

C

Interprovincial Pipe Line Limited



Annual Report 1983

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 20 1984
MCGILL UNIVERSITY

Financial and statistical highlights

Financial	1983	1982	Increase
Transportation revenue	\$405,304,000	\$358,604,000	13%
Expenses, excluding taxes	230,907,000	211,587,000	9%
Income and other taxes	119,049,000	100,394,000	19%
Earnings	97,006,000	74,742,000	30%
per share	3.38	2.90	17%
Dividends paid	46,746,000	41,213,000	
per share	1.60	1.60	
Capital expenditures	92,581,000	19,634,000	
Cash provided from operations	141,507,000	129,403,000	

Statistical	1983	1982	Increase
Deliveries (cubic metres per day)			
By quarters			
First	201 281	189 927	
Second	180 962	176 659	
Third	200 863	198 790	
Fourth	212 175	198 172	
Yearly average	198 856	190 931	
Highest month	216 124	212 350	
Lowest month	174 825	150 658	
Cubic metres delivered	72 582 000	69 690 000	4%
Cubic metre kilometres (millions)	171 221	159 739	7%

Common stock trading and dividends

Quarter	1983				1982			
	Volume	High	Low	Dividends paid	Volume	High	Low	Dividends paid
First	1,316,400	\$28¼	\$21¼	\$.40	606,800	\$15½	\$13½	\$.375
Second	1,083,600	29½	26¼	.40	1,167,000	17½	15¼	.375
Third	1,078,200	31½	25¾	.40	2,344,300	20⅞	16	.375
Fourth	952,200	34¼	28¾	.40	1,236,200	24½	19⅞	.475
				\$1.60				\$1.60

1 cubic metre (m³) = 6.3 barrels

1 kilometre (km) = 0.6 miles

1 millimetre (mm) = 0.04 inches

Directors' report to shareholders

Earnings for 1983 achieved a record \$97 million, a 30% increase over 1982 earnings of \$75 million. Earnings per share were \$3.38 and \$2.90. The improved earnings were largely attributable to increased light and heavy crude exports to the United States, as well as higher average tariffs throughout the year. The volume of oil transported in the pipeline system increased by 4% to 199 000 cubic metres per day (m³/d) reversing the downward trend in deliveries over the previous three years.

The most important corporate development of the year was the \$354 million share exchange with Hiram Walker Resources Ltd. (HWR) in October which resulted in the "Canadianization" of the Company under the Foreign Investment Review Act (FIRA). Acquisition of a major share position in one of the country's leading companies provides shareholders with an investment in the petroleum resource sector. In addition to broadening the financial strength of the Company through an increased equity base, the restructuring overcomes FIRA constraints and has a significant impact on the Company's future diversification strategy. During 1984 we will continue to search for an appropriate acquisition in the oil and gas exploration and production sector.

After four years of development and preparation, construction on the Norman Wells pipeline commenced in January 1984. Despite working under severe Arctic winter conditions, the project is proceeding on schedule. Construction of the pipeline, which is expected to take place primarily during the winters of 1984 and 1985, is highlighted in the photographs in this Report.

The estimated \$450 million capital cost of the pipeline is being financed on the basis of 75% debt and 25% equity.

Financial support for the project is provided by the Norman Wells Pipeline Agreement with Imperial Oil Limited under which Imperial is required to pay amounts which will service the debt incurred to finance construction of the line. The Pipeline Agreement, which has received the approval of the National Energy Board (NEB) for rate making purposes, provides that Imperial will pay the full cost-of-service for transportation based on a tariff which includes a rate of return of 16% on equity.

Initial throughput from production facilities at Norman Wells is anticipated to be 3 300 m³/d. It is encouraging to note that several companies are exploring for oil in the vicinity of the pipeline route now that pipeline construction is moving forward.

Construction of the new 467 kilometre (km) crude oil pipeline by Frontier Pipeline Company in which the Company is a 35% partner was completed on schedule and the line was placed in service in December. This line, which runs from the Wyoming-Utah Overthrust Belt to Casper, Wyoming, was completed well under budget. Final construction costs are estimated to be \$52 million U.S.

During the past few years there has been a rationalization and significant reduction of refining capacity in the Company's service area. Meanwhile, major refineries have increased capacity in Alberta which should result in increased volumes of refined products being available for shipment through the Company's facilities. In addition, while heavy crude oil production is increasing, there is a decline in light gravity crude oil production. The Company continues to follow these developments closely, formulating long range plans to alter and adapt its pipeline system to transport increasing volumes of heavy crude oil from planned bitumen plants, as well as being responsive to changing future requirements of shippers for transportation of other liquid hydrocarbons.

Norman Wells Pipeline Project

Construction of the 866 km 324 mm diameter Norman Wells pipeline continues as planned with completion scheduled for mid-1985. Clearing of the right-of-way started in early 1983 and was carried out by northern community based contractors.

Since the line crosses areas of intermittent permafrost as well as muskeg, the use of heavy pipe laying equipment will be restricted to 90 day construction periods during the winters of 1984 and 1985 when frozen ground can be assured.

During the past year major contracts were awarded for the manufacture, coating, and transportation of mainline pipe from Canadian plants. Over half of the material is now on site. Two construction contracts were awarded covering the installation of the mainline pipe to be carried out over the two winter periods. A single contract was awarded for the pipeline crossing of the Mackenzie River.

Three construction camps have been built adjacent to the right-of-way and mainline construction is currently well underway from Norman Wells south, from Zama north and in the central area near Fort Simpson. The Mackenzie River crossing has been drilled and blasted this winter and pipe installation is scheduled for the fall.

All main pumping equipment has been ordered and deliveries have started. Pump station construction will begin this summer with completion scheduled for next winter. The necessary communications and control system has been partially completed for use during the construction period.

