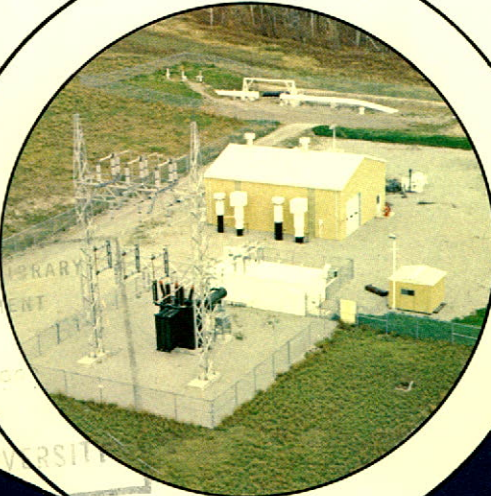


INTERPROVINCIAL PIPE LINE LIMITED
Annual Report 1979



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INTERPROVINCIAL PIPE LINE LIMITED

Annual Report 1979

DIRECTORS

LORENZ P. BLASER
President
Gulf Canada Products Company, Toronto

EDWARD H. CRAWFORD
President & Chief Executive Officer
The Canada Life Assurance Company, Toronto

***GLENN H. CURTIS**
President
Glenn H Curtis & Associates Limited, Toronto

JEAN-CLAUDE DELORME
President & Chief Executive Officer
Telelobe Canada, Montreal

DAVID C. FLEMING
Vice-President & General Manager
Interprovincial Pipe Line Limited, Edmonton

ROBERT C. GIMLIN
President & Chief Executive Officer
Abitibi-Price Inc., Toronto

JOHN H. HAMLIN
Senior Vice-President
Esso Resources Canada Limited, Calgary

ROBERT K. HEULE
President & Chief Executive Officer
Interprovincial Pipe Line Limited, Toronto

***C. EDWARD MEDLAND**
Chairman & Chief Executive Officer
Wood Gundy Limited, Toronto

DONALD J. TAYLOR
Senior Vice-President
Shell Canada Limited, Toronto

***GORDON D. deS. WOTHERSPOON**
Chairman of the Board
Eaton/Bay Financial Services Limited, Toronto

*Members of Audit Committee

OFFICERS

ROBERT K. HEULE
President & Chief Executive Officer

DAVID C. FLEMING
Vice-President & General Manager

E. GORDON SHEASBY
Vice-President, General Counsel & Secretary

LAWRENCE W. BLAINE, Treasurer

JOHN R. CULHAM, Controller

FREDERICK B. NEWTON, Assistant Treasurer

J. NEIL ST. JOHN, Assistant Secretary



Lorenz P. Blaser



Edward H. Crawford



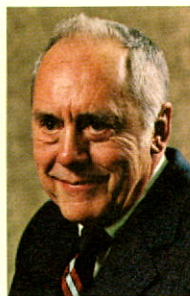
Glenn H. Curtis



Jean-Claude Delorme



David C. Fleming



Robert C. Gimlin



John H. Hamlin



Robert K. Heule



C. Edward Medland



Donald J. Taylor



Gordon D. deS. Wotherspoon

ANNUAL MEETING

2:30 p.m. Wednesday, April 9, 1980, "Upper Canada" Room, Royal York Hotel, 100 Front Street West, Toronto.

The Notice of Meeting, Information Circular and form of Proxy are being mailed with this report to all shareholders of record on March 14, 1980.

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HIGHLIGHTS

FINANCIAL

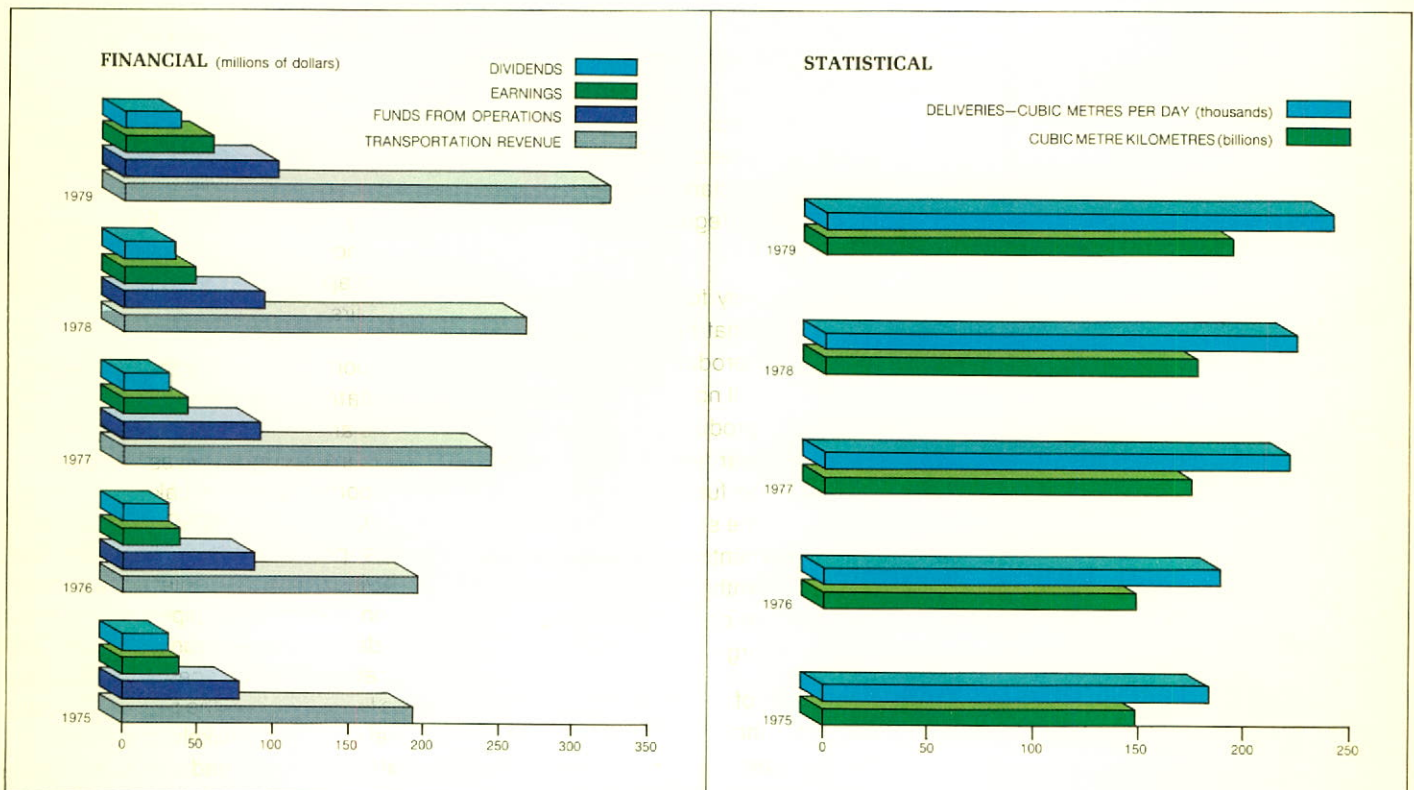
	1979	1978	Percentage Increase
Transportation revenue - - - - -	\$315,176,000	\$269,989,000	17%
Deficiency Agreement - - - - -	\$ 5,320,000	\$ 16,766,000	
Other income - - - - -	\$ 10,323,000	\$ 7,723,000	
Expenses, excluding taxes - - - - -	\$199,993,000	\$178,908,000	12%
Income and other taxes - - - - -	\$ 75,314,000	\$ 68,760,000	10%
Earnings - - - - -	\$ 55,512,000	\$ 46,810,000	19%
per share - - - - -	\$2.17	\$1.83	
Dividends - - - - -	\$ 37,744,000	\$ 34,524,000	9%
per share - - - - -	\$1.47½	\$1.35	
Capital expenditures - - - - -	\$ 29,133,000	\$ 9,413,000	
Funds provided from operations - - - - -	\$101,287,000	\$ 93,258,000	

