Interprovincial Pipe Line Limited
Annual Report 1985

Corporate profile

Interprovincial Pipe Line Limited is engaged in the business of transporting crude oil and other liquid hydrocarbons through a common carrier pipeline system.

The system extends from Edmonton, Alberta across the Canadian Prairies through the Great Lakes region of the United States to Toronto, Ontario and Montreal, Quebec. In April, 1985, the Norman Wells crude oil pipeline, which extends from Norman Wells in the Northwest Territories to Zama in northwestern Alberta, began transporting oil.

The Company, which commenced operations in 1950, has total assets of $1.7 billion, shareholders' equity of $826 million and employs 876 people. It has a 17% equity interest in Hiram Walker Resources Ltd., which operates in three main business areas: distilled spirits; natural resources; and natural gas distribution.

IPL's 12,725 shareholders own 39.5 million common shares. The common stock is listed on the Toronto and Montreal Stock Exchanges under the symbol IPL.

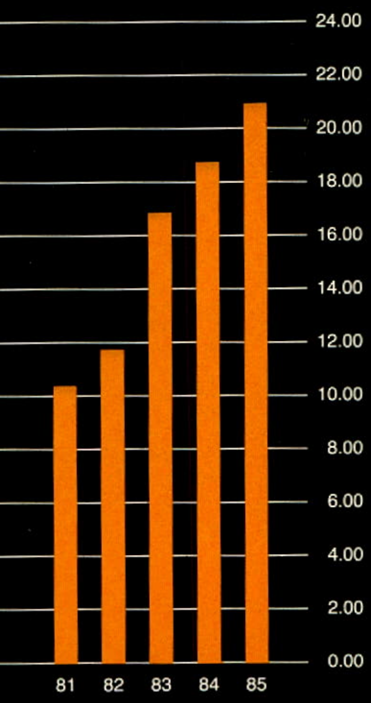
Annual meeting

2:30 p.m. Wednesday, April 9, 1986
Upper Canada Room, Royal York Hotel,
100 Front Street West, Toronto.

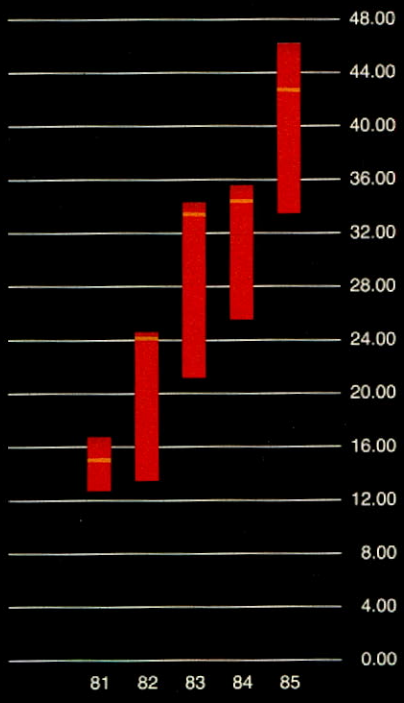
The Notice of Meeting, Management Proxy Circular and Form of Proxy are being mailed with this report on or about March 14, 1986 to all shareholders of record.

Shareholders are encouraged to complete and sign the enclosed Proxy and to attend the Annual Meeting.

Contents



Shareholders' equity per share ($)



Share price – TSE high, low & close ($)

—Closing price

Financial and statistical highlights

	1985	1984	Increase (Decrease)
Transportation revenue	**$501,144,000**	$436,982,000	15%
Expenses, excluding taxes	**305,033,000**	251,626,000	21%
Income and other taxes	**131,732,000**	128,592,000	2%
Earnings	**138,786,000**	129,608,000	7%
per share	**3.71**	3.47	
Dividends paid	**73,084,000**	67,098,000	9%
per share	**1.85**	1.70	
Capital expenditures	**169,773,000**	185,563,000	
Cash provided from operations	**187,276,000**	164,524,000	
Deliveries (cubic metres per day)	**220 749**	211 601	4%
Cubic metre kilometres (millions)	**178 768**	181 386	(1.4)%

1 cubic metre (m^3) = 6.3 barrels
1 kilometre (km) = 0.6 miles

Report to shareholders

IPL achieved record earnings for the fifth consecutive year. With our current expansion program, future expansion possibilities, sound financial position and strong management, the future is, indeed, promising.

During the year, R.K. Heule (right), President of the Company for the past eight years, was elected Chairman and Chief Executive Officer. G.E. Courtnage (left) joined IPL as President and Chief Operating Officer.

In 1985, IPL achieved record earnings for the fifth consecutive year. Earnings of $139 million, or $3.71 per share, represented a 7% increase on the $130 million, or $3.47 per share, attained in 1984. The improvement was mainly due to higher income from Hiram Walker Resources Ltd. Earnings from the Norman Wells pipeline and a higher U.S. exchange rate offset a decline in earnings from the Canadian pipeline system and investment income.

Effective December 1, the annual dividend to shareholders was increased by 11% to $2.00 per share. The Company has maintained or increased its dividend each year since the initial payment in 1952.

System deliveries of crude oil and other liquid hydrocarbons averaged 221 000 m^3/d, up 4% from the previous year. The deregulation of crude oil prices in Canada has caused a shift in the Company's delivery pattern with increased deliveries to the U.S. Midwest more than offsetting a drop in deliveries to Eastern Canada.

The Norman Wells pipeline, which has been the Company's major construction project over the past few years, began operating last April, ahead of schedule and under budget. This significant accomplishment places the Company in a strong position to participate in any pipeline from the far north.

As previously announced, IPL is in a period of growth marked by a major expansion program to increase the capacity of its pipeline system between Edmonton and Superior, Wisconsin. The three-phase program, which is described later in this report, is estimated to cost $400 million and, when completed in late 1987, will add 52 000 m^3/d to the system's capacity.

A number of planned projects in Canada, related to heavy oil, expanded synthetic crude oil facilities and oil from the Beaufort Sea-Mackenzie Delta area, could require further expansion of IPL's pipeline system. Recent reductions in the world price of oil, however, likely will affect the timing and implementation of these projects.

In our past two reports we have referred to diversification plans and, specifically, our intention to pursue appropriate investments in the upstream oil and gas sector. While fundamental changes in world supply dictate a cautious approach, and our overriding commitment is to the core pipeline business, a continuing goal is diversification into oil and gas when the time is right and at a level consistent with available financial resources.

The outlook for 1986 is positive and earnings are forecast to increase modestly. With the Company's current expansion program, future expansion possibilities, sound financial position and strong management, the future beyond 1986 is, indeed, promising.

IPL's continued success and growth is, in large measure, a reflection of the dedication and hard work of our employees. We appreciate their efforts and confidently look ahead, knowing we have the ability to meet future challenges.

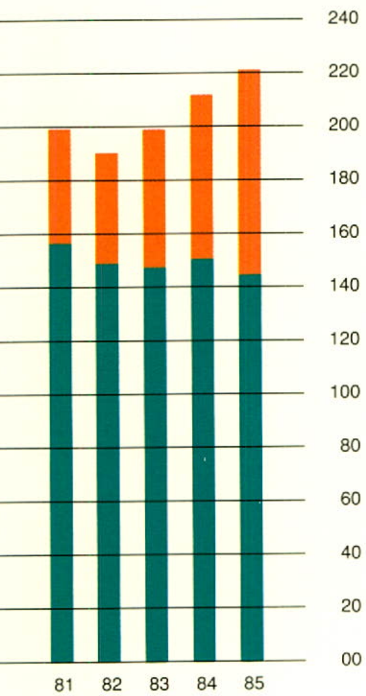
R.K. Heule

R.K. Heule, Chairman &
Chief Executive Officer

G.E. Courtnage

G.E. Courtnage, President &
Chief Operating Officer

An increase in bitumen production and greater movement of natural gas liquids are developments that promise opportunities to fully utilize the Company's facilities and invest in new ones.



Deliveries
(in thousands of m^3/d)
Canada
United States

Deliveries

System deliveries of crude oil and other liquid hydrocarbons averaged 221 000 m^3/d during 1985, compared with 1984 deliveries of 212 000 m^3/d.

