INTER-CITY GAS CORPORATION

ANNUAL REPORT 1983

CONTENTS

Annual Report on Form 10-K
The SEC Annual Report on Form 10-K for the year ended December 31, 1983 will be provided by mail upon receipt of a written request. Requests should be directed to:

The Secretary, Inter-City Gas Corporation,
Inter-City Gas Building, 444 St. Mary Ave.,
Winnipeg, Manitoba R3C 3T7

Annual Meeting
The Annual Meeting of the shareholders of Inter-City Gas Corporation will be held on May 30, 1984, at 11:00 a.m. in the Muriel Richardson Auditorium, Winnipeg Art Gallery, 300 Memorial Boulevard, Winnipeg, Manitoba, Canada.

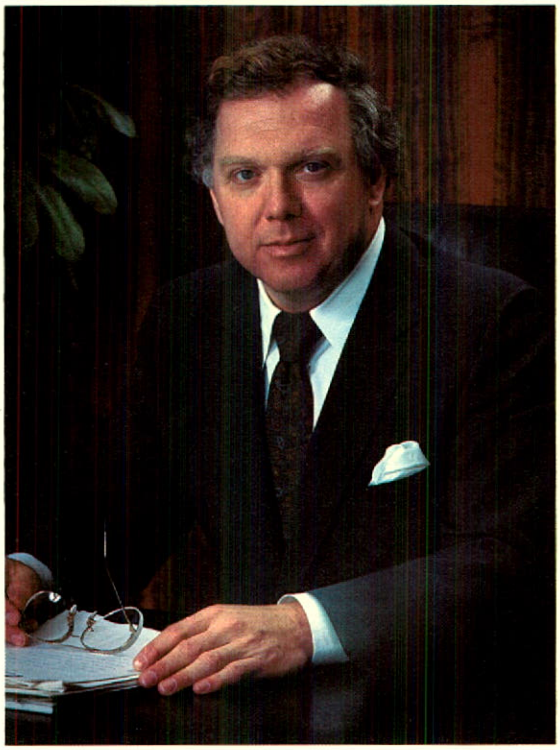
Inter-City Gas Corporation
Highlights

	1983	1982	1981
Financial			
Operating revenue ($000)	**657,150**	620,712	571,256
Operating profit ($000)	**65,457**	67,711	73,098
Net income ($000)	**12,097**	10,442	10,938
Cash flow from operations ($000)	**38,977**	21,461	10,594
Capital expenditures ($000)	**79,607**	81,061	89,312
Net income per common share			
–before extraordinary items	**$0.92**	$0.61	$0.70
–after extraordinary items	**$0.66**	$0.70	$0.74
Dividends per common share	**$0.40**	$0.40	$0.40
Average number of common shares outstanding (thousands)	**17,142**	13,719	13,537
Operating			
Resources–thousands of cubic metres			
Gas	**264,965**	295,539	292,806
Oil and gas liquids	**119**	107	93
Utilities			
Gas–thousands of cubic metres	**1,204,902**	1,204,057	1,094,785
Liquid Gas			
Propane–thousands of litres	**832,117**	879,940	779,132
Manufactured Products			
Gas furnaces–units	**24,382**	18,955	33,037
Air conditioners–units	**111,551**	82,453	135,768
Steel pipe–thousands of kilograms	**6,729**	9,012	13,057
Net Proved Reserves (Thousands of Cubic Metres)			
Gas–marketable reserves	**6,930,323**	7,451,734	7,343,550
–Arctic Islands	**14,813,895**	14,813,895	14,813,895
	21,744,218	22,265,629	22,157,445
Oil and gas liquids	**1,627**	1,559	1,698

The petroleum industry in Canada follows the International System of Units for measuring and reporting. To facilitate measures used in the United States and other countries, the following table is included:

	To Convert From	To	Multiply By
Oil and gas liquids	Thousands of cubic metres (10^3m^3)	Thousands of barrels (mbbls.)	6.293
Gas	Thousands of cubic metres (10^3m^3)	Thousands of cubic feet (mcf)	35.494
Propane	Thousands of litres	Thousands of gallons	.220
Steel	Kilograms	Pounds	2.205
Land holdings	Hectares	Acres	2.471

Report to Shareholders



ROBERT G. GRAHAM
President and Chief Executive Officer

I am pleased to report that net income for the year, before extraordinary items, was $16,514,000; a significant improvement from the $9,239,000 reported in 1982. After preferred dividends, net income to common shareholders was 92¢ per share compared to 61¢ in 1982. A reassessment of the investment in KeepRite Inc., which is now 91% owned, resulted in the write-off of goodwill in the amount of $4,697,000 as an extraordinary item, causing final net income to be $12,097,000 (66¢ per share) compared to $10,442,000 (70¢ per share) in 1982.

Although the economy began a recovery during 1983, the impact was quite uneven with resource-based industries tending to lag in areas important to our energy distribution operations. However, our revenues did increase 6% to $657,000,000, with increases experienced in all divisions.

After the first quarter, during which warmer than normal weather further curtailed sales, we were able to report improved earnings in each of the succeeding quarters.

A feature of the year was the greatly improved financial position of the Company. Cash flow from operations, after deducting interest and taxes, amounted to $39 million this year which is an 81% increase over the 1982 cash flow, and over 3½ times the 1981 cash flow. Other financial improvements were accomplished. $18 million in new equity was issued, $100 million of floating rate debt was converted to a fixed rate basis, and bank advances were decreased by over $31 million. Working capital has improved by over $22 million from the previous year.

OPERATIONS

Capitalizing on the oil explorations program begun in 1982, we found and produced sufficient oil in 1983 to reduce the effects of decreased demand for natural gas. The Resources Division recorded an operating profit of approximately $37 million, an increase of $2 million over the previous year.

We participated in 120 wells with 114 completed at year end, which resulted in 21 new gas wells and 64 new oil wells for a 75% drilling success ratio. In addition, we became involved in an exploration venture on Canada's East Coast through a seismic survey of the Scotia and Grand Banks, and more recently by participating in a three well program in the South Hibernia area. The first well in the South Hibernia program, Terra Nova K-08, is now being drilled.

Proved reserves of oil now total 1,627 thousand cubic metres (10.24 million barrels) and 6,930 million of cubic metres (246.0 billion cubic feet) of natural gas.

The Utility Division improved its contribution to net income by achieving an operating profit of approximately $16 million, up from $12 million in the previous year. Revenue increased to approximately $203 million from $190 million in the previous year. These increases were attributable to higher volumes sold to industrial customers, particularly in the forest products industry, and to allowed rate of return increases. Results were offset somewhat by lower volumes caused by warm weather and increased operating expenses.

A notable achievement occurred in 1983 with the commencement of gas deliveries by our subsidiary, Gaz Inter-Cité Québec Inc. This company has the exclusive franchise to distribute natural gas in the Province of Quebec, outside the metropolitan area of Montreal. The transmission system which carries gas from Alberta to Montreal was extended to Quebec City. Gas Inter-Cité installed the distribution system in the communities served by this extension, which include Trois Rivieres and Quebec City.

A feature of this project is that the cost of the transmission laterals, which will extend gas service to three other regions of the province, and which will be owned by Gaz Inter-Cité, will be paid for out of a $500 million outright grant from the Federal Government. The distribution systems are to be financed by the company.

During the year the first of these transmission laterals and attendant distribution systems were constructed into the Eastern Townships area. Gaz Inter-Cité is a separately financed corporation owned 49% by Inter-City Gas Corporation, 49% by Société Québecoise d'Initiatives Pétrolières, and 2% by the Caisse de Dépôt et Placement du Québec.

In other expansion projects, as reported earlier, we have the franchise for the Province of New Brunswick and we await the decision to award a franchise for the Province of Nova Scotia. Currently, the Province of British Columbia is conducting a Hearing concerning a proposed transmission line which will take natural gas service from the mainland of British Columbia to Vancouver Island. We will endeavour to obtain "on Island" transmission rights and the distribution rights for the communities to be served, including Nanaimo where our 93% owned subsidiary (Vancouver Island Gas Company Ltd.) already operates a propane air distribution system.

Propane volumes under the ICG Auto Propane program continue to reflect solid growth and doubled in 1983 over 1982. However, the warmer weather and economic slowdown adversely affected volumes in the traditional heating markets. Overall operating revenues for the Liquid Gas Division increased $12 million to $256 million in the year, but decreased margins resulted in a reduced operating profit of about $13 million as compared to $16 million the previous year.

In spite of increased volumes of both air conditioners and furnaces resulting in revenue of $110 million, the Manufactured Products Division incurred an operating loss in Canada of $2 million. However, in an important move to rationalize our energy equipment manufacturing interests, our subsidiary, KeepRite Inc., acquired the net assets of two other subsidiaries, ICG Manufacturing Ltd. and ICG Energy Products Ltd. for approximately $20 million.

We believe that significant economies of scale will result from the combination of these companies. The merged company, which will now have both heating and cooling products, will be a strong competitor in the market place and a more efficient manufacturing entity. We now own approximately 91% of KeepRite. In effecting this combination, we absorbed one-time costs related to the reduction of manufacturing and warehousing facilities and the duplicate sales force.

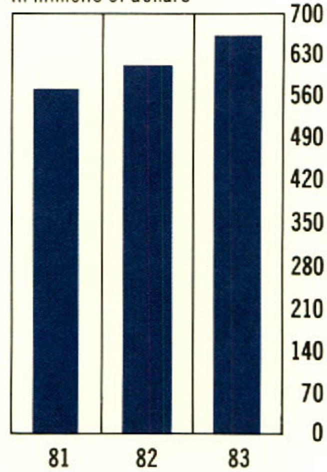
Most importantly, we have a new management group now in place at KeepRite, led by its recently appointed president, Henry J. Forrest, who has had a long and effective career in the air conditioning and heating industry.

We deeply regret the death in September, 1983 of Michael J. Walton, who for 16 years conscientiously and wisely served on the Board of Directors of our Company.

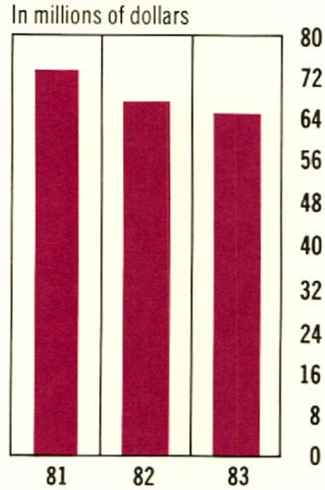
On behalf of the Board of Directors,

R. G. Graham
PRESIDENT AND CHIEF EXECUTIVE OFFICER

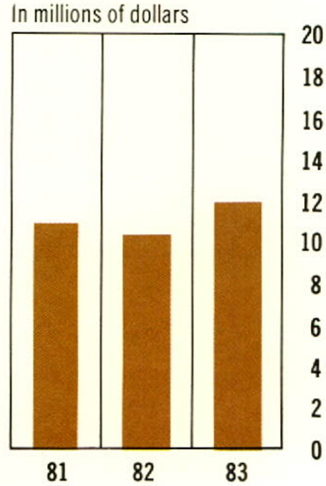
OPERATING REVENUE
In millions of dollars



OPERATING PROFIT
In millions of dollars



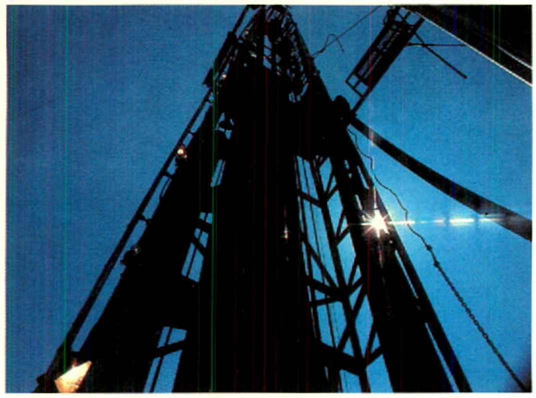
NET INCOME
In millions of dollars



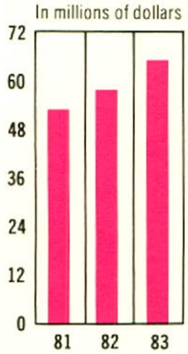
Business Segments

RESOURCES

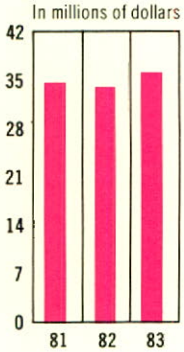
Our Resources Division explores for and develops oil and natural gas producing properties and operates natural gas processing plants. Canadian exploration activities range throughout the Western Provinces, the Arctic Islands and Hudson Bay, and offshore in Atlantic Canada. In the United States we are active in joint venture exploration programs along the Gulf Coast, and in New Mexico, Michigan, Wyoming and North Dakota. In 1983 our primary efforts were concentrated on a program of drilling and developing new oil prospects to increase our cash flow and further expand our resource base.



OPERATING REVENUE
In millions of dollars



OPERATING PROFIT
In millions of dollars

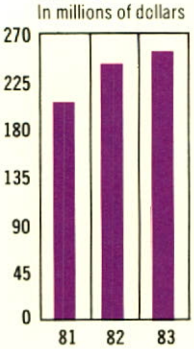


1983 HIGHLIGHTS	($000)
Operating revenue	64,649
Operating profit	36,731
Capital expenditures	43,973
Total assets	307,389
Key volumes—Gas—thousands of cubic metres	264,965
—Oil and gas liquids—cubic metres	119,402

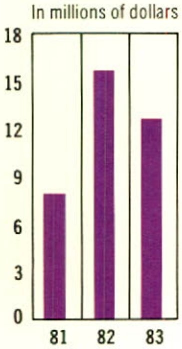
LIQUID GAS

Our Liquid Gas Division is Canada's leading distributor of propane and industrial gases as well as related home and recreational appliances and commercial and industrial equipment. Our distribution network numbers 140 ICG branches throughout Canada, plus auto-propane fuel and products provided at more than 250 authorized service centres and 650 authorized fuelling centres. In 1983 we initiated a national fuelling system which will provide extended service at 40 new high volume, card-lock locations in Canada. This Division is also responsible for launching many innovative marketing programs that have made ICG propane an increasingly preferred energy source for a wide range of industrial applications.

OPERATING REVENUE
In millions of dollars



OPERATING PROFIT
In millions of dollars



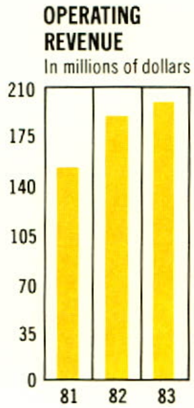
1983 HIGHLIGHTS	($000)
Operating revenue	256,251
Operating profit	12,748
Capital expenditures	14,589
Total assets	147,247
Key volumes—Propane—thousands litres	832,117

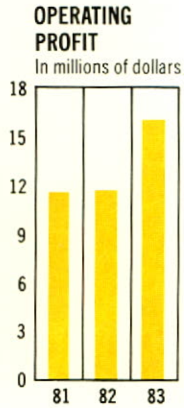
UTILITIES

Our Utilities Division provides natural gas distribution service to residential, commercial and industrial consumers in British Columbia, Alberta, Manitoba, Ontario and Minnesota. As well, we hold the distribution franchise for New Brunswick, and we are a 49% partner in Gaz Inter-Cité Québec, the natural gas distributor now extending service to most of Quebec east of Montreal. We are presently pursuing the franchises for natural gas distribution in Nova Scotia and on Vancouver Island. During 1984 we will acquire our 100,000th natural gas customer. The Utilities Division also provides electric power distribution service to the city of Yellowknife, Northwest Territories.

1983 HIGHLIGHTS

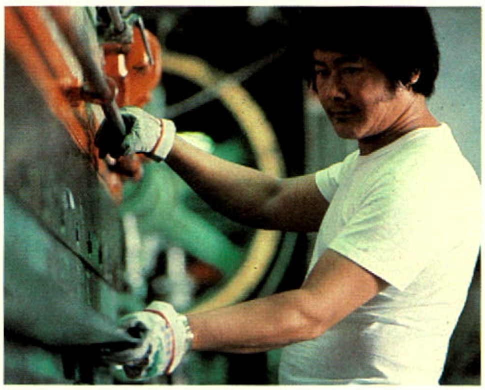
	($000)
Operating revenue	202,611
Operating profit	15,758
Capital expenditures	18,253
Total assets	189,838
Key volumes—Gas—thousands of cubic metres	1,204,902





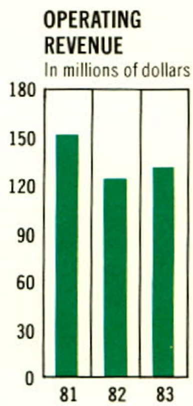
MANUFACTURED PRODUCTS

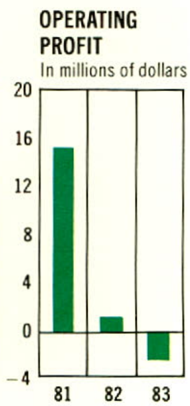
Our Manufactured Products Division is comprised of two subsidiary companies; KeepRite Inc. of Brantford, Ontario, and Thompson Pipe & Steel Company of Denver, Colorado. In 1983 the sales and manufacturing functions of our heating products were consolidated at KeepRite Inc. It has now become the leading Canadian manufacturer of residential and light commercial air conditioning, heating and commercial refrigeration products, as well as a prominent manufacturer and supplier of specialized industrial heat exchangers and packaged energy conservation products. Thompson Pipe & Steel Company are manufacturers of large diameter and corrugated pipe used in water transmission.



1983 HIGHLIGHTS

	($000)
Operating revenue	131,260
Operating profit	(2,784)
Capital expenditures	1,090
Total assets	88,414
Key volumes—Gas furnace—units	24,382
—Air conditioners—units	111,551
—Steel pipe—thousand kilograms	6,729





In 1983 we sharply increased our oil drilling activity and shifted our exploration efforts to the development of new oil prospects.