The involvement of Northerners and northern businesses is a key factor in the Company's community relations policy. We have exceeded our targets in this area and over \$20 million in contracts for goods and services have been awarded resulting in

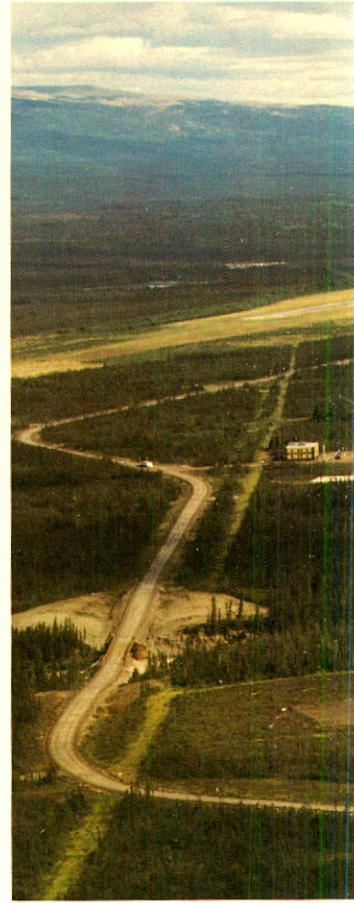
substantial northern employment opportunities. This figure is expected to double due to subcontracting efforts by mainline contractors. In cooperation with governments, almost 200 Northerners have been trained for construction work. Further employment opportunities will follow for maintenance work.

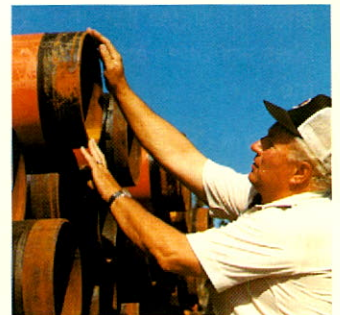
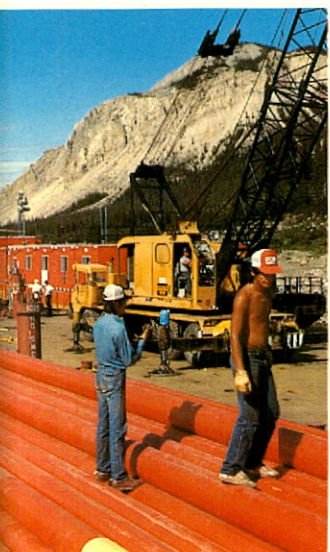
Quotations received from contractors and line pipe and other suppliers were significantly lower than originally forecast because of the economic slowdown. Consequently, the estimated cost of the project was reduced during the year from \$576 million to \$450 million. By year end total expenditures amounted to \$99 million and it is currently estimated that an additional \$200 million will be spent in 1984.

Diversification

As new pipeline opportunities in Canada are believed to be limited over the next decade, re-deployment of some of Interprovincial's assets is in the Company's best interest.

Due to the historical ownership of the Company, diversification in Canada has been potentially constrained by application of the FIRA. This impediment was overcome in October 1983 when shareholders approved a proposal to Canadianize the Company for purposes of the FIRA. The proposal included a share exchange with HWR and involved the issue of 13.6 million common shares of Interprovincial in exchange for an equal number of shares of HWR. As a result of this transaction, Interprovincial became the largest single shareholder of HWR with a 16% equity interest in that company while HWR became the largest single shareholder of Interprovincial, holding 34% of the Company's shares.





Seen above is Norman Wells, with pipeline point of origin in the foreground. During the summer of 1983 barges with pipe and equipment were moved along the Mackenzie River and unloaded at stockpile points along the pipeline route. Delivery was completed before the fall freeze-up.

HWR is one of Canada's largest publicly traded companies, with international operations in three main business areas; distilled spirits, natural resources, and natural gas distribution. The Company will account for its investment in HWR on an equity basis as it is in a position of significant influence.

The Canadianization proposal was provided for in an agreement made between Imperial and HWR. In that agreement, Imperial and HWR agreed to propose the share exchange to the Company and to enter into a Shareholders' Agreement which provides that the Company be controlled by its Board of Directors. The Agreement further provides that the Board would consist of 15 directors of whom 7 would be persons independent of each of Imperial and HWR and nominated by an Independent Directors Selection Committee. Of the remaining directors, 5 would be nominated by HWR and 3 by Imperial.

As a result of the foregoing arrangements, the Federal Minister of Industry, Trade and Commerce issued an opinion which in effect provides that the Company's business activities are no longer constrained by the FIRA.

With the Company's Canadian content issues resolved, its increased equity base and strong financial position, Interprovincial is now in a position to evaluate significant investments as part of its diversification program. The Company has identified the oil and gas exploration and production area as its most logical area for diversification and is currently reviewing opportunities that may exist for corporate acquisitions in Canada and the United States. If Interprovincial does diversify into this area, it should be eligible in Canada for maximum exploration and development incentive grants under the National Energy Program. The Company looks forward to achieving its general objectives of expanding into the exploration and production sector of the petroleum industry in 1984.

Operations

Deliveries of crude oil and other liquid hydrocarbons during 1983 averaged 199 000 m³/d, exceeding deliveries in 1982 by 8 000 m³/d. Measures implemented by the Canadian Government in mid-1982 to improve domestic crude oil production were continued throughout 1983. The Government encouraged the export of Canadian crude oil surplus to domestic requirements through competitive pricing and through the renewal of licenses for light crude oil exports. The displacement of foreign crude in Eastern Canada and the increased penetration of Canadian crude oil and refined products into the U.S. market were the main factors responsible for the increased deliveries. In addition, the Government continued the program that subsidized transportation costs for companies transshipping crude oil from Montreal to Quebec City and Atlantic refineries.

Receipts—by location

(in thousands of m ³ /d)	1983	1982
Alberta	153.3	141.2
Saskatchewan	25.9	22.5
Manitoba	2.1	1.7
Ontario	.5	.7
United States	17.1	25.4
	198.9	191.5

Deliveries—by type

(in thousands of m ³ /d)	1983	1982
Crude Oil		
Light	114.2	116.5
Medium and heavy	38.3	35.0
Oil sands	18.2	13.3
Natural Gas Liquids		
Condensate	7.9	7.6
Propane/butane mix	9.2	10.5
Refined Products	11.1	8.0
	198.9	190.9

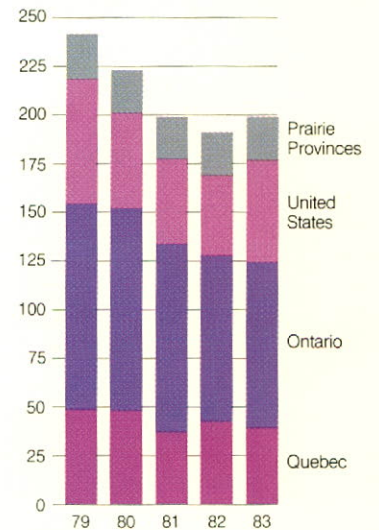




Arctic ditching machine cuts through permafrost as seen in wall of the ditch. A view along the right-of-way shows sections of pipe being positioned for the welding team. Hugh Sangster, Assistant Project Manager, reviews progress with Brian Thomas at Fort Simpson.