Canadian crude oil deliveries to U.S. refiners climbed to an average of 65 000 m^3/d, an increase of 35% over 1984 levels. Deliveries to Eastern Canada were down 7% because of lower refinery crude runs in Ontario and Quebec and the termination of Federal Government subsidies for Western Canadian crude oil destined for Atlantic refiners. Late in the year, however, deliveries to Montreal began to increase because Canadian crude oil was priced competitively with foreign crude oil.

Prairie deliveries were greater in 1985 because of the improved economic climate in Western Canada and the start of deliveries from Norman Wells to northern Alberta.

Refined product demand

Canadian demand for refined products continued to decline in 1985. In Eastern Canada, demand was down 3% from 1984 levels. Middle distillates and heavy fuel oil suffered the largest decrease, with motor gasoline demand remaining flat. In contrast, Prairie demand for refined products increased by 2%.

Deregulation of crude oil prices

In the spring of 1985, the Federal Government moved to deregulate Canadian crude oil prices within the parameters of the Western Accord. This agreement between the Federal Government and the energy-producing provinces of Saskatchewan, Alberta and British Columbia called for the total deregulation of Canadian crude oil pricing and marketing, took steps to make the natural gas industry more market oriented and eliminated a number of Federal oil and gas taxes. Since June, oil producers have been able to negotiate sales contracts directly with crude oil buyers, with the price set in the marketplace, and now have the opportunity to develop new or expanded markets. With these new opportunities comes the risk of full exposure to international crude oil supplies: foreign exchange; spot market pricing; and competition.

The Federal Government and the producing provinces have maintained a variety of fiscal incentives complementing measures introduced in the Western Accord. These incentives are an attempt to encourage drilling and enhanced oil recovery, leading to potentially greater crude oil production in the future. In this new environment, some oil industry members have suggested that Canada's crude oil transportation system should have sufficient capacity to allow producers to deliver into the highest net-back markets. Such flexibility would place additional demands on the Company's pipeline.

Sidney Korzeniewski, terminal gauger at Griffith, Indiana, monitors the movement of various petroleum streams through the Lakehead system.

Deliveries (m^3/d)	1985	1984	1983
Prairies			
Light oil	**13 541**	9 480	10 832
Medium & heavy oil	**501**	340	709
Refined products	**13 808**	14 430	11 043
	27 850	24 250	22 584
United States			
Light oil	**36 990**	26 627	19 816
Medium & heavy oil	**39 244**	34 853	32 382
	76 234	61 480	52 198
Eastern Canada			
Light oil	**91 875**	103 090	105 891
Medium & heavy oil	**14 139**	12 181	8 946
Natural gas liquids	**10 651**	10 600	9 237
	116 665	125 871	124 074
Total deliveries	**220 749**	211 601	198 856

Norman Wells oil is making an important contribution to Canada's supply of light crude oil. Completion of the pipeline has stimulated exploration activity along its route and it is reasonable to expect important new production.

A climate of stable prices would present an encouraging outlook for the Canadian oil industry. While conventional light crude oil production is forecast to decline, production of bitumen will be developed to meet a growing demand in U.S. Midwest markets. Concurrently, projected growth in natural gas sales should lead to a greater movement of natural gas liquids. These developments would provide the Company with opportunities to fully utilize existing facilities and invest in new and expanded ones.

Norman Wells project

The 866 km Norman Wells pipeline was placed in service in April, 1985, at a capital cost of $360 million, down from the 1984 forecast of $400 million. The initial design capacity of the 324 mm (12 inch) diameter pipeline is 4 800 m^3/d and throughput since start-up has averaged 3 800 m^3/d.

Norman Wells oil is making an important contribution to Canada's supply of light crude oil. Completion of the pipeline has also stimulated exploration activity along its route and it is reasonable to expect important new production. In addition to crude oil receipts from Norman Wells, development activity in Northwestern Alberta has required the construction of additional receiving facilities to handle increased short-haul volumes.

The Company has clearly demonstrated that a pipeline, when properly engineered and managed, can be constructed in the Arctic's harsh terrain and climate. The experience gained during six years of planning, development, environmental and regulatory hearings and construction of the pipeline has moved IPL into a strategic position to participate in any pipeline from the Beaufort Sea-Mackenzie Delta area. Recent reductions in the price of crude oil may affect the timing and implementation of such an expansion.

Part of IPL's strategy throughout this construction project was to encourage business and employment opportunities for northerners and the Company's efforts in this regard have exceeded its stated commitments.

Propane project

After extensive public hearings, the National Energy Board approved IPL's proposal to convert an existing pipeline between Sarnia and the Hamilton area from crude oil to propane service and to construct related truck and rail loading facilities in the Town of Flamborough, near Hamilton. The project is now awaiting regulatory approval on tariff matters.

Tariffs and rate regulation

IPL's earnings on pipeline operations in Canada are regulated by the National Energy Board on the basis of a return on rate base. The NEB has authorized a 15.25% equity rate of return on assets of the Canadian system, excluding the Montreal Extension, which operates on a breakeven basis after deficiency payments from the Federal Government. The

Maintenance technician Greg McEachren opens a valve at Edmonton Terminal, the point of entry into the IPL system for crude oil from many of Alberta's producing fields.

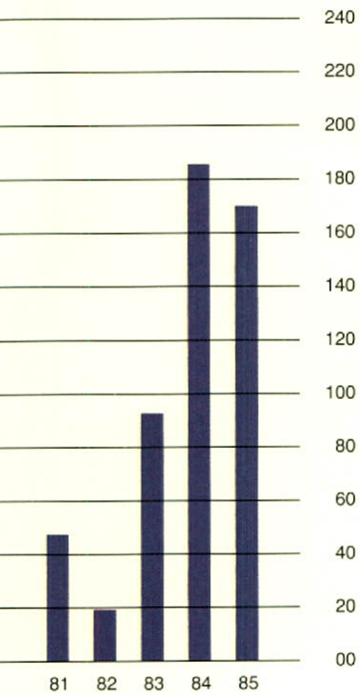
Norman Wells pipeline is regulated on a full cost of service basis, including a 16% return on equity.

The NEB approved an average increase of 12% in the Company's tolls, effective January 1, 1986. The revised tolls are designed to restore IPL's rate of return to that approved by the NEB.

Lakehead's rates are regulated by the Federal Energy Regulatory Commission. Since the start of operations, Lakehead's rates were based on a return on a valuation rate base, a method of regulation that incorporated a weighted average of the original cost and replacement cost. In June, FERC announced a decision that is intended as a guide for future rate regulation of oil pipelines in the U.S. A net depreciated trended original cost methodology has been adopted for rate making, together with a transitional rate base related to the valuation rate base previously used. Lakehead's current rates are not expected to be affected by this decision.

Current rates, in Canadian funds, for representative shipments of light crude oil from Edmonton to Sarnia and Montreal are \$7.14/m^3 and \$8.62/m^3 respectively. The rates for heavier crude oil, natural gas liquids and refined products are slightly higher than light crude oil rates.

Total capital expenditures on the pipeline system in 1985 were $170 million. The first phase of IPL's expansion program was completed, the second is underway and the third is scheduled to be finished in 1987.



Capital expenditures
(in millions of $)

Capital expenditures

Over the last two years, activity in the Canadian oil industry has increased considerably. Production of conventional light crude oil has been largely sustained, despite previous predictions of a decline. This is a result of deregulation of crude oil prices, Federal and Provincial Government incentives which have spurred exploration, and new enhanced recovery technology, which is extending the lives of many old oil fields.

There has also been a substantial increase in the production of Canadian heavy crude oil. Several large extraction facilities came into commercial operation in Alberta during 1985 and production in Saskatchewan has been increasing. Priced lower than conventional crude oil, heavy crude oil has become an attractive feedstock for refineries that can process it. The major market for heavy oil is in the U.S. Midwest.

To meet growing oil transportation requirements, the Company has commenced a three-phase expansion program to increase the capacity of the pipeline system between Edmonton and Superior.

1985 Review

Total capital expenditures on the pipeline system in 1985 were $170 million, including $70 million on the Norman Wells pipeline. Most of the remainder represented modifications of existing facilities from Edmonton to Superior and expenditures on the expansion program.