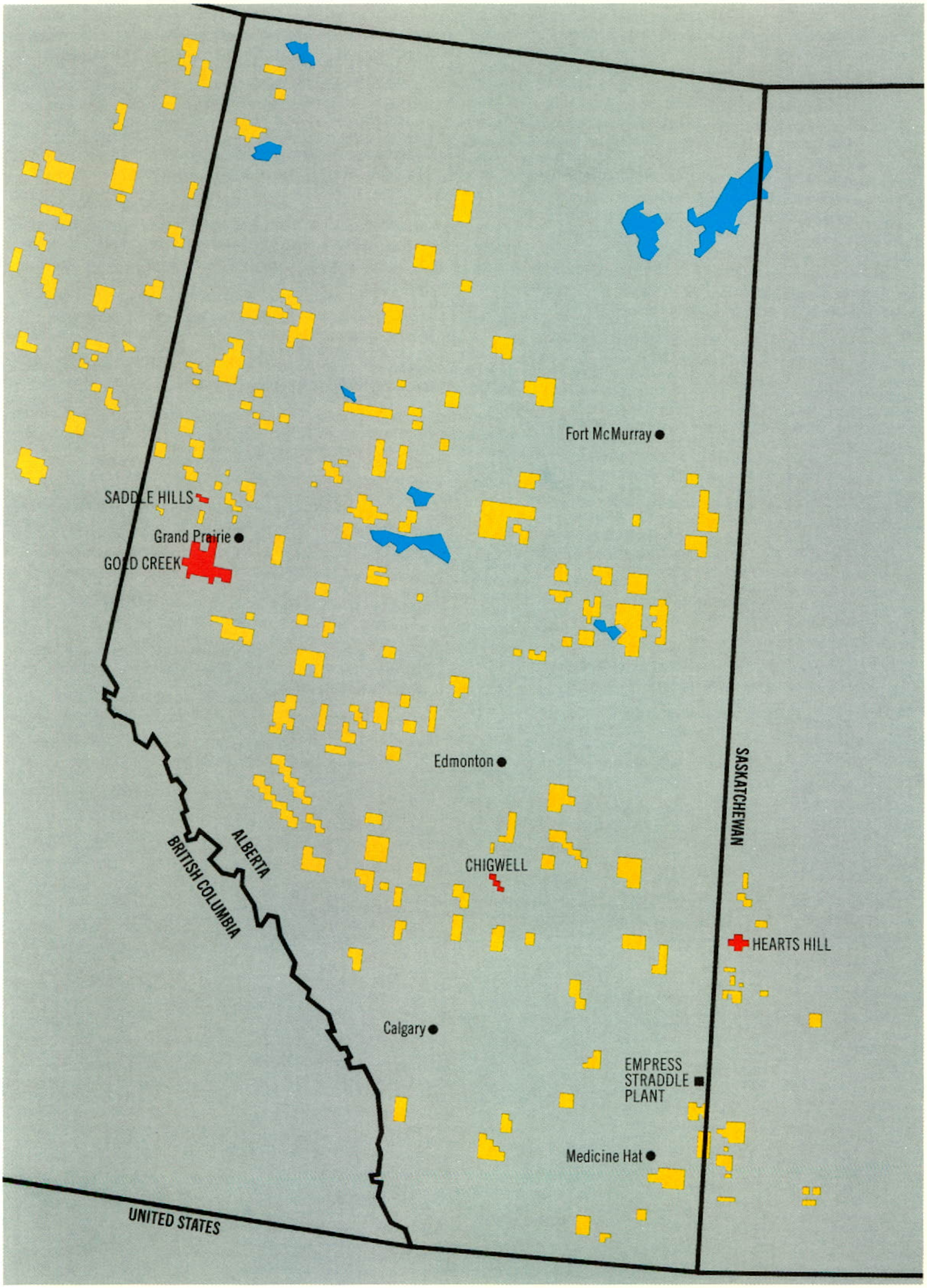
The net result of this strategy was an increase in daily oil production of almost 12%, while at the same time we added proven oil reserves that were more than equal to the 119 thousand cubic metres (750,000 barrels) of oil and gas liquids that were produced in 1983.

Our program of drilling and developing new oil prospects will continue in 1984. This increased production at "new oil" prices will provide increased cash flow, and allow us to further expand our resource base.

During the past year, natural gas production was down by 84 thousand cubic metres/day (3.0 mmcf/d) net, compared to production for 1982. This decline in gas production is the result of reduced industrial consumption due to the effects of the economic downturn, and the increasingly efficient fuel usage by equipment as well as improved standards of building insulation. An over supply of gas was also a factor contributing to reduced production during the past year.

Though some of our producing fields had their deliveries cut to lower quantities in 1983, production of natural gas through 1984 is

NORTH AMERICA
■ **ICG Areas of Activity**



BRITISH COLUMBIA/ALBERTA/ SASKATCHEWAN

- ICG Land Areas
- Detail area maps shown in this report

expected to remain relatively constant, or even rise slightly as economic recovery begins to prompt increased consumption by the industrial market.

The Resource Division is endeavoring to develop new Canadian markets for our natural gas reserves. We have agreements in place to take advantage of any improvement in natural gas exports to the United States.

1983 RESULTS

Operating revenues for the year increased by 10.1% to $64.6 million, and operating profits rose by 6.2% to $36.7 million.

Net total proved oil and natural gas liquids reserves increased 4.4% to 1,627 thousand cubic metres (10.24 million barrels), while net proved gas reserves were down 7.0%, to 6,930 millions of cubic metres (246.0 BCF).

A re-determination in the Rosevear Field accounted for the major portion of the reduction of these net gas reserves.

PRODUCTION

Oil and natural gas liquids production, net of royalties, averaged 327 cubic metres (2,058 barrels) per day. This is an increase of 11.6%, or 34 cubic metres per day over 1982.

Net natural gas production in 1983 averaged 726 thousand cubic metres (25.8 mmcf) per day, compared with 810 thousand cubic metres (28.7 mmcf) per day in 1982. This reduction of 10.4% was due to the cutting back on nominations from our various fields by TransCanada PipeLines Limited because of depressed gas markets.

RESERVES

An independent appraisal of our oil, gas liquids, and gas reserves is completed each year. The following table summarizes the proved and probable reserves, net after royalty, for our Canadian and United States interests.

Proved and Probable Reserves—As at Dec. 31st

	1983	1982	1981
Natural gas—millions of cubic metres (billions of cubic feet)			
Proved	**6930 (246.0)**	7451 (264.5)	7344 (260.7)
Probable	**1284 (45.6)**	1452 (51.5)	1173 (41.6)
Total	**8214 (291.6)**	8903 (316.0)	8517 (302.3)
Oil and natural gas liquids —thousands of cubic metres (millions of barrels)			
Proved	**1627 (10.3)**	1559 (9.8)	1689 (10.6)
Probable	**447 (2.8)**	479 (3.0)	378 (2.4)
Total	**2074 (13.1)**	2038 (12.8)	2067 (13.0)

In addition to the reserves reported in the previous table, the Resource Division has natural gas reserves in the Arctic Islands, located on and offshore Melville Island, which have been estimated at 14,814 million cubic metres. Production of these reserves must await market development, construction of necessary facilities, and the resolution of concerns related to environmental protection considerations.

DRILLING

ICG is also participating in a $200 million three well exploration program which is currently drilling the Terra Nova K-08 well located 40 km southeast of the Hibernia oil field. In 1984, a minimum two additional wildcats will be drilled in the immediate area to earn an interest in approximately 340,000 hectares of land in a highly prospective area. Our earned working interests will range from 4.5% to 10%.

Exploration drilling activity during 1983 was comparable overall with 1982, with the emphasis of the program shifted to searching for new oil reserves rather than natural gas reserves.

However, development drilling more than doubled during 1983 compared with the previous year. Our development program was geared to drill, complete and produce NORP (New Oil Reference Price) oil in order to optimize cash flow and offset reduced gas sales.

Our drilling success ratio was 75% overall; 69% for exploratory wells, and 80% for development wells.

Wells	**Gross Explora-tory**		**Gross Develop-ment**		**Total Gross**		**Total Net**	
	1983	1982	**1983**	1982	**1983**	1982	**1983**	1982
Oil	**24**	11	**40**	3	**64**	14	**28.8**	3.6
Gas	**12**	21	**9**	14	**21**	35	**4.9**	7.2
Abandoned	**16**	22	**12**	3	**28**	25	**9.4**	6.2
Drilling	**6**	7	**1**	6	**7**	13	**0.5**	4.7
Total	**58**	61	**62**	26	**120**	87	**43.6**	21.7

LAND

In 1983 we invested $7.5 million in acquiring and maintaining lands which we had identified as being highly prospective.

We now hold interests in 3.4 million gross hectares (0.937 million hectares net) of land. We also have varying royalty interests in 153 thousand additional hectares, which are not included in the following table.

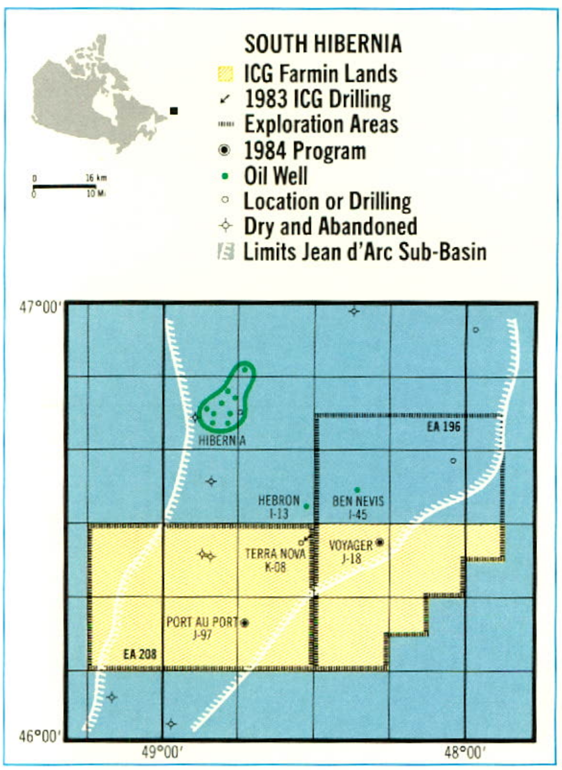
Canada	Thousands of Hectares Gross	Net
Alberta	865	303
British Columbia	180	36
Saskatchewan	127	14
Manitoba	1	1
Arctic Islands	376	44
Hudson Bay	1,823	531
	3,372	929
United States	30	8
	3,402	937

EXPLORATION

Eastcoast Offshore

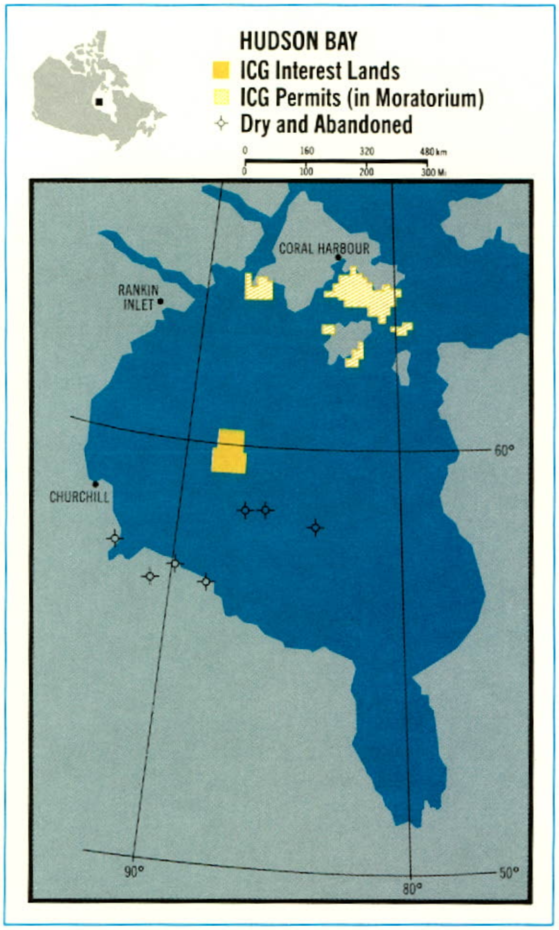
During 1983, ICG entered into a farmin agreement to participate in an exploration program covering approximately 340,000 ha of land in the South Hibernia area located offshore Newfoundland. The agreement calls for ICG to participate in drilling four wells. Our first well, the currently drilling Terra Nova K-08 has already encountered encouraging oil bearing sands and is expected to reach total depth early in 1984. A minimum of two additional exploratory tests are planned for 1984. By paying a percentage of drilling costs ranging from 9% to 20% ICG's earned working interests will range from 4.5% to 10%.

ICG completed a regional seismic program offshore Nova Scotia during 1983 to evaluate prospective areas for future participation. Approximately 2,400 km of "state of the art" seismic data was acquired during 1983.



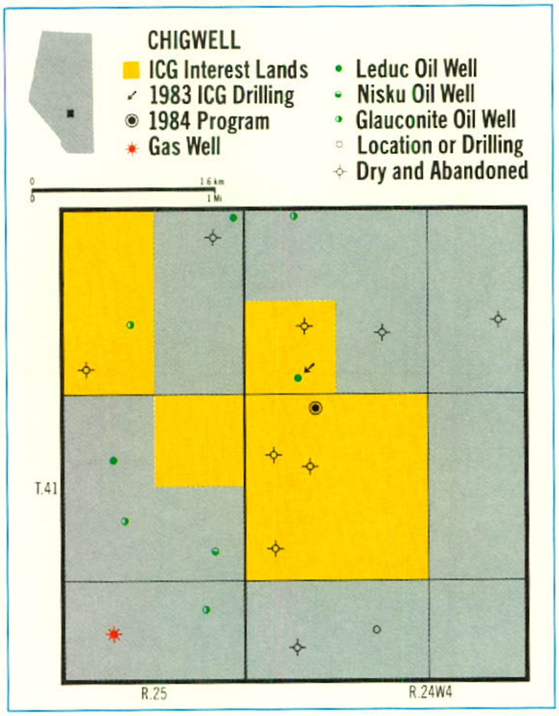
Hudson Bay

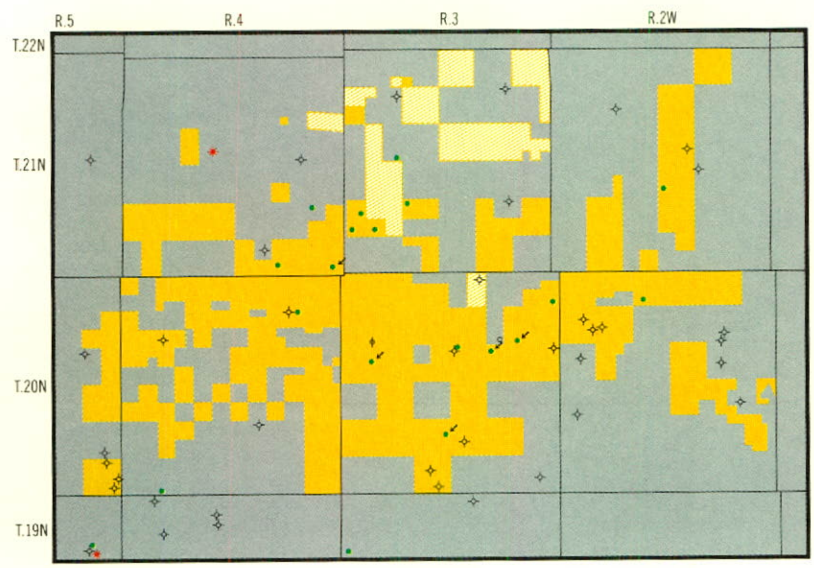
ICG entered one of Canada's least explored frontier areas in 1983 by becoming a participant in a 426,000 ha exploration agreement area near the middle of Hudson Bay. ICG, as initial operator, completed 3,000 km of marine seismic and environmental monitoring during the 1983 summer season. Interpretation of the new seismic will be completed during 1984 and the future program will be planned at this time. ICG's working interest in this program is 35.2%.



Chigwell

During 1983 ICG commenced an exploration program directed at the Leduc reef potential of Central Alberta. The Company also served as operator in the drilling of a Leduc test on ICG-interest lands at Chigwell. The test was located at 3-19-41-24 W4M and discovered oil in the rim of a Leduc reef. At present the well is producing at an allowable of 16m^3 oil per day and ICG will have a 24% interest in the well after payout. In 1984 ICG proposes to drill a stepout well on an adjacent lease purchased at Crown Sale in 1983 in which the Company has a 31.7% interest. We will also be participating in an active program of seismic acquisition in order to explore other areas with Leduc reef potential.





Other Canada Activity

In Northern Alberta ICG has working interests in 11,328 hectares with a further 59,600 hectares of potential acreage held under joint agreement. It is anticipated that five wells will be drilled in 1984.

In the Peace River area ICG participated in the drilling of four wells, that resulted in three oil wells and one potential oil well. It is anticipated that a further five wells will be drilled in 1984.

In the Lubicon area of Alberta ICG participated in the drilling of five wells. Three of these discovered oil. During 1984 we will participate in drilling at least five additional wells. Two of these will be stepouts to existing oil wells.

Other U.S.A. Activity

In the Gulf Coast onshore area ICG participated in four wells resulting in one shut in gas well. ICG is currently farming out its interests in this play.

In the Gulf Coast offshore area ICG participated in three unsuccessful wells.

In Michigan ICG is participating in a drilling program to earn a 20% interest in approximately 60,000 acres. The final earning well will be drilled in 1984.

In the Powder River Basin of Wyoming ICG is participating in a joint venture with two other companies to explore primarily for the Minnelusa. No wells are currently planned.

In North Dakota ICG has working interests in 13,500 acres in Bottineau County with options to earn an interest in another gross 16,300 acres by drilling. Further drilling is anticipated in 1984.

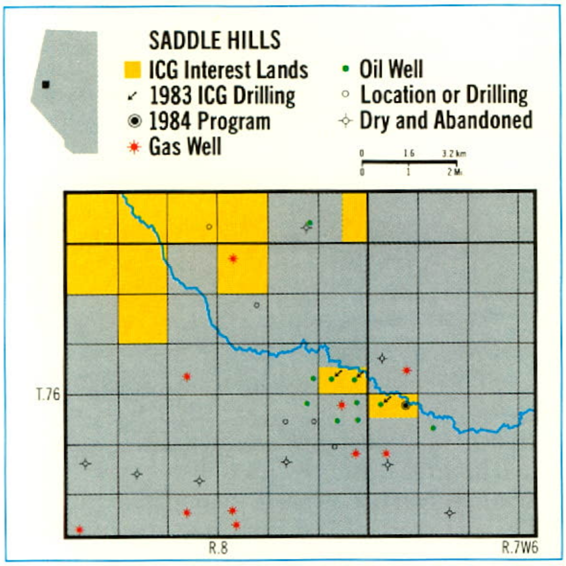
San Juan Basin, New Mexico

ICG has working interests in this area varying from 9.875% to 18.75% in approximately 44,000 gross acres. The Company participated in five exploration wells all of which are potential oil wells. One well has a potential of over 500 bopd and is waiting final allowable allocation. The other wells are waiting on completion. An active exploration program is planned for 1984.

DEVELOPMENT

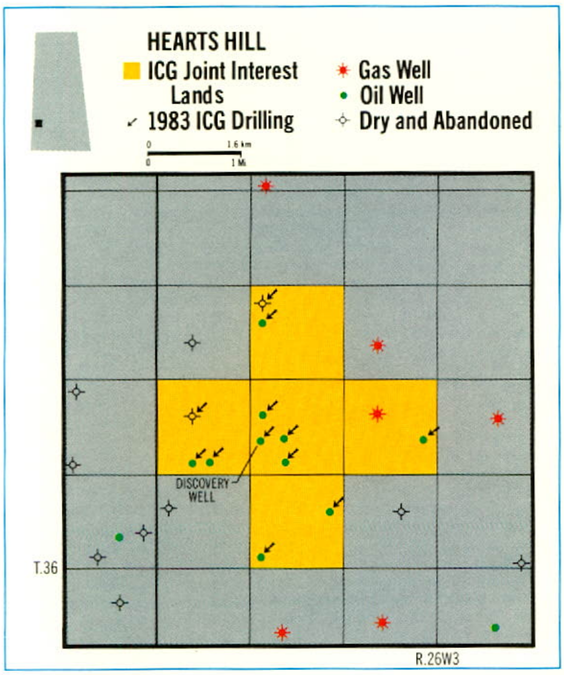
Saddle Hills

During 1983 ICG participated in the drilling of three Doe Creek oil wells on lands in which ICG had a 25 percent working interest. Total production from these wells averaged 19.4 m^3/day. ICG has significant prospective land holdings in this area with a working interest between 25% and 75%.