Deliveries

(in thousands of m³/d)



Tariffs and Rate Regulation

In Canada, the NEB regulates tariffs charged by Interprovincial for the transportation of crude oil, natural gas liquids and refined petroleum products. In the U.S., rates charged by Lakehead are subject to approval by the Federal Energy Regulatory Commission (FERC).

As a result of tariff filings in 1983, combined Interprovincial and Lakehead rates for representative shipments from Edmonton are:

Destination	Rates for light crude per m ³
Regina	\$1.53
Clearbrook	3.28
Superior	3.93
Chicago	5.21
Sarnia	5.69
Toronto	6.11
Buffalo	6.29
Montreal	6.81

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

A public hearing was held late in the year to consider the Company's request for an increase in Canadian tolls to be effective January 1, 1984. The application reflected revised throughput and expense estimates as well as an increase in the allowed return on rate base. A decision from the NEB on this matter is expected shortly.

Financial Review

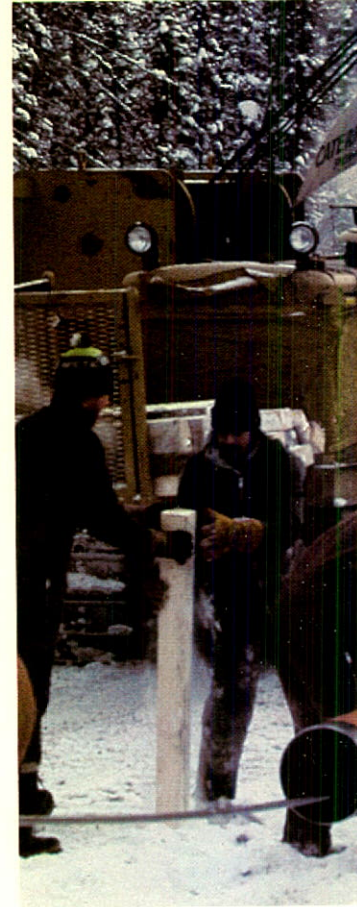
Earnings in 1983 were \$97 million or \$3.38 per share compared with \$75 million or \$2.90 per share in the previous year. As a result of the share exchange with HWR, average shares outstanding increased to 28.7 million from 25.8 million in 1982. Earnings in 1983 included for the first time Interprovincial's share of the earnings of HWR from October 1, 1983 in the amount of \$8,683,000. (For selected financial results of HWR refer to the table below).

Consolidated transportation revenue was \$405 million in 1983 compared with \$359 million in 1982. Interest and other income was up from \$21 million to \$26 million due mainly to a higher amount of carrying costs capitalized on the Norman Wells construction project.

**Hiram Walker Resources Ltd.
Financial Highlights**

(in millions of dollars except per share amounts)	Three months ended December 31		Year ended September 30		
	1983	1982	1983	1982	1981
	(unaudited)				
Revenue	\$1,008	\$ 984	\$3,403	\$3,360	\$2,901
Net income applicable to participating shares	68	49	142	99*	222
Net income per participating share	0.85	0.70	2.03	1.43*	3.23
Dividends per participating share	0.33	0.33	1.32	1.32	1.32
Total assets	5,284	5,018	4,840	4,964	4,918

*before unusual item

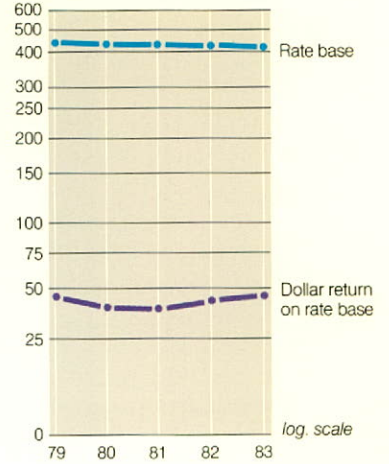


Welding team joins pipe sections. Prior to welding, the pipe ends are heated by propane torch in -35°C weather.



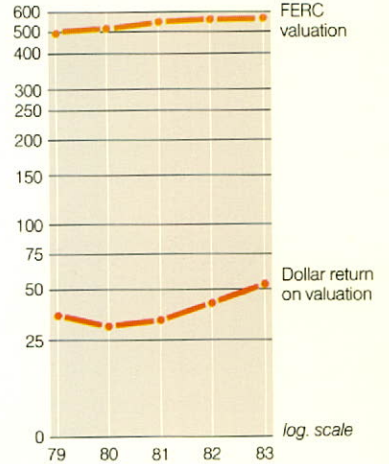
Interprovincial rate base and return

(in millions of dollars)



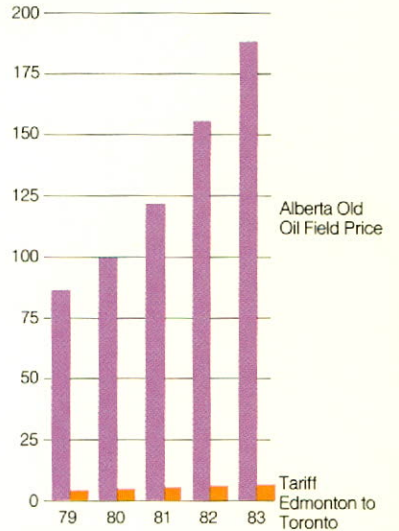
Lakehead rate base and return

(in millions of dollars U.S.)



Wellhead Oil Price vs. Pipeline Tariff

(in dollars per m³)



Total expenses in 1983, including interest, increased by \$21 million to \$253 million. Electric power costs of \$80 million accounted for most of this increase and reflected higher transportation volumes. In addition to \$38 million for salaries, wages and benefits, operating and administrative expenses in 1983 included repairs to main-line, equipment and tanks, oil losses, rents, supplies and other services. Property and other taxes paid to municipal and other local governments amounted to \$22 million.

The quarterly dividend rate of 40¢ per share which became effective December 1, 1982 was continued in 1983 and maintained the annual dividend rate at \$1.60 per share.

Net cash generated internally and available for capital investment was \$70 million in 1983. This amount together with \$88 million raised through external debt was used to finance additions to the pipeline transportation system of \$93 million including \$72 million for the Norman Wells project. The balance of \$65 million was added to cash and net short term investments.