The first expansion phase was completed in the fall of 1985 at a cost of $18 million and resulted in a 12 000 m^3/d increase in capacity. New pumping stations were constructed and mainline piping modified.

The Company initiated and invested $32 million in the second phase of the expansion, which will be completed in late 1986 at an estimated cost of $95 million. This will increase the capacity of the pipeline by an additional 25 000 m^3/d and consist of new pumping facilities, modification and addition to existing pumping stations and modification to the mainline piping and delivery facilities.

Members of a maintenance crew prepare a section of pipe before the tie-in to the mainline. IPL's maintenance crews played a key role in the 1985 construction program.

1986 Forecast

Capital expenditures in 1986 are forecast to be \$355 million, including \$245 million for the third phase of the expansion program, which was submitted to the National Energy Board for approval in late 1985. With completion scheduled for the last half of 1987, it will add a further 15 000 m^3/d of capacity at a total estimated cost of \$295 million. This program will include the construction of a 508 mm (20 inch) diameter pipeline between Regina and Gretna, additional looping of 1 219 mm (48 inch) diameter pipe, new pumping stations, modification to existing pumping units and mainline piping, and upgrading of delivery facilities at various locations.

Following completion of these projects, IPL will be equipped to meet the anticipated demands of Canadian and Midwest U.S. shippers in 1988 and 1989.

The pipeline transportation system

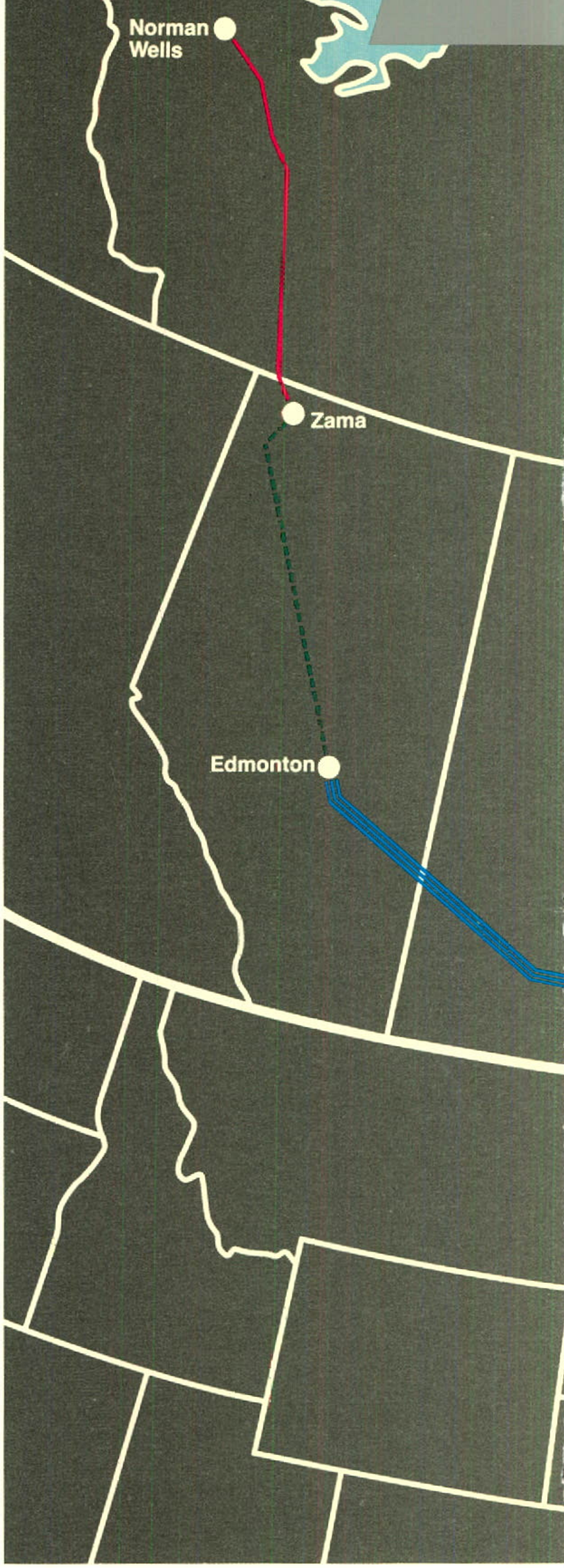
as at December 31, 1985	Canada	United States	Total
Right-of-way (km)	3 157	2 799	5 956
Pumping stations	37	51	88
Installed power (kw)	415 895	332 455	748 350
Line fill *(m^3 provided by shippers)*	2 256 000	1 914 000	4 170 000

Kilometres of mainline pipe

Diameter: mm	inches	Canada	United States	Total
324	12	975	42	1 017
406	16	681	—	681
457	18	62	523	585
508	20	1 287	20	1 307
610	24	1 256	—	1 256
660	26	3	523	526
762	30	856	1 646	2 502
864	34	1 245	1 270	2 515
1 219	48	361	170	531
Total kilometres		6 726	4 194	10 920

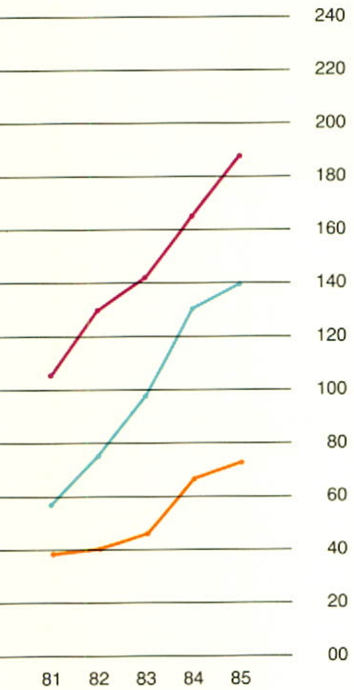
Tankage

Tankage	Number of Tanks	Capacity (in thousands of m^3)
Edmonton	27	728
Hardisty	1	15
Stony Beach	3	11
Regina	8	92
Cromer	14	159
Gretna	5	44
Clearbrook	7	76
Superior	22	718
Griffith	9	346
Sarnia	17	475
Westover	6	90
Total	119	2 754




Regina
Superior
Chicago
Sarnia
Toronto
Montreal
Interprovincial
Norman Wells
Lakehead

Financial review



Earnings, dividends and cash flow
(in millions of $)
Cash flow
Earnings
Dividends

Results of operations

Earnings in 1985 reached a record high of $139 million or $3.71 per share, compared with $130 million or $3.47 per share in 1984 and $97 million or $3.38 per share in 1983.

The improvement in 1985 earnings was mainly attributed to higher income from Hiram Walker Resources Ltd. Earnings from Norman Wells operations and exchange gains on U.S. dollars offset a decline in earnings from Canadian pipeline operations and investment income.

The 34% increase in earnings in 1984 compared with 1983 resulted from the inclusion of IPL's share of earnings of HWR for a full year in 1984, versus three months in 1983, as well as from financial sources, such as the U.S. dollar exchange rate and short-term investment income. Earnings for the three years are analyzed below.

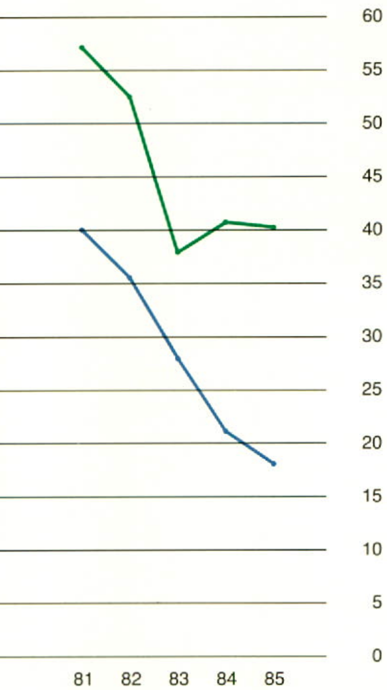
Reduced long-haul shipments through the Canadian pipeline system in 1985, together with a 4.4% decrease in transportation rates, effective September, 1984, had an adverse impact on transportation revenue. In addition, power costs were up, due to higher power rates and increased deliveries of medium and heavy oils. As a result, IPL's 1985 return on rate base was lower than the 15.25% allowed by the NEB.