STATISTICAL

Deliveries (cubic metres per day)

By Quarters

First - - - - -	247 131	226 417	
Second - - - - -	236 554	217 011	
Third - - - - -	235 950	212 656	
Fourth - - - - -	246 232	240 497	
Yearly average - - - - -	241 449	224 152	
Highest month - - - - -	253 661	248 247	
Lowest month - - - - -	229 268	200 423	
Cubic metres delivered - - - - -	88 129 000	81 816 000	8%
Cubic metre kilometres (millions) - - - - -	195 958	176 427	11%
Number of employees—December 31 - - - - -	802	791	



DIRECTORS' REPORT TO SHAREHOLDERS



R. K. Heule, President

The company established a throughput record of 88 million cubic metres in 1979. Deliveries increased by 8% over 1978 and reached the equivalent of 241 449 cubic metres per day (m^3/d). This high level of throughput, together with the gain from foreign exchange on earnings of the company's United States subsidiary, Lakehead Pipe Line Company, Inc., generated record earnings of \$55.5 million or \$2.17 per share up 19% from 1978.

The major increase in throughput resulted from a 14 500 m^3/d rise in deliveries to Ontario and Quebec refineries. The additional volumes were primarily due to the new Nanticoke refinery in Ontario and the Montreal Extension operating close to capacity at an average of 49 000 m^3/d .

In Eastern Canada refinery demand during the first three quarters of 1979 exceeded the pipe line capacity west of Sarnia, resulting in the necessity to apportion pipe line space between various shippers. However, completion of the 56 km of 762 mm (30") pipe line loops in Michigan which became operative in the fourth quarter, virtually eliminated the need for apportionment as capacity increased by 10 300 m^3/d into Sarnia. During the latter months of the year there were occasions when demand appeared to exceed pipe line capacity, although such instances were generally due to supply irregularities in Western Canada.

The current supply forecast for Canadian crude indicates that the levels of conventional crude oil production established in 1979 probably will not be sustained during 1980. In fact, production is expected to decline in the near term. The significance of this decline on future throughput levels will depend on the success of present and future developments in the areas of conventional and synthetic oil production and on the Canadian consumers' response to the need for energy conservation.

Transportation of synthetic oil to eastern markets from the two oil sands plants in Alberta averaged 11 500 m^3/d during the year compared to 6 000 m^3/d in 1978. The

1979 oil sands output was well below forecast volumes due to plant production problems.

When peak demand for Canadian crude oil developed in Eastern Canada late in 1979, the National Energy Board announced the virtual elimination of light crude oil exports to the U.S., but at the same time increased the volumes of Canadian heavy crude available for export.

Deliveries to U.S. refineries held constant at just under 65 000 m^3/d . Approximately one-half of this volume was Canadian crude licenced for export or exchanges and the balance was from U.S. and offshore production.

The forecast decline in deliveries for 1980 together with inflationary effects on operating costs will exert downward pressure on earnings. As a result the company has filed an application for an increase in rates for the Canadian portion of its system.

Rate Regulation

In December the company filed an application with the NEB requesting approval of new transportation rates in Canada based on projected throughputs and costs for 1980. The application also requested an increase in the presently approved rate of return on rate base. If approved, the new rates would increase transportation revenue by approximately 6%. The Board announced that it expects that the company's application will be heard some time in the first half of 1980.

As reported previously the Federal Energy Regulatory Commission in the United States announced in January of 1979 that it was instituting an investigation into the transportation rates of Lakehead. On January 9, 1980 the FERC designated two cases pending before the Commission involving other companies for the determination of general oil pipe line rate making standards, and announced that it would stay all other rate proceedings involving oil pipe lines including the proceeding against Lakehead. It is unlikely the FERC investigation into Lakehead's rates will proceed in 1980.

Norman Wells

In March the company intends to apply to the NEB and the Department of Indian Affairs and Northern Development for authority to construct an 866 km 324 mm (12") diameter pipe line from Norman Wells on the Mackenzie River in the Northwest Territories to connect with existing pipe line facilities near Zama Lake in north-western Alberta. The pipe line is designed to transport initially 4 000 m³/d of crude oil from expanded production facilities of Esso Resources Canada Limited at Norman Wells.

The estimated capital cost of the project is \$350 million. An agreement has been reached with Imperial Oil Limited whereby that company will provide the necessary commitments to assure financial viability of the project.

Providing the project receives approval from the appropriate regulatory agencies by the fall of 1980, the pipe line is scheduled to be in service by mid-1983.

The group in which the company was a participant, involved in the development of the Kitimat Pipe Line proposal for a new oil pipe line from the West Coast port of Kitimat, B.C. to Edmonton, announced in August of 1979 that it did not intend to reactivate its application with the NEB. Accordingly, the Kitimat project is no longer under active consideration.

In January U.S. President Carter endorsed the proposed Northern Tier pipe line to transport surplus Alaskan crude from the West Coast to the U.S. Mid-West. Approval is conditional on Northern Tier arranging financing within a specified period of time. If the project cannot be financed, the U.S. has indicated that it would support the Trans Mountain proposal for a new pipe line from Puget Sound to Edmonton.

While it is uncertain which project, if any, will be constructed, either would connect with the company's facilities in order to reach the U.S. market areas, providing the potential for substantial additional throughput.

FINANCIAL REVIEW

The Consolidated Financial Statements, Auditors' Report and accompanying Notes to the Financial Statements appear on pages 14 to 21 and include the accounts of Interprovincial and its wholly-owned subsidiary. A ten year review of selected financial and statistical information is shown on pages 22 and 23.

Income

Total income for the year increased 12% to \$331 million from \$294 million in 1978.

Transportation revenue was \$315 million, \$45 million more than the previous year. This increase was mainly attributable to higher levels of throughput to Canadian refineries particularly in Ontario and Quebec. In addition, tariff increases in 1978 were in effect for the full year 1979 thereby contributing to an improvement in revenue. The gain on U.S. exchange on revenues of Lakehead also contributed to the improvement.

