of British Columbia Limited, Trans Mountain Housing Limited, Alpac Construction & Surveys Limited, 108195 Canada Limited, Denton Investments Ltd. and Trans Mountain Holdings Ltd. and those of Trans Mountain Oil Pipe Line Corporation, a wholly-owned subsidiary in the United States.

### Investment in Inland Natural Gas Co. Ltd.

The Company owns 49.9% of the common shares of its parent, Inland. This investment is recorded by the cost method and accordingly, only dividends received since June 27, 1983 are included in income.

### Investment in Dawn Development Canada Corporation

The Company is a significant shareholder of Dawn whose shares were acquired on expiry of the Anderson option (see note 2). The accounts of Dawn are not included in these financial statements as the Company's position with respect to this investment is unresolved.

### Regulation

The Company 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. Regulation covers such matters as rates, construction, operations and accounting practices. The companies follow the accounting policies prescribed or authorized by these authorities.

### Foreign currency translations

United States dollar balances have been expressed in Canadian dollars on the following bases:

— Current assets and liabilities at the rate of exchange on December 31;
— Fixed assets and deferred income taxes at historical rates of exchange;
— Accumulated depreciation and depreciation expense on the basis of the equivalent Canadian dollar cost of the related fixed assets;
— Revenue and expenses, except depreciation, at month-end rates of exchange;

Gains and losses on translation, which are not material, are included in income.

### 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.

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 which vary from 1.4% to 20%. The application of the rates in the current year is equivalent to a composite rate of 2.3%.

### Income taxes

The Company and its subsidiaries 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 arise from deducting expenses for accounting purposes in excess of amounts claimed for income tax purposes.

### Earnings per share

Earnings per share are computed by dividing the earnings by the monthly average number of shares outstanding.

# Notes to Consolidated Financial Statements

**year ended December 31, 1983**

(tabular dollar amounts in thousands)

### 1. Acquisition of 108195 Canada Limited, Denton Investments Ltd. and TMA Western Resources Limited

On June 27, 1983 the Company acquired 100% of the common shares of 108195 from Mr. F.J. Anderson.

The acquistion of the shares of 108195 increased the Company's interest in Denton and its wholly-owned subsidiary, TMA, to 100% from 50%. Denton and TMA together held 2,896,047 common shares (49.9%) of Inland, the Company's parent. Subsequent to the above, TMA's investment in Inland was sold to Denton. The Company then sold its 100% interest in TMA to Inland for $3,092,338. The proceeds have been applied against the cost of the investment in Inland.

The acquisition has been accounted for by the purchase method with the results of operations included in these financial statements from June 27, 1983. On consolidation, $2,078,000 being the excess of the total cost of the investment over the book value of net assets acquired, has been allocated to the investment in Inland.

The assets acquired and total consideration are summarized below:

| | |
|---|---|
| Investment in Inland | $61,699 |
| Working capital acquired | 212 |
| Total consideration | 61,911 |
| Less investment in and advances to subsidiary company as at December 31, 1982 | 9,350 |
| Total consideration paid during year ended December 31, 1983 (note 5) | $52,561 |

### 2. Anderson option

On June 27, 1983 the Company granted Mr. F.J. Anderson an option to purchase all the outstanding shares of 108195 and one-half of the outstanding preferred shares of Denton at any time on or before December 27, 1983. In order to exercise the option, Mr. Anderson was to pay the Company 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. This amount was approximately $33,000,000 as at December 27, 1983. Two million shares of Dawn Development Canada Corporation were placed in escrow to be delivered to the Company should the option not be exercised. Mr. Anderson failed to exercise his option and accordingly, the Company acquired the Dawn shares.

### 3. Inventories

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 |
|---|---|---|
| Supplies | $1,461 | $1,695 |
| Oil | 1,298 | 1,051 |
| | $2,759 | $2,746 |

### 4. Property, plant and equipment

Property, plant and equipment comprise:

| | 1983 | | | 1982 |
|---|---|---|---|---|
| | Cost | Accumulated depreciation and amortization | Net book value | Net book value |
| Canada: | | | | |
| Crude oil pipeline system | $155,571 | $122,879 | $32,692 | $22,776 |
| Construction in progress | 151 | — | 151 | 1,357 |
| Propane handling and common dock facilities | 5,775 | 3,852 | 1,923 | 1,912 |
| Jet fuel pipeline system | 2,427 | 1,068 | 1,359 | 1,453 |
| United States: | | | | |
| Crude oil pipeline system | 7,124 | 4,518 | 2,606 | 2,781 |
| | $171,048 | $132,317 | $38,731 | $30,279 |

At the present time crude oil deliveries to refineries in the State of Washington have been reduced to only modest quantities through exchange agreements. Recovery of the undepreciated cost of these facilities, which at December 31, 1983 aggregated $2,605,723, is dependent upon the volume of future throughput or alternative use of the facilities.