Substantial increases in Canadian crude oil exported to the U.S., mainly the Chicago area, helped to offset the decline in deliveries to Montreal and Toronto in 1985 and resulted in a modest increase in U.S. dollar transportation revenue. The Eastern Canadian markets were again adversely affected by refinery closures; however, U.S. revenues benefitted from higher Canadian exports of light oil. This net increase was more than sufficient to cover higher power and other operating costs, consequently earnings were comparable with 1984. The increase in earnings in 1984 over 1983 was attributed to higher volumes over the U.S. pipeline system.

The Norman Wells pipeline had higher profits in the year, reflecting the return on approximately $90 million of equity invested. Commencement of operations added $55 million to revenue in 1985 as well as $4 million to operating costs, $10 million to depreciation expense and $22 million to interest expense.

Investment and other income was lower in 1985, returning to pre-1984 levels. Lower cash balances and investment yields occurred in 1985 and 1984's significant gains on debt retirements did not recur in 1985.

Earnings (in millions of $)	**1985**	1984	1983
Canadian pipeline operations	**$ 13**	$ 19	$ 20
U.S. pipeline operations			
In U.S. dollars	**53**	53	50
U.S. exchange	**20**	16	11
Withholding taxes	**(8)**	(8)	(9)
Norman Wells pipeline	**15**	9	6
Investment and other income	**11**	16	10
	104	105	88
Equity in HWR	**35**	25	9
Total earnings	**$139**	$130	$ 97



Long-term debt/ long-term debt & equity
(%)
Consolidated
Excluding project debt

Liquidity and capital resources

The Company maintained its strong liquidity position during 1985. Cash provided from operations grew from $142 million in 1983 to $165 million in 1984 and $187 million in 1985. Earnings from the start-up of Norman Wells operations were a major contributing factor in 1985. Operating cash flow in each of the last three years was adequate to cover dividend payments, debt retirements and normal capital expenditures on the pipeline system. In fact, dividends paid were increased from $1.60 per share in 1983 to $1.85 per share in 1985. Effective December 1, 1985, the annual dividend rate was increased to $2.00 per share.

To provide long-term financing for the Norman Wells pipeline, Interprovincial Pipe Line (NW) Ltd. sold $80 million Series C Debentures at par in September, 1985. These debentures consisted of two parts: $29 million of Serial Debentures maturing 1986 to 1990 with an average interest rate of 10.40%; and $51 million of Sinking Fund Debentures maturing in 1999 with an interest rate of 11.10%. Together with $100 million of 13.40% Series A Debentures and $75 million of 12.70% Series B Debentures sold in April and November, 1984 respectively, the sale of Series C Debentures completed the long-term financing for the Norman Wells pipeline.

Cash and net short-term investments decreased from $176 million to $158 million during 1985, reflecting large capital expenditures made in connection with the capacity expansion program which began in 1985 and $34 million invested in shares of Hiram Walker Resources Ltd. The objective of the additional investment in HWR was to maintain IPL's equity position in that company, which had been gradually diluted since October 1983. The dilution resulted from shares issued by HWR under conversions of preference to common shares, stock dividend and dividend reinvestment plans.

The ratio of long-term debt to long-term debt plus equity remained stable at 40.5% at December 31, 1985, compared with 41.0% at the previous year end. Earnings coverage of interest dropped from 7.5 times in 1984 to 5.5 times in 1985 due to inclusion for the first time of interest expense on Norman Wells debt.

Excluding the $249 million non-recourse Norman Wells debt and the $125 million debt of the Sarnia to Montreal pipeline, the proportion of debt to debt plus equity would decline to 18.6% from 21.4% and the coverage of interest expense would improve to 14.8 times from 12.9 times. Under the terms of the Norman Wells Pipeline Agreement, debt repayment has been secured by Imperial Oil Limited. Also, under the terms of a Deficiency Agreement, the Federal Government has similar obligations with respect to the Montreal Extension debt. Therefore, the financial strength of the Company is more appropriately reflected by excluding these debt issues from the financial ratios above.

Outlook

Earnings are expected to maintain the upward trend in 1986, with Canadian pipeline operations showing significant improvement under new tariffs approved by the NEB.

Subject to market conditions, the Company expects to raise approximately $200 million of long-term fixed rate debt in Canada to finance its expansion program.

With a large cash position, growing operating cash flow, credit strength and a demonstrated ability to obtain appropriate external financing, the Company remains in a strong and liquid position to meet its internal and external financial commitments as well as other investment opportunities that may arise.

Earnings coverage of interest
(times)
Excluding project debt
Consolidated

Reporting the effects of changing prices

The Canadian Institute of Chartered Accountants has recommended that certain large public companies report the effects of changing prices on their operations on an unaudited basis. The Company has reviewed these recommendations and has determined that such information would not appropriately reflect the economics of its pipeline operations. Under regulations in Canada, only historical costs of the pipeline system are recoverable in revenue; the excess of current cost over historical cost and the related increased depreciation charge are not recoverable and, therefore, current cost information would be misleading. However, based on past regulatory practices both in Canada and the United States, the Company believes that it will be allowed to earn a fair return on investors' capital when replacement of facilities occurs in the future.

Hiram Walker Resources Ltd.

In 1985, equity earnings from the Company's investment in Hiram Walker Resources Ltd. amounted to $35 million, a substantial increase over 1984's total of $25 million. The $9 million of equity earned in 1983 reflected IPL's interest for three months, effective from the acquisition date of October 1, 1983.

IPL owns a 17% interest in HWR, which operates in three principal businesses: distilled spirits; natural resources; and natural gas distribution. HWR's earnings for its fiscal year ended September 30, 1985 were $319 million, up 30% from the previous year's earnings of $245 million. Included in the above in 1985 was $33 million of earnings from HWR's 34% equity interest in IPL, compared with $30 million in 1984.

Higher earnings from operations in each of the three principal businesses was the main reason for HWR's significant earnings improvement. However, lower finance charges and the utilization of tax losses incurred previously in the U.S. natural resource sector were other contributing factors.

In the distilled spirits segment, earnings from operations continued their steady upward trend from a low in 1983. This performance was noteworthy, given continued difficult economic conditions in most markets, together with the maturity of the distilled spirits industry. HWR expects to maintain its relative industry strength and high rate of return in this competitive environment by maintaining its primary focus on a limited number of high-image, high-margin brands while continuing to pursue selective acquisitions and new product introductions.

Earnings from oil and gas operations showed the greatest improvement amongst the three businesses, increasing 59% in 1985. Higher revenue in both Canada and the U.S., along with lower depletion charges and operating expenses in the U.S., were reasons for the improved performance. Despite the uncertainty of future oil prices, HWR continues to view energy investments positively in the long term.

A continued but slower rate of growth in earnings from operations in the gas utility business was attributed to non-recurring gas costs, which adversely affected 1984's results, offset by lower revenue due to warmer weather. With an expanding customer base and acceptance of gas as a safe, economical energy choice, further steady growth is envisaged.

An increase in HWR's quarterly dividend from 35 cents to 37 cents per share was declared, payable January 1, 1986, following a similar 2 cents per share increase on January 1, 1985.