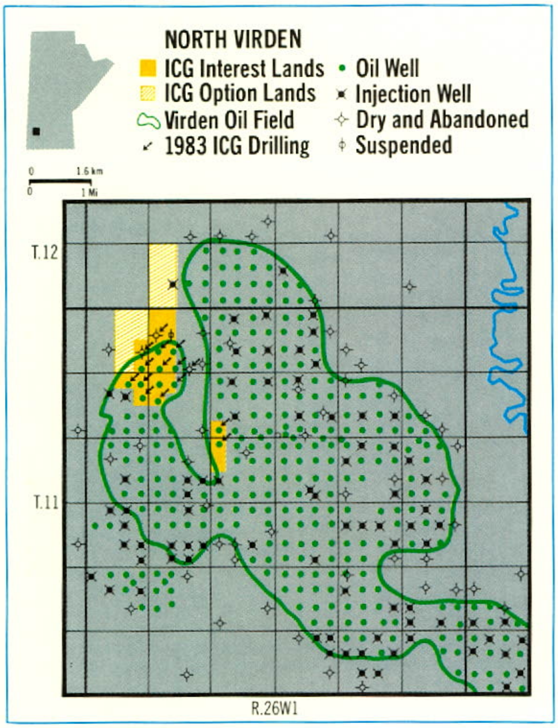
Hearts Hill

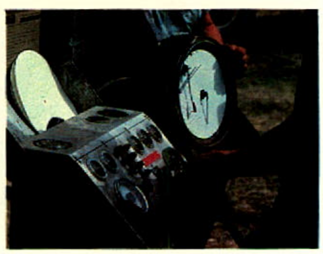
The Hearts Hill prospect is a Bakken Sand play in Western Saskatchewan in which ICG has a 50% working interest in 1,536 ha. Ten producing wells and two dry holes were drilled during 1983. At the end of the year production amounted to 34m^3/day. Further drilling on this prospect in 1984 is contemplated after fully evaluating the existing wells.



North Virden

Twelve wells were placed on production in 1983, extending the northwestern limits of the Virden field. At the end of the year there were a total of 13 producing wells in this prospect producing a total of 31.4 m^3/day. After recovery of 110% of the costs ICG's working interest will range between 25 and 50 percent. Additional drilling on this prospect is anticipated for 1984.





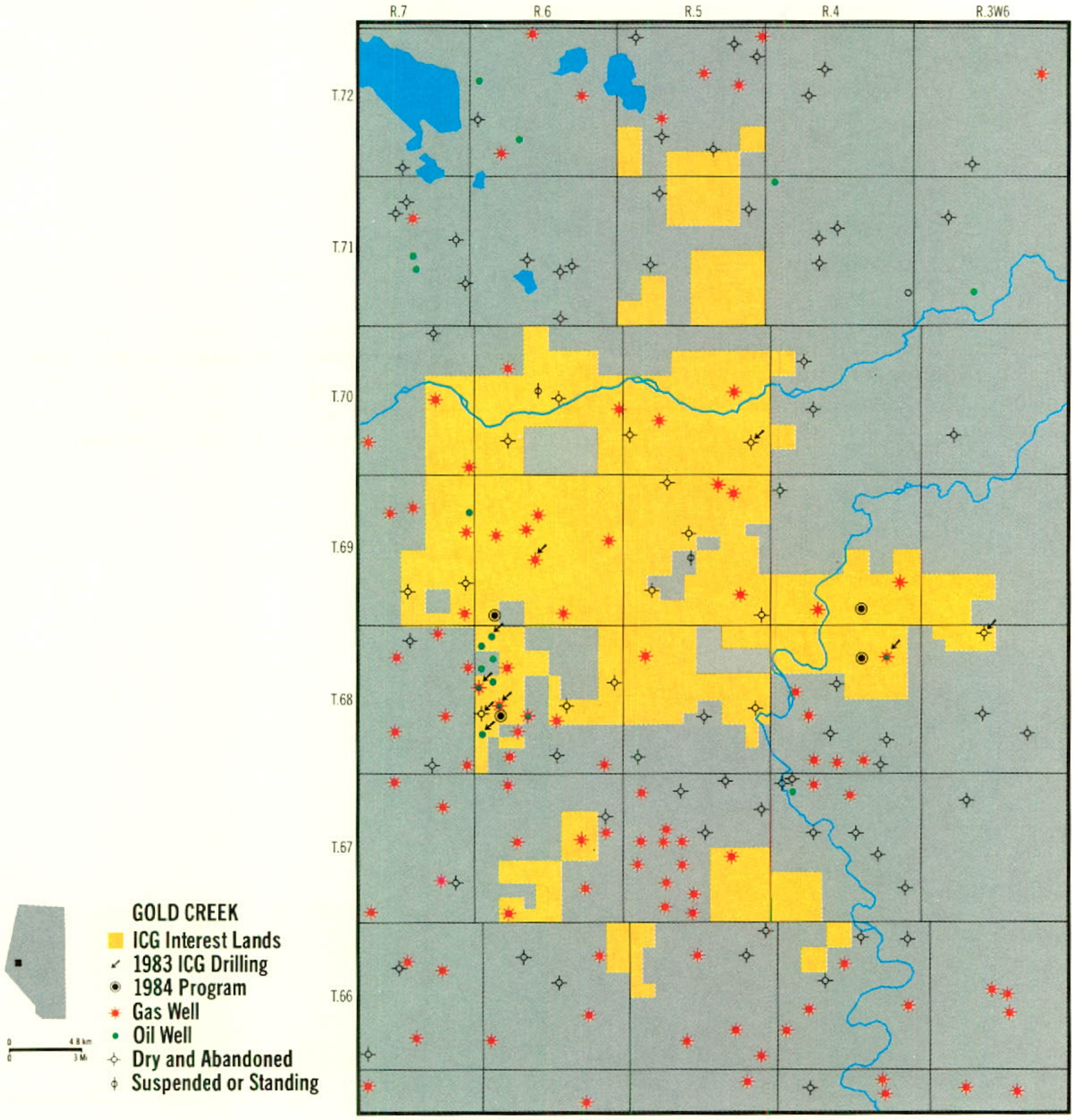
Gold Creek

ICG participated in drilling nine wells at Gold Creek during 1983. The drilling program resulted in five Charlie Lake oil wells (of which one also has Bluesky gas potential) and one potential Halfway/Cadomin gas well.

Drilling activity was concentrated in the West Gold Creek area where development of the Charlie Lake oil reservoir discovered in 1982 is taking place. ICG has a 10% working interest in six Charlie Lake oil wells in this area. Five wells are each producing an average of $10m^3$ oil per day and one well is being completed in the Charlie Lake zone. Two additional wells are planned for the first quarter of 1984. ICG has a 10% working interest in 2,112 ha and a 50% working interest in 128 ha within the presently mapped pool.

Land acquisition at Gold Creek continued during 1983 with activity concentrated in the East Gold Creek area which has both Cretaceous gas and Triassic oil potential. Two wells will be drilled at East Gold Creek in 1984.

The significant gas reserves established at Gold Creek are dedicated to ProGas and production is anticipated to commence in 1986. Further development drilling for gas will take place when delivery dates are established.



Utilities

In our present franchise areas of British Columbia, Alberta, Manitoba, Ontario and Minnesota we encourage conversion to natural gas, or a wider use of it by our present customers, through marketing programs which stress the cleanliness, abundance and economic benefits that are the primary advantages of our product.

We are also closely monitoring opportunities to further our franchise position in Atlantic Canada, and are actively participating in the hearings concerning the extension of natural gas service on Vancouver Island.

1983 RESULTS

Operating profits for the Utilities Division increased in 1983 to $15.8 million, from $11.5 million. The prior year's total reflects a reduction of $1.5 million, due to a one-time regulatory decision in 1982. Adjusted accordingly, our percentage increase over 1982 becomes 21.3%.

Revenues were up by 6.9% to $202.6 million, from $189.6 million.

Customer demand remained virtually constant; the volume sold during the year was 1,205 million cubic metres, an increase of one million cubic metres over 1982.

Unlike prior years, revenue increases due to the pass through of increased gas costs were minimal and this contributed to the competitive advantage of the fuel. This stabilization of gas costs provides a positive reinforcement for all of our present customers, and an encouragement to prospective customers.

The number of gas customers we served in 1983 increased by 3% to 98,003, but the weather (which was 3% warmer than normal) and the continuing effect of conservation by the residential sector contributed to a 6.8% reduction in usage.

We are initiating a marketing program to stimulate greater consumption through wider household use of natural gas, and through conversions from those using other fuels. This program will be based on the economic merit of natural gas as well as the benefits of cleanliness and convenience.

Sales of natural gas to industrial users increased by 9.3%. In British Columbia and Alberta this increase reflects the upturn in the forestry products industry, and in Manitoba it results from the first full year of consumption by three new major industrial customers.

Overall, the improved performance of the past year can be credited to maintaining up to date rates, an easing of the economic pressures which had previously impacted certain of our industrial customers, an increase in consulting revenues earned in Quebec, Alberta and Saskatchewan, and the positive effect of continuing control over operating costs.

In 1983 natural gas service was extended beyond Montreal to Quebec City and many of the communities in the Eastern Townships of Quebec. Additionally, through vigorous marketing activities to be initiated in our primary franchise areas during 1984, our total number of natural gas customers will exceed 100,000 in the coming year.

We continued to expand our natural gas distribution system during 1983.

Near Leduc, in Alberta (below) new 8-inch pipe is installed across a lake bed as a part of our transmission upgrading program.

CAPITAL SPENDING

During 1983 a total of $18.3 million was spent for expanding and upgrading our distribution system. Of this amount $4.9 million was received as government grants, resulting in net capital expenditures of $13.4 million.

Approximately one-third of this expenditure was for improvements that were required to ensure the provision of effective service to our customers in Alberta.

RATE REVIEW

A total of forty-two rate adjustment applications were submitted. Twenty requested permission to pass on increased costs resulting from gas supply price increases and higher federal taxes. Fourteen requested permission to pass on reduction of similar costs. The remaining eight requested approval to recover our operating and maintenance expenses, the costs of borrowing, and to support a 14.5 to 15.5% return on equity.

The result of the 1983 general rate applications, together with decisions on 1982 applications which were rendered in 1983, was $6.8 million in additional revenue. On an annual basis, this result equates to approximately $7.4 million in increased revenues.

NEW FRANCHISE DEVELOPMENTS

ICG Brunswick Gas Ltd., 100% owned by ICG, holds the franchise for the distribution of natural gas in the Province of New Brunswick.

ICG Scotia Gas Ltd. is 50% owned by ICG and was formed to secure the franchise for the distribution of natural gas in Nova Scotia. This franchise has yet to be awarded.

Gaz Inter-Cité Québec Inc., which is 49% owned by ICG, is continuing the development of the Quebec market. The construction of the Trans-Quebec Maritimes transmission line from Trois Rivieres to Quebec City, and the Gaz Inter-Cité Québec transmissions laterals to the Eastern Townships, were completed during the past year. First deliveries of gas to Quebec City were made in September, and to the Eastern Townships in December.

Hearings are currently underway in British Columbia evaluating the feasibility of extending natural gas service to Vancouver Island. We now provide propane air and propane service to Nanaimo and Port Alice. We are seeking to obtain the additional rights through Vancouver Island Gas Company Ltd. to service 21 other communities with a potential of approximately 46,000 additional customers on the Island and Powell River.

OUTLOOK

Our primary goals for 1984 will be to maintain all rate reviews on a current basis, and to retain a tight control over all areas of cost and expenses in order that we can present our product to our customers as the most efficient and reasonable energy source that is available.

We intend to expand our sales volume during the coming year in all market sectors through precisely targeted marketing strategies. Early in 1984, we will have acquired our 100,000th natural gas customer.

Liquid Gas

Operating revenues for the Division increased by 5% to $256 million during 1983.

Operating profit for the year decreased to $12.7 million from $16.4 million. This decrease is the result of a combination of factors. Sales volumes to the resource and heavy industry sectors have been reduced due to the economic slowdown, and competitive pressure in our other propane markets is intensifying. We have been responding to these challenges through the firm control of operating expenses and by continuing improvements for greater efficiency in our product delivery and distribution systems.

Overall propane sales volume for 1983 was down by 48 million litres; from 880 to 832 million litres. This reduction is largely attributable to the persistence of the slowdown in our important resource-related primary heating markets, and to the effect of conservation practices throughout the residential sector.

However, our continuing and aggressive marketing and sales efforts, across the whole spectrum of propane use during the past year, have resulted in limiting this decline, while also advancing our objective of creating a more uniform, year-round product demand.

At Sioux Lookout, Ontario (left) the conversion of the entire Department of National Defence installation from oil to propane was completed in 1983. Several other D.N.D. facilities have been similarly converted. Such "total system" conversions are a growing and increasingly valuable result of our marketing efforts.

The Gull Harbour Resort Hotel on Hecla Island in Lake Winnipeg, Manitoba (below) is another example of a "total system" propane installation. This modern year-around resort and conference centre uses ICG propane as its primary heating fuel.

AUTO-PROPANE

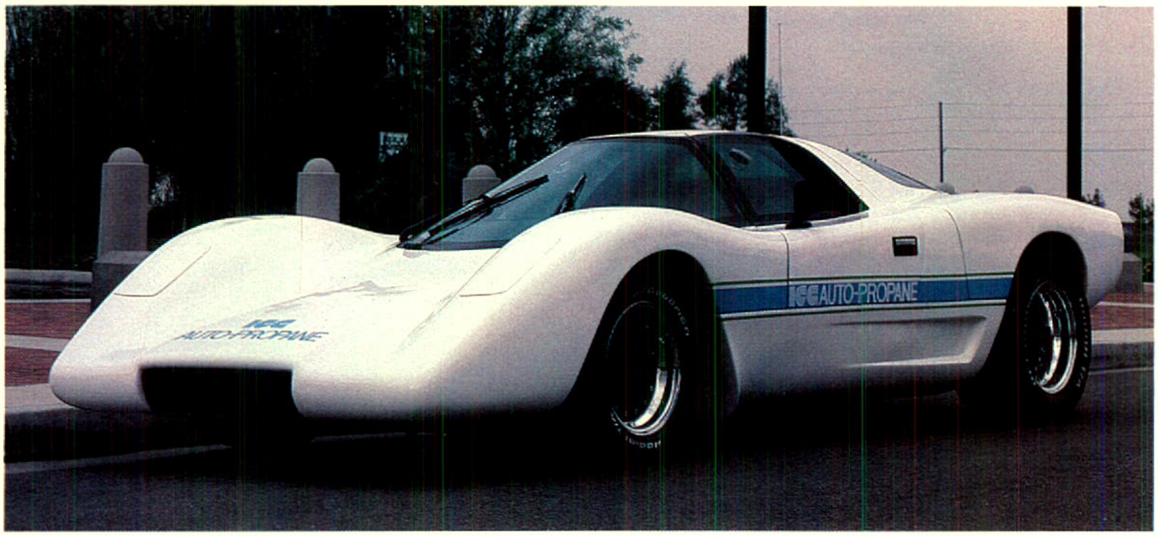
During the past year auto-propane accounted for an increased sales volume of 55 million litres, which is consistent with the gains anticipated in our long-term plan. Our operations experienced strong growth in all regions.

In 1983 we continued to enlarge our auto-propane distribution system with capital expenditures of approximately $4.7 million. We now have nearly 250 authorized service centres, 650 authorized fuelling centres, and 140 retailing ICG branches.

We have also initiated a national fuelling centre system which will place as many as 40 high profile, extended hours, and card-lock equipped sales outlets in premium fleet-fuelling locations. These facilities are being developed both on ICG properties, and as long-term joint ventures. They are now operational in Toronto, Brandon, Regina, Calgary, Edmonton, Red Deer, Lethbridge, and Prince George, B.C.

Our present level of existing and planned facility development is sufficient and effective to serve the current available market. Our new facilities will be concentrated in high volume areas, providing greater operational efficiencies, which will result in increased profitability as our market share continues to grow.

In 1983 the Sears organization in Canada (right) contracted with ICG on a national basis to convert their delivery and service fleet—totalling approximately 1,500 vehicles—to auto-propane. This work will commence in 1984 through ICG Authorized Service Centres. New vehicles to be acquired by Sears will be specified to be auto-propane powered.



During the fall of 1983 our two custom-designed and manufactured Manta Montage T-6 auto-propane powered automobiles toured to 15 cities across Canada, from Quebec City to Vancouver. The appearance of these unique machines at meetings attended by more than 700 dealer representatives resulted in extensive coverage of these events through more than 60 media outlets. These vehicles, which are the top prizes in our dealer incentive program "Grand Prix" promotion, will also be displayed during 1984 at various Auto Shows across Canada and will be used as a promotional "focus" by local ICG dealers.

OTHER PROPANE MARKETS

We anticipate that our past efforts in identifying and expanding potential propane markets will result in increased sales volume during the coming year.

We have worked closely with the Key Lake Mining Corporation in northern Saskatchewan in planning their operations and residential heating requirements around the use of ICG propane as a primary fuel and energy source. This new customer will add a significant amount to our sales volume for 1984, and thereafter.

We have provided the distribution system for supplying propane to the commercial district of Golden, B.C., and in selected areas through the remainder of the community. At Hemlo, Ontario we are providing propane energy to the expanding gold mining operations as well as to the rapidly growing adjacent community. Both of these new markets will prove valuable to us in the coming year, and for many future years.

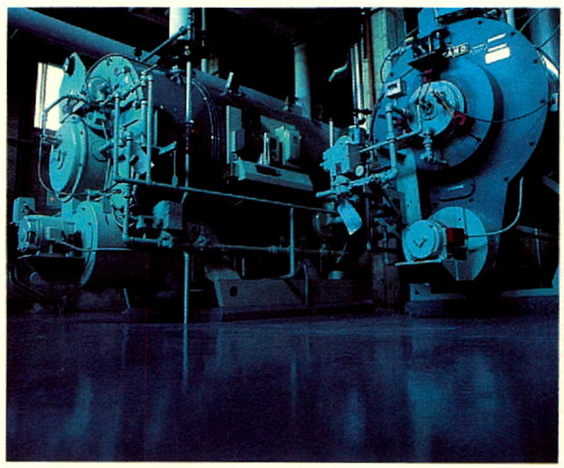
Increases in volume result from coupling imaginative and aggressive marketing programs to the efficiency advantages of our distribution systems. A variety of marketing programs designed to increase commitments to propane use in a wide range of commercial applications are now in place and functioning to our advantage.