Revenue from the Montreal Extension Deficiency Agreement with the Canadian government amounted to \$5.3 million compared to \$16.8 million during 1978. These amounts recover the excess of operating costs and other fixed expenses over the transportation revenue attributed to the Montreal Extension. Despite increased deliveries to Montreal in 1979, and a full years effect of tariff increases apportioned to the Extension by the NEB, revenues were still insufficient to recover total expenses.

Expenses

Energy costs, which were the largest single item of expense for the company, rose significantly to \$74 million or 31% over 1978 due to the increase in throughput (11%) and to higher costs for electric power and for diesel engine fuel in both Canada and the United States.

Other operating expenses were \$43.7 million, up \$3.5 million. This was mainly due to increased salaries, wages and related benefits and to maintenance expenses.

Income and withholding taxes payable to Canadian and U.S. governments amounted to \$58.3 million, an increase of 12.5%. Property, other capital and use taxes paid to governments amounted to approximately \$17 million for the year.

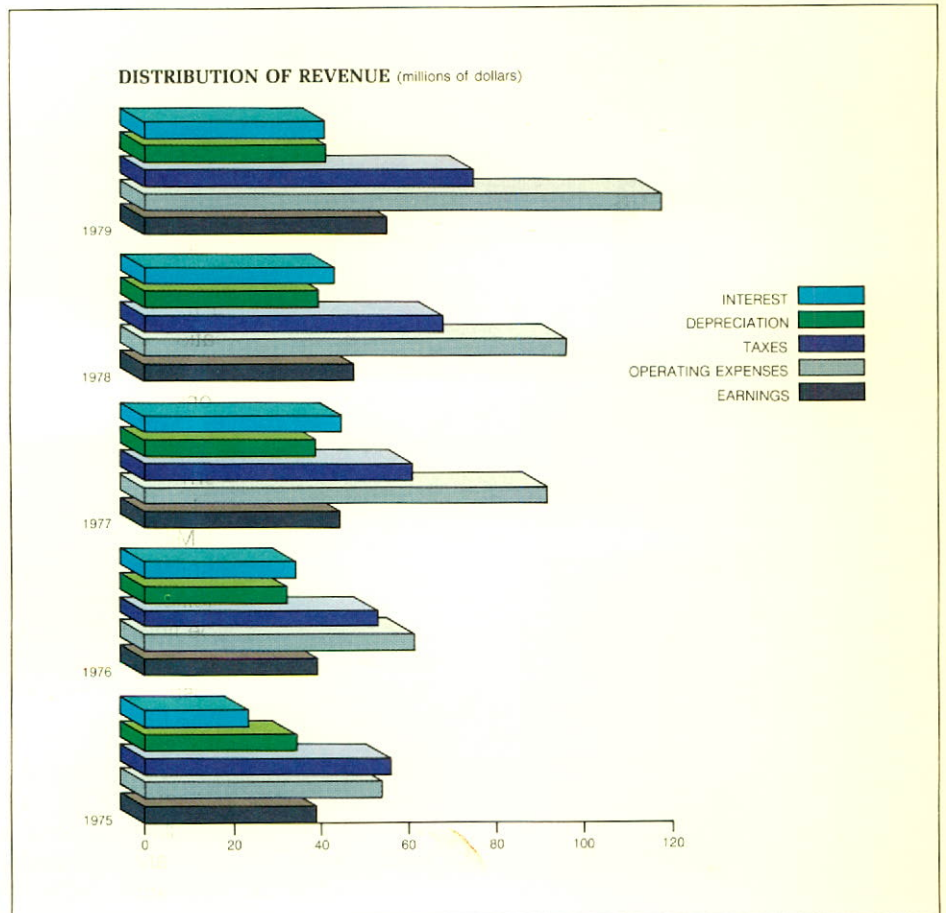
Earnings and Dividends

Earnings for the year reached \$55.5 million, a growth of \$8.7 million, or 19% above earnings in 1978. On a per share basis this represents \$2.17 compared with \$1.83 in the previous year.

Dividends of \$1.47½ per share totalled \$37.7 million or 68% of 1979 earnings. A

regular quarterly dividend of 32½¢ per share was paid on March 1; this was increased to 35¢ per share with the June 1 dividend and continued with the September payment. A 10¢ extra dividend was paid with the regular December dividend.

At the Annual Meeting of Shareholders on April 11, 1979, approval was obtained to redesignate the existing Class A and Class B shares as a single class of common shares, and the directors were authorized to declare stock dividends to shareholders who elect to receive common shares instead of cash dividends. The first of such stock dividends was declared payable on June 1, 1979 and during the year a total of 39 295 treasury shares were issued as stock dividends at an average cost of \$17.84 per share.





OPERATIONS

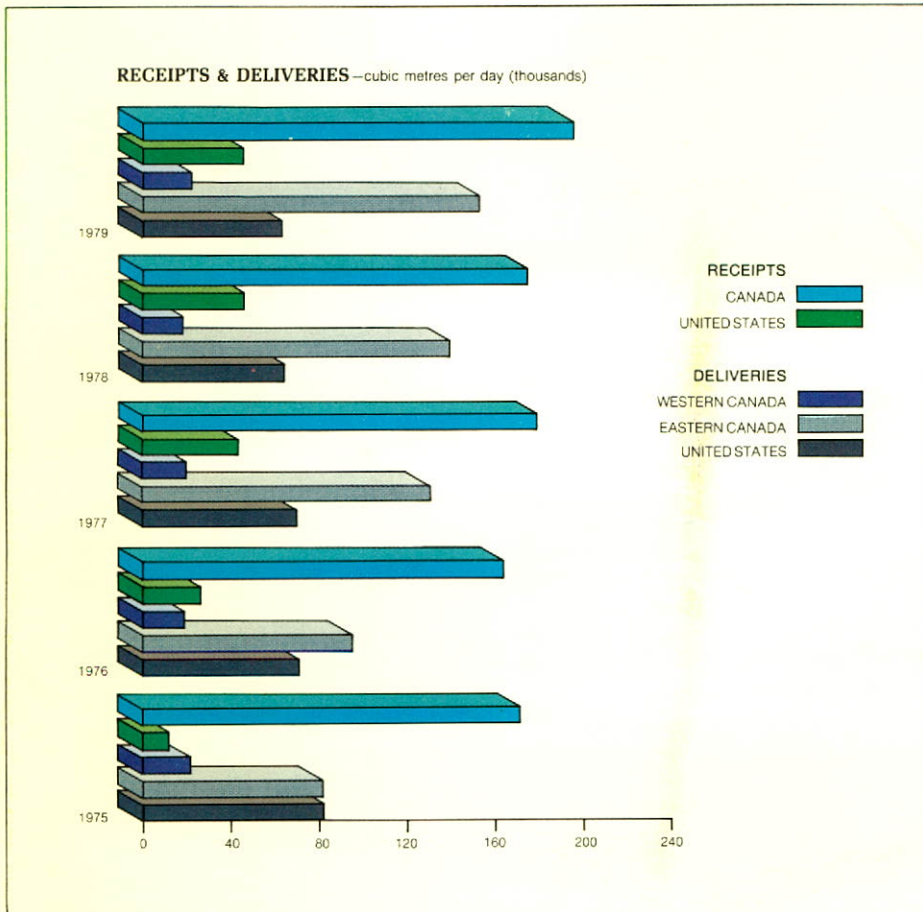
Total volumes of crude oil and other liquid hydrocarbons received and delivered by the pipe line system were 8% higher than in 1978 as shown below. Deliveries to Canadian refineries accounted for virtually all of this increase whereas U.S. deliveries remained approximately the same as the previous year.