Consolidated statement of earnings

(in thousands of dollars except per share amounts)	Year ended December 31 1985	1984	1983
Income			
Transportation revenue	**$501,144**	$436,982	$405,304
Montreal Extension Deficiency Agreement (Note 2)	**8,326**	7,430	7,369
Interest and other income	**24,981**	30,830	19,128
Allowance for equity funds used during construction	**5,888**	9,641	6,478
	540,339	484,883	438,279
Expenses			
Power	**112,767**	100,725	79,862
Operating and administrative	**79,382**	68,720	68,794
Property and other taxes	**25,916**	24,277	22,230
Depreciation and amortization	**58,621**	45,937	45,470
Interest on long term debt	**54,263**	36,244	36,781
	330,949	275,903	253,137
Earnings before the undernoted	**209,390**	208,980	185,142
Income taxes (Note 9)	**105,816**	104,315	96,819
	103,574	104,665	88,323
Equity in earnings of Hiram Walker Resources Ltd.	**35,212**	24,943	8,683
Earnings for the year	**$138,786**	$129,608	$ 97,006
Earnings per share	**$3.71**	$3.47	$3.38
Dividends per share	**$1.85**	$1.70	$1.60

Consolidated statement of retained earnings

(in thousands of dollars)	Year ended December 31 1985	1984	1983
Balance at beginning of year	**$366,921**	$300,734	$249,596
Earnings for the year	**138,786**	129,608	97,006
	505,707	430,342	346,602
Dividends	**69,129**	63,421	45,868
Balance at end of year	**$436,578**	$366,921	$300,734

Consolidated balance sheet

(in thousands of dollars)

	December 31 1985	1984
Assets		
Current Assets:		
Cash, including bank term deposits	**$ 101,739**	$ 138,472
Short term investments, at lower of cost and market	**93,453**	72,751
Accounts receivable –		
Transportation charges	**26,307**	30,450
Other	**8,555**	8,163
Materials and supplies, at cost	**5,257**	3,881
Prepaid expenses	**590**	558
	235,901	254,275
Deferred Charges and Other Assets (Note 3)	**20,109**	29,067
Investment in Hiram Walker Resources Ltd. (Note 4)	**376,105**	313,612
Pipeline Transportation System, at cost (Note 5)	**1,832,733**	1,608,261
Less – Accumulated depreciation and amortization	**723,143**	647,832
	1,109,590	960,429
	$1,741,705	$1,557,383

The financial statements have been approved by the Board:

R.K. Heule
Director

W.D. Gardiner
Director

	December 31 1985	1984
Liabilities		
Current Liabilities:		
Short term borrowings	**$ 36,819**	$ 35,695
Accounts payable	**30,948**	22,773
Interest accrued	**18,087**	16,124
Income and other taxes	**16,629**	18,205
Current portion of long term debt	**21,604**	7,811
	124,087	100,608
Long Term Debt (Note 6)	**562,791**	515,071
Deferred Income Taxes	**208,415**	182,537
Deferred Investment Tax Credits	**20,294**	19,448
Shareholders' Equity		
Capital Stock (Note 7)	**385,289**	384,238
Contributed Surplus	**23,265**	23,265
Retained Earnings	**436,578**	366,921
Foreign Currency Translation Adjustments	**41,627**	20,752
Reciprocal Shareholding (Note 4)	**(60,641)**	(55,457)
	826,118	739,719
	$1,741,705	$1,557,383

Auditors' report

To the Shareholders of
Interprovincial Pipe Line Limited:

We have examined the consolidated balance sheets of Interprovincial Pipe Line Limited as at December 31, 1985 and 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were 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, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1985 in accordance with generally accepted accounting principles in Canada applied on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants

Edmonton, Alberta
February 6, 1986

Interprovincial Pipe Line Limited
and subsidiary companies

Consolidated statement of changes in financial position

(in thousands of dollars)	Year ended December 31 1985	1984	1983
Cash generated internally:			
Earnings for the year	**$138,786**	$129,608	$ 97,006
Charges (credits) to earnings not affecting cash:			
Depreciation and amortization	**58,621**	45,937	45,470
Deferred income taxes	**18,825**	11,369	6,294
Deferred investment tax credits	**(268)**	(1,083)	853
Equity in undistributed earnings of Hiram Walker Resources Ltd.	**(15,563)**	(6,719)	(4,195)
Allowance for equity funds used during construction	**(5,888)**	(9,641)	(6,478)
Deferred transportation charges	**(6,619)**		
Other	**(618)**	(4,947)	2,557
Provided from operations	**187,276**	164,524	141,507
Decrease (increase) in non-cash working capital	**10,905**	(2,010)	1,672
	198,181	162,514	143,179
Cash required:			
Dividends:			
Regular	**69,129**	63,421	45,868
Reciprocal shareholding	**3,955**	3,677	878
Long term debt retirements	**23,613**	42,667	26,757
	96,697	109,765	73,503
Net cash generated internally	**101,484**	52,749	69,676
Cash invested:			
Pipeline transportation system	**169,773**	185,563	92,581
Shares of Hiram Walker Resources Ltd.	**33,524**		353,600
Other	**1,430**	16,263	2,323
	204,727	201,826	448,504
Net cash deficiency	**103,243**	149,077	378,828
External financing:			
Debentures issued	**80,000**	175,000	50,000
Norman Wells pipeline interim project financing	**(12,039)**	(26,087)	38,126
Mortgage	**14,906**		
Capital stock issued to:			
Hiram Walker Resources Ltd.			353,600
Others	**1,051**	1,122	1,246
	83,918	150,035	442,972
Increase (decrease) in cash before the undernoted	**(19,325)**	958	64,144
Effect of exchange rate changes	**2,170**	3,413	976
Increase (decrease) in cash	**(17,155)**	4,371	65,120
Cash at beginning of year	**175,528**	171,157	106,037
Cash at end of year	**$158,373**	$175,528	$171,157

For purposes of this statement cash is defined as cash and short term investments less short term borrowings.

Notes to consolidated financial statements

1. Summary of Significant Accounting Policies:

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with United States generally accepted accounting principles and the historical cost accounting standards of the International Accounting Standards Committee.

Principles of consolidation
The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited ("Interprovincial") and its wholly-owned subsidiaries, Interprovincial Pipe Line (NW) Ltd. ("Interprovincial (NW)") and Interprovincial Pipe Line (Alberta) Ltd. in Canada and Lakehead Pipe Line Company, Inc. ("Lakehead") and its wholly-owned subsidiary, LPL Investments, Inc., in the United States.

Equity accounting
Interprovincial's investment in Hiram Walker Resources Ltd. ("HWR") is accounted for by the equity method. The excess of purchase price over net book value of the HWR shares is being charged to earnings on the straight-line basis over a period of 40 years.

Interprovincial, through LPL Investments, Inc., is a 35% partner in Frontier Pipeline Company which is also accounted for on the equity basis.

Regulation
Interprovincial, Interprovincial (NW) and Lakehead own and operate a pipeline system for the transportation of crude oil and other liquid hydrocarbons.

Construction, operations, accounting and rates in Canada are under the regulatory authority of the National Energy Board. Rates, accounting and other practices in the United States are under the regulatory authority of the Federal Energy Regulatory Commission.

Foreign currency translation
The company follows the current rate method under which the accounts of Interprovincial's U.S. subsidiary are translated into Canadian dollars in accordance with procedures recommended for self-sustaining foreign operations. Revenue and expense items, including depreciation and amortization, are translated at monthly rates of exchange. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Foreign currency translation adjustments, including the company's proportionate share of HWR's adjustments, are recorded as a separate component of Shareholders' Equity.

Discount and expense on long term debt
The balance of unamortized discount and expense is being amortized on the straight-line basis over the life of the debt.

Pipeline transportation system, depreciation and amortization
Expenditures for system expansion and major renewals and betterments are capitalized whereas maintenance and repair costs are charged to operating expenses as incurred.

The Canadian companies follow the accounting practice of capitalizing, at rates authorized by the National Energy Board, an allowance for debt and equity funds required to finance construction in Canada.

Lakehead capitalizes an allowance for interest incurred on external borrowings in accordance with the Financial Accounting Standards statement Capitalization of Interest Cost.

The company provides for depreciation of fixed assets, excluding the Montreal Extension, on the straight-line basis at rates that average approximately 3.5%.

In accordance with terms of the Deficiency Agreement with the Canadian Government, Interprovincial is providing for depreciation of all Montreal Extension depreciable facilities on a 20-year straight-line basis.

When fixed assets are retired or otherwise disposed of, the cost less net salvage is charged to accumulated depreciation, except for unusual disposals for which the profit or loss is included in earnings as approved or directed by regulatory authorities.

Deferred income and withholding taxes
The company follows the tax allocation basis of accounting. Under income tax regulations, depreciation and other costs deducted for tax purposes may differ from the amounts recorded in the accounts. The company claims deductions permitted for tax purposes which result in maximum benefits and deferral of taxes to years when amounts deductible are less than amounts recorded in the accounts.