Of the \$88 million in debt funds raised, \$50 million was obtained at par in the European capital market at a cost of 12¼% to mature May 1, 1993. The remaining \$38 million was raised through loans with Canadian banks to provide interim financing for the Norman Wells project.

An additional \$354 million of equity was issued in October 1983 through the exchange of 13.6 million common shares of Interprovincial at \$26 per share for an equal number of HWR shares at the same price.

In the fall, the Company and its subsidiary, Interprovincial Pipe Line (NW) Ltd., finalized an agreement with two Canadian chartered banks to provide all of the required debt financing for the Norman Wells project. Under this facility, the Company may borrow up to \$412.5 million, repayable over a ten-year term commencing with the completion of the project. The loan is secured by an assignment of the financial obligations of Imperial Oil as set out in the Pipeline Agreement.

It is intended to issue fixed rate, long term debt securities to replace bank indebtedness related to the project over the next few years. In this regard, a prospectus has recently been filed with the various securities commissions in Canada. These debentures will be secured in a manner similar to the bank loan, relying on the pipeline's principal shipper, Imperial, for credit support. The debenture terms have been reviewed by both major bond rating agencies in Canada and have received AA ratings.

During the year the Company instituted a commercial paper program to provide a source of short term financing at lower interest rates than are available from conventional banking sources. This program provides improved flexibility to finance pipeline and other projects. The market reception to Interprovincial's commercial paper has been excellent, and the interest costs have been consistent with those of high quality Canadian credits.

In conclusion, the Company's financial condition was significantly enhanced in 1983. Shareholders' equity increased to \$663 million or \$17 per share by the end of the year. The ratio of long term debt to long term debt plus equity improved from 53% to 38% and earnings coverage of interest increased from 5.6 times to 6.3 times.

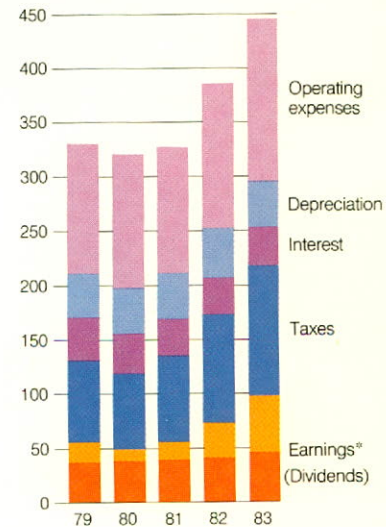


Side-boom tractors manoeuvre bent and weighted pipe prior to lowering. Backfilling is followed by cleanup and a rigorous site inspection program.



Distribution of revenue

(in millions of dollars)



*includes equity in earnings of HWR in 1983

Capital Expenditures

1983 Review

Capital expenditures on the existing system totalled \$21 million in 1983. The delay in obtaining terminal site approval on the project to convert an existing pipeline to propane service between Sarnia and the Hamilton area resulted in a modest capital program. Other projects included improved injection facilities at Hardisty, Alberta, additional refined product tankage at Gretna, Manitoba and the modification of certain pump stations in Western Canada.

1984 Forecast

Capital expenditures for 1984 are estimated at \$39 million on the existing system including \$12 million to complete projects started in 1983.

The Company has applied to the NEB for approval to install 13 km of pipeline to connect the Gulf refinery at Clarkson, Ontario to the Sarnia-Montreal pipeline. Assuming NEB approval, this facility will be constructed at a cost of \$11 million with completion scheduled for the fourth quarter of 1984. This line will assist in the more efficient utilization of existing refining installations at Clarkson and Montreal.

Other projects include upgrading of computer equipment and pipeline control and the construction of a new office building in Superior, Wisconsin.

General

During the year Mr. R. C. Gimlin resigned from the Board of Directors. His contributions and valuable counsel are gratefully acknowledged. At a Special Meeting of Shareholders held in October, Messrs. A. E. Downing, R. F. Haskayne, H. C. Hatch, Sr., A. R. McCallum, R. B. Peterson, and W. J. Young were elected new directors of the Company.

A significant factor in the Company's continuing success is the dedication and skill of our employees. The directors and management wish to extend our appreciation for their commitment and support.



R. K. Heule, President
& Chief Executive Officer

Interprovincial Pipe Line Limited

and subsidiary companies

Consolidated statement of earnings

For the year ended December 31	1983	1982
(In thousands of dollars except per share amounts)		
Income:		
Transportation revenue	\$405,304	\$358,604
Montreal Extension Deficiency Agreement (<i>Note 3</i>)	7,369	7,410
Interest and other income	25,606	20,709
	<u>438,279</u>	<u>386,723</u>
Expenses:		
Power	79,862	65,512
Operating and administrative	68,794	68,494
Property and other taxes	22,230	20,507
Provision for depreciation and amortization	45,470	44,050
Interest on long term debt	36,781	33,531
	<u>253,137</u>	<u>232,094</u>
Earnings before the undernoted	185,142	154,629
Provision for income taxes:		
Current	89,672	67,997
Deferred	6,294	6,920
Deferred investment tax credits	853	4,970
	<u>96,819</u>	<u>79,887</u>
	<u>88,323</u>	<u>74,742</u>
Equity in earnings of Hiram Walker Resources Ltd.	8,683	
Earnings for the year	\$ 97,006	\$ 74,742
Earnings per share	\$ 3.38	\$ 2.90

Consolidated statement of retained earnings

For the year ended December 31	1983	1982
(In thousands of dollars except per share amounts)		
Balance at beginning of year	\$249,596	\$216,067
Earnings for the year	97,006	74,742
	<u>346,602</u>	<u>290,809</u>
Dividends (\$1.60 per share)	45,868	41,213
Balance at end of year	\$300,734	\$249,596

Interprovincial Pipe Line Limited

and subsidiary companies

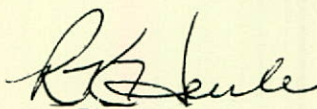
Consolidated balance sheet

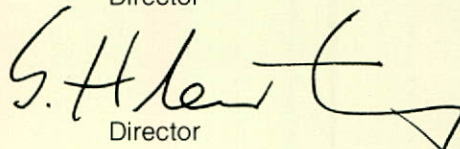
As at December 31

(In thousands of dollars)