A number of fully depreciated pump stations were demolished during the year and written off against accumulated depreciation, and accordingly plant and accumulated depreciation have been reduced by $9,854,293.

### 5. Long-term debt

During the year a bank loan was obtained for the purpose of refinancing bank loans made to 108195 and TMA in order to acquire shares in Inland. Interest is calculated at bank prime rate.

| | |
|---|---|
| Bank loan | $53,100 |
| Less principal included in current liabilities | 3,245 |
| | $49,855 |

The 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.

On January 31, 1984, for a period of one year, the interest rate was re-affirmed at prime and monthly principal repayments of $295,000 will commence.

### 6. Termination of share option

The option granted Carter Energy Limited to acquire shares of the Company was terminated. The $100,000 consideration received on granting the option was refunded.

### 7. Pension plan

The Company has a contributory pension plan covering substantially all employees. Pension costs for current service are charged to earnings in the year incurred. The liability for past service is being funded based on actuarial advice over a five year period. The date of the most recent actuarial report for the pension plan is December 31, 1982.

As at December 31, 1983 the actuarial estimate of the unfunded liability for past service amounted to $1,388,860, which remains to be charged to earnings.

As at December 31, 1983 the value of the pension plan assets exceeds the vested liability for current and past service.

Total pension expense including past service costs was $912,357 for 1983 (1982—$752,530).

### 8. Extraordinary items

| | 1983 | 1982 |
|---|---|---|
| Gain on sale of land and building, net of income taxes of $19,955 (1982—$176,437) | $ 67 | $454 |
| Cost related to the share exchange offer by Inland net of current income tax reduction of $356,818 (1982—$471,002) | (341) | (430) |
| Reduction of current income taxes payable resulting from the application of losses carried forward | 202 | — |
| | $(72) | $ 24 |

### 9. Segmented information

Substantially all of the Company's operations are comprised of the transportation of petroleum.

### 10. Comparative figures

Certain 1982 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1983.

### 11. Subsequent events

On January 6, 1984 Mr. F.J. Anderson commenced an action in the Supreme Court of British Columbia against the Company seeking specific performance of the right to purchase all the outstanding shares of 108195 and one-half of the outstanding preferred shares of Denton and thereby obtain a 50% indirect ownership in the 2,896,047 Inland common shares (see notes 1 and 2) or, in the alternative, damages.

Mr. Anderson subsequently applied for an injunction seeking to prevent the Company from disposing of or dealing with the Inland common shares prior to the decision of the court in the above-noted action. The application for the injunction was heard on January 11, 1984 and was refused.

Mr. Anderson has appealed the decision to the British Columbia Court of Appeal.

# Management's Responsibility

The accompanying consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors of the Company. The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances. 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.

The Board of Directors has appointed an Audit Committee to review with management and the auditors the annual financial statements of the Company prior to submission to the Board of Directors for final approval.

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.

# Auditors' Report

To the Shareholders of
Trans Mountain Pipe Line Company Ltd.

We have examined the consolidated balance sheet of Trans Mountain Pipe Line Company Ltd. as at December 31, 1983 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