Receipts—by location		
(thousands of cubic metres per day)	1979	1978
Alberta - - - - -	168.7	147.9
Saskatchewan - - -	24.4	25.4
Manitoba - - - - -	1.7	1.8
Ontario - - - - -	.7	1.2
United States - - -	46.0	47.4
	<u>241.5</u>	<u>223.7</u>

Deliveries—by location		
(thousands of cubic metres per day)	1979	1978
CANADA		
Canadian Production		
Prairie Provinces -	22.3	19.4
Ontario - - - - -	97.5	85.8
Quebec - - - - -	43.2	40.0
	<u>163.0</u>	<u>145.2</u>
U.S. and Offshore Production		
Ontario - - - - -	7.9	10.4
Quebec - - - - -	5.8	3.7
	<u>13.7</u>	<u>14.1</u>
TOTAL CANADIAN DELIVERIES - - - -	<u>176.7</u>	<u>159.3</u>
UNITED STATES		
Canadian Production		
Minnesota-		
Wisconsin - - -	25.6	23.1
Illinois-Indiana - -	2.4	1.9
Michigan-Ohio - - -	2.9	4.7
New York-		
Pennsylvania - - -	1.8	1.7
	<u>32.7</u>	<u>31.4</u>

U.S. and Offshore Production		
Minnesota-		
Wisconsin - - -	.4	.6
Illinois-Indiana - -	.2	.3
Michigan-Ohio - - -	14.1	13.2
New York-		
Pennsylvania - - -	17.3	19.4
	<u>32.0</u>	<u>33.5</u>
TOTAL U.S. DELIVERIES - - -	<u>64.7</u>	<u>64.9</u>
TOTAL DELIVERIES - - - -	<u>241.4</u>	<u>224.2</u>

Deliveries—by type		
(thousands of cubic metres per day)	1979	1978
CRUDE OIL		
Light- - - - -	166.9	154.9
Medium and heavy -	31.5	33.3
Oil sands - - - - -	11.5	6.0
NATURAL GAS LIQUIDS		
Condensate - - - -	9.4	9.7
Propane/butane/condensate mix -	11.2	10.6
REFINED PRODUCTS - - -	<u>10.9</u>	<u>9.7</u>
	<u>241.4</u>	<u>224.2</u>





TARIFFS

The principal business of Interprovincial and Lakehead is the transportation of crude oil, natural gas liquids and refined petroleum products by pipe line at established tariffs. Interprovincial's tariffs for transportation in Canada are filed with the National Energy Board and in the United States Lakehead's tariffs are filed with the Federal Energy Regulatory Commission. Tariffs remained unchanged throughout the year. However, effective January 1, 1979, the company reissued its tariff schedules to convert to the metric system whereby the cubic metre replaced the barrel as the new standard measure for oil.

Combined Interprovincial and Lakehead rates for representative shipments are:

To	Rates for light crude in Dollars per cubic metre		
	From		
	Edmonton	Cromer	Chicago
Regina	\$1.076	\$ —	\$ —
Gretna	1.756	0.547	—
Clearbrook	2.322	1.114	—
Superior	2.737	1.529	—
Chicago	3.574	2.366	—
Sarnia	3.883	2.674	1.045
Toronto	4.197	2.989	1.366
Buffalo	4.330	3.122	1.497
Montreal	5.330	4.122	2.492

The rates for heavier crude, natural gas liquids and refined petroleum products remained slightly higher.



Monitoring pipe line operation from remote control centre.

CONSTRUCTION

1979 Review

Capital expenditures for the year totalled \$29 million.

Installation of 56 km of 762 mm (30") pipe as extensions to six existing loops and a 1 865 kW electric pumping station between Chicago and Sarnia were completed on schedule well within the budgeted amount of \$14 million. This provides an increase of 10 300 m³/d bringing this section to a capacity of 123 000 m³/d. The new and existing facilities are expected to provide sufficient pumping capacity throughout the system to handle forecast deliveries for the next few years.

The previously announced program of replacing 62 km of 864 mm (34") pipe in Alberta during 1979 and 1980 is proceeding on schedule with 15 km installed during the year at a cost of \$5 million.

Two tanks were erected at Sarnia, and one at Griffith, Indiana, at a cost of \$6 million. The program of installing additional valving on Line 1 between Edmonton and Gretna to upgrade this line to the latest operating standards was completed.

1980 Forecast

Capital expenditures for 1980 are estimated at \$30 million. The principal project

planned for 1980 is the completion of the 864 mm pipe replacement program in Alberta with installation of 47 km of pipe at a cost of \$14 million. On the Lakehead system 12 more reliable and efficient electric motors totalling 17 904 kW are to replace 24 diesel engines at Clearbrook and Deer River, Minnesota and Superior, Wisconsin at a cost of \$7 million.

General

Mr. J. Blight, Vice-President, Finance retired in December following more than 30 years of valued service to the company.

Messrs. G. D. deS. Wotherspoon, a director since 1970 and J. H. Hamlin, a director since 1973 will not be standing for re-election. Their valued counsel and advice are appreciated.

The company's performance reflects the sincere, and effective contribution of all of its employees. Management wishes to express its appreciation and thanks for their efforts during the year.