INDUSTRIAL GASES

In 1983 sales of industrial gases from our air separation plant in Calgary to a growing number of wholesale bulk gas customers were significantly increased.

The full potential of this plant will not be realized until the usual level of oil and gas activity in Alberta is restored. In the interval, we are establishing a broad and stable customer base which will add appreciable volume to our output, when more normal economic conditions prevail.

Farmers across Canada (below, left) rely on the versatility and efficiency of ICG propane as an ideal heating fuel and a portable power source in their operations. Increasing numbers of industrial and institutional heating systems (top, left), such as school and hospital installations, are also being converted from oil to ICG propane for its cleanliness, efficiency and the benefits of lower maintenance and more accurate control that it provides. Our air separation plant in Calgary (bottom, right) was officially opened in 1983. Utilizing the most modern technology and equipment available, it produces nitrogen, oxygen and argon of the highest purity possible for ICG customers.



Manufactured Products

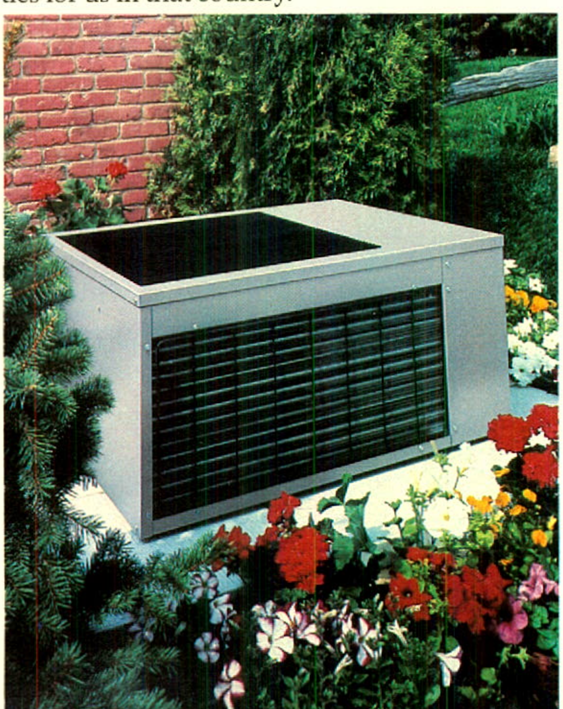
In 1983 our subsidiary company, KeepRite Inc., purchased the businesses of ICG Manufacturing Ltd. and ICG Energy Products Ltd.

This consolidation has provided us the means of integrating the dispersed activities of the Manufactured Products Division. Positive benefits will result from this realignment and will be reflected in a more productive and efficient organization of our distribution and sales facilities.

As an immediate result of this consolidation, KeepRite Inc. has become the leading Canadian manufacturer of residential and light commercial air conditioning, heating and commercial refrigeration products. Additionally, the company is also a prominent manufacturer and supplier of specialized industrial heat transfer and heat recovery devices.

In aggregate terms, our Canadian sales increased during 1983. Overcoming a weak market demand and strong competitive pricing, we were able to record improved sales of gas, oil and electric furnaces. Stimulated by an exceptionally warm summer, our sales of air conditioning products in the Canadian market also increased.

Air conditioning volumes in the United States were strengthened by extra-ordinary sales of room air conditioning units to leading retail and distribution organizations. Sales to our traditional overseas markets were generally disappointing with anticipated sales in Latin America, Africa and the Middle East failing to materialize due to economic and political difficulties in those parts of the world. The sudden imposition of increased custom duties on imported air conditioning units by the Australian government created severe operational difficulties for us in that country.



Our central home air conditioner, called the "Climatizer," (right) is manufactured in our Brantford plant. It uses the existing heating duct work to circulate cool, dehumidified air in summer.

KeepRite residential and commercial heating and cooling products on display at the Canadian Environmental Exposition (above right), one of Canada's major trade shows.

1983 RESULTS

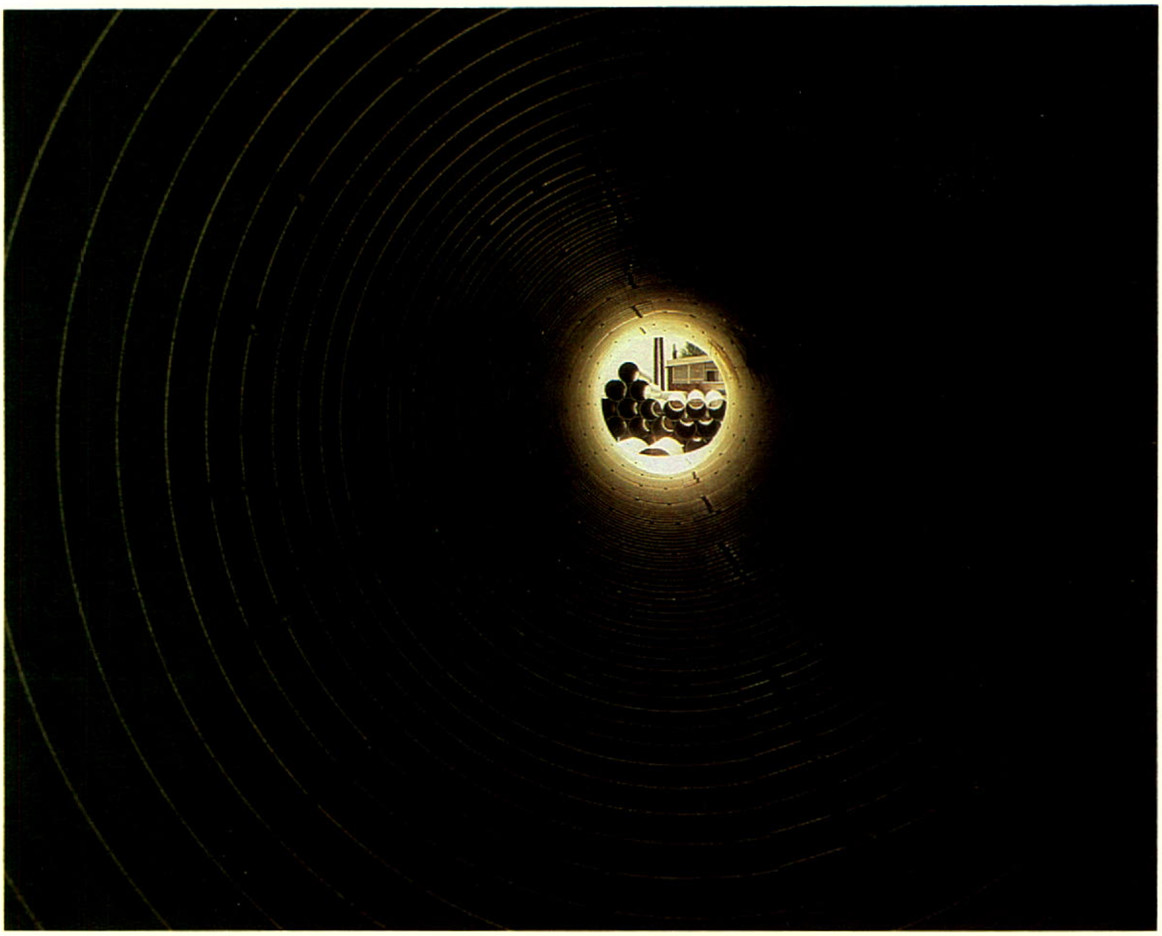
Consolidated sales were $116.6 million, representing an 11% increase over the previous year's total of $105.3 million. However, operating expenses were also higher as a result of one-time costs incurred in combining the various sales and manufacturing operations. The resultant operating loss for the year amounted to $1.9 million, compared to an operating profit of $0.7 million in 1982. We are presently rationalizing this organization to effect a firm base on which to build for future growth and to improve future earnings.

OUTLOOK

In 1984 we will continue to rationalize our manufacturing and sales facilities in Canada, and initiate the first phase of new product development programs that are aimed at the markets we intend to serve worldwide.

No major capital outlays are planned for 1984, and total corporate capital expenditures will be severely limited.

Our goal for 1984 is to manage our present assets and resources more effectively in order to increase our capability for immediate earnings. We further intend to advantageously position KeepRite Inc. for future growth through improved product design and performance, increased efficiency of our distribution and sales functions, and by segmenting our market approaches into our best potential and most opportune areas of production and sales activity.



Thompson Pipe & Steel, located in Denver, Colorado, manufactures engineered steel products such as large diameter steel pipe used for water and sewage treatment, and power plant projects.

THOMPSON PIPE & STEEL COMPANY

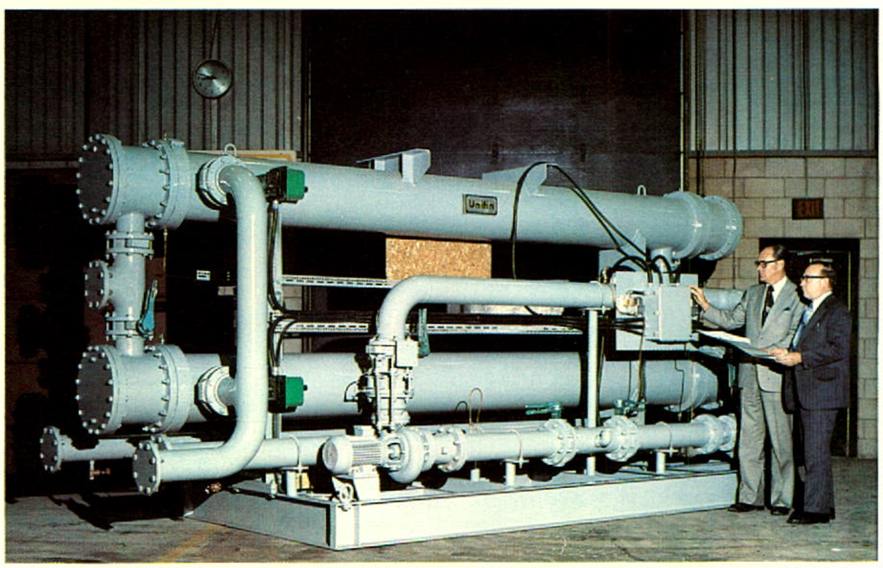
Intensified competition during 1983, which was due to the uneven recovery of the economy in the Rocky Mountain region of the U.S. market, resulted in lower levels of gross margin.

Sales revenues dropped to $10.9 million (U.S.) in 1983, from $14.3 million (U.S.) the previous year.

Lower revenues, combined with lower margins, resulted in an operating loss of $0.7 million (U.S.) for 1983, compared to a profit of $0.7 million (U.S.) in 1982.

A modest recovery is expected for 1984, and we begin the year with our highest backlog of orders since 1980 ($5.6 million, U.S.).

A subsidiary company, Thompson Professional Services, Inc., has been formed to promote and market the total expertise of Thompson Pipe & Steel Company in domestic and foreign markets on a consulting and joint venture basis.



Pictured above is one of our heat exchangers ready for shipment to Mexico. Five such units are used for cooling the oil in generator transformers at a hydro electric power project.

Inter-City Gas Corporation
Ten Year Summary of Operations

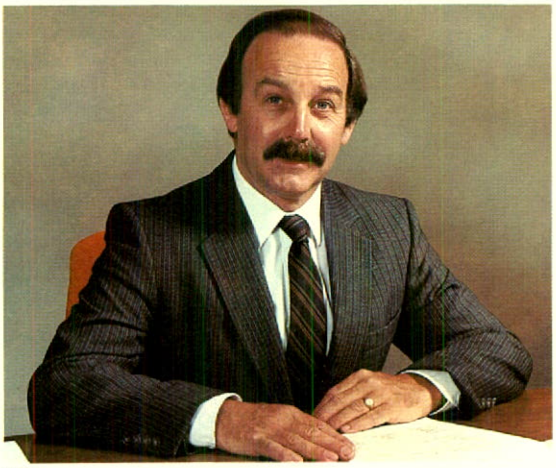
D. S. ROGERS
Executive Vice-President and Chief Operating Officer

In Thousands of Dollars	1983	1982	1981
Operating revenue	**657,150**	620,712	571,256
Operating costs			
Cost of sales	**441,679**	414,209	384,439
Operating, selling and administration	**123,496**	116,112	95,002
Depreciation and depletion	**26,518**	22,680	18,717
	591,693	553,001	498,158
Operating profit	**65,457**	67,711	73,098
Dividend income	**4,680**	–	–
Equity in net income of unconsolidated subsidiaries	**(332)**	–	–
	69,805	67,711	73,098
Financial expenses	**35,611**	44,910	42,365
Income before taxes	**34,194**	22,801	30,733
Provision for taxes	**17,942**	13,878	17,916
	16,252	8,923	12,817
Minority interest	**262**	316	(2,358)
Discontinued business	–	–	–
Extraordinary items	**(4,417)**	1,203	479
Net income for the year	**12,097**	10,442	10,938
Net income per common share	**$0.66**	$0.70	$0.74
Dividends paid–			
Preference shares	**772**	891	983
Common shares	**6,956**	5,393	5,377
Dividends paid per common share	**.40**	.40	.40
Fixed assets (cost)	**688,127**	608,458	533,523
Common shareholders' equity	**212,253**	189,767	135,098
Number of common shares outstanding	**18,521†**	17,075†	13,589†
Book value per share	**$11.46**	$11.11	$9.94

† After deducting shares held by subsidiary companies (net of minority interest therein for the years 1978 to 1982).

1980	1979	1978	1977	1976	1975	1974
417,775	454,383	229,090	81,995	67,728	52,630	37,339
271,441	333,894	169,441	58,160	48,560	36,603	25,001
73,827	68,329	33,555	9,943	8,409	6,941	5,384
15,314	12,843	7,076	3,258	2,215	1,648	919
360,582	415,066	210,072	71,361	59,184	45,192	31,304
57,193	39,317	19,018	10,634	8,544	7,438	6,035
—	—	—	—	—	—	—
—	2,187	2,471	2,852	1,207	—	—
57,193	41,504	21,489	13,486	9,751	7,438	6,035
22,535	19,285	11,386	7,439	4,330	2,642	2,249
34,658	22,219	10,103	6,047	5,421	4,796	3,786
15,009	9,312	2,410	737	1,572	2,174	1,659
19,649	12,907	7,693	5,310	3,849	2,622	2,127
(1,543)	(968)	(505)	—	—	—	—
(228)	—	—	—	—	—	—
464	495	121	(188)	—	—	—
18,342	12,434	7,309	5,122	3,849	2,622	2,127
$1.42	$1.43	$1.21	$0.94	$0.73	$0.56	$0.45
1,592	1,619	1,335	1,100	903	713	537
3,823	2,372	1,570	1,160	1,031	825	683
.32	.31	.28	.27	.24	.24	.20
430,898	289,244	267,508	66,606	60,393	52,832	48,895
128,951	54,967	42,657	17,431	14,549	9,625	8,413
13,437†	7,889†	7,162†	4,297	4,296	3,436	3,416
$9.60	$6.97	$5.96	$4.06	$3.39	$2.80	$2.46

Management's Discussion and Analysis of Financial Condition and Results of Operations



P. MARRIOTT
Senior Vice-President, Finance

Results from operations for 1983 showed a significant improvement over 1982 with income, before extraordinary items, of $16.5 million compared to $9.2 million in 1982—an increase of 79%. This represents 92 cents per common share in 1983, compared to 61 cents per common share in 1982. Though operating profit declined slightly from 1982, the effects of lower interest rates and additional equity financing in reducing financial expenses resulted in an increase in income before taxes of 50%, from $22.8 million to $34.2 million.

During 1983, a significant reorganization of the Manufactured Products Division in Canada was undertaken wherein KeepRite Inc. acquired substantially all of the manufacturing and distribution operations previously carried on by certain other subsidiaries of the Company. Pursuant to this reorganization and as a consequence of the losses reported by KeepRite for the past two years, it was determined that the excess cost of the shares acquired in KeepRite over their underlying book value and which had been attributed to goodwill, had minimal ongoing value. Accordingly, an amount of $4.7 million has been written off as an extraordinary charge against current year's income. In addition, the division's manufacturing plant in St. Catharines was closed in 1983 resulting in a further extraordinary charge of $0.9 million.

After taking into account the income tax benefits realized from utilization of prior years' tax losses, net income after extraordinary items is $12.1 million, up from $10.4 million in 1982. Due to the increase in the number of common shares outstanding, net income per common share after extraordinary items has declined from 70 cents in 1982 to 66 cents in 1983.

The return before extraordinary items on common shareholders' equity was 8.1% in 1983, an improvement over the 6.1% earned in 1982.

Information by industry segment and geographical areas for the past three years, and selected financial data for the past five years, are presented in the notes to the consolidated financial statements and should be read in conjunction with this discussion.

OPERATING REVENUE

Operating revenue increased by 6%, from $620.7 million to $657.2 million, with increases being experienced in all divisions except the U.S. manufacturing operations. The increase of $5.9 million in the Resources Division resulted from higher volumes and prices from oil production and higher production and prices on gas plant operations offset by the effects of lower natural gas production. Weak demand, largely in the export market, is the primary cause of lower gas production.

In the Utilities Division, the increase of $13.0 million is attributable to higher volumes to industrial customers and rate of return and price pass-through increases offset by lower volumes to rate schedule customers due to warmer weather and conservation. Industrial customer volumes increased by 9.3% reflecting the upturn in the forest products industry and the addition of three major customers in Manitoba.

Volume sales of both propane and gasoline declined from 1982 levels. However, higher prices for both products, primarily propane, offset the negative volume variances such that operating revenue in the Liquid Gas Division increased by $11.9 million. Propane volumes under the ICG Auto-Propane program continue to reflect solid growth and doubled in 1983 over 1982. Volume losses have occurred in the traditional market areas due to warmer weather, the low level of exploration activity in Alberta and lower export sales from the Quebec market.

Increased revenues in the Manufactured Products Division are accounted for by higher volume sales of major product lines in the Canadian sector, partially offset by a decrease in the U.S. operations. The volume increases reflected the gradual upturn in overall economic conditions, particularly, residential and commercial construction and consumer spending. A number of special one-time customer orders and the warm weather experienced throughout much of North America during the summer of 1983 boosted sales of air conditioning units considerably. In areas of the United States served by our manufacturing operations, spending on major construction projects remains at a low level and, combined with very strong competition in the market place, resulted in lower volumes and revenues.

OPERATING PROFIT

Operating profit, in total, declined 3% from $67.7 million in 1982 to $65.5 million in 1983. Operating profit in the Resources and Utilities Divisions increased by $2.1 million and $4.2 million, respectively, while the Liquid Gas and Manufactured Products Divisions experienced decreases of $3.7 million and $4.2 million, respectively.

In the Resources Division, higher revenues have been partially offset by higher operating expenses and increased depletion resulting from a higher asset base and lower reserves. In the Utilities Division, the gross margin improved 2.5 percentage points or $7.0 million which was primarily attributable to rate of return increases of $5.6 million. Higher operating expenses reduced the overall improvement in operating profit to $4.2 million.