Earnings of Lakehead are subject to a 10% U.S. withholding tax when paid as dividends to Interprovincial. It has not been considered necessary to provide for this tax on retained earnings of $81,345,000 U.S. of Lakehead at December 31, 1985 because it is expected to remain a part of the permanent capital of that company.

Deferred investment tax credits
The United States subsidiary companies are allowed credits against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service. These credits have been deferred and are being taken into earnings over the life of the related assets.

Earnings per share
Earnings per share are computed on the weighted average number of shares outstanding of 37,378,611, 37,304,538 and 28,671,674 in 1985, 1984 and 1983 respectively. There would have been no material dilution of earnings per share if outstanding stock options had been exercised during the year. The weighted average number of shares outstanding has been reduced by Interprovincial's pro rata interest in its own shares resulting from the investment in HWR.

2. Montreal Extension Deficiency Agreement:

Interprovincial and the Canadian Government are parties to a Deficiency Agreement whereby the Government will pay the deficiency if operating revenue in respect of the Extension is not sufficient to meet the fixed and variable costs of the Extension. Under the Agreement the Government has an option to purchase the Extension at its capital cost less depreciation, plus related expenses.

Tariffs prescribed by the National Energy Board in respect of the Montreal Extension do not produce sufficient operating revenue to meet the fixed and variable costs of the Extension.

3. Deferred Charges and Other Assets:

Deferred Charges and Other Assets at December 31 were as follows:

(in thousands of dollars)	1985	1984
Purchased tax benefits	**$ 6,078**	$ 6,414
Unamortized discount and expense on long term debt	**5,732**	5,775
Deferred transportation charges	**6,619**	
Investment in IPL Tower office building		14,807
Other	**1,680**	2,071
	$20,109	$29,067

Purchased tax benefits
United States tax legislation permitted the transfer of tax benefits (investment tax credits and accelerated depreciation deductions) from one entity to another through transactions structured as leases for tax purposes. LPL Investments, Inc. entered into such a transaction in 1982. The purchased tax benefits are expected to be realized through the deferral of taxes during the first five years of the 11-year life of the lease. Acquisition costs of purchased tax benefits are being amortized over the term of the lease.

Deferred transportation charges
Interprovincial (NW) commenced operations on April 17, 1985. For the period ended December 31 revenue from provisional tolls was less than the full cost of service. In accordance with terms of the Norman Wells Pipeline Agreement with Imperial Oil Limited the shortfall in the first operating period will be recovered in tariffs over the remaining life of the Agreement.

Investment in IPL Tower office building
In February 1985 Interprovincial purchased the remaining 50% interest in the IPL Tower office building. As sole owner at December 31, 1985 net capitalized costs of these facilities of $29,650,000 are included in Pipeline Transportation System.

4. Investment in Hiram Walker Resources Ltd.:

Interprovincial, through a 1983 share exchange with HWR and subsequent purchases of HWR common shares, has a 16.4% equity interest in HWR and HWR owns 34.4% of the company's issued common shares. During 1985 the company purchased 985,600 HWR common shares and 33,500 HWR preference shares at average prices of approximately $33 and $29 respectively. As a result of the share exchange and subsequent purchases of HWR common shares, Interprovincial has a pro rata interest of 5.6% in its own shares. Accordingly, both the Investment in HWR and Shareholders' Equity have been reduced by the reciprocal shareholding of $60,641,000 at December 31, 1985 (1984 – $55,457,000). The investment in HWR includes the unamortized excess of purchase price over net book value in the amount of $111,794,000 at December 31, 1985 (1984 – $108,784,000).

During January 1986 Interprovincial acquired 872,098 additional HWR common shares for amounts totalling $27,396,000.

4. Investment in Hiram Walker Resources Ltd.:—cont.

The following condensed financial information of HWR is based upon publicly reported financial data:

Condensed statement of financial position (unaudited) (in millions of dollars)	December 31 **1985**	1984
Current assets	**$2,274**	$2,036
Property, plant and equipment	**3,157**	2,890
Investments	**471**	543
Other assets	**95**	73
	$5,997	$5,542
Current liabilities	**$1,399**	$1,295
Long term debt	**1,405**	1,437
Deferred income taxes	**463**	376
Other liabilities	**66**	57
Minority interest	**162**	135
Preference shares	**832**	904
Common shareholders' equity	**1,670**	1,338
	$5,997	$5,542

Condensed statement of earnings (unaudited) (in millions of dollars)	**1985**	Year ended December 31 1984	1983
Revenue	**$3,792**	$3,728	$3,427
Operating costs and expenses	**3,132**	3,100	2,887
Earnings from operations	**660**	628	540
Finance charges net, less other income	**(186)**	(159)	(180)
Earnings before undernoted items	**474**	469	360
Income taxes	**(200)**	(221)	(137)
Equity in earnings of Interprovincial	**35**	30	7
Minority interest	**(34)**	(28)	(25)
Earnings before unusual item	**275**	250	205
Benefit of prior years' tax losses	**34**	24	
Earnings for the year	**$ 309**	$ 274	$ 205

5. Pipeline Transportation System: Accumulated depreciation and amortization:

The Pipeline Transportation System and Accumulated depreciation and amortization by major classes at December 31 were as follows:

(in thousands of dollars)	**1985** Cost	**Accumulated depreciation & amortization**	**Net**	1984 Net
Land	**$ 9,868**		**$ 9,868**	$ 3,749
Rights-of-way	**20,904**	**$ 10,465**	**10,439**	9,064
Pipeline	**1,021,747**	**426,802**	**594,945**	312,589
Pumping equipment, buildings and tanks	**467,503**	**141,827**	**325,676**	221,315
Montreal Extension	**249,565**	**119,088**	**130,477**	142,840
Assets Specially Classified	**24,961**	**24,961**		
Construction in progress	**38,185**		**38,185**	270,872
	$1,832,733	**$723,143**	**$1,109,590**	$960,429

It is estimated that 1986 capital expenditures will amount to approximately $355,000,000.

6. Long Term Debt:

Long Term Debt outstanding at December 31 was as follows:

(in thousands of dollars)	1985	1984
Interprovincial Pipe Line Limited		
Sinking Fund Debentures (unsecured):		
Series A – 6½% due November 1, 1986	**$ 10,285**	$ 12,055
B – 9⅞% due December 1, 1990	**30,888**	35,581
C – 8⅝% due May 1, 1993	**29,236**	31,944
D – 10⅞% due July 15, 1996	**48,780**	57,159
E – 11⅜% due February 1, 1996	**50,657**	54,052
F – 10⅛% due May 1, 1996	**29,220**	31,880
Debentures (unsecured):		
Series G – 12¼% due May 1, 1993	**50,000**	50,000
Mortgage – 11.75% due March 1, 1987, secured by IPL Tower office building	**14,804**	
Interprovincial Pipe Line (NW) Ltd.		
Sinking Fund Debentures (secured by an assignment of the Norman Wells Pipeline Agreement and a first mortgage):		
Series A – 13.40% due April 1, 2004	**100,000**	100,000
B – 12.70% due November 15, 2004	**75,000**	75,000
C – 9.8% to 10.75% Serial Debentures due September 15, 1986 to 1990 in annual payments of $5,714 and 11.10% Sinking Fund Debentures due September 15, 1999	**80,000**	
Interim project financing		12,039
Lakehead Pipe Line Company, Inc.		
Sinking Fund Debentures (guaranteed by Interprovincial):		
Series A – 6½% due August 1, 1992 (1985 – $8,592 U.S.; 1984 – $8,622 U.S.)	**12,008**	11,393
B – 7⅛% due April 15, 1993 (1985 – $18,305 U.S.; 1984 – $18,320 U.S.)	**25,581**	24,208
C – 7.60% due June 15, 1997 (1985 – $19,990 U.S.; 1984 – $20,865 U.S.)	**27,936**	27,571
	584,395	522,882
Less – Current portion	**21,604**	7,811
	$562,791	$515,071

Principal repayments required on Long Term Debt for the years ending December 31, 1986 through 1990 are $21,604,000, $29,994,000, $34,555,000, $37,517,000, and $62,068,000 respectively.