On behalf of the Board of Directors

President





THE PIPE LINE TRANSPORTATION SYSTEM

as at December 31, 1979

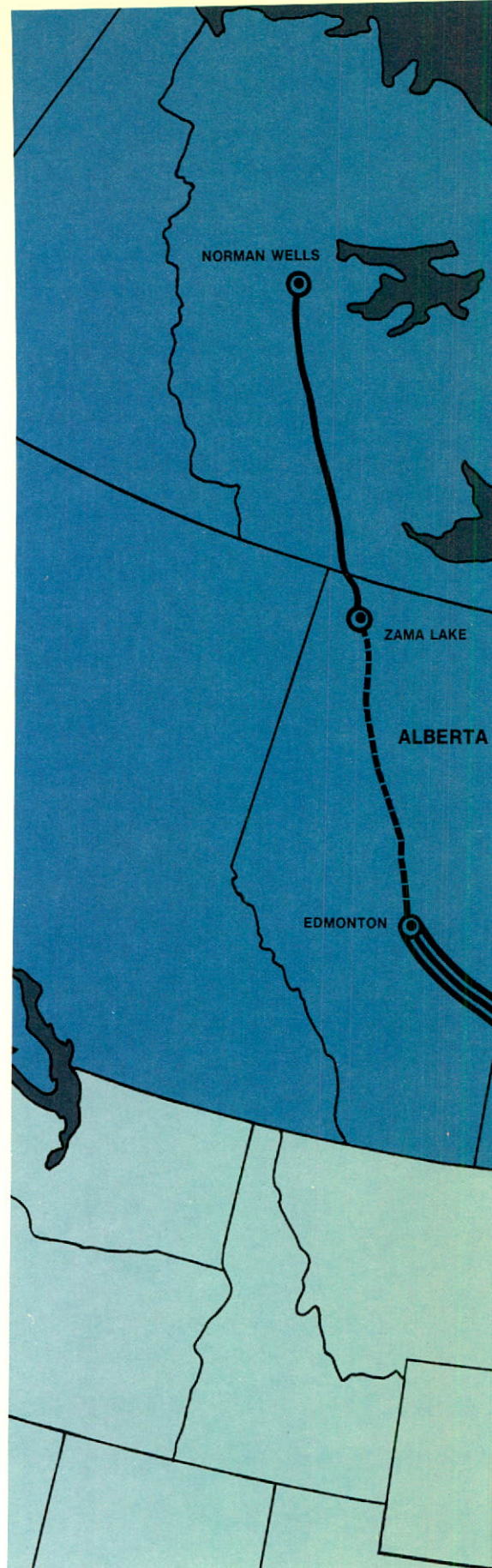
	Canada	United States	Total
Right-of-Way (kilometres) -	2 280	2 799	5 079
Number of			
Pumping Stations - - -	32	50	82
Installed Power (kilowatts)			
—diesel - - -	25 600	31 478	57 078
—electric - - -	379 919	308 489	688 408
—total - - -	405 519	339 967	745 486
Line Fill (cubic metres)			
(provided by shippers) -	2 190 000	1 919 000	4 109 000

PIPE LINE CAPACITY

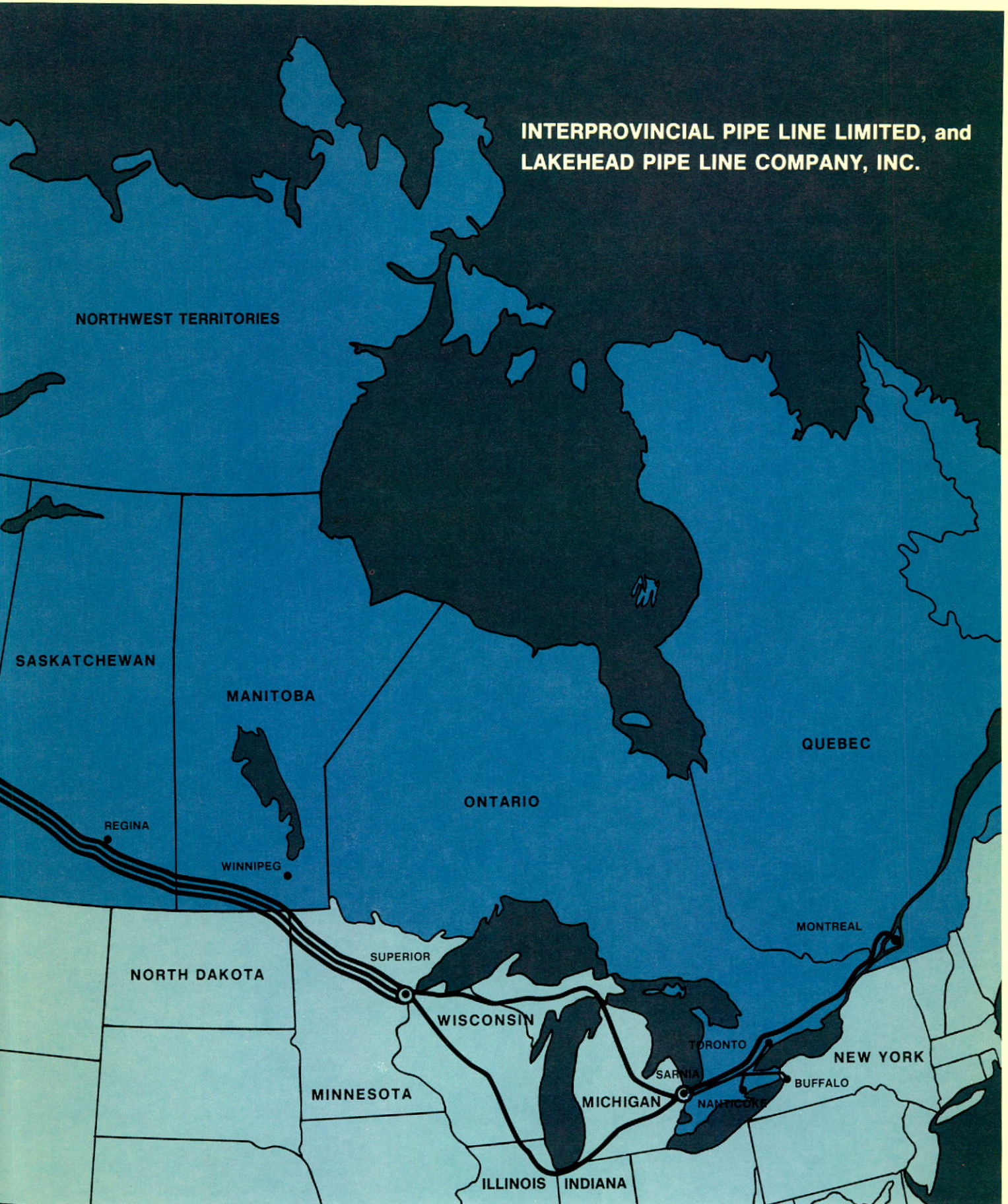
Line Section	Thousands of Cubic Metres Per Day 1980
Edmonton-Regina - -	240
Regina-Cromer - - -	230
Cromer-Superior - -	248
Superior-Sarnia via Straits of Mackinac -	88
Superior-Chicago - -	117
Chicago-Sarnia - - -	123
Sarnia-Port Credit - -	74
Westover-Buffalo - -	25
Sarnia-Montreal - - -	54

KILOMETRES OF MAIN LINE PIPE

Diameter (mm)	Canada	United States	Total
324 - - -	106	42	148
406 - - -	681	—	681
457 - - -	62	523	585
508 - - -	1 287	20	1 307
610 - - -	1 242	—	1 242
660 - - -	3	523	526
762 - - -	856	1 646	2 502
864 - - -	1 245	1 270	2 515
1 219- - -	361	170	531
Kilometres of Main Line Pipe - -	5 843	4 194	10 037



**INTERPROVINCIAL PIPE LINE LIMITED, and
LAKEHEAD PIPE LINE COMPANY, INC.**



CONSOLIDATED STATEMENT OF EARNINGS

(in thousands of dollars except per share amounts)