The gross margin in the Liquid Gas Division declined by 2.1 percentage points from 1982 resulting in gross profit for 1983 being $1.5 million lower than 1982. The decrease in the margin is largely due to increased propane prices from producers which could not be passed through to customers because of pricing competition in certain market areas. In addition, margins on auto-propane are lower than those earned in the traditional market areas, and with an increasing portion of total volumes being attributed to this market, margins will decline. Operating expenses were held to an increase of 4.7% but added a further $2.2 million to the decline in operating profit.

In the Manufactured Products Division, gross margins decreased in both the Canadian and U.S. operations primarily due to very competitive market conditions which significantly influenced the pricing of products. Consequently, gross profits declined. In Canada the decline occurred in spite of higher volumes and revenues, whereas, in the U.S., the decline in gross margin has been amplified by a decrease in volumes and revenues. Higher operating expenses also contributed to an operating loss of $2.8 million in this Division.

Dividend income of $4.7 million was received from the investment in preferred shares of MICC Investments Limited ("MICC") and the Company recorded its 49% share of the loss in Gaz Inter-Cité Québec Inc. which commenced operations on January 1, 1983.

FINANCIAL EXPENSES

The decrease in financial expenses of $9.3 million from 1982 to 1983 is attributable to the decrease in the cost of borrowed funds and the benefit of equity financing completed at the end of 1982. Prime lending rates in Canada averaged 11.2% in 1983 compared to 16.0% in 1982. It is estimated that lower interest rates resulted in an interest cost reduction over 1982 of approximately $14.2 million, while net new borrowings increased interest expense by approximately $2.5 million. Interest capitalized declined due to the lower effective interest rates, the effect of which is partially offset by a higher asset base upon which interest is capitalized.

PROVISION FOR TAXES

The provision for income taxes increased by $4.0 million from 1982 to 1983. Of this increase, $3.4 million results from the increase in income before taxes of $7.0 million (after adjusting for the non-taxable dividend income and equity in the loss of a related company). The remaining $0.6 million results from an increase in the effective rate due primarily to losses incurred in the Manufactured Products Division for which the potential income tax reduction will not be recognized until the losses are utilized to reduce future taxable income.

Energy taxes have decreased as a result of lower gas production, a reduction in the Natural Gas and Gas Liquids Tax rate, and the suspension of the Incremental Oil Revenue Tax.

1982 COMPARED WITH 1981

Net income before extraordinary items declined from $10.4 million in 1981 to $9.2 million in 1982 resulting in earnings per share of 61 cents compared to 70 cents in 1981.

Operating revenue increased in all divisions, except the Manufactured Products Division, as a result of both volume and price increases. Volume increases are attributable to colder weather, more utility customers and auto-propane. Operating profit declined a total of $5.4 million, with the Manufactured Products Division reporting a decline of $14.2 million due to lower volumes and reduced gross margins, and the Liquid Gas Division reporting a significant increase of $8.5 million due to volume increases and improved margins.

Although prime lending rates declined by 3.5 percentage points, higher borrowing in 1982 resulted in an increase of $2.6 million in financial expenses.

Lower operating profit and higher financial expenses combined to reduce income before taxes by $7.9 million. An increase in the effective rate for income taxes and higher energy taxes was largely offset by increased benefits under the Alberta Royalty Tax Credit program. In 1982, minority interest expense reflected a recovery of $0.3 million compared to an expense of $2.4 million in 1981.

Extraordinary income of $1.2 million from the realization of income tax losses of prior years resulted in final net income after extraordinary items of $10.4 million (70 cents per share) in 1982 compared to $10.9 million (74 cents per share) in 1981.

CAPITAL RESOURCES AND LIQUIDITY

Cash flow from operations, after deducting interest and taxes, amounted to $39.0 million in 1983, an 81% increase over the 1982 cash flow of $21.5 million, and over 3.5 times the 1981 cash flow of $10.6 million. Lower interest costs, dividend income, and better control over inventories and receivables combined to produce the improvement in cash flow.

Other major sources of cash were $18.0 million in equity financing as contemplated by the capital transaction with MICC in 1982, the issuance of $38.0 million (net) in long-term debt, and $15.9 million in contributions and grants for fixed assets. The major uses of cash were $62.5 million in property, plant and equipment, $14.5 million invested in related companies, and $9.4 million paid to shareholders in the form of dividends and share redemptions.

The net cash flow resulted in a significant reduction of $31.3 million in bank advances outstanding at year-end. Furthermore, it has put the Company into a positive working capital position with current assets exceeding current liabilities by $12.6 million (6.3%), an improvement of $21.7 million from the 1982 working capital deficit of $9.1 million.

The Company has, as at December 31, unutilized operating lines of credit of approximately $61.1 million. Under the terms of long-term credit agreements, the Company has a further $25.5 million which is available to be drawn down prior to June 30, 1984, at which time any unutilized portion will expire. These credit facilities, together with the cash flow projected to be generated from operations and other cash receipts in 1984, will provide the Company with adequate resources to meet its expenditure and investment requirements in the coming year.

During 1982 and 1983, the Company fixed the interest rate on approximately $140 million of its previously floating rate debt for periods from five to thirteen years at rates varying between 12.75% and 14.00%. This action, which will continue in 1984, will remove the uncertainty with respect to the cost of debt tied to floating interest rates.

OUTLOOK FOR 1984

The Company's business plans for 1984 assume that the economy will remain relatively stable when compared to 1983. We anticipate significant increases in volumes of auto-propane while volumes to industrial customers in both Liquids and Utilities are expected to improve only marginally. The reorganization of the Manufactured Products Division in Canada will produce significantly improved results in 1984, although the full benefits will not be realized until 1985 and beyond. The Resources Division will be affected by a 50% reduction in the Alberta Royalty Tax Credit. GICQ expects to generate a return to shareholders in 1984, its second year of operation.

MICC has recently announced it will suspend dividend payments due March 31, 1984 on its preferred shares. However, MICC shareholders will be asked at their annual meeting on April 30, 1984 to approve a capital reorganization that will eliminate the accumulated deficit and allow the payment of preferred dividends when the results of future operations and compliance with regulatory limitations on dividends would otherwise allow them to be paid. The dividend income to the Company for 1984 amounts to approximately $1.1 million per quarter.

In summary, 1984 should see a continued improvement in profitability although the rate of increases to earnings and returns on equity attained in 1983 may not be sustainable.

Inter-City Gas Corporation
Consolidated Statement of Income

For the Years Ended December 31, 1983, 1982 and 1981

In Thousands of Dollars	1983	1982	1981
Operating Revenue	**657,150**	620,712	571,256
Operating Costs			
Cost of sales	**441,679**	414,209	384,439
Operating, selling and administration	**123,496**	116,112	95,002
Depreciation and depletion	**26,518**	22,680	18,717
	591,693	553,001	498,158
Operating Profit	**65,457**	67,711	73,098
Dividend Income	**4,680**	–	–
Equity in Loss of Related Company	**(332)**	–	–
	69,805	67,711	73,098
Financial Expenses			
Interest on long-term debt	**32,551**	35,964	29,721
Other interest	**10,723**	18,992	21,907
Interest capitalized	**(9,140)**	(11,864)	(11,474)
Amortization of other assets	**1,161**	1,167	907
Loss on foreign exchange	**316**	651	1,304
	35,611	44,910	42,365
Income Before Taxes	**34,194**	22,801	30,733
Provision for Taxes			
Income taxes	**15,043**	11,075	13,673
Alberta royalty tax credit	**(4,000)**	(4,745)	(1,204)
Energy taxes	**6,899**	7,548	5,447
	17,942	13,878	17,916
Income After Taxes	**16,252**	8,923	12,817
Minority Interests in Subsidiary Companies	**262**	316	(2,358)
Income Before Extraordinary Items	**16,514**	9,239	10,459
Extraordinary Items			
Reduction of current income taxes on application of prior years' losses	**1,188**	1,203	479
Write-off of acquisition costs of KeepRite Inc. attributed to goodwill	**(4,697)**	–	–
Costs of closing manufacturing plant	**(908)**	–	–
	(4,417)	1,203	479
Net Income for the Year	**12,097**	10,442	10,938

See accompanying notes

Inter-City Gas Corporation
Consolidated Balance Sheet

As at December 31, 1983 and 1982

In Thousands of Dollars	1983	1982
ASSETS		
Current Assets		
Cash and short term deposits	7,431	14,469
Accounts and notes receivable less allowance for doubtful accounts; 1983–$2,450; 1982–$3,326	124,524	118,154
Income taxes recoverable	3,053	3,844
Inventories	74,362	82,042
Prepaid expenses	1,695	1,613
	211,065	220,122
Investments		
Investments in related companies	60,480	47,543
Notes, mortgages and other investments	12,733	13,531
Employee share purchase plan loans	4,701	5,031
	77,914	66,105
Fixed Assets		
Property, plant and equipment–at cost	688,127	608,458
Accumulated depreciation and depletion	173,488	149,369
	514,639	459,089
Other Assets and Deferred Costs–at cost, less amortization		
Financing expenses	3,474	3,394
Other deferred costs	7,399	7,420
Goodwill	–	9,625
	10,873	20,439
	814,491	765,755

See accompanying notes

On behalf of the Board

DIRECTOR

DIRECTOR

	1983	1982
LIABILITIES		
Current Liabilities		
Bank advances	**67,907**	106,271
Accounts payable and accrued liabilities	**115,463**	104,564
Income taxes payable	**2,752**	2,949
Current maturities of long-term debt	**12,390**	15,410
	198,512	229,194
Long-Term Debt	**288,213**	244,171
Advances Under Natural Gas Sales Contracts	**16,736**	14,472
Contributions and Grants in Aid of Construction	**23,320**	18,890
Deferred Income Taxes	**61,202**	49,685
Minority Interests in Subsidiary Companies	**5,862**	9,878
	593,845	566,290
REDEEMABLE PREFERENCE SHARES	**8,393**	9,698
COMMON SHAREHOLDERS' EQUITY		
Stated Capital	**177,065**	158,948
Contributed Surplus	**8,250**	8,250
Retained Earnings	**45,534**	41,165
	230,849	208,363
Common Shares of the Company Held by Subsidiaries—at cost (4,953,735 shares)	**18,596**	18,596
	212,253	189,767
	814,491	765,755

Inter-City Gas Corporation
Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1983, 1982 and 1981

In Thousands of Dollars	1983	1982	1981
Cash Provided from Operations	**87,315**	81,477	69,562
Deduct: Interest	**42,927**	52,295	50,827
Income and energy taxes, net	**5,411**	7,721	8,141
	48,338	60,016	58,968
	38,977	21,461	10,594
Cash Provided from Other Sources			
Long-term debt issued	**68,012**	53,586	127,374
Common shares issued and sale of warrants	**18,117**	50,258	216
Receipts under take-or-pay contracts	**2,760**	8,937	1,123
Customer contributions	**6,307**	7,918	4,057
Notes, mortgages, sale of fixed assets	**7,325**	8,786	10,793
Petroleum Incentives Program grants	**9,612**	–	–
Redemption of preferred shares held in related company	**1,800**	–	–
	113,933	129,485	143,563
	152,910	150,946	154,157
Cash Utilized For			
Additions to property, plant and equipment (net of capitalized interest and overhead)	**62,479**	64,763	78,873
Repayment of long-term debt	**29,978**	10,928	42,617
Dividends paid to shareholders and minority interests	**8,042**	6,836	7,781
Investments in related companies	**14,523**	41,017	1,278
Redemption of preference shares and purchase of minority interests	**1,424**	1,817	757
Deferred costs and other	**5,138**	4,553	1,639
Investment in KeepRite Inc.	–	–	18,825
	121,584	129,914	151,770
Increase in Cash	**31,326**	21,032	2,387
Cash Balance–Beginning of the year	**(91,802)**	(112,834)	(95,791)
–KeepRite Inc. acquired	–	–	(19,430)
Cash Balance–End of the year	**(60,476)**	(91,802)	(112,834)

See accompanying notes

Inter-City Gas Corporation
Consolidated Statement of Retained Earnings

For the Years Ended December 31, 1983, 1982 and 1981

In Thousands of Dollars	**1983**	1982	1981
Balance—Beginning of the year	**41,165**	40,821	36,243
Net income for the year	**12,097**	10,442	10,938
	53,262	51,263	47,181
Dividends paid—			
First preference shares, Series B	**248**	306	349
First preference shares, Series C	**309**	363	405
Second preference shares, Series A	**104**	107	111
Second preference shares, Series B	**111**	115	118
Common shares	**6,956**	5,393	5,377
	7,728	6,284	6,360
Repurchase and cancellation of common shares	**–**	3,814	–
Balance—End of the year	**45,534**	41,165	40,821

See accompanying notes

Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Inter-City Gas Corporation as at December 31, 1983 and 1982, and the related consolidated statements of income, retained earnings and changes in financial position for the years ended December 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the consolidated financial position of the Company as at December 31, 1983 and 1982 and the consolidated results of its operations and the changes in its financial position for the years ended December 31, 1983, 1982 and 1981, in accordance with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Winnipeg, Manitoba
March 6, 1984

For the Years Ended December 31, 1983, 1982 and 1981

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies and have been prepared in accordance with generally accepted accounting principles in Canada which differ in certain respects with accounting principles in the United States. The differences between generally accepted accounting principles in Canada and the United States are described further in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission. The accounts of subsidiary companies are consolidated from the dates of acquisition on the basis of purchase accounting. The amounts by which the purchase price of subsidiary companies exceeds the fair value of the assets acquired are treated as goodwill and are amortized on a straight line basis. All such amounts incurred to date have been fully amortized or otherwise written off.

Foreign Exchange

The accounts of subsidiaries and divisions operating in the United States are translated into Canadian dollars at the rates of exchange on the balance sheet date for current assets and current liabilities, on the date of the transaction for other balance sheet accounts and at the average rate for the year for revenues and expenses. Gains and losses on translation are reflected in income. The rate of exchange, as at December 31, 1983, was \$1.2442 Cdn. = \$1.00 U.S. (1982–\$1.2294 Cdn.= \$1.00 U.S.) and the average exchange rate for the year was \$1.2323 Cdn.=\$1.00 U.S. (1982–\$1.2340 Cdn.=\$1.00 U.S.; 1981–\$1.1990 Cdn.=\$1.00 U.S.).

Fixed Assets

Fixed assets are recorded at cost which includes interest and overhead amounts capitalized during the construction period and the full cost method of accounting for oil and gas properties. Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities. Grants under the Petroleum Incentives Program for exploration and development activities are applied as a reduction of the related capital expenditures.

Depreciation is provided on a straight line basis at the following rates based on the estimated useful lives of the applicable assets:

Buildings	2½%–20%
Transmission lines and distribution systems	2%– 3%
Customer installations	3%–10%
Transportation equipment	10%–33%
Machinery, equipment and furniture	5%–25%

Fixed assets leased under capital leases are capitalized and depreciated on the same basis and rates as above.

Depletion of oil and gas properties and depreciation of well equipment, gathering systems and processing facilities are provided on a unit of production method based on estimated recoverable reserves except that costs and estimated reserves applicable to the Arctic Islands have been excluded from the calculation.

Inventories

Inventories of propane and petroleum products are valued at the lower of cost (first-in, first-out) and replacement cost. Inventories of merchandise, materials and supplies are valued at the lower of cost and net realizable value. Cost is determined for work-in-process and finished goods at standard prices and for raw materials and supplies on a first-in, first-out basis.

Deferred Costs

Amortization of financing expenses is provided on a straight line basis over the terms of the respective issues and amortization of other deferred charges is provided on a straight line basis over periods of three to twenty years.

Contributions and Grants In Aid of Construction

Contributions and grants in aid of construction are represented primarily by non-refundable contributions from large customers and grants from governmental bodies in support of specific transmission and distribution facilities in the Utilities Division. These amounts are amortized to income at the same rates as the applicable fixed assets to which they relate.

Revenue Accounting

Gas sales revenue in the Utilities Division is recorded on the basis of meter readings plus an estimate of customer usage since the last meter reading.

Income Taxes

Subsidiaries in the Utilities Division provide only for income taxes currently payable in their financial statements and in the calculation of their rates of return for rate-making purposes. However, for all other operations, the Company provides for deferred income taxes on all timing differences between accounting income and taxable income, including those relating to exploration, development and acquisition of petroleum and natural gas properties.

2. SECURITY FOR BANK ADVANCES, TERM LOANS AND OTHER LONG-TERM INDEBTEDNESS

Current bank loans, term bank loans and other long-term indebtedness are generally secured by a pledge of inventories, accounts receivable, shares of certain subsidiary companies, property, equipment and interests in petroleum and natural gas properties.

The company and its subsidiaries have operating lines of credit with Canadian and United States banks totalling $129,041,000 (1982–$140,493,000) of which $67,907,000 was utilized at December 31, 1983 (1982–$106,271,000).

The weighted average interest rate on the outstanding bank advances at December 31, 1983 was 10.93% (1982–12.41%). Weighted average interest rates are calculated based on actual interest rates in effect and the bank advances outstanding as at December 31. The maximum amount of bank advances outstanding at any month-end during the year ended December 31, 1983 was $119,220,000 (1982–$139,525,000).

The average bank advances outstanding, calculated by averaging month-end balances, during the year ended December 31, 1983 was $107,311,000 (1982–$129,648,000). Virtually all of the Company's lines of credit are at bank prime rates which averaged 11.22% in Canada and 10.58% in the United States in 1983 (1982–15.95% and 14.9%).

As at December 31, the Company also has unutilized lines of credit under long-term credit arrangements totalling $25,520,000. These facilities will expire on June 30, 1984 if not drawn down by that date.

3. INVENTORIES

Inventories are classified as follows:

	1983	1982
	($000)	($000)
Propane and petroleum products	12,821	11,284
Raw materials	18,971	16,761
Work-in-process	5,022	7,572
Finished goods	16,257	23,796
Merchandise, materials and supplies	18,658	20,022
Prepaid natural gas	2,633	2,607
	74,362	82,042

4. INVESTMENTS IN RELATED COMPANIES

Investments in related companies are comprised of the following:

	1983		1982	
	Shares	Advances	Shares	Advances
	($000)	($000)	($000)	($000)
MICC Investments Limited–				
–preferred shares	34,200	–	36,000	–
–warrants	4,500	–	4,500	–
Gaz Inter-Cité Québec Inc.–49%	16,876	–	2,998	–
ICG Brunswick Gas Ltd.–100%	53	2,100	53	1,660
ICG Scotia Gas Ltd.–50%	28	2,723	28	2,304
	55,657	4,823	43,579	3,964

The preferred shares held in MICC Investments Limited are subject to mandatory redemption requirements of $1,800,000 on December 31 of each year to 1986 with the balance to be redeemed on December 31, 1987. The warrants, which expire in December 1987, entitle the Company to acquire 3,000,000 common shares of MICC Investments Limited at $12 per share.