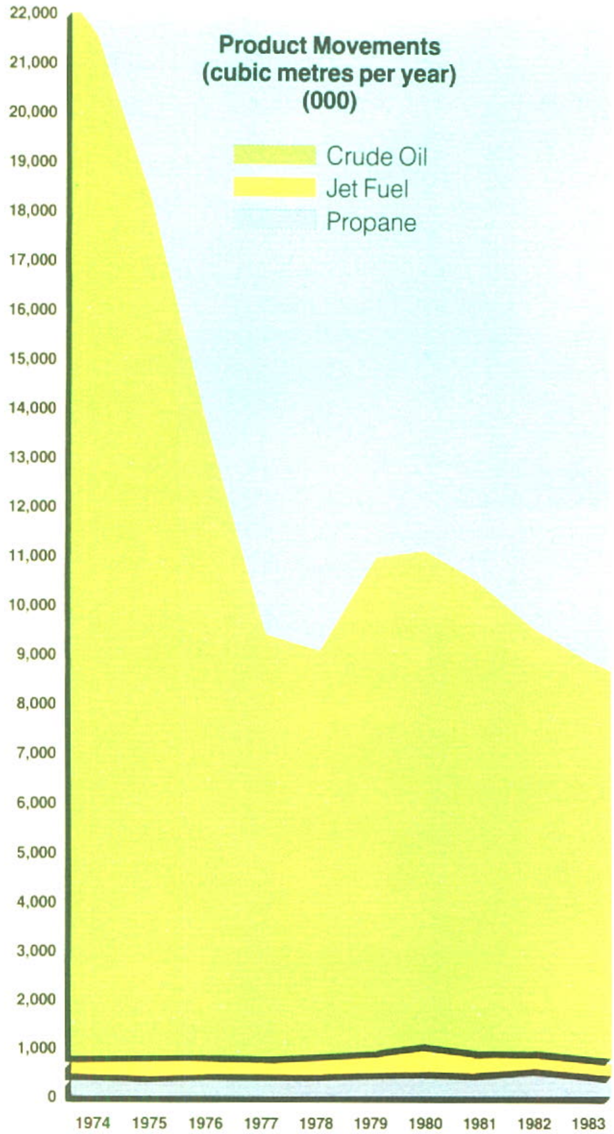
In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 1982 comparative figures are based on financial statements reported on by other auditors.

Thorne Riddell
Chartered Accountants

Vancouver, Canada
February 3, 1984

# Ten Year Summary




| (thousands of dollars) | 1983 |
|---|---|
| **OPERATIONS** | |
| Revenue | **$ 44,068** |
| Income before extraordinary items | **6,075** |
| Net income | **6,003** |
| Dividends | **3,790** |
| **PER COMMON SHARE** (7,580,640 shares) | |
| Income before extraordinary items | **0.80** |
| Net income | **0.79** |
| Dividends | **0.50** |
| Dividend payout ratio (%) | **63** |
| **ASSETS** | |
| Property, plant and equipment | ***171,048** |
| Accumulated depreciation and amortization | **132,317** |
| Net plant | **38,731** |
| Net additions to property, plant and equipment | **1,479** |
| Long-term investments | **63,919** |
| Total assets | **113,526** |
| **CAPITALIZATION** | |
| Long-term debt | **49,855** |
| Shareholders' equity | **52,732** |
| Return on average shareholders' equity (%) | **11.6** |
| **CAPITALIZATION RATIOS** | |
| Long-term debt | **48.6** |
| Shareholders' equity (%) | **51.4** |
| **DELIVERIES** (cubic metres per day) | |
| Petroleum | **22,213** |
| Propane | **1,013** |
| Jet fuel | **1,149** |
| Number of shareholders | **6,902** |
| Number of employees | **197** |