	Year ended December 31	
	1979	1978
<i>Income:</i>		
Transportation revenue - - - - -	\$315,176	\$269,989
Montreal Extension Deficiency Agreement (Note 2) - - - - -	5,320	16,766
Other income - - - - -	10,323	7,723
	330,819	294,478
<i>Expenses: (Note 1)</i>		
Operating—power and fuel- - - - -	74,020	56,428
—other - - - - -	43,687	40,147
Property and other taxes - - - - -	16,975	16,913
Provision for depreciation and amortization - - - - -	40,992	39,580
Interest on long term debt - - - - -	40,175	43,242
Foreign exchange - - - - -	1,119	1,669
Recovery of loss on discontinued capital projects - - - - -	—	(2,158)
	216,968	195,821
<i>Earnings before income taxes - - - - -</i>	113,851	98,657
<i>Provision for income taxes: (Note 1)</i>		
Current - - - - -	54,281	45,625
Deferred - - - - -	3,163	6,989
Deferred investment tax credits - - - - -	895	(767)
	58,339	51,847
<i>Earnings for the year - - - - -</i>	\$ 55,512	\$ 46,810
<i>Earnings per share (Note 1) - - - - -</i>	\$ 2.17	\$ 1.83

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(in thousands of dollars except per share amounts)

	Year ended December 31	
	1979	1978
<i>Balance at beginning of year - - - - -</i>	\$170,238	\$157,952
Earnings for the year - - - - -	55,512	46,810
	225,750	204,762
Dividends paid—(per share: 1979—\$1.475; 1978—\$1.35) - - - - -	37,744	34,524
<i>Balance at end of year - - - - -</i>	\$188,006	\$170,238

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

	Year ended December 31	
	1979	1978
<i>Source of Funds:</i>		
Earnings for the year - - - - -	\$ 55,512	\$ 46,810
Add—Charges (credit) to earnings not affecting working capital:		
Depreciation and amortization - - - - -	40,992	39,580
Deferred income taxes - - - - -	3,163	6,989
Deferred investment tax credits - - - - -	895	(767)
Other - - - - -	725	646
Provided from operations - - - - -	101,287	93,258
Capital stock issued - - - - -	814	—
Other transactions - - - - -	(252)	1,327
	<u>101,849</u>	<u>94,585</u>
<i>Use of Funds:</i>		
Dividends - - - - -	37,744	34,524
Additions to pipe line transportation system - - - - -	29,133	9,413
Long term debt retired or included in current liabilities - - - - -	30,700	39,085
	<u>97,577</u>	<u>83,022</u>
<i>Change in Working Capital</i> - - - - -	4,272	11,563
<i>Working Capital at Beginning of Year</i> - - - - -	52,354	40,791
<i>Working Capital at End of Year</i> - - - - -	<u>\$ 56,626</u>	<u>\$ 52,354</u>

Interprovincial Pipe Line Limited and subsidiary companies

CONSOLIDATED BALANCE SHEET (in thousands of dollars)

ASSETS	December 31	
	1979	1978
<i>Current Assets:</i>		
Cash, including bank term deposits - - - - -	\$ 19,609	\$ 18,169
Short term investments, at lower of cost and market - - - - -	50,338	32,785
Accounts receivable—		
Transportation charges - - - - -	26,386	28,707
Montreal Extension Deficiency Agreement (Note 2) - - - - -	7,553	18,779
Other - - - - -	2,231	3,958
Inventory of materials and supplies, at cost - - - - -	5,909	5,819
Prepaid expenses - - - - -	342	986
	112,368	109,203
 <i>Deferred Charges and Other Assets:</i>		
Unamortized discount and expense on long term debt (Note 1) - - - - -	4,404	4,970
Other- - - - -	3,323	5,270
	7,727	10,240
 <i>Pipe Line Transportation System, at cost (Notes 1 and 3) - - - - -</i>	 1,124,158	 1,098,376
Less—Accumulated depreciation and amortization - - - - -	403,326	367,725
	720,832	730,651
	\$ 840,927	\$ 850,094

The financial statements have been approved by the Board:

G. H CURTIS, *Director*

R. K. HEULE, *Director*

LIABILITIES

	December 31	
	1979	1978
<i>Current Liabilities:</i>		
Accounts payable - - - - -	\$ 15,438	\$ 10,044
Interest accrued - - - - -	11,031	11,723
Income and other taxes - - - - -	15,863	18,881
Current portion of long term debt- - - - -	13,410	16,201
	55,742	56,849
<i>Long Term Debt (Note 4) - - - - -</i>	404,698	435,398
<i>Deferred Income Taxes (Note 1)- - - - -</i>	132,086	128,923
<i>Deferred Investment Tax Credits (Note 1)- - - - -</i>	11,706	10,811

SHAREHOLDERS' EQUITY

<i>Capital Stock (Note 5) - - - - -</i>	25,620	25,573
<i>Contributed Surplus (Note 5)- - - - -</i>	23,069	22,302
<i>Retained Earnings (Note 1) - - - - -</i>	188,006	170,238
	236,695	218,113
	\$840,927	\$850,094

Auditors' Report

To the Shareholders of
INTERPROVINCIAL PIPE LINE LIMITED:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Limited as at December 31, 1979 and the consolidated statements of earnings, 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, 1979 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.

Edmonton, Alberta
February 1, 1980

PRICE WATERHOUSE & CO.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited and its wholly-owned United States subsidiary Lakehead Pipe Line Company, Inc. and its wholly-owned subsidiary Pipe Line Service Company, Inc.

Regulation

Interprovincial and Lakehead own and operate a pipe line system for the transportation of crude oil and other liquid hydrocarbons. The companies follow the accounting policies prescribed or authorized by the National Energy Board and the Federal Energy Regulatory Commission.

Interprovincial operates the Canadian section of the system under provisions of the National Energy Board Act. The National Energy Board has regulatory authority over such matters as construction, operations, accounting and rates.

Lakehead is an interstate common carrier within the meaning of the Interstate Commerce Act. The Federal Energy Regulatory Commission has regulatory authority over the rates, regulations, accounting and other practices of interstate common carrier oil pipe lines. In January 1979, the Commission instituted an investigation of Lakehead's tariffs. The investigation has now been stayed by the Commission pending its determination of general oil pipe line rate making standards in other rate proceedings presently in progress.

Foreign Exchange

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

Current assets and liabilities—

at the rate of exchange December 31;

Other assets and liabilities—

at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—

at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net losses arising from the foregoing methods are included on the Consolidated Statement of Earnings as Foreign exchange.

Discount and Expense on Long Term Debt

The balance of unamortized discount and expense is being amortized on the straight-line method over the life of the debt with adjustments as debt is retired. Amortization charged to earnings amounted to \$566,000 in 1979 and \$673,000 in 1978.

Pipe Line 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.

Interprovincial follows the accounting practice of capitalizing at an annual rate of 9.65%, an allowance for interest and equity costs on funds required to finance construction work in progress in Canada. This practice resulted in \$387,000 and \$365,000 being capitalized by Interprovincial in the years 1979 and 1978 respectively. Lakehead capitalizes interest during the construction period only when funds are borrowed for additions to the pipe line transportation system. Lakehead did not capitalize any interest during 1979 or 1978.

The companies provide for depreciation of fixed assets, excluding the Montreal Extension and Assets Specially Classified, on the straight-line method at annual rates which will amortize the costs of depreciable properties over their estimated service lives after taking into account possible salvage values. The rate of depreciation on these facilities averages approximately 3%.