Gaz Inter-Cité Québec Inc. is considered to have commenced operations as of January 1, 1983 and, accordingly, the Company has recorded a loss of $332,000 being its 49% interest in accumulated losses to December 31, 1983. Certain financial information on results of operations for the year and balances as at December 31, 1983, are as follows:

	($000)
Net sales	7,646
Gross profit	2,177
Loss for the year	585
Current assets	29,708
Plant and deferred costs	211,303
Current liabilities	43,202
Long-term debt	68,752
Grants and contributions	94,621

There have been no operations in ICG Brunswick Gas Ltd. or ICG Scotia Gas Ltd. to December 31.

5. INVESTMENT IN KEEPRITE INC.

During 1983, a major reorganization of the Manufactured Products Division–Canada was undertaken wherein KeepRite Inc., a less than 100% owned subsidiary, acquired substantially all of the Canadian manufacturing operations previously carried on by certain other subsidiaries of the Company. As a result of action taken by certain minority shareholders in KeepRite who exercised dissenting shareholder rights, KeepRite, in accordance with the provisions of the Canada Business Corporations Act, is required to purchase the shares held by the dissenting shareholders at fair value. Accordingly, the Company has made a provision of $3,346,000 being the amount which it believes is required to meet this obligation. Consequently, the minority interest in KeepRite has been reduced and the Company's interest has increased to 91.2%.

Pursuant to this reorganization and as a result of the losses incurred by KeepRite in the past two years, the Company has re-assessed its investment in KeepRite Inc. As a result of this re-assessment, it has been determined that the value of the underlying assets in KeepRite have been impaired by an amount of $4,697,000. Accordingly, the Company has written off goodwill of $4,697,000 as an extraordinary charge against income and has reallocated $5,318,000 of the excess of the purchase price over the net book value of assets to land, buildings and equipment. This latter amount will be depreciated over a ten year period.

6. NOTES, MORTGAGES AND OTHER INVESTMENTS

Notes, mortgages and other investments consist primarily of the note receivable taken on the sale of certain U.S. petroleum and exploration operations in 1980. The balance at December 31, 1983 of $11,042,000 U.S. is due over the next six years as follows:

$2,685,000–in equal annual principal instalments of $447,500 plus interest at the greater of 13½% or 110% of prime.

$8,357,000–in equal annual instalments of $2,120,000 including interest at 13½% per annum.

This note is secured by shares of the companies sold.

7. EMPLOYEE SHARE PURCHASE PLAN

Loans granted under the Employee Share Purchase Plan are non-interest bearing and are due seven years from the date they are granted. During 1983, repayments amounted to $330,000; no additional loans were granted.

8. FIXED ASSETS

Property, plant and equipment are classified as follows:

	1983			1982
	Cost	Accumulated Depreciation and Depletion	Net Book Value	Net Book Value
	($000)	($000)	($000)	($000)
Petroleum and natural gas properties, leases and exploration costs	286,982	55,402	231,580	202,887
Well equipment, gathering systems and processing facilities	61,750	18,586	43,164	39,755
Transmission lines and distribution systems	141,703	20,399	121,304	110,872
Customer installations	68,957	30,431	38,526	34,148
Machinery, equipment and furniture	63,177	24,394	38,783	29,105
Transportation equipment	27,718	16,527	11,191	11,365
Buildings	30,641	7,749	22,892	23,679
Land	7,199	–	7,199	7,278
	688,127	173,488	514,639	459,089

Details of assets leased under capital leases and included in fixed assets are as follows:

	1983			1982
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	($000)	($000)	($000)	($000)
Customer installations	13,417	1,976	11,441	8,906
Transportation equipment	15,102	6,905	8,197	7,345
Machinery and equipment	1,447	891	556	820
	29,966	9,772	20,194	17,071

9. LONG-TERM DEBT

The details of long-term debt are as follows:

	1983	1982
	($000)	($000)
Term bank loans, secured, substantially all of which bear interest at rates which vary with the prime bank rate, repayable during the period 1984 to 1996	**140,956**	166,410
Promissory notes bearing interest at rates varying from 7¼% to 14½% repayable during the period 1984 to 1996	**114,536**	51,761
Debentures bearing interest at rates varying from 5% to 17¾% repayable during the period 1984 to 1994	**21,617**	21,350
Capitalized lease obligations bearing interest at rates varying from 8⅜% to 14½% repayable during the period 1984 to 1993	**21,396**	17,875
Sundry notes and mortgages	**2,098**	2,185
	300,603	259,581
Current maturities included in current liabilities	**12,390**	15,410
	288,213	244,171

Amounts repayable in United States funds are translated into Canadian funds at the historical exchange rates in effect at their respective dates of issue except for current maturities which are translated at the year-end exchange rate. If all amounts repayable in United States funds were translated at the exchange rate in effect at year-end, it would result in an increase in long-term debt of approximately $4,772,000 at December 31, 1983 ($4,490,000 at December 31, 1982).

Under the provisions of the various agreements and indentures, excluding capitalized lease obligations, the Company is required to make the following installments during the next five years.

Year	($000)
1984	8,373
1985	15,182
1986	12,295
1987	17,947
1988	38,814

Minimum lease payments required under capital leases are as follows:

Year	($000)
1984	7,059
1985	6,112
1986	4,961
1987	3,596
1988	2,374
subsequent years	9,956
Total minimum lease payments	34,058
Less—amount representing interest	12,662
Balance of capitalized lease obligations	21,396

10. ADVANCES UNDER NATURAL GAS SALES CONTRACTS

Amounts received in respect of certain natural gas sales contracts for which minimum deliverable quantities are in excess of actual deliveries are reflected as Advances Under Natural Gas Sales Contracts. Commencing November 1, 1984, these amounts will be repaid in accordance with the formula contained in the agreements under which they were advanced but which, in any event, are not expected to be less than 10% per annum of the amounts initially advanced. These advances are non-interest bearing.

11. REDEEMABLE PREFERENCE SHARES

(a) Authorized

600,000 first preference shares issuable in series of which 265,000 have been designated as Series B shares carrying a cumulative dividend entitlement of $1.65 per share and redeemable at $21.60 per share; and 200,000 have been designated as Series C shares carrying a cumulative dividend entitlement of $2.10 per share and redeemable at $21.00 per share.

262,468 second preference shares issuable in series of which 97,268 have been designated as Series A shares carrying a cumulative dividend entitlement of $1.30 per share and redeemable at a price not to exceed $20.63 per share; and 90,200 have been designated as Series B shares carrying a cumulative dividend entitlement of $1.50 per share and redeemable at $20.75 per share.

10,000,000 third preference shares issuable in series.

The redemption privileges on all preference shares are at the option of the Company only. The preference shares have voting privileges at all meetings of shareholders, except meetings at which only holders of another class or series of shares are entitled to vote.

(b) Issued and fully paid

	1983		1982	
	Number	**Amount ($000)**	Number	Amount ($000)
First preference shares —Series B	**133,450**	**2,669**	167,900	3,358
—Series C	**134,000**	**2,680**	160,000	3,200
Second preference shares—Series A	**78,873**	**1,578**	81,373	1,628
—Series B	**73,310**	**1,466**	75,610	1,512
		8,393		9,698

(c) Purchase fund requirements

First preference shares Series B and C

To offer to purchase 13% of the original issue amount in each of the years 1984 to 1986 and 5% for each year thereafter. In each of the years 1983 and 1982, 34,450 Series B and 26,000 Series C shares were purchased and cancelled.

Second preference shares Series A and B

To purchase annually in the market, a minimum of 3% of the original issue amount outstanding at the end of the preceding year. In 1983, 2,500 Series A shares and 2,300 Series B shares were purchased and cancelled (1982—2,500 and 2,500).

The minimum purchase requirements for all series in the next five years are as follows:

Year	($000)
1984	1,304
1985	1,300
1986	1,298
1987	550
1988	548

12. STATED CAPITAL

(a) Authorized and outstanding

In addition to the redeemable preference shares, the authorized stated capital of the Company includes 50,000,000 common shares. Changes in the issued and outstanding common shares for the years 1983, 1982 and 1981 are as follows:

	1983		1982		1981	
	Number	**Amount ($000)**	Number	Amount ($000)	Number	Amount ($000)
Issued and fully paid—beginning of the year	**21,961,497**	**158,948**	19,470,747	123,258	19,317,733	121,689
Issued to related companies	**1,500,000**	**18,000**	3,500,000	42,000	—	—
Purchase and cancellation of shares held by a subsidiary	—	—	(1,037,250)	(6,571)	—	—
Issued to employees under the employee share purchase plan	—	—	27,000	253	91,400	1,353
Issued to employees under the employee stock option plan	**13,200**	**117**	800	7	—	—
Issued on exercise of share purchase warrants	—	—	200	1	61,614	216
Issued and fully paid—end of the year	**23,474,697**	**177,065**	21,961,497	158,948	19,470,747	123,258

(b) Share purchase warrants

The Company has reserved 3,000,000 common shares for the exercise of share purchase warrants at $12.00 per share. The warrants expire in December 1987.

(c) Employee stock option plan

A total of 1,499,000 common shares have been reserved for issuance to officers and employees of the Company under the Employee Stock Option Plan.

The term of each option is five years and the options are exercisable on a cumulative basis at 20% per annum. The option exercise price is fixed by the Board of Directors at the time each option is authorized and cannot be less than 90% of the weighted average sales price per share on the Toronto Stock Exchange on the business day preceeding the date of authorization.

Changes in the issued and outstanding share options from inception of the plan to December 31, 1983 are as follows:

	1983	1982
Balance—beginning of the year	**480,700**	—
Issued	**35,000**	481,500
Exercised	**(13,200)**	(800)
Cancelled	**(13,400)**	—
Balance—end of the year	**489,100**	480,700

The exercise prices for options outstanding at December 31, 1983 range from $8.875 to $12.75 per share.

13. INCOME TAXES

(a) A reconciliation between the statutory and the effective rate of income taxes is provided as follows:

	1983	1982	1981
	($000)	($000)	($000)
Income before income taxes	**34,194**	22,801	30,733
Federal statutory tax rate including the corporate surtax	**46.9%**	47.8%	47.8%
Computed income taxes	**16,037**	10,899	14,690
Increase (decrease) in income taxes resulting from—			
Deductible energy taxes	**(836)**	(1,178)	(1,152)
Excess of non-deductible oil and gas expenditures over tax deductions	**546**	615	429
Inventory allowance	**(1,066)**	(924)	(831)
Non-deductible expenses and losses	**4,011**	1,595	1,558
Regulated natural gas divisions	**(1,918)**	(1)	(980)
Investment tax credit	**(667)**	(220)	(386)
Non-taxable dividend income	**(2,189)**	(100)	—
Other	**1,125**	389	345
Effective income taxes	**15,043**	11,075	13,673
Effective rate of income taxes	**44.0%**	48.6%	44.5%

(b) The components of income before taxes and income tax expense are as follows:

	1983	1982	1981
	($000)	($000)	($000)
Income before income taxes—Canada	**31,709**	18,821	20,081
—United States	**2,485**	3,980	10,652
	34,194	22,801	30,733
Current income tax expense—Canada	**4,168**	5,554	2,560
—United States	**(608)**	564	1,484
	3,560	6,118	4,044
Deferred income tax expense—Canada	**10,465**	4,377	7,864
—United States	**1,018**	580	1,765
	11,483	4,957	9,629
	15,043	11,075	13,673

(c) Deferred income tax expense results from timing differences in the recognition of revenues and expenses for income tax purposes and financial statement purposes. The source of these differences are as follows:

	1983	1982	1981
	($000)	($000)	($000)
Excess of tax depreciation over book depreciation	**4,842**	(1,510)	(289)
Drilling and exploration costs claimed net of book depletion	**1,440**	244	6,717
Excess of items capitalized for book purposes and expensed for tax purposes	**6,060**	7,057	3,182
Loss carry forward	**—**	(971)	—
Other	**(859)**	137	19
Deferred income tax expense	**11,483**	4,957	9,629

If tax allocation had been followed in respect of all timing differences between accounting income and taxable income in respect of subsidiaries in the Utilities Division, the provision for deferred income taxes would have increased and consolidated net income would have decreased by $1,918,000 (1982—$1,000; 1981—$980,000). At December 31, 1983, the accumulated deferred income taxes would have amounted to approximately $7,209,000 (1982-$5,291,000), in addition to the amounts recorded in the accounts.

Various consolidated subsidiaries of the Company have accumulated losses for income tax purposes totalling approximately $17,830,000 which are available to reduce future taxable incomes. The potential future income tax benefits arising from these losses have not been recognized in the financial statements. The expiry dates of these tax losses are as follows:

Year	($000)
1984	80
1985	425
1986	250
1987	3,650
1990	12,375
subsequent years	1,050
	17,830

14. NET INCOME PER COMMON SHARE

The net income per common share is calculated on the weighted average number of shares outstanding during the respective years as follows:

	1983	1982	1981
	($000)	($000)	($000)
Income before extraordinary items	**16,514**	9,239	10,459
Less dividends on preference shares	**772**	891	983
Income to common shareholders before extraordinary items	**15,742**	8,348	9,476
Extraordinary items	**(4,417)**	1,203	479
Net income to common shareholders	**11,325**	9,551	9,955
Weighted average number of shares outstanding during the year	**22,033,942**	19,376,268	19,417,880
Less—weighted average of shares held by subsidiaries	**4,891,462**	5,657,659	5,880,752
	17,142,480	13,718,609	13,537,128
Net income per common share			
—before extraordinary items	**$0.92**	$0.61	$0.70
—after extraordinary items	**$0.66**	$0.70	$0.74

The exercise of the share purchase warrants and stock options outstanding as at December 31, 1983 would not have resulted in a material dilution in net income per common share.

15. PENSION PLANS

The Company and its subsidiaries have various pension plans available to substantially all permanent full-time employees. The Company makes contributions to the plans based on salary levels. The total pension expense for 1983 was $1,315,000 (1982—$1331,000), including contributions in respect of unfunded past service benefits. A comparison of accumulated plan benefits and plan net assets is as follows:

	1983		1982	
	Canada	**United States**	Canada	United States
	($000)	**($000)**	($000)	($000)
Actuarial present value of accumulated plan benefits	**12,149**	**2,474**	12,197	1,884
Net assets available for benefits	**12,422**	**2,010**	12,457	1,212

The above figures for plans covering United States based employees are in U.S. dollars.

Actuarial valuation of the Canadian plans assumes that benefits are immediately vested with the employees. The assumed rates of return used in determining the actuarial present value of accumulated plan benefits ranged from 5½% to 6½% for the Canadian plans and were 7% for the United States plans. Valuation dates range from January 1979 to December 1981 for the Canadian plans and from June 1983 to December 1983 for the United States plans. Unfunded liabilities for past service benefits are being funded by payments of $51,000 U.S. and $41,000 U.S. over periods of six and twenty-three years, respectively.

16. LEASE COMMITMENTS

Lease rental expense during the current year amounted to $7,271,000 (1982—$4,783,000). The approximate aggregate minimum annual rentals under long-term leases, excluding capital leases, at December 31, 1983, are as follows:

Year	($000)
1984	5,929
1985	5,006
1986	4,178
1987	3,420
1988	3,338
subsequent years	6,763
	28,634

17. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1979 to 1983 is as follows. Amounts are in thousands of dollars except per share amounts.

	1983	1982	1981	1980	1979
Operating revenue	**657,150**	620,712	571,256	417,775	339,192
Net income for the year					
–continuing operations	**16,514**	9,239	10,459	18,106	11,976
–extraordinary items and discontinued business	**(4,417)**	1,203	479	236	458
	12,097	10,442	10,938	18,342	12,434
Basic net income per common share					
–continuing operations	**$0.92**	$0.61	$0.70	$1.40	$1.37
–extraordinary items and discontinued business	**$(0.26)**	$0.09	$0.04	$0.02	$0.06
	$0.66	$0.70	$0.74	$1.42	$1.43
Dividends per common share	**$0.40**	$0.40	$0.40	$0.32	$0.31
Total assets	**814,491**	765,755	648,960	502,219	421,651
Long-term obligations	**296,606**	253,869	216,701	111,337	119,828

Long-term obligations includes long-term debt and redeemable preference shares.

18. QUARTERLY FINANCIAL DATA (Unaudited)

Summarized quarterly financial data is as follows. Amounts are in thousands of dollars except per share amounts.

	3 Months Ended				Year Ended
1983	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Operating revenue	**182,469**	**146,520**	**135,437**	**192,724**	**657,150**
Gross profit	**61,246**	**47,756**	**42,606**	**63,863**	**215,471**
Net income (loss) after dividends on preference shares					
–before extraordinary items	**7,670**	**1,242**	**(1,074)**	**7,904**	**15,742**
–after extraordinary items	**7,670**	**1,355**	**(1,074)**	**3,374**	**11,325**
Net income (loss) per common share					
–before extraordinary items	**$0.45**	**$0.07**	**$(0.06)**	**$0.46**	**$0.92**
–after extraordinary items	**$0.45**	**$0.08**	**$(0.06)**	**$0.19**	**$0.66**
1982					
Operating revenue	193,477	125,450	119,656	182,129	620,712
Gross profit	63,318	42,396	41,474	59,315	206,503
Net income (loss) after dividends on preference shares					
–before extraordinary item	8,173	(3,037)	(2,805)	6,017	8,348
–after extraordinary item	8,173	(2,251)	(2,805)	6,434	9,551
Net income (loss) per common share					
–before extraordinary item	$0.60	$(0.22)	$(0.21)	$0.42	$0.61*
–after extraordinary item	$0.60	$(0.16)	$(0.21)	$0.45	$0.70*
1981					
Operating revenue	155,144	123,740	120,293	172,079	571,256
Gross profit	47,716	40,707	37,366	61,028	186,817
Net income (loss) after dividends of preference shares					
–before extraordinary item	4,396	159	(1,998)	6,919	9,476
–after extraordinary item	4,396	159	(1,998)	7,398	9,955
Net income (loss) per common share					
–before extraordinary item	$0.33	$0.01	$(0.15)	$0.51	$0.70
–after extraordinary item	$0.33	$0.01	$(0.15)	$0.55	$0.74

*Net income per share by quarter does not add to the total for the year due to changes in the number of common shares outstanding during the year.

19. BUSINESS SEGMENTS

The following is an analysis of certain financial information by business lines and geographical areas for the three years ended December 31, 1983, 1982 and 1981 as it relates to revenue, operating profit, identifiable assets, capital expenditures and depreciation and depletion.

Intersegment sales are not material and are accounted for at prices comparable to normal, unaffiliated customers. Operating profit is total revenue less operating expenses which includes an allocation of corporate expenses. Identifiable assets include only those assets directly identifiable with those operations. Corporate assets consist primarily of the investments in related companies, notes receivable, employee share purchase plan loans, leasehold improvements, furniture and fixtures and deferred financing expenses.