	1983	1982
Assets		
Current Assets:		
Cash, including bank term deposits	\$ 120,540	\$ 81,348
Short term investments, at lower of cost and market	78,117	24,689
Accounts receivable—		
Transportation charges	26,523	27,054
Other	6,752	7,839
Materials and supplies, at cost	3,453	3,427
Prepaid expenses	553	502
	<u>235,938</u>	<u>144,859</u>
Deferred Charges and Other Assets (Note 4)	15,978	18,154
Investment in Hiram Walker Resources Ltd., after deducting reciprocal shareholdings of \$57,044 (Note 5)	301,629	
Pipeline Transportation System, at cost (Note 6)	1,381,022	1,200,038
Less—Accumulated depreciation and amortization	588,063	505,647
	<u>792,959</u>	<u>694,391</u>
	<u>\$1,346,504</u>	<u>\$ 857,404</u>

The financial statements have been approved by the Board:


Director


Director

	1983	1982
Liabilities		
Current Liabilities:		
Bank loan	\$ 27,500	
Accounts payable	26,489	\$ 18,997
Interest accrued	12,850	9,011
Income and other taxes	14,002	25,202
Current portion of long term debt	8,812	9,804
	<u>89,653</u>	<u>63,014</u>
Long Term Debt (Note 7)	409,589	332,592
Deferred Income Taxes	164,548	144,092
Deferred Investment Tax Credits	19,350	16,573
Shareholders' Equity		
Capital Stock (Note 8)	383,116	28,270
Contributed Surplus	23,265	23,267
Retained Earnings	300,734	249,596
Foreign Currency Translation Adjustments (Note 2)	13,293	
Reciprocal Shareholdings (Note 5)	(57,044)	
	<u>663,364</u>	<u>301,133</u>
	<u>\$1,346,504</u>	<u>\$ 857,404</u>

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, 1983 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, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in accounting for foreign currency translation as referred to in the summary of significant accounting policies, have been applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 3, 1984

Price Waterhouse
Chartered Accountants

Interprovincial Pipe Line Limited

and subsidiary companies

Consolidated statement of changes in financial position

For the year ended December 31	1983	1982
(In thousands of dollars)		
Cash generated internally:		
Earnings for the year	\$ 97,006	\$ 74,742
Charges (credits) to earnings not affecting cash—		
Depreciation and amortization	45,470	44,050
Deferred income taxes	6,294	6,920
Deferred investment tax credits	853	4,970
Equity in undistributed earnings of Hiram Walker Resources Ltd.	(4,195)	
Other	(3,921)	(1,279)
Provided from operations	141,507	129,403
Decrease in non-cash working capital	1,672	5,222
	143,179	134,625
Cash required:		
Dividends—		
Regular	45,868	41,213
Reciprocal shareholdings	878	
Long term debt retirements	26,757	21,727
	73,503	62,940
Net cash generated internally	69,676	71,685
Cash invested:		
Pipeline transportation system	92,581	19,634
Shares of Hiram Walker Resources Ltd.	353,600	
Other	2,323	13,081
	448,504	32,715
Net cash (deficiency) excess	(378,828)	38,970
External financing:		
Norman Wells pipeline project financing	38,126	
Debentures issued	50,000	
Capital stock issued to—		
Hiram Walker Resources Ltd.	353,600	
Others	1,246	1,028
	442,972	1,028
Increase in cash before the undernoted	64,144	39,998
Effect of exchange rate changes	976	
Increase in cash	65,120	39,998
Cash at beginning of year	106,037	66,039
Cash at end of year	\$171,157	\$106,037

For purposes of this statement cash is defined as cash and short term investments less current bank loan.

Interprovincial Pipe Line Limited

and subsidiary companies

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 International Accounting Standards.

Principles of consolidation

The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited and its wholly-owned subsidiaries, Interprovincial Pipe Line (NW) Ltd. and Interprovincial Pipe Line (Alberta) Ltd., in Canada and Lakehead Pipe Line Company, Inc. 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. Under this method the investment is carried at cost plus the equity in undistributed earnings less the amortization of the excess of the purchase price over the net book value of the HWR shares acquired at the acquisition date.

Regulation

Interprovincial 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.

Translation of United States funds

Prior to 1983 Interprovincial followed the current/non-current method of accounting for the assets and liabilities of its U.S. subsidiary. The current rate method has been applied prospectively commencing in 1983.

Under the current rate method the accounts of the company'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 are reflected in 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. Amortization charged to earnings amounted to \$598,000 in 1983 and \$421,000 in 1982.

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 funds required to finance construction in Canada. This practice resulted in \$6,978,000 and \$2,695,000 being capitalized by these companies in the years 1983 and 1982 respectively.

Lakehead complies with the Financial Accounting Standards statement Capitalization of Interest Cost. In the years 1983 and 1982, interest costs incurred of \$125,000 and \$49,000 respectively were capitalized as part of the cost of newly-constructed facilities.

The companies provide for depreciation of fixed assets, excluding the Montreal Extension and Assets Specially Classified, on the straight-line basis at rates that average approximately 3%.

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.

The National Energy Board determined that certain facilities were not fully utilized and ordered that the undepreciated cost of these Assets Specially Classified be amortized over the five-year period ended June 30, 1983.

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 directed by regulatory authorities.

Deferred income and withholding taxes

The companies follow 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 companies claim deductions permitted for tax purposes which results 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 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 \$79,783,000 U.S. of Lakehead at December 31, 1983 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 of 28,671,674 and 25,761,534 in 1983 and 1982 respectively. Shares of the company issued to HWR less the company's pro rata interest in its shares held by HWR were included in the weighting effective October 1, 1983. There would have been no material dilution of earnings per share if outstanding stock options had been exercised during the year.

2. Change in Accounting Policy:

Effective January 1, 1983 Interprovincial prospectively changed its accounting policy for foreign currency translation to conform with recently revised recommendations of the Canadian Institute of Chartered Accountants.

This change, which affects the method of translating the financial statements of the company's U.S. subsidiary, resulted in an increase in the

Pipeline Transportation System of \$42,898,000 offset by increases in Long Term Debt and other accounts of \$29,605,000. The resultant foreign currency translation adjustments of \$13,293,000 are included in Shareholders' Equity. The effect of the change has been to decrease earnings for the year by \$2,305,000.

3. 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 and have resulted in deficiencies of \$7,369,000 and \$7,410,000 in the years 1983 and 1982 respectively.