* See note 4 to financial statements

| 1982 | 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|---|---|
| 39,108 | 38,007 | 37,756 | 37,591 | 30,641 | 31,042 | 37,683 | 44,901 | 52,042 |
| 2,878 | 4,853 | 7,517 | 8,224 | 4,931 | 5,912 | 7,728 | 11,339 | 14,352 |
| 2,902 | 1,274 | 7,517 | 8,224 | 4,931 | 5,912 | 7,728 | 11,339 | 14,352 |
| 6,823 | 9,097 | 9,097 | 9,097 | 9,097 | 9,097 | 9,097 | 9,476 | 9,476 |
| 0.38 | 0.64 | 0.99 | 1.08 | 0.65 | 0.78 | 1.02 | 1.50 | 1.89 |
| 0.38 | 0.17 | 0.99 | 1.08 | 0.65 | 0.78 | 1.02 | 1.50 | 1.89 |
| 0.90 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.25 | 1.25 |
| 235 | 714 | 121 | 111 | 184 | 154 | 118 | 84 | 66 |
| 169,569 | 167,560 | 165,616 | 165,474 | 165,896 | 165,438 | 164,944 | 164,363 | 162,965 |
| 139,290 | 133,524 | 127,753 | 122,544 | 116,696 | 110,412 | 105,005 | 99,821 | 94,686 |
| 30,279 | 34,036 | 37,863 | 42,930 | 49,200 | 55,026 | 59,939 | 64,542 | 68,279 |
| 2,009 | 1,944 | 142 | (422) | 458 | 494 | 581 | 1,398 | 749 |
| 11,580 | 2,230 | 2,930 | 2,986 | 3,055 | 3,121 | 3,216 | 2,194 | 694 |
| 53,753 | 56,434 | 67,635 | 70,412 | 71,301 | 77,638 | 81,709 | 83,475 | 82,432 |
| — | — | — | — | — | — | — | — | — |
| 50,619 | 54,440 | 62,262 | 63,842 | 64,715 | 68,881 | 72,065 | 73,434 | 71,570 |
| 5.5 | 2.2 | 11.9 | 12.8 | 7.4 | 8.4 | 10.6 | 15.6 | 20.8 |
| — | — | — | — | — | — | — | — | — |
| 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 23,867 | 26,157 | 27,497 | 27,646 | 22,442 | 23,794 | 34,992 | 47,488 | 57,576 |
| 1,375 | 1,170 | 1,279 | 1,216 | 1,172 | 1,317 | 1,353 | 1,264 | 1,272 |
| 1,204 | 1,509 | 1,555 | 1,483 | 1,226 | 1,159 | 1,147 | 1,178 | 969 |
| 10,056 | 10,935 | 12,139 | 12,976 | 13,468 | 14,079 | 14,351 | 14,879 | 15,058 |
| 198 | 191 | 187 | 181 | 175 | 194 | 203 | 223 | 231 |

## Board of Directors

Robert G. Brodie
President, Cardiff Estates Limited

Ronald L. Cliff
Chairman of the Board,
Trans Mountain Pipe Line Company Ltd. and
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.

Thomas G. Rust
Chairman, President and Chief Executive Officer,
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. and Executive
Vice President, Inland Natural Gas Co. Ltd.

H. Richard Whittall
Vice Chairman and Director, Richardson
Greenshields of Canada Limited

All Directors reside in British Columbia.

## Officers

Ronald L. Cliff
Chairman of the Board

Richard B. Stokes
President and Chief Executive Officer

Ernest J. Lockwood
Vice President, Operations

Glenn A. Irving
Secretary & General Counsel

Michael J.G. Randall
Treasurer

Michael W.P. Boyle
Corporate Solicitor and Assistant Secretary

George F. Reeks
Comptroller and Assistant Treasurer

## Committees

**Executive Committee**
R.L. Cliff
R.E. Kadlec
R.B. Stokes
H.R. Whittall

**Audit Committee**
R.G. Brodie
R.L. Cliff
R.M. Hungerford
J.N. Hyland

**Compensation Committee**
R.L. Cliff
T.G. Rust
H.R. Whittall

**Board of Directors**
The Directors represent and are accountable to the shareholders as a whole. None of the Directors represents the sole interests of a single shareholder or group of shareholders.