	Operating Revenue			Operating Profit		
	1983	1982	1981	**1983**	1982	1981
	($000)	($000)	($000)	**($000)**	($000)	($000)
Resources						
–Canada	**59,387**	52,897	47,125	**33,271**	30,439	29,371
–United States	**5,262**	5,840	7,096	**3,460**	4,166	5,783
	64,649	58,737	54,221	**36,731**	34,605	35,154
Utilities						
–Canada	**136,782**	124,966	88,171	**13,092**	7,590	7,572
–United States	**65,829**	64,619	61,108	**2,666**	3,951	3,960
	202,611	189,585	149,279	**15,758**	11,541	11,532
Liquid Gas						
–Canada	**256,251**	244,384	210,559	**12,748**	16,409	7,919
Manufactured Products						
–Canada	**109,884**	100,007	129,440	**(2,486)**	207	11,850
–United States	**21,376**	24,104	24,336	**(298)**	1,175	3,726
	131,260	124,111	153,776	**(2,784)**	1,382	15,576
Interest income and other	**2,379**	3,895	3,421	**3,004**	3,774	2,917
	657,150	620,712	571,256	**65,457**	67,711	73,098

	Identifiable Assets			Capital Expenditures			Depreciation and Depletion Expense		
	1983	1982	1981	**1983**	1982	1981	**1983**	1982	1981
	($000)	($000)	($000)	**($000)**	($000)	($000)	**($000)**	($000)	($000)
Resources									
–Canada	**271,818**	246,266	211,719	**36,350**	37,788	37,215	**10,536**	8,418	5,905
–United States	**35,571**	27,892	16,296	**7,623**	6,623	6,818	**762**	769	1,116
	307,389	274,158	228,015	**43,973**	44,411	44,033	**11,298**	9,187	7,021
Utilities									
–Canada	**156,413**	139,909	114,088	**16,703**	18,394	15,175	**2,812**	2,335	2,078
–United States	**33,425**	36,123	32,535	**1,550**	2,418	1,573	**713**	625	587
	189,838	176,032	146,623	**18,253**	20,812	16,748	**3,525**	2,960	2,665
Liquid Gas									
–Canada	**147,247**	138,977	138,437	**14,589**	12,532	25,661	**8,995**	7,819	6,498
Manufactured Products									
–Canada	**71,757**	86,040	89,977	**661**	1,072	1,526	**1,253**	1,528	1,483
–United States	**16,657**	16,124	16,169	**429**	515	1,004	**551**	529	462
	88,414	102,164	106,146	**1,090**	1,587	2,530	**1,804**	2,057	1,945
Total Business Segments	**732,888**	691,331	619,221	**77,905**	79,342	88,972	**25,622**	22,023	18,129
Corporate Assets	**81,603**	74,424	29,739	**1,702**	1,719	340	**896**	657	588
	814,491	765,755	648,960	**79,607**	81,061	89,312	**26,518**	22,680	18,717

20. OIL AND GAS PRODUCING ACTIVITIES (Unaudited)

Additional information with respect to the oil and gas activities of the Company is presented below. This information will not agree in all cases with information included under Note 19, Business Segments, as the Resources Division includes other activities and operations which are not defined as oil and gas producing activities for purposes of the following disclosures:

(a) Capitalized Costs

Aggregate capitalized costs and related accumulated depreciation and depletion at December 31, 1983 and 1982 are:

(i) Cost	Canada	U.S.	Total
1983	($000)	($000)	($000)
Petroleum and natural gas properties, leases and exploration costs	**253,239**	**32,590**	**285,829**
Production and other equipment	**48,012**	**2,751**	**50,763**
	301,251	**35,341**	**336,592**
1982			
Petroleum and natural gas properties, leases and exploration costs	222,807	25,534	248,341
Production and other equipment	45,964	2,223	48,187
	268,771	27,757	296,528

(ii) Accumulated depreciation and depletion			
1983			
Petroleum and natural gas properties, leases and exploration costs	**49,943**	**5,015**	**54,958**
Production and other equipment	**13,046**	**695**	**13,741**
	62,989	**5,710**	**68,699**
1982			
Petroleum and natural gas properties, leases and exploration costs	41,750	4,575	46,325
Production and other equipment	11,523	600	12,123
	53,273	5,175	58,448

Capitalized costs include an amount of $31,610,000 (1982–$31,321,000) attributable to the Arctic Islands. In accordance with the accounting policy described in Note 1, no depreciation or depletion is recorded in respect of these costs as there is no production from these reserves.

Costs totalling $9,217,000, all of which were incurred in 1983, have been excluded from the investment base when computing depletion and depreciation as they relate to properties where exploration is still in progress and, therefore, which have not been fully evaluated.

(b) Expenditures

Costs incurred in oil and gas activities for the years ended December 31, 1983, 1982 and 1981 are:

	1983			1982			1981		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
	($000)	**($000)**	**($000)**	($000)	($000)	($000)	($000)	($000)	($000)
Property acquisition	**5,321**	**1,091**	**6,412**	6,007	1,079	7,086	4,675	1,694	6,369
Exploration	**17,526**	**4,426**	**21,952**	18,959	4,868	23,827	24,055	3,906	27,961
Development	**11,129**	**2,055**	**13,184**	10,440	676	11,116	5,720	975	6,695
	33,976	**7,572**	**41,548**	35,406	6,623	42,029	34,450	6,575	41,025

In addition to the above, exploration expenditures in the amount $289,000 were incurred in the Arctic Islands in 1983 (1982-$301,000; 1981-$113,000). Expenditures reported for 1983 are net of Petroleum Incentives Program grants of $11,586,000 (1982–$7,866,000).

(c) **Results of Operations**

Results of operations from oil and gas producing activities for the years ended December 31, 1983, 1982 and 1981 are:

	1983			1982			1981		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
	($000)	**($000)**	**($000)**	($000)	($000)	($000)	($000)	($000)	($000)
Revenues	**44,101**	**5,237**	**49,338**	41,132	5,840	46,972	34,634	7,096	41,730
Production expenses	**7,525**	**709**	**8,234**	7,655	327	7,982	4,719	376	5,095
Administrative expenses	**2,395**	**406**	**2,801**	1,260	205	1,465	991	205	1,196
Depletion and depreciation	**9,736**	**535**	**10,271**	7,988	551	8,539	5,795	1,116	6,911
Income and other taxes	**13,264**	**2,167**	**15,431**	14,084	2,897	16,981	12,480	3,436	15,916
	32,920	**3,817**	**36,737**	30,987	3,980	34,967	23,985	5,133	29,118
Results of operations (excluding corporate overhead and interest costs)	**11,181**	**1,420**	**12,601**	10,145	1,860	12,005	10,649	1,963	12,612

(d) **Proved Reserves**

Net quantities of proved reserves of oil, gas and gas liquids as evaluated by D & S Petroleum Consulting Group Ltd. at December 31, 1983, 1982 and 1981 are as follows:

	Oil and Gas Liquids			Gas		
	Canada	U.S.	Total	Canada	U.S.	Total
1981	(Thousands of Cubic Metres)			(Millions of Cubic Metres)		
Proved developed and undeveloped reserves, January 1, 1981	1,441	126	1,567	7,083	284	7,367
Revisions to estimates	83	6	89	(152)	(39)	(191)
Extension, discoveries and additions	113	13	126	458	3	461
Production	(77)	(16)	(93)	(280)	(13)	(293)
Proved developed and undeveloped reserves, December 31, 1981	1,560	129	1,689	7,109	235	7,344
1982						
Revisions to estimates	(49)	6	(43)	301	(149)	152
Extensions, discoveries and additions	17	3	20	251	–	251
Production	(93)	(14)	(107)	(277)	(19)	(296)
Proved developed and undeveloped reserves, December 31, 1982	1,435	124	1,559	7,384	67	7,451
1983						
Revisions to estimates	**64**	**(2)**	**62**	**(461)**	**6**	**(455)**
Extensions, discoveries and additions	**116**	**9**	**125**	**191**	**8**	**199**
Production	**(103)**	**(16)**	**(119)**	**(252)**	**(13)**	**(265)**
Proved developed and undeveloped reserves, December 31, 1983	**1,512**	**115**	**1,627**	**6,862**	**68**	**6,930**
Proved developed reserves only						
January 1, 1981	1,376	126	1,502	6,677	284	6,961
December 31, 1981	1,483	129	1,612	6,711	235	6,946
December 31, 1982	1,421	124	1,545	7,018	67	7,085
December 31, 1983	**1,484**	**115**	**1,599**	**6,525**	**68**	**6,593**

In addition to the above, the Company's reserves include 14,814 million cubic metres of gas in the Drake Point Main Gas Pool in the Arctic Islands. Production from these reserves cannot commence without National Energy Board approval and until a market is found and a distribution network constructed.

(e) Future Net Revenues From Proved Reserves

The following information has been computed in accordance with the procedures specified by the Financial Accounting Standards Board in the United States. These procedures are designed to provide consistency among companies required to disclose this information. The assumptions made will not result in an amount representing fair market value nor do they provide the best estimate of the present value of cash flows that will be realized for the following reasons:

(i) The calcuations are based on prices and costs in effect at the end of each year with no provision for increases or decreases except to the extent provided by contractual arrangements in effect at the year-end.
(ii) Income taxes are computed at the statutory tax rate, not the rate actually incurred by the Company.
(iii) Probable reserves which may ultimately become proved are excluded from the calculation.

Estimated future net revenues from proved reserves, stated in millions of dollars as at December 31, 1983, 1982 and 1981 are:

	(In Millions of Dollars)								
	1983			1982			1981		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
Future revenues	**966**	**34**	**1,000**	1,109	36	1,145	957	41	998
Future production and development costs	**(244)**	**(3)**	**(247)**	(246)	(3)	(249)	(194)	(2)	(196)
Future income and other taxes	**(393)**	**(17)**	**(410)**	(451)	(18)	(469)	(408)	(23)	(431)
Future net revenues	**329**	**14**	**343**	412	15	427	355	16	371
10% annual discount for estimated timing of cash flows	**(187)**	**(6)**	**(193)**	(229)	(7)	(236)	(195)	(7)	(202)
Discounted future net revenue	**142**	**8**	**150**	183	8	191	160	9	169

Changes in value of discounted future net revenues from proved reserves during the years ended December 31, 1983, 1982 and 1981 are:

	(In Millions of Dollars)		
	1983	1982	1981
Sales, net of production expenses	**(41)**	(38)	(35)
Net changes in prices and production costs	**(50)**	44	86
Extensions and discoveries less related costs	**13**	7	19
Development costs incurred during the year	**13**	11	6
Revisions of previous estimates	**(27)**	(2)	(3)
Accretion of discount	**19**	17	15
Net change in income and other taxes	**32**	(17)	(71)
	(41)	22	17

Supplementary Information on Changing Prices (Unaudited)

The following unaudited supplementary information is presented in accordance with the guidelines established by the Canadian Institute of Chartered Accountants ("CICA") for reporting the effects of changing prices. The primary purpose of this information is to provide readers of the financial statements with information about the impact of changes in prices of specific goods and services purchased, produced and used by the enterprise and changes in the general purchasing power of the monetary unit in which transactions are measured on the financial position and operating results of the Company.

This information has been determined according to prescribed rules and definitions and because there is necessarily an element of subjectivity, the reader is cautioned that the data presented may not represent the true impact on the Company of actual inflated dollar transactions, although it is believed to have been prepared on a reasonable basis. This is particularly true with respect to the costs of exploring for and developing oil and gas reserves. Current costs have been computed based on an industry index but this may not represent the true current cost of finding and developing similar quantities of new reserves. The information included herein should also not be interpreted as indicating it is possible to replace existing assets or that there is an implied intention to do so.

In each of the following presentations, the comparative information for 1982 has been restated in average-for-the-year or year-end dollars, as appropriate, to adjust for the change in general purchasing power during the current year:

Schedule of Consolidated Assets on a Current Cost Basis

	For The Year Ended December 31, 1983			December 31, 1982
	Historical Cost Basis	**Adjustments To Current Cost**	**Current Cost Basis**	Current Cost Basis
	($000)	**($000)**	**($000)**	($000)
Inventories	**74,362**	**2,561**	**76,923**	88,032
Property, plant and equipment, net	**514,639**	**302,386**	**817,025**	786,044
Net assets (common shareholders' equity)	**212,253**	**304,947**	**517,200**	506,900

The current cost measurement is an adjustment to reflect the current costs to be paid to purchase or produce inventories or to acquire the same service potential as embodied in the property, plant and equipment presently owned by the Company. These adjustments can be generally characterized as specific price changes in specific assets. Current costs were obtained through independent appraisal, vendor invoices and price catalogues, and by applying specific indices.

The related impact on cost of sales, depreciation and depletion is then calculated under the same accounting policies as are utilized in the primary financial statements. Other financial statement items have not been adjusted as the effects are not material.

Consolidated Statement of Income from Continuing Operations on a Current Cost Basis

	For The Year Ended December 31, 1983			December 31, 1982
	Historical Cost Basis	**Adjustments To Current Cost**	**Current Cost Basis**	Current Cost Basis
	($000)	**($000)**	**($000)**	($000)
Operating revenue	**657,150**	**–**	**657,150**	656,713
Cost of sales	**441,679**	**4,112**	**445,791**	442,629
Operating, selling and administration	**123,496**	**–**	**123,496**	122,846
Depreciation and depletion	**26,518**	**18,000**	**44,518**	41,027
Financial expenses	**35,611**	**–**	**35,611**	47,515
Other	**(1,711)**	**–**	**(1,711)**	2,631
Provision for taxes–Current	**3,560**	**–**	**3,560**	6,473
–Deferred	**11,483**	**–**	**11,483**	5,245
Income (loss) before extraordinary items	**16,514**	**(22,112)**	**(5,598)**	(11,653)

In reviewing the foregoing results of operations on a current cost basis, it must be realized that, according to the prescribed procedures, the provision for income taxes is not adjusted to reflect the true income tax applicable to the economic gain for the year as measured under the inflation accounting principles. Consequently, the loss for 1983 and 1982 on a current cost basis is directly attributable to the income tax expense as computed under historical cost concepts.

As is clearly demonstrated from the information presented above, the increase in operating revenue from 1982 to 1983 as indicated through the historical cost statements has barely exceeded the average rate of inflation for the year. Cost of sales increases have also exceeded inflation but at a slightly higher rate than revenue. This is consistent with the fact that pricing competition has not allowed the Company to pass on known cost increases and, thus, has reduced gross margins, specifically in the Liquid Gas and Manufactured Products Divisions.

The other two operating divisions, namely Utilities and Resources are price regulated. In the Utilities Division, the price of product sold is established by regulatory authorities on the basis of historical costs of the investment. Similarly, in the Resources Division, prices to producers of oil and gas are established by governmental authorities. In addition, propane and gasoline retail prices (Liquid Gas Division), while not specifically regulated, do bear a relationship to regulated oil and natural gas prices.

Thus, the analogy of the Company charging (and having the ability to charge) higher prices to cover costs stated on a current cost basis does not hold for these divisions. Furthermore, if the Company had to replace the assets in these and other divisions at today's prices, it would do so only on the premise that it could obtain an adequate return on its investment and build that return into the prices of its products.

The following information is presented to allow the reader to assess the extent to which the common shareholders' proportionate interest in the operating capability of the Company has been maintained (operating capability concept of capital) and to assess the extent to which the general purchasing power of the common shareholders' capital has been maintained (financial concept of capital).

	1983		1982	
	Operating Capability Concept of Capital	**Financial Concept of Capital**	Operating Capability Concept of Capital	Financial Concept of Capital
	($000)	**($000)**	($000)	($000)
Loss on a current cost basis	**(5,598)**	**(5,598)**	(11,653)	(11,653)
Extraordinary items	**(4,417)**	**(4,417)**	1,273	1,273
Dividend on preference shares	**(772)**	**(772)**	(943)	(943)
	(10,787)	**(10,787)**	(11,323)	(11,323)
Financing adjustment based on current cost adjustments	**8,806**		8,986	
Loss attributable to common shareholders on an operating capability concept of capital	**(1,981)**		(2,337)	
Increase during the year in current cost of inventories and property, plant and equipment		**56,691**		74,390
Less: increase attributable to general inflation		**(34,191)**		(71,164)
		22,500		3,226
		11,713		(8,097)
General purchasing power gain resulting from holding net monetary liabilities		**13,920**		28,591
Income attributable to common shareholders under a financial concept of capital		**25,633**		20,494

The financing adjustment represents the amount of the adjustment to the historical cost income statement for cost of sales and depreciation on a current cost basis which is absorbed by the providers of debt financing. The use of debt to finance assets reduces the amount of the increase in their current cost that must be absorbed by the common shareholders (and, thus, ultimately, charged against the common shareholders' equity).

The increase in the current cost of inventories and property, plant and equipment in the current year of $56,691,000 is the cost to the Company on a current cost basis of maintaining its existing level of operations. A portion of the increase is attributable to general inflation. The balance of $22,500,000 represents the extent to which specific price changes have exceeded general price increases.

The general purchasing power gain represents the benefit to the Company during the current year of being in a net monetary liability position during a period of general inflation.

Shareholder Information

DIRECTORS
H. Reuben Cohen, Q.C.
John H. Coleman
Stanley Davison
Leonard Ellen
Robert G. Graham
Wayne R. Harding
Gordon P. Osler
J. Derek Riley
Donald S. Rogers
George C. Solomon
Alan Sweatman, Q.C.
Michael J. Walton (Deceased)

STOCK EXCHANGE LISTINGS
Toronto Stock Exchange
American Stock Exchange
Winnipeg Stock Exchange

SOLICITORS
Thompson, Dorfman, Sweatman

AUDITORS
Coopers & Lybrand

TRANSFER AGENTS
AND REGISTRAR
Guaranty Trust Company
Winnipeg, Toronto,
Calgary and Vancouver

HEAD OFFICE
Inter-City Gas Building
444 St. Mary Avenue
Winnipeg, Manitoba
R3C 3T7

The following table provides certain market information in respect of the Company's common shares for the years ended December 31, 1983 and 1982.

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Market price per common share (Toronto Exchange)				
1983 High	$14.125	$13.125	$12.75	$12.875
Low	$10.125	$11.00	$11.00	$10.50
1982 High	$10.00	$10.375	$12.00	$14.50
Low	$ 7.00	$ 8.375	$ 7.625	$10.875
Dividends per common share				
1983	$ 0.10	$ 0.10	$ 0.10	$ 0.10
1982	$ 0.10	$ 0.10	$ 0.10	$ 0.10

Officers and Senior Managers

CORPORATE
R. G. Graham, President and Chief Executive Officer
D. S. Rogers, Executive Vice-President and Chief Operating Officer
P. Marriott, Senior Vice-President, Finance
C. R. Beenham, Senior Vice-President, Administration
J. E. Carstairs, Vice-President and Secretary
W. R. Harding, Vice-President, Corporate Development
R. Noseworthy, Vice-President, Management Information Services
E. D. Warkentin, Vice-President, Human Resources
T. M. Carey, Assistant Secretary

RESOURCES
R. C. Siegfried, Group Vice-President
C. J. Palmer, Vice-President, Land
W. J. Smart, Vice-President, Operations
B. Smith, Vice-President, Exploration
J. Whitworth, Vice-President and Controller

UTILITIES
N. J. Didur, Group Vice-President
G. M. Hoffman, Senior Vice-President, Administration
R. Burke, Vice-President and Controller
R. B. Callow, Vice-President and General Manager (B.C. and Alberta)
J. Lagadin, Vice-President, Engineering
F. Little, Vice-President and General Manager (Minnesota)
B. McLean, Vice-President, Rate Administration
R. Muegge, Vice-President and General Manager (Man. and N. W. Ont.)
E. P. Rimmer, Vice-President, Planning
D. G. Olsen, General Manager, Vancouver Island Gas Company Ltd.