4. Deferred Charges and Other Assets:

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

(in thousands of dollars)	1983	1982
Unamortized discount and expense on long term debt	\$ 3,948	\$ 3,058
Equity in IPL office building	2,404	2,578
Purchased tax benefits	6,606	9,256
Other	3,020	3,262
	<u>\$15,978</u>	<u>\$18,154</u>

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.

5. Investment in Hiram Walker Resources Ltd.:

In October 1983 Interprovincial acquired 13,600,000 Class D Preference Shares, Second Series of HWR at a price of \$26 per share in exchange for an equal number of the company's common shares. These Class D Preference Shares are equivalent to common shares of HWR in respect of voting rights, dividends and equity participation.

The investment in HWR of \$353,600,000 exceeded the book value of the HWR shares acquired by \$115,848,000. This excess is being amortized on the straight-line basis over a period

of 40 years. Amortization charged to earnings amounted to \$724,000 in 1983.

The company's investment in HWR represents a 16.1% equity interest therein and HWR's investment in Interprovincial represents 34.5% of the company's issued common shares; as a result Interprovincial has a pro rata interest of 5.6% (16.1% of 34.5%) in its own shares. Accordingly, both the Investment in HWR and Shareholders' Equity have been reduced by the reciprocal shareholdings of \$57,044,000.

6. 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)			
		1983		1982
	Cost	Accumulated depreciation & amortization	Net	Net
Land	\$ 3,584		\$ 3,584	\$ 3,862
Rights-of-way	17,270	\$ 8,554	8,716	7,844
Pipeline	664,310	353,313	310,997	299,242
Pumping equipment, buildings and tanks	318,251	106,992	211,259	190,969
Montreal Extension	249,443	94,220	155,223	167,666
Assets Specially Classified	24,984	24,984		1,550
Construction in progress—				
Norman Wells pipeline project	98,942		98,942	21,389
Other	4,238		4,238	1,869
	\$1,381,022	\$588,063	\$792,959	\$694,391

Norman Wells pipeline project

The National Energy Board has issued a Certificate of Public Convenience and Necessity to Interprovincial Pipe Line (NW) Ltd., authorizing construction of a 324 mm diameter pipeline 866 km in length from Norman Wells in the Northwest Territories to Zama in northern Alberta. Construction commenced in 1983 with completion scheduled

for mid-1985. The pipeline is designed to transport crude oil and other liquid hydrocarbons from expanded production facilities at Norman Wells. Interprovincial Pipe Line (NW) Ltd. will finance the project, currently estimated to cost \$450,000,000, on the basis of 75% debt and 25% equity. The Norman Wells Pipeline Agreement entered into with Imperial Oil Limited provides the financial support to the project.

7. Long Term Debt:

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

(in thousands of dollars)	1983	1982
Interprovincial Pipe Line Limited		
Sinking Fund Debentures (unsecured)—		
Series A—6½% due November 1, 1986	\$ 14,000	\$ 15,400
B—9½% due December 1, 1990	36,000	38,400
C—8½% due May 1, 1993	33,907	36,000
D—10½% due July 15, 1996	60,000	65,000
E—11½% due February 1, 1996	59,638	64,985
F—10½% due May 1, 1996	31,880	34,540
Debentures (unsecured)—		
Series G—12¼% due May 1, 1993	50,000	
Interprovincial Pipe Line (NW) Ltd.		
Project Financing—interest rate approximating bank prime rate	38,126	
Lakehead Pipe Line Company, Inc.		
Sinking Fund Debentures (guaranteed by Interprovincial)—		
Series A—6½% due August 1, 1992 (1983—\$10,478 U.S.; 1982—\$10,588 U.S.)	13,039	11,399
B—7½% due April 15, 1993 (1983—\$36,912 U.S.; 1982—\$40,717 U.S.)	45,933	43,841
C—7.60% due June 15, 1997 (1983—\$21,750 U.S.; 1982—\$23,400 U.S.)	27,066	23,027
	\$409,589	\$332,592

On March 14, 1983 Interprovincial's debenture-holders approved certain amendments to the company's 1966 Trust Indenture. In recognition of the debentureholders' approval of the amendments, the company increased the coupon rates on all outstanding Interprovincial Sinking Fund Debentures by ½ of 1% per annum commencing on that date.

In order to provide initial financing for the Norman Wells pipeline project the company entered into a Bank Loan Agreement dated September 2, 1983. This Agreement provides for the anticipated requirements of \$337,500,000 plus an overrun facility of up to \$75,000,000. Funds available under the Agreement will be reduced by the

amount of other long term fixed rate indebtedness incurred to finance the pipeline project. Loans provided under the Agreement are repayable over a 10-year term commencing with the completion of the project and may be repaid at any time without penalty. Minimum quarterly payments of principal are required to be the greater of 1% of the loans outstanding at the time of completion or an amount based on depreciation expense of the pipeline project.

Principal repayments required on Long Term Debt, excluding Project Financing, for the years ended December 31, 1985 through 1988 are \$24,926,000, \$37,286,000, \$26,393,000 and \$26,393,000 respectively.

8. Capital Stock:

On October 19, 1983 Interprovincial's shareholders passed a Special Resolution which fixed the maximum number of common shares which the company is authorized to issue at 42,000,000. The company is authorized to issue an unlimited number of non-voting preferred shares. No preferred shares have been issued.

At December 31, 1983 and 1982 there were 39,448,416 and 25,794,742 common shares outstanding. In October 1983, 13,600,000 common shares of the company were issued to HWR at \$26 per share in exchange for an equal number of HWR shares (see Note 5).

During 1983, 39,732 shares with an aggregate cash value of \$1,039,000 were issued from

treasury as stock dividends. In November 1983, 58 shares with an aggregate cash value of \$2,000 were purchased from shareholders.

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 the market value of the shares on the day that the options were granted. No further options may be granted under the Plan. During 1983 options for 14,000 shares were exercised for a total cash consideration of \$207,000. At December 31, 1983 options were outstanding on 29,500 shares at a price of \$14.75 per share exercisable until December 1988.

9. Income Taxes:

The effective income tax rate differs from the expected Canadian federal and provincial rate as follows:

	1983	1982
Expected income tax rate	50.0%	50.8%
U.S. withholding tax on Lakehead dividends	4.8	4.9
Other	(2.5)	(4.0)
Effective income tax rate	52.3%	51.7%

10. 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 \$5,523,000 at December 31, 1982, the date of the last actuarial valuation. This amount, together with interest, will be charged to earnings in varying annual installments to 1997. The companies fund accrued pension costs. For the years ended December 31, 1983 and 1982 total costs of the plans amounted to \$3,240,000 and \$3,521,000 respectively, of which \$846,000 and \$1,247,000 were applicable to past service benefits. Pension fund assets at December 31, 1982 exceeded the actuarially computed value of the vested portion of the benefits.