Interest on Long Term Debt for the year ended December 31, 1985 amounted to $63,246,000 (1984 – $53,174,000, 1983 – $37,406,000) of which $8,983,000 (1984 – $16,930,000, 1983 – $625,000) has been capitalized as part of the Pipeline Transportation System.

7. Capital Stock:

Interprovincial is authorized to issue 42,000,000 common shares and an unlimited number of preferred shares. No preferred shares have been issued.

	Common Shares	
	Number	Amount (000's)
Balance at December 31, 1982	25,794,742	$ 28,270
Exercise of stock options	14,000	207
Stock dividends	39,732	1,039
Issue of common shares to HWR	13,600,000	353,600
Purchase and cancellation of common shares	(58)	
Balance at December 31, 1983	39,448,416	383,116
Exercise of stock options	15,000	221
Stock dividends	30,475	901
Balance at December 31, 1984	39,493,891	384,238
Exercise of stock options	2,850	52
Stock dividends	25,621	999
Balance at December 31, 1985	39,522,362	$385,289

8. Stock Options:

Stock options outstanding at December 31 were as follows:

	1985	1984	1983
Shares under option, beginning of year	**58,900**	29,500	43,500
Options granted	**45,500**	44,400	
Options exercised	**(2,850)**	(15,000)	(14,000)
Shares under option, end of year	**101,550**	58,900	29,500

At December 31, 1985 options granted under the Employee Incentive Stock Option Plan (1969), were outstanding for 12,500 shares at a price of $14.75 per share exercisable until December 1988.

The Incentive Stock Option Plan (1984) authorized the issue of a maximum of 400,000 common shares of Interprovincial. Under the Plan full-time key employees of the company may be granted options until December 31, 1988 to purchase unissued common shares at not less than 90% of the fair market value of the shares on the day of the grant (100% for employees of Lakehead). At December 31, 1985, options were outstanding on 43,550 shares at $27.00 per share and on 45,500 shares at $42.25 per share.

9. Income Taxes:

The geographic components of Earnings before income taxes and equity interest and Income taxes for the years ended December 31 were as follows:

(in thousands of dollars)	**1985**	1984	1983
Earnings before income taxes and equity interest			
Canada	**$ 63,019**	$ 61,530	$ 57,965
United States	**146,371**	147,450	127,177
	$209,390	$208,980	$185,142
Current income taxes			
Canada	**$ 14,962**	$ 23,508	$ 28,932
United States	**64,297**	63,012	51,853
United States withholding taxes	**8,000**	7,509	8,887
	87,259	94,029	89,672
Deferred taxes and investment tax credits			
Canada	**12,325**	1,398	(3,508)
United States	**6,232**	8,888	10,655
	18,557	10,286	7,147
Total income tax expense	**$105,816**	$104,315	$ 96,819

9. Income Taxes:—cont.

The provision for deferred taxes results from timing differences in the recognition of items for tax and financial statement purposes. The types of these differences and the tax effect of each for the years ended December 31 were as follows:

(in thousands of dollars)	1985	1984	1983
Excess of tax over book depreciation	**$10,683**	$ 3,015	$2,182
Purchased tax benefits	**5,574**	5,010	5,450
Other	**2,568**	3,344	(1,338)
	$18,825	$11,369	$6,294

The income tax provision exceeds amounts computed by applying the Canadian statutory federal income tax rate to earnings before taxes. The differences for the years ended December 31 were as follows:

(in thousands of dollars)	1985	1984	1983
Canadian federal income tax rate before abatement for provincial taxes	**46.9%**	46.0%	46.9%
Computed income tax provision	**$ 98,204**	$ 96,131	$86,832
Provincial and state income taxes	**6,256**	7,055	6,347
U.S. withholding tax on Lakehead dividends	**8,000**	7,509	8,887
Other	**(6,644)**	(6,380)	(5,247)
Actual income tax provision	**$105,816**	$104,315	$96,819
Actual income tax provision as a percentage of earnings before taxes	**50.5%**	49.9%	52.3%

10. Pension Plans:

Interprovincial and Lakehead have pension plans which cover substantially all employees. The principal amount of the net surplus for past service benefits, including experience deficiencies, was approximately $44,000 at December 31, 1984, the date of the last actuarial valuation. The companies fund accrued pension costs. For the years ended December 31, 1985, 1984 and 1983 total costs of the plans amounted to $3,554,000, $3,264,000 and $3,240,000 respectively, of which $816,000, $767,000 and $846,000 were applicable to past service benefits. Accumulated plan benefit information and net plan assets at December 31, as estimated by consulting actuaries, were as follows:

(in thousands of dollars)	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	$53,063	$46,507
Nonvested	1,289	1,149
	$54,352	$47,656
Market value of net assets available for benefits	$71,271	$62,915

11. Related Party Transactions:

At December 31, 1985, 1984 and 1983 Imperial Oil Limited owned approximately 21.8% of the outstanding capital stock of Interprovincial. During the years ended December 31, 1985, 1984 and 1983 shipments through the pipeline system by Imperial Oil under published pipeline tariff terms accounted for approximately 19%, 13% and 14% of consolidated transportation revenue. At year end 1985, 1984 and 1983 transportation revenue receivable from Imperial Oil amounted to $5,209,000, $2,242,000 and $2,553,000 respectively.

12. Segmented Information:

The company is engaged in the business of transporting crude oil and other liquid hydrocarbons through a common carrier pipeline system in Canada and the United States. Information by geographic segment at December 31 was as follows:

(in thousands of dollars)	1985	1984	1983
Transportation revenue			
Canada	**$ 223,283**	$ 176,160	$172,519
United States	**277,861**	260,822	232,785
	$ 501,144	$ 436,982	$405,304
Contribution to earnings			
Canada	**$ 70,944**	$ 61,567	$41,224
United States	**67,842**	68,041	55,782
	$ 138,786	$ 129,608	$97,006
Identifiable assets			
Canada	**$1,344,998**	$1,180,503	$979,046
United States	**396,707**	376,880	367,458
	$1,741,705	$1,557,383	$1,346,504

13. Commitment and Contingency:

Interprovincial has signed a cash deficiency agreement with respect to Frontier Pipeline Company and is committed to support, to the extent of LPL Investments, Inc.'s partnership interest, the financial obligations of the partnership.

Summarized Quarterly Information (unaudited)

	1985				1984			
	First	**Second**	**Third**	**Fourth**	First	Second	Third	Fourth
Financial (in thousands of dollars except per share amounts)								
Transportation revenue	**$112,891**	**$122,930**	**$127,310**	**$138,013**	$106,964	$109,434	$109,098	$111,486
Earnings	**37,697**	**30,095**	**27,701**	**43,293**	34,743	27,148	30,118	37,599
per share	**1.01**	**0.80**	**0.74**	**1.16**	0.93	0.73	0.81	1.00
Dividends*	**17,772**	**17,776**	**17,780**	**19,756**	15,779	15,784	17,765	17,770
per share	**0.45**	**0.45**	**0.45**	**0.50**	0.40	0.40	0.45	0.45
Share trading**								
High	**37 1/2**	**42 1/2**	**43 3/4**	**46**	33 1/2	29 5/8	33	35 1/2
Low	**33 1/2**	**35 5/8**	**41 3/8**	**42**	26 3/4	25 1/2	28 1/2	30 1/2
Volume (in thousands)	**1,187**	**1,038**	**731**	**590**	790	553	849	1,086

* Cash dividends paid to shareholders resident in most countries with which Canada has a tax convention, including the United States, are generally subject to Canadian withholding tax at a rate of 15%. Cash dividends paid to other non-residents of Canada are usually subject to withholding tax at a maximum rate of 25%.

** The Company's stock is traded on the Toronto and Montreal stock exchanges in Canada and on a limited basis in the over-the-counter market in the United States. Prices and volumes shown are for the Toronto Stock Exchange.