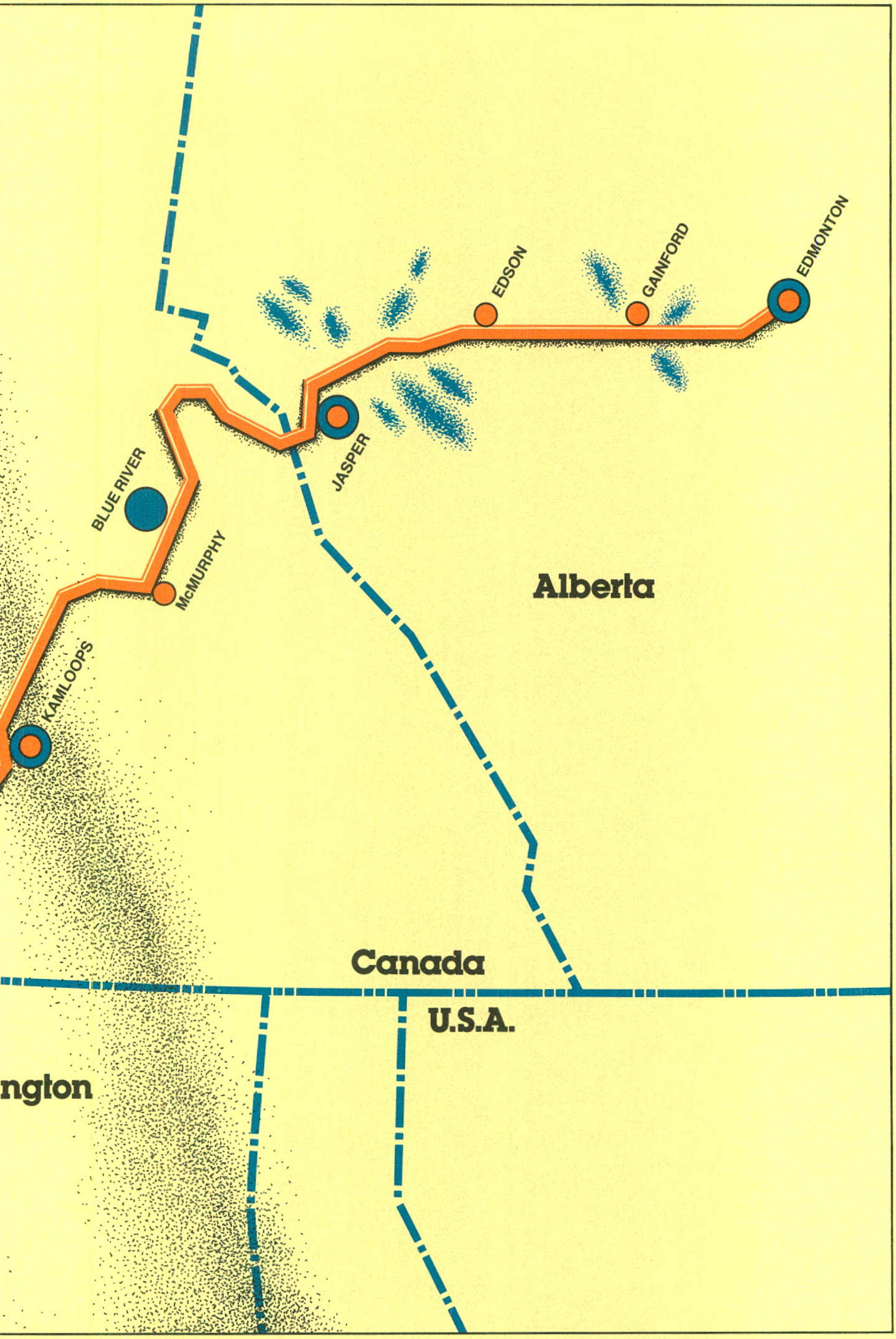
It is the responsibility of the Directors to manage the business and affairs of the Company. That responsibility is discharged in part by ensuring that the Company will be provided with a continuity of capable management to efficiently and profitably handle the Company's business on a day-to-day basis.