J. deGrasse, Vice-President and Project Manager, ICG Brunswick Gas Ltd
M. G. Meacher, Vice-President and General Manager, ICG Scotia Gas Ltd

LIQUID GAS
G. Boutin, Zone Vice-President (Quebec)
G. Bullen, Zone Vice-President (B.C.)
P. C. Monachan, Vice-President and Controller
M. Patterson, Zone Vice-President (Central)
J. L. Pinault, Zone Vice-President (Ontario)
D. Podgurny, Vice-President, Supply and Distribution
J. Schaffer, Zone Vice-President (Alberta)

MANUFACTURED PRODUCTS
H. J. Forrest, President and Chief Executive Officer, KeepRite Inc.
R. P. Gannon, Vice-President, Finance and Administration
W. J. L. McLean, Vice-President, Manufacturing and Engineering
H. D. Tayler, Vice-President, Sales
J. E. Watt, Vice-President, Human Resources
W. G. Woodcock, Vice-President, Planning and Development
A. R. Gedge, Controller

R. Mills, President, Thompson Pipe & Steel Company

ICG NEWS RELEASE

FOR RELEASE Wednesday, May 9, 1984 - 9:00 a.m. EST

INTER-CITY GAS CORPORATION ANNOUNCES RESULTS FOR THE FIRST QUARTER OF 1984

Winnipeg, Manitoba - Inter-City Gas Corporation today announced an increase in net income of 7.5% to $8,456,000 for the three months ended March 31, 1984 compared to $7,864,000 reported for the same period in 1983. After deducting preferred dividends earnings per common share were 45 cents, the same as reported in 1983. The weighted average number of outstanding common shares was 18,524,000 in the first quarter of 1984 compared to 17,074,000 in the first quarter of 1983.

Operating revenues increased by 10% from $182,469,000 in 1983 to over $200,756,000 in 1984. Higher volumes were achieved from the production of oil and natural gas, from the distribution of propane and from the sale of air conditioning equipment. These increased sales, together with improved gross margins, resulted in an improvement in operating profit, in all divisions. Operating profits recorded in the first quarter of 1984 were $29,237,000, an increase of 18% over the $24,757,000 recorded in the first quarter of 1983.

A 50% reduction in the Alberta Royalty Tax Credit, together with suspension of the preferred dividend entitlement from MICC Investments Limited, substantially offset the after-tax increase in operating profits.

Cash flow from operations amounted to $8,702,000 in the first quarter of 1984 compared to a negative amount of $2,756,000 in 1983. This improvement of $11,458,000 results from increased operating profits, lower inventories and better control over the components of working capital.

For further information: Mr. P. Marriott
Senior Vice President, Finance
Inter-City Gas Corporation
1800 - 444 St. Mary Avenue
WINNIPEG, Manitoba R3C 3T7
(204) 944-9920

INTER-CITY GAS CORPORATION

	Three Months Ended March 31 (In Thousands of Dollars) 1984	1983
Operating revenues	200,756	182,469
Operating profit	29,237	24,757
Net income for the period	8,456	7,864
Preferred dividends	165	194
Net income to common shareholders	8,291	7,670
Average number of outstanding shares	18,524,000	17,074,000
Net income per common share	$0.45	$0.45

Business Segments	Operating Revenue		Operating Profit	
	1984	1983	1984	1983
Resources	19,282	17,630	11,132	10,849
Utilities	70,330	68,127	9,851	8,234
Liquid Gas	79,960	68,690	7,031	6,181
Manufactured Products	30,652	27,345	1,512	(1,098)
Other	532	677	(289)	591
	200,756	182,469	29,237	24,757

Inter-city Gas Corp

FIRST QUARTER REPORT

C

Report to the shareholders for the three months ended March 31, 1986

ICG Utilities (Ontario) Ltd. is the new name for Northern and Central Gas Corporation.

SUMMARY OF RESULTS
To March 31, 1986 and 1985

(In thousands of Canadian dollars)	3 months ended March 31	
	1986	**1985**
Operating revenue	488,918	507,210
Operating profit	82,282	85,600
Net income for the period		
Before and after extraordinary items	32,506	30,999
Preferred dividends	3,235	1,678
Weighted average number of common shares outstanding	18,668,000	18,530,000
Net income per common share		
Before and after extraordinary items	$1.57	$1.58

BUSINESS SEGMENTS
To March 31, 1986 and 1985

(In thousands of Canadian dollars)	3 months ended March 31			
	Operating Revenue		**Operating Profit**	
	1986	**1985**	**1986**	**1985**
Resources	21,815	22,547	11,423	14,096
Utilities	345,656	359,174	59,695	58,823
Liquid Gas	82,801	89,252	9,389	10,835
Manufactured Products	38,309	36,216	2,330	2,533
Other	337	21	(555)	(687)
	488,918	507,210	82,282	85,600

OPERATING HIGHLIGHTS
To March 31, 1986 and 1985

	3 months ended March 31	
	1986	**1985**
Resources		
Gas—millions of cubic feet	4,164	3,665
Oil and Gas Liquids—thousands of barrels	255	229
Utilities		
Gas—millions of cubic feet	70,944	72,254
Liquid Gas		
Propane—thousands of litres	283,222	305,076
Manufactured Products		
Air Conditioners—units	37,841	40,139

REPORT TO SHAREHOLDERS

Despite an increase in interest rates and the recent sharp decline in world oil prices, results for the first quarter remained steady.

Net income of $32.5 million for the three months ended March 31, 1986, compares favourably with $31.0 million for the corresponding period in 1985. On a per share basis, net income attributable to common shareholders, after deducting dividends on preference shares, amounted to $1.57 in 1986 versus $1.58 in 1985.

The full impact of the world oil price situation will be felt beginning with the second quarter of the year. Assuming current pricing levels, we anticipate a decline in annual earnings for our oil and gas operations.

RESOURCES

Operating revenues for the first quarter were below those of the same period in 1985 due to lower prices for all products, particularly oil. Production of natural gas and oil and gas liquids increased by 14% and 11%, respectively. However, this higher production resulted in additional depletion charges and increased operating expenses.

UTILITIES

Despite unseasonably warm weather in Western Canada, first quarter results showed a modest improvement, due to customer growth and allowed rates of return on higher rate bases.

LIQUID GAS

A decline in operating profit was primarily a result of lower propane volumes. Significant gains in auto-propane sales were outstripped by a decline in sales to industrial, commercial and residential customers—a result of both mild weather and lower activity in the oil well drilling industry.

MANUFACTURED PRODUCTS

At ICG KeepRite, both operating revenue and gross margins increased; however, higher operating expenses related to the start up of U.S. operations resulted in a marginal decline in operating profit.

R.G. Graham
President and Chief Executive Officer
May 5, 1986

CONSOLIDATED BALANCE SHEET
As at March 31, 1986

(In thousands of Canadian dollars)	1986	1985
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	1,417	1,606
Accounts and notes receivable	258,780	276,057
Income taxes recoverable	5,354	2,001
Inventories	88,039	88,600
Prepaids and other current assets	4,894	8,531
	358,484	376,795
INVESTMENTS		
Investments in related companies	190,441	257,055
Notes, mortgages and other investments	32,526	18,070
Employee share purchase plan loans	3,721	4,670
	226,688	279,795
FIXED ASSETS		
Property, plant and equipment	1,492,851	1,361,285
Accumulated depreciation and depletion	362,838	338,500
	1,130,013	1,022,785
DEFERRED COSTS—at cost, less amortization	27,812	28,631
	1,742,997	1,708,006

(In thousands of Canadian dollars)	1986	1985
LIABILITIES		
CURRENT LIABILITIES		
Bank advances	80,471	77,883
Accounts payable and accrued liabilities	193,521	194,642
Income taxes payable	28,721	30,014
Current maturities of long-term debt	36,370	26,270
	339,083	328,809
LONG-TERM DEBT	740,978	854,233
ADVANCES UNDER NATURAL GAS SALES CONTRACTS	13,011	15,013
CONTRIBUTIONS AND GRANTS IN AID OF CONSTRUCTION	93,565	64,113
DEFERRED INCOME TAXES	95,285	80,171
MINORITY INTEREST IN SUBSIDIARY COMPANIES	45,327	47,352
	1,327,249	1,389,691
REDEEMABLE PREFERENCE SHARES	82,647	84,072
SHAREHOLDERS' EQUITY		
CONVERTIBLE PREFERENCE SHARES	75,000	—
COMMON SHARES	178,962	177,335
CONTRIBUTED SURPLUS	8,250	8,250
RETAINED EARNINGS	83,244	62,082
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	6,241	5,172
	351,697	252,839
COMMON SHARES OF THE COMPANY HELD BY SUBSIDIARIES—at cost	18,596	18,596
	333,101	234,243
	1,742,997	1,708,006

CONSOLIDATED STATEMENT OF INCOME
For the three months ended March 31, 1986

(In thousands of Canadian dollars)	**1986**	**1985**
OPERATING REVENUE	488,918	507,210
OPERATING COSTS		
Cost of sales	335,609	354,388
Operating, selling and administrative	56,268	53,380
Depreciation and depletion	14,759	13,842
	406,636	421,610
OPERATING PROFIT	82,282	85,600
INVESTMENT INCOME	6,668	5,886
	88,950	91,486
FINANCIAL EXPENSES		
Interest on long-term debt	22,610	23,937
Other interest	2,147	3,213
Interest capitalized	(1,100)	(1,755)
Amortization of deferred costs	727	718
	24,384	26,113
INCOME BEFORE TAXES	64,566	65,373
PROVISION FOR TAXES		
Income taxes	30,289	31,721
Alberta royalty tax credit	(688)	(500)
Energy taxes	1,641	2,171
	31,242	33,392
INCOME AFTER TAXES	33,324	31,981
MINORITY INTEREST IN SUBSIDIARY COMPANIES	818	982
NET INCOME FOR THE PERIOD	32,506	30,999
DIVIDENDS ON PREFERENCE SHARES	3,235	1,678
NET INCOME APPLICABLE TO COMMON SHARES	29,271	29,321
Weighted average number of common shares outstanding	18,668,311	18,529,543
Net income per common share—		
Basic	$1.57	$1.58
Fully diluted	$1.18	$1.38
Cash dividends paid per common share	$0.15	$0.10

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the three months ended March 31, 1986

(In thousands of Canadian dollars)	1986	1985
Cash provided from operations	50,966	27,260
Cash was used for		
DIVIDENDS PAID		
By the Company to shareholders	6,036	2,494
By subsidiaries to minority interests	738	832
	6,774	3,326
Cash remaining for investment	44,192	23,934
INVESTMENT		
Additions to property, plant and equipment	33,489	23,662
Deferred costs and other	4,766	16,519
Customer contributions and grants in aid of construction	(12,012)	(3,006)
Proceeds on sale of investments	(4,110)	—
Cash used in investment activities	22,133	37,175
Cash (Deficiency) before financing	22,059	(13,241)
FINANCING		
Long-term debt issued	14,425	14,624
Notes, mortgages and sale of fixed assets	1,080	6,762
Common shares issued	183	213
Repayment of long-term debt and redemption of preferred shares	(54,717)	(16,242)
Cash generated from financing activities	(39,029)	5,357
INCREASE (DECREASE) IN CASH BALANCE	(16,970)	(7,884)
CASH BALANCE—Beginning of the period	(62,084)	(68,393)
CASH BALANCE—End of the period	(79,054)	(76,277)
REPRESENTED BY		
Bank advances	80,471	77,883
Less: cash and short-term deposits	1,417	1,606
	79,054	76,277

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the three months ended March 31, 1986

(In thousands of Canadian dollars)	1986	1985
BALANCE—Beginning of the period	56,774	34,615
Net income for the period	32,506	30,999
	89,280	65,614
Dividends—		
Common shares	2,801	1,854
Preference shares	3,235	1,678
BALANCE—End of the period	83,244	62,082

Rogers points to stable, consistent growth in an address to New York Securities Analysts.

In an address to the New York Society of Security Analysts in early May, ICG's Executive Vice-President and Chief Operating Officer D.S. Rogers pointed to "stable, consistent growth" as long-term watchwords for the Company as it builds "diversified energy operations which balance cash production and asset appreciation."

As in the past, stated Rogers, this growth will come from two sources: external acquisitions and internal growth.

In the area of acquisitions, "We will likely be looking actively in the resource area—particularly if we can unearth 'bargains' because of the current uncertainty in the industry," said Rogers. "But we'll also be looking downstream to cash generators such as utilities and propane... and to an extension of our manufacturing involvement."

In building the business from within, Rogers provided a division-by-division breakdown:

• "At ICG Resources, we'll continue to emphasize deliverable reserves in conventional areas and the lower cost and risk that this brings... allowing the same team that has produced the results of the past few years to do what they're best at—find oil and gas and bring it to market. Our capital expenditures will be evaluated in the light of world prices; however, we'll continue to be aggressive because we believe that oil and gas exploration is a vital part of ICG... and because our opportunities will be enhanced by our production... by our relatively low finding costs... by greater marketing impetus allowed by deregulation ... and by ICG's diversity of operations."

• "At ICG Liquid Gas, we will continue to lead the development of the new applications for propane and, indeed, to lead the development of the Canadian fleet market for alternative fuels. Our emphasis will be on propane... but we're well positioned to capitalize on compressed natural gas (CNG), methanol or any other product which develops momentum in the marketplace."

• "At ICG Utilities, we expect deregulation to have no substantial effect on our operations. It's a complex subject; but it boils down to two facts: that Canadian gas utilities will be kept whole to protect the individual residential user against significant cost increases... and where industrial users are able to make direct purchases from producers, the distribution will still earn an allowed rate of return for delivering the product."

"New rules will allow us to take off the gloves and sell more effectively against competitors. New utility marketing programs will emphasize greater penetration of appliances and attempt to stimulate the market for CNG as a vehicle fuel to be sold through ICG Liquid Gas and other retailers."

• "At ICG KeepRite, we're developing and testing a new range of residential and commercial air conditioning products which we believe will fit specific market niches in North America... we're expanding our operations in the United States to tap exciting new markets for these air conditioning products which we will produce at a second plant in Johnson City, Tennessee... and we're actively pursuing international markets for air conditioners via joint ventures with entrepreneurs in Third World countries. Eighteen target markets have been identified which possess the right characteristics of warm climate, government support, favourable tariffs duties... and more."

But generating sales won't be the only emphasis. "We're constantly reducing costs through greater productivity," added Rogers. "We've made substantial progress in this area over the past several years... and, encouraged by results, we're prepared to invest further to build our future."

ICG Utilities new name for Ontario gas distribution operations.

ICG's utilities operations in Ontario—serving 153,000 residential, commercial and industrial customers throughout the province—has changed its name from Northern and Central Gas Corporation to ICG Utilities (Ontario) Ltd.

According to R.B. Callow, Vice-President and General Manager for ICG Utilities' Ontario region, the move is the final step in the linking of the Ontario utilities business (acquired in mid-1984) with ICG's other utility operations and Inter-City Gas Corporation.

"While each of our utility companies operates under separate provincial regulatory authority, we believe there are benefits for a common ICG identity," says Callow.

"For ICG Utilities (Ontario), it will mean an opportunity for us to be seen by our customers, in an overall energy context, as a member of the ICG family," he states. "ICG Utilities will become synonymous with 'The Gas Company' in many areas of Ontario... while ICG will be connected with 'energy' in the minds of our consumers."

The transition from Northern and Central to ICG Utilities is expected to be a smooth one, thanks to a detailed strategy developed within the Division to inform employees, customers and potential customers and outside organizations.

Signs on buildings and vehicles throughout the province have all been changed. Police, fire and government officials have all been notified by letter. An effective low-key advertising campaign is underway—and all utilities' bills in the coming "cycle" will contain a colourful explanatory brochure.

"Even with all this preparation, it will still take some time for the new name to sink in," says Callow. "Ultimately, though, the most effective communication will take place through direct contact between our people and our customers."

For that reason, ICG Utilities (Ontario) held brief early morning meetings on May 5th at offices throughout the province.

Says Callow, "We supplied the coffee and doughnuts, our employees supplied the enthusiasm. Even though the change is one of name only, it's still a time for rededication of our efforts to serve the public more efficiently and effectively."

"Our morning get-together gave everybody a chance to try on the new 'hat'. So far, it seems to be a very good fit."

ICG KeepRite puts foot in door of super energy efficient homes.

Homes that are insulated, heated and cooled to cut fuel consumption dramatically represent a large and growing segment of the housing market in North America.

Now, thanks to an agreement with a major manufacturer of insulation, ICG KeepRite has an important opportunity to become a major supplier of heating and cooling equipment to builders of these high-tech homes.

Key to the program is a two-module heat pump system that helps cool the home in the summer and re-circulates heat from stale exhaust air in the winter to provide hot water and heat for the home. The two units are being adapted by KeepRite, from Swedish design, to meet the needs of Canadian conditions. They will be produced under contract to Fibreglas Canada Inc. and sold exclusively by that company—for the first three years—under the "Habitair Energy Centre" brand name.

In fact, KeepRite is already delivering air distribution modules for the heat pump which are being installed, along with Swedish-made heat recovery modules, in selected homes across Canada as part of a test program. By the first quarter of 1987, KeepRite will be delivering heat recovery modules, too... and an all-Canadian Habitair system will be a reality, as marketing by Fibreglas Canada kicks into high gear.

"There's no question about it, energy efficient or super energy efficient homes are the wave of the future," says Grant Blackmore, Product Marketing Manager, ICG KeepRite. "And in all of these homes, stale air must be exhausted to meet building codes. This new system is more efficient and more effective than the traditional air-to-air heat exchanger in recovering energy from exhaust air."

"Under our arrangement with Fibreglas, we, have a major head start on the rest of the industry in Canada. No one else is producing a product that comes close to Habitair in overall capability and efficiency," he adds.

After the three year period is up, KeepRite will be free to market the product under its own name either on its own or through retailers or distributors across Canada. But the major potential, according to Blackmore, is in the United States.

"Fibreglas Canada is the North American licensee for the Swedish technology upon which the system is based," he says. "If all goes according to plan in Canada, we have the inside track on providing both the hardware and back-up service to serve a large and emerging U.S. market."

Barge is energy link to Queen Charlotte Sound communities.

Along the rugged British Columbia coastline, propane is rapidly becoming a preferred energy thanks to ICG's "Floating Branch"—