Five year review

Financial

(in thousands of dollars except per share amounts)	1985	1984	1983	1982	1981
Operations					
Income:					
Transportation revenue	**$501,144**	$436,982	$405,304	$358,604	$302,097
Deficiency Agreement	**8,326**	7,430	7,369	7,410	7,747
Interest and other income	**24,981**	30,830	19,128	18,014	15,257
Allowance for equity funds	**5,888**	9,641	6,478	2,695	2,335
Expenses:					
Power	**112,767**	100,725	79,862	65,512	63,033
Operating and administrative	**79,382**	68,720	68,794	68,494	54,625
Property and other taxes	**25,916**	24,277	22,230	20,507	19,055
Depreciation and amortization	**58,621**	45,937	45,470	44,050	42,959
Interest	**54,263**	36,244	36,781	33,531	34,937
Income taxes	**105,816**	104,315	96,819	79,887	56,467
Equity in earnings of HWR	**35,212**	24,943	8,683		
Earnings for the year	**138,786**	129,608	97,006	74,742	56,360
Dividends paid	**73,084**	67,098	46,746	41,213	38,544
Dividend payout	**53%**	52%	48%	55%	68%
Cash provided from operations	**187,276**	164,524	141,507	129,403	105,041
Net internal cash generated	**101,484**	52,749	69,676	71,685	40,131
Per Share					
Earnings	**3.71**	3.47	3.38	2.90	2.19
Dividends	**1.85**	1.70	1.60	1.60	1.50
Shareholders' equity	**20.90**	18.73	16.82	11.67	10.36
Assets					
Working capital	**111,814**	153,667	146,285	81,845	51,613
Pipeline transportation system, at cost less accumulated depreciation and amortization	**1,109,590**	960,429	792,959	694,391	716,032
Total assets	**1,741,705**	1,557,383	1,346,504	857,404	823,026
Capitalization					
Long term debt	**562,791**	515,071	409,589	332,592	358,863
Deferred taxes and credits	**228,709**	201,985	183,898	160,665	152,600
Shareholders' equity	**826,118**	739,719	663,364	301,133	266,576
Total capital employed	**1,617,618**	1,456,775	1,256,851	794,390	778,039
Ratios					
Long term debt to long term debt plus equity	**40.5%**	41.0%	38.2%	52.5%	57.4%
Earnings coverage of interest	**5.5x**	7.5x	6.3x	5.6x	4.2x
Return on average capital employed	**10.8%**	10.9%	12.6%	11.6%	9.5%
Return on average shareholders' equity	**17.7%**	18.5%	25.0%	26.3%	21.9%

Statistical

	1985	1984	1983	1982	1981
Shares outstanding at year end (thousands)	**39,522**	39,494	39,448	25,795	25,734
Percentage of shares registered in Canada	**97%**	97%	97%	96%	96%
Shareholders at year end	**12,725**	14,392	15,879	17,912	20,158
Number of employees at year end	**876**	825	798	782	801
Receipts (m^3/d)					
Northwest Territories	**2 357**				
Alberta	**165 784**	162 617	153 266	141 176	141 909
Saskatchewan	**32 055**	29 906	25 879	22 505	19 878
Manitoba	**2 590**	2 414	2 159	1 712	1 622
Ontario	**3 871**	1 222	518	651	273
United States	**14 087**	15 728	17 063	25 446	34 935
	220 744	211 887	198 885	191 490	198 617
Deliveries (m^3/d)					
Canada					
Canadian Production					
Prairie Provinces	**27 850**	24 250	22 584	21 699	21 693
Ontario	**83 970**	87 426	82 258	78 497	90 164
Quebec	**29 106**	35 902	39 181	39 832	33 736
	140 926	147 578	144 023	140 028	145 593
U.S. and offshore production					
Ontario	**2 982**	2 287	2 275	6 373	6 679
Quebec	**607**	256	360	2 804	3 337
	3 589	2 543	2 635	9 177	10 016
Total Canadian deliveries	**144 515**	150 121	146 658	149 205	155 609
United States					
Canadian production	**65 425**	48 452	37 424	24 982	18 501
U.S. and offshore production	**10 809**	13 028	14 774	16 744	24 946
Total U.S. deliveries	**76 234**	61 480	52 198	41 726	43 447
	220 749	211 601	198 856	190 931	199 056
Cubic metre kilometres (millions)	**178 768**	181 386	171 221	159 739	163 757
Average haul (kilometres)	**2 219**	2 342	2 359	2 292	2 254
Average transportation revenue (including Deficiency Agreement)					
per cubic metre	**$6.32**	$5.74	$5.69	$5.25	$4.26
per 100 cubic metre kilometres	**28.5¢**	24.5¢	24.1¢	22.9¢	18.9¢

Corporate directory

Officers

Robert K. Heule
Chairman & Chief Executive Officer

G. Edward Courtnage
President & Chief Operating Officer

Lawrence W. Blaine
Vice-President – Finance

R. Glen Caughey
Vice-President – Projects

Gordon A. Cole
Vice-President & General Manager

Douglas R. Martin
Vice-President – Resources

E. Gordon Sheasby
Vice-President & General Counsel

Edward V. Reeser
Treasurer

J. Neil St. John
Corporate Secretary

Derek P. Truswell
Controller

Frederick B. Newton
Assistant Treasurer

Directors

Michael Bregazzi[1]
Vice-President, Development
Gulf Canada Corporation

Donald G. Campbell[3]
Chairman & Chief Executive Officer,
Maclean Hunter Limited

William A. Dimma[1]
President & Chief Executive Officer,
Royal LePage Limited

Alfred E. Downing[3]
Chairman, President & Chief Executive Officer,
Hiram Walker Resources Ltd.

F. William Fitzpatrick
Chairman, President & Chief Executive Officer,
Bralorne Resources Limited

W. Douglas H. Gardiner[1]
President, W.D.H.G. Financial Associates Ltd.

Richard F. Haskayne
Executive Vice-President,
Hiram Walker Resources Ltd.
President,
Home Oil Company Limited

Robert K. Heule[2]
Chairman & Chief Executive Officer,
Interprovincial Pipe Line Limited

H. Gordon MacNeill[2]
President & Chief Executive Officer,
Jannock Limited

Archibald R. McCallum[2]
Senior Vice-President & Chief Financial Officer,
Hiram Walker Resources Ltd.

Pierre A. Nadeau[2]
Chairman,
Tioxide Canada Inc.

Earl H. Orser[1]
President & Chief Executive Officer,
London Life Insurance Company

Robert B. Peterson
Executive Vice-President & Chief Operating Officer,
Imperial Oil Limited

Gordon H. Thomson[2]
President,
Esso Petroleum Canada

William J. Young[3]
Executive Vice-President & Chief Financial Officer,
Imperial Oil Limited

Member of:
1. Audit Committee
2. Finance & Investment Committee
3. Compensation Committee

Corporate Information

Registered and Executive Office

37th Floor, 1 First Canadian Place
P.O. Box 48,
Toronto, Ontario M5X 1A9
Telephone: (416) 362-1343

Operating Headquarters

IPL Tower
10201 Jasper Avenue
Edmonton, Alberta T5J 3N7
Telephone: (403) 420-5210

Stock Transfer Agents

The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton, Vancouver

Harris Trust Company of New York

(Change of address should be sent to the closest branch of the Transfer Agent)

Stock Registrars

Montreal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton, Vancouver

Harris Trust Company of New York

Dividend Disbursing Agent

The Royal Trust Company
P.O. Box 7500, Postal Station "A"
Toronto, Ontario M5W 1P9

Dividend Payment

Quarterly dividend cheques are mailed out several days prior to the payable dates which are the first day of March, June, September and December.

Stock Dividend Program

Interprovincial has a Stock Dividend Program which enables shareholders to receive dividends in the form of Company shares rather than cash. Details may be obtained by contacting:

The Royal Trust Company
Corporate Trust Services
P.O. Box 7500, Postal Station "A"
Toronto, Ontario M5W 1P9

Stock Listed

Toronto and Montreal Stock Exchanges
Stock market symbol – IPL

Form 10-K

A Form 10-K Annual Report is filed with the United States Securities and Exchange Commission. This report will be made available upon written request to the Corporate Secretary of the Company.

Trustee and Registrar for Debentures

Montreal Trust Company
Montreal, Toronto, Winnipeg, Edmonton, and Vancouver

Auditors

Price Waterhouse
Edmonton, Alberta

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