In accordance with terms of the Deficiency Agreement with the Canadian Government (Note 2), Interprovincial is providing for depreciation of all Montreal Extension depreciable facilities on a 20-year straight-line basis.

The National Energy Board determined that certain facilities are not fully utilized and has ordered that the undepreciated cost of these Assets Specially Classified should be amortized over a period of five years. Effective July 1, 1978, Interprovincial commenced amortization of assets with a net book value on that date of \$14,740,000. This resulted in additional charges to earnings of \$2,190,000 and \$1,099,000 during 1979 and 1978 respectively.

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.

Deferred Income and Withholding Taxes

The companies follow the tax allocation basis of accounting. Under Canadian and United States income tax regulations depreciation deducted for tax purposes may differ from the amount recorded in the accounts; also, during construction periods interest capitalized and, in the United States, sales taxes capitalized, may be claimed for tax purposes in the year incurred. The companies are using the maximum deductions permitted for tax purposes which result in deferral of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts.

Earnings of Lakehead are subject to a 15% 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 \$71,500,000 U.S. of Lakehead at December 31, 1979 because they have been reinvested in 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 during the year. There would be no material dilution of earnings per share if the stock options had been exercised during the year.

Pension Plans

Interprovincial and Lakehead have pension plans which cover substantially all employees. The principal amount of the unfunded liability for past service benefits, including experience deficiencies, was approximately \$9,650,000 at December 31, 1978. This amount, together with interest, will be charged to earnings in varying annual installments to 1993. The companies fund accrued pension costs. For the years ended December 31, 1979 and 1978 total costs of the plans amounted to \$2,957,000 and \$2,812,000 respectively, of which \$1,463,000 and \$1,414,000 were applicable to past service benefits. At December 31, 1978 pension fund assets exceeded the actuarially computed value of the vested portion of the benefits.

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. The option is exercisable within 120 days following the date upon which a deficiency payment is made.

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 and have resulted in deficiencies of \$5,320,000 and \$16,766,000 in the years 1979 and 1978 respectively.

**3. Pipe Line Transportation System:
Accumulated Depreciation and Amortization:**

The pipe line transportation system and accumulated depreciation and amortization by major classes were as follows:

	Investment, at cost	Accumulated depreciation & amortization	Net investment December 31	
	December 31, 1979		1979	1978
(in thousands of dollars)				
Land - - - - -	\$ 3,106		\$ 3,106	\$ 3,039
Rights-of-way - - - - -	14,885	\$ 5,863	9,022	9,454
Pipe line - - - - -	582,775	250,044	332,731	328,486
Pumping equipment, buildings and tanks - -	244,974	87,461	157,513	158,595
Montreal Extension - - - - -	248,034	44,292	203,742	215,869
Assets specially classified - - - - -	25,939	15,666	10,273	13,266
Construction in progress - - - - -	4,445		4,445	1,942
	<u>\$1,124,158</u>	<u>\$403,326</u>	<u>\$720,832</u>	<u>\$730,651</u>

4. Long Term Debt:

Long Term Debt (excluding current portion) outstanding at December 31 was as follows:
(in thousands of dollars)

	1979	1978
Interprovincial Pipe Line Limited		
First Mortgage and Collateral Trust Bonds—		
Series E—5½% due April 1, 1985 - - - - -	\$ 5,530	\$ 6,280
Sinking Fund Debentures (unsecured)—		
Series A—6% due November 1, 1986 - - - - -	18,704	21,000
B—9¾% due December 1, 1990 - - - - -	44,640	48,000
C—8½% due May 1, 1993 - - - - -	41,488	44,000
D—10% due July 15, 1996 - - - - -	75,000	75,000
E—10% due February 1, 1996 - - - - -	75,000	75,000
F—9% due May 1, 1996 - - - - -	42,520	45,180
Serial Debentures (unsecured)—		
Series D—9¼%, \$5,000 due annually July 15, 1980-1981 - - - - -	5,000	10,000
E—9¾%, \$5,000 due annually February 1, 1980-1981 - - - - -	5,000	10,000
Lakehead Pipe Line Company, Inc.		
Sinking Fund Debentures (guaranteed by Interprovincial)—		
Series A—6½% due August 1, 1992 (1979—\$10,593 U.S.; 1978—\$10,603 U.S.) - - - - -	11,404	11,415
B—7½% due April 15, 1993 (1979—\$51,500 U.S.; 1978—\$55,735 U.S.) - - - - -	55,451	60,011
C—7.60% due June 15, 1997 (1979—\$25,365 U.S.; 1978—\$29,990 U.S.) - - - - -	24,961	29,512
	<u>\$404,698</u>	<u>\$435,398</u>

The First Mortgage and Collateral Trust Bonds of Interprovincial are secured by charges on all its assets; no further Bonds may be issued.

Principal repayments required on Long Term Debt for the years ended December 31, 1981 through 1984 are \$18,672,000, \$24,042,000, \$25,356,000, and \$25,486,000 respectively.

Long Term Debt payable in U.S. currency translated at historical rates of exchange amounts to \$91,816,000 and if translated at the December 31, 1979 rate of exchange would be \$102,160,000.

5. Capital Stock:

	December 31	
	1979	1978
Number of common shares, par value \$1 each		
Authorized - - - - -	100,000,000	100,000,000
Issued - - - - -	25,619,525	25,573,630

At December 31, 1978 the authorized share capital of Interprovincial consisted of 100,000,000 Class A and 100,000,000 Class B convertible common shares but no more than 100,000,000 shares of both classes could be outstanding at any one time. At the April 11, 1979 Special General Meeting, shareholders approved a By-law authorizing the redesignation of Class A and Class B convertible common shares as one class of 100,000,000 common shares.

The By-law also permits Directors of Interprovincial to pay the shareholders who have so elected a stock dividend in fully-paid non-assessable common shares in lieu of cash. During the year ended December 31, 1979, 39,295 shares were issued from treasury as stock dividends.

Under the Employee Incentive Stock Option Plan, options have been granted to full-time employees to purchase shares of capital stock at not less than 90% of market value of the shares on the day that the options were granted. No further shares are available for future grants. During 1979, options for 6,600 shares were exercised for a total cash consideration of \$112,000 and options for 31,500 shares were terminated under the terms of this plan. At December 31, 1979 options were outstanding on a total of 131,925 shares at prices ranging from \$14.75 to \$25.80 per share, exercisable for varying periods up to December 1988. Outstanding options include 50,500 shares to officers and a past officer.

Cash received from the exercise of stock options and shares issued under the stock dividend program was credited to Capital stock to the extent of \$1 par value for each share issued and the remainder of \$767,000 was credited to Contributed surplus.

6. Remuneration of Directors and Officers:

In 1979 aggregate remuneration of eleven directors, two of whom were not paid as directors, was \$61,000. Aggregate remuneration of five officers, two of whom are also directors was \$379,000. No director or officer received remuneration from any subsidiary.

7. Norman Wells Pipe Line Project:

Interprovincial has announced that it intends to file an application with the National Energy Board early in 1980 to construct an 866 km 324 mm oil pipe line from the Norman Wells oilfield in the Northwest Territories to the Zama Lake area of northwestern Alberta. Preliminary cost estimates for the project have not been finalized but are estimated at \$300 to \$400 million, the major portion of which will be financed by long term debt. Providing necessary approvals are obtained by the fall of 1980 the line could be in operation in 1983.

8. Statement Presentation:

The 1978 comparative figures have been adjusted to conform to the presentation adopted in the current period.

TEN YEAR REVIEW

Financial (in thousands of dollars except per share amounts)	1979
Income—Transportation revenue - - - - -	\$ 315,176
—Deficiency Agreement - - - - -	\$ 5,320
—Other income - - - - -	\$ 10,323
Expenses—Operating—power and fuel - - - - -	\$ 74,020
—other - - - - -	\$ 44,806
—Property and other taxes - - - - -	\$ 16,975
—Depreciation - - - - -	\$ 40,992
—Interest - - - - -	\$ 40,175
Income taxes - - - - -	\$ 58,339
Earnings - - - - -	\$ 55,512
per share, weighted average - - - - -	\$ 2.17
Dividends paid - - - - -	\$ 37,744
per share - - - - -	\$ 1.47½
percentage of earnings - - - - -	68%
Working capital (deficit) - - - - -	\$ 56,626
Funds provided from operations - - - - -	\$ 101,287
Additions to pipe line system - - - - -	\$ 29,133
Investment in pipe line system (cost) - - - - -	\$1,124,158
Long term debt - - - - -	\$ 404,698
 Statistical	
Shares outstanding at year end (thousands) - - - - -	25 620
Percentage of shares registered in Canada - - - - -	95%
Shareholders at year end - - - - -	21 747
Number of employees at year end - - - - -	802
Investment in pipe line system, per employee - - - - -	\$1,402,000
 Receipts (m ³ /d)	
—Alberta - - - - -	168 711
—Saskatchewan - - - - -	24 375
—Manitoba - - - - -	1 731
—Ontario - - - - -	708
—United States - - - - -	45 949
	<u>241 474</u>
 Deliveries (m ³ /d)	
Canada—Prairie Provinces - - - - -	22 309
—Ontario - - - - -	105 437
—Quebec - - - - -	49 046
	<u>176 792</u>
United States—Minnesota-Wisconsin - - - - -	25 920
—Illinois-Indiana - - - - -	2 675
—Michigan-Ohio - - - - -	16 973
—New York-Pennsylvania - - - - -	19 089
	<u>64 657</u>
	<u>241 449</u>
Cubic metre kilometres (millions) - - - - -	195 958
Average haul (kilometres)- - - - -	2 224
Average transportation revenue (including Deficiency Agreement)	
—per cubic metre - - - - -	\$3.64
—per 100 cubic metre kilometres- - - - -	16.4¢

1978	1977	1976	1975	1974	1973	1972	1971	1970
269,989	245,699	196,712	194,715	192,944	202,831	164,207	144,393	133,707
16,766	28,988	20,209	—	—	—	—	—	—
7,723	4,766	3,725	2,300	2,074	2,461	1,689	2,871	1,643
56,428	47,424	30,902	27,550	31,603	30,699	18,735	13,213	11,186
39,658	44,423	30,924	26,491	27,277	22,075	18,088	17,176	16,164
16,913	15,371	12,675	12,588	11,218	8,415	9,612	8,814	9,643
39,580	38,479	32,224	24,889	24,044	21,803	19,674	18,115	17,519
43,242	44,657	34,399	23,273	24,724	21,481	19,010	18,890	18,810
51,847	45,252	40,407	43,323	40,567	53,034	40,693	35,416	32,531
46,810	43,847	39,115	38,901	35,585	47,785	40,084	35,640	29,497
1.83	1.71	1.53	1.52	1.39	1.87	1.57	1.40	1.16
34,524	30,688	30,688	30,688	30,688	28,127	23,976	21,892	20,352
1.35	1.20	1.20	1.20	1.20	1.10	0.94	0.86	0.80
74%	70%	78%	79%	86%	59%	60%	61%	69%
52,354	40,791	11,499	(22,575)	(16,695)	(4,800)	(707)	(818)	31,848
93,258	91,907	87,876	78,859	69,193	84,230	70,510	61,719	52,825
9,413	20,197	113,587	151,202	31,192	94,056	66,022	44,783	17,795
1,098,376	1,091,747	1,085,984	978,725	828,725	801,416	708,688	646,172	602,312
435,398	474,483	487,859	396,588	296,554	315,874	282,142	264,279	292,829
25 573	25 573	25 573	25 573	25 573	25 573	25 527	25 476	25 443
95%	95%	93%	95%	94%	94%	94%	93%	93%
21 957	21 942	20 359	21 010	20 423	19 621	18 864	19 576	21 066
791	798	790	755	751	730	706	677	641
1,389,000	1,368,000	1,375,000	1,296,000	1,103,000	1,098,000	1,004,000	954,000	940,000
147 937	151 087	138 762	146 855	168 394	180 358	139 437	118 134	104 781
25 420	25 526	23 195	23 527	30 661	34 550	34 605	34 488	35 737
1 771	1 842	1 782	1 941	2 096	2 259	2 373	2 475	2 614
1 207	397	247	254	134	657	508	437	130
47 338	43 551	26 492	12 139	6 713	1 768	1 341	513	410
<u>223 673</u>	<u>222 403</u>	<u>190 478</u>	<u>184 716</u>	<u>207 998</u>	<u>219 592</u>	<u>178 264</u>	<u>156 047</u>	<u>143 672</u>
19 388	19 831	19 627	21 846	24 751	23 365	18 424	18 459	18 495
96 209	94 061	83 829	81 070	83 395	74 352	65 836	62 101	60 475
43 681	37 007	13 304	—	—	—	—	—	—
<u>159 278</u>	<u>150 899</u>	<u>116 760</u>	<u>102 916</u>	<u>108 146</u>	<u>97 717</u>	<u>84 260</u>	<u>80 560</u>	<u>78 970</u>
23 653	28 776	27 333	26 422	26 925	31 061	27 894	25 289	22 674
2 216	2 475	3 968	12 996	26 112	36 438	23 105	14 192	7 919
17 920	18 895	19 205	22 456	26 239	31 937	22 719	19 085	19 359
21 085	21 487	20 825	19 575	20 283	21 729	19 286	16 183	14 241
64 874	71 633	71 331	81 449	99 559	121 165	93 004	74 749	64 193
<u>224 152</u>	<u>222 532</u>	<u>188 091</u>	<u>184 365</u>	<u>207 705</u>	<u>218 882</u>	<u>177 264</u>	<u>155 309</u>	<u>143 163</u>
176 427	173 880	148 183	148 801	171 054	180 816	146 654	125 020	113 629
2 156	2 140	2 153	2 211	2 256	2 263	2 261	2 205	2 174
3.51	3.38	3.15	2.89	2.54	2.54	2.53	2.55	2.56
16.3	15.8	14.6	13.1	11.3	11.2	11.2	11.5	11.8

CORPORATE INFORMATION

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pig through
the pipe line.