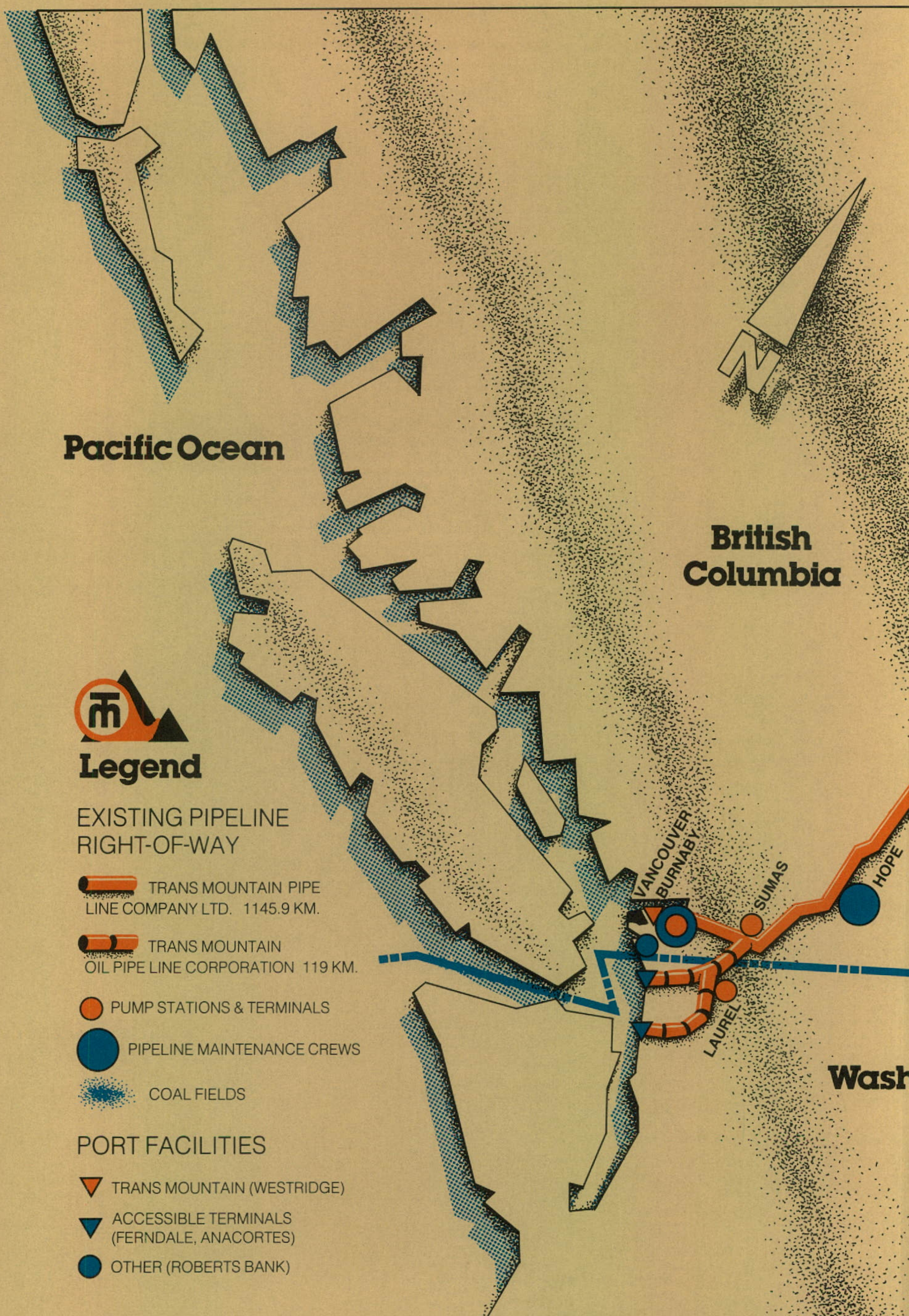
A regular meeting of the Board of Directors is held during each calendar quarter. However special meetings may be called at any time to deal with urgent business which cannot be deferred until the next regular meeting. In the unusual circumstances which prevailed throughout much of 1983 it was necessary to convene thirteen special meetings. Notwithstanding the additional demand on the Directors' time, attendance at meetings averaged 82% during 1983.

**Executive Committee**
The Committee was established to deal with business matters which arise when it is inconvenient or impossible to convene a timely meeting of the Directors. It is empowered to exercise all of the powers of the Directors except those which by law must be exercised by the Directors themselves.

**Audit Committee**
The Committee reviews the Company's financial statements, the accounting practices and financial controls and reports thereon to the Board of Directors.

**Compensation Committee**
The Committee reviews and approves executive compensation.


EDMONTON
GAINFORD
EDSON
JASPER
BLUE RIVER
McMURPHY
KAMLOOPS
Alberta
Canada
U.S.A.
ngton


Pacific Ocean
British Columbia
N
VANCOUVER
BURNABY
SUMAS
HOPE
LAUREL
Wash
Legend
EXISTING PIPELINE RIGHT-OF-WAY
TRANS MOUNTAIN PIPE LINE COMPANY LTD. 1145.9 KM.
TRANS MOUNTAIN OIL PIPE LINE CORPORATION 119 KM.
PUMP STATIONS & TERMINALS
PIPELINE MAINTENANCE CREWS
COAL FIELDS
PORT FACILITIES
TRANS MOUNTAIN (WESTRIDGE)
ACCESSIBLE TERMINALS (FERNDALE, ANACORTES)
OTHER (ROBERTS BANK)

LITHO'D IN CANADA