11. Frontier Pipeline Company:

In 1982, LPL Investments, Inc. became a 35% partner in Frontier Pipeline Company. During 1983 Frontier constructed a 406 mm diameter crude oil pipeline 467 km in length from the Wyoming-Utah Overthrust Belt to Casper, Wyoming. Final construction costs are estimated to be \$52,000,000 U.S.

The pipeline commenced operations in December 1983.

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

12. Related Party Transactions:

At December 31, 1983 Imperial Oil Limited owned approximately 21.8% (1982—33.3%) of the outstanding capital stock of Interprovincial. During the years ended December 31, 1983 and 1982 shipments through the pipeline system by Imperial Oil under published pipeline tariff terms accounted for

approximately 14% and 13% of consolidated transportation revenue. At year end 1983 and 1982 transportation revenue receivable from Imperial Oil amounted to \$2,553,000 and \$2,499,000 respectively.

13. Segmented Information:

Information by Geographic Segments

The companies are engaged in the business of transporting crude oil and other liquid hydro-

carbons through a common carrier pipeline system in Canada and the United States.

	1983			1982		
	Transportation Revenue	Contribution to Earnings	Assets	Transportation Revenue	Contribution to Earnings	Assets
Canada	\$172,519	\$41,224	\$ 979,046	\$162,180	\$29,108	\$542,551
United States	232,785	55,782	367,458	196,424	45,634	314,853
	\$405,304	\$97,006	\$1,346,504	\$358,604	\$74,742	\$857,404

14. Comparative Figures:

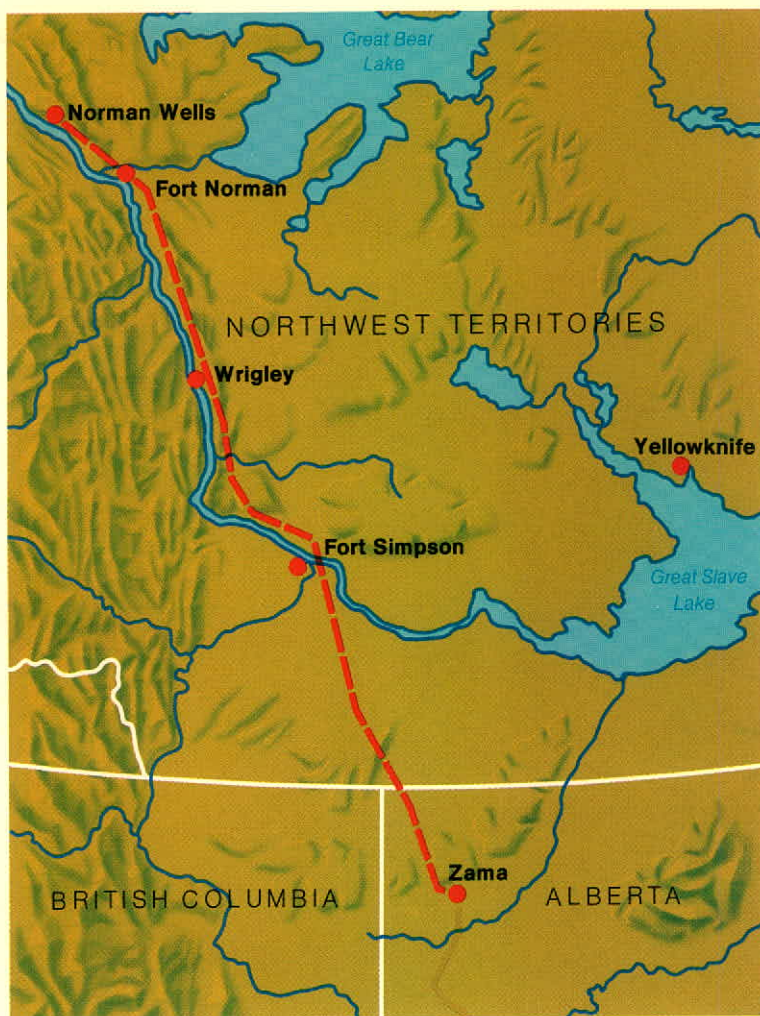
Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Interprovincial Pipe Line Limited
and subsidiary companies



The Pipeline Transportation System

		Canada	United States	Total
Right-of-way	km	2 280	2 799	5 079
Pumping stations		33	50	83
Installed power	kw	395 212	326 393	721 605
Line fill (<i>provided by shippers</i>)	m ³	2 175 000	1 915 000	4 090 000



Norman Wells Pipeline

Kilometres of Mainline 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
Total kilometres	5 843	4 194	10 037

Five year review

Financial <i>(in thousands of dollars except per share amounts)</i>	1983	1982	1981	1980	1979
Operations:					
Income —Transportation revenue	\$405,304	\$358,604	\$302,097	\$302,028	\$315,176
—Deficiency Agreement	7,369	7,410	7,747	6,760	5,320
—Interest and other income	25,606	20,709	17,592	12,270	10,323
Expenses—Power	79,862	65,512	63,033	75,044	74,020
—Operating and administrative	68,794	68,494	54,625	47,614	44,806
—Property and other taxes	22,230	20,507	19,055	18,169	16,975
—Depreciation and amortization	45,470	44,050	42,959	42,091	40,992
—Interest	36,781	33,531	34,937	37,275	40,175
Income taxes	96,819	79,887	56,467	52,161	58,339
Equity in earnings of HWR	8,683				
Earnings for the year	97,006	74,742	56,360	48,704	55,512
Dividends paid	46,746	41,213	38,544	38,459	37,744
Cash provided from operations	141,507	129,403	105,041	93,546	101,287
Net internal cash generated	69,676	71,685	40,131	36,723	47,564
Per Share:					
Earnings	3.38	2.90	2.19	1.90	2.17
Dividends	1.60	1.60	1.50	1.50	1.475
Dividend payout	48%	55%	68%	79%	68%
Assets:					
Working capital	146,285	81,845	51,613	54,674	56,626
Pipeline transportation system, at cost					
less accumulated depreciation and amortization	792,959	694,391	716,032	710,693	720,883
Additions to pipeline transportation system	92,581	19,634	47,023	33,790	29,184
Capitalization:					
Long term debt	409,589	332,592	358,863	379,985	404,698
Deferred taxes and credits	183,898	160,665	152,600	146,127	143,792
Shareholders' equity	663,364	301,133	266,576	247,860	236,695
Total capital employed	1,256,851	794,390	778,039	773,972	785,185
Ratios:					
Long term debt to long term debt plus equity	38.2%	52.5%	57.4%	60.5%	63.1%
Earnings coverage of interest	6.3x	5.6x	4.2x	3.7x	3.8x
Return on average capital employed	12.6%	11.6%	9.5%	8.6%	9.6%
Return on average shareholders' equity	25.0%	26.3%	21.9%	20.1%	24.4%

Statistical	1983	1982	1981	1980	1979
Shares outstanding at year end (thousands)	39,448	25,795	25,734	25,673	25,620
Percentage of shares registered in Canada	97%	96%	96%	95%	95%
Shareholders at year end	15,879	17,912	20,158	21,598	21,747
Number of employees at year end	798	782	801	809	802
Receipts (m ³ /d)—Alberta	153 266	141 176	141 909	157 251	168 711
—Saskatchewan	25 879	22 505	19 878	24 119	24 375
—Manitoba	2 159	1 712	1 622	1 678	1 731
—Ontario	518	651	273	510	708
—United States	17 063	25 446	34 935	39 951	45 949
	198 885	191 490	198 617	223 509	241 474
Deliveries (m ³ /d)					
Canada					
Canadian Production					
Prairie Provinces	22 584	21 699	21 693	22 270	22 309
Ontario	82 258	78 497	90 164	93 782	97 481
Quebec	39 181	39 832	33 736	43 838	43 230
	144 023	140 028	145 593	159 890	163 020
U.S. and offshore production					
Ontario	2 275	6 373	6 679	8 942	7 956
Quebec	360	2 804	3 337	5 180	5 816
	2 635	9 177	10 016	14 122	13 772
Total Canadian deliveries	146 658	149 205	155 609	174 012	176 792
United States					
Canadian production	37 424	24 982	18 501	23 300	32 675
U.S. and offshore production	14 774	16 744	24 946	25 618	31 982
Total U.S. deliveries	52 198	41 726	43 447	48 918	64 657
	198 856	190 931	199 056	222 930	241 449
Cubic metre kilometres (millions)	171 221	159 739	163 757	187 127	195 958
Average haul (kilometres)	2 359	2 292	2 254	2 293	2 224
Average transportation revenue (including Deficiency Agreement)					
—per cubic metre	\$5.69	\$5.25	\$4.26	\$3.78	\$3.64
—per 100 cubic metre kilometres	24.1¢	22.9¢	18.9¢	16.5¢	16.4¢

Directors



ROBERT K. HEULE¹
President & Chief Executive
Officer
Interprovincial Pipe Line
Limited, Toronto



ROBERT T. BROWN²
President
Gulf Canada Products
Company, Toronto



EDWARD H. CRAWFORD¹
President & Chief Executive
Officer
The Canada Life Assurance
Company, Toronto



GLENN H. CURTIS²
President
Glenn H Curtis & Associates
Limited, Calgary



JEAN-CLAUDE DELORME²
President & Chief Executive
Officer
Teleglobe Canada, Montreal



ALFRED E. DOWNING³
Chairman of the Board,
President & Chief Executive
Officer
Hiram Walker Resources Ltd.
Toronto



W. DOUGLAS H. GARDINER^{1,2}
President
W. D. H. G. Financial
Associates Ltd., Vancouver



RICHARD F. HASKAYNE
Executive Vice-President
Hiram Walker Resources Ltd.
President
Home Oil Company Limited
Calgary



H. CLIFFORD HATCH, SR.
Chairman of the Executive
Committee
Hiram Walker Resources Ltd.
Toronto



ARCHIBALD R. McCALLUM¹
Senior Vice-President &
Chief Financial Officer
Hiram Walker Resources Ltd.
Toronto



C. EDWARD MEDLAND^{1,3}
Chairman & Chief Executive
Officer
Wood Gundy Limited, Toronto



ROBERT B. PETERSON
President & Chief Executive
Officer
Esso Resources Canada
Limited, Calgary



DONALD J. TAYLOR³
President
Shell Canada Products
Company, Toronto



GORDON H. THOMSON³
President
Esso Petroleum Canada
Toronto



WILLIAM J. YOUNG¹
Senior Vice-President
Imperial Oil Limited
Toronto

Member of:

¹ Finance & Investment Committee

² Audit Committee

³ Compensation Committee

Corporate Directory

Officers

ROBERT K. HEULE
President & Chief Executive Officer

GORDON A. COLE
Vice-President & General Manager

E. GORDON SHEASBY
Vice-President & General Counsel

LAWRENCE W. BLAINE
Vice-President & Treasurer

R. GLEN CAUGHEY
Vice-President—Projects

DOUGLAS R. MARTIN
Vice-President—Resources

DEREK P. TRUSWELL
Controller

FREDERICK B. NEWTON
Assistant Treasurer

EDWARD V. REESER
Assistant Treasurer

J. NEIL ST. JOHN
Corporate Secretary

Annual Meeting

2:30 p.m. Thursday, April 12, 1984 "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 March 16, 1984 to all shareholders of record.

Archaeologists excavate one of six pre-historic sites near Church Butte, Wyoming, on the Oregon Trail. These were discovered during survey of the Frontier pipeline right-of-way.



Corporate Information

REGISTERED AND EXECUTIVE OFFICE
37th Floor, 1 First Canadian Place
P.O. Box 48, Toronto, Ontario
M5X 1A9

OPERATING HEADQUARTERS
IPL Tower
10201 Jasper Avenue
Edmonton, Alberta T5J 3N7

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

Chemical Bank, New York

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

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

Bank of Montreal Trust Company, 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

TRUSTEE AND REGISTRAR FOR FIRST MORTGAGE AND COLLATERAL TRUST BONDS
The Royal Trust Company
Toronto and Montreal

TRUSTEE AND REGISTRAR FOR SINKING FUND DEBENTURES
Montreal Trust Company
Montreal, Toronto, Winnipeg,
Edmonton and Vancouver

AUDITORS
Price Waterhouse
Edmonton, Alberta



Interprovincial Pipe Line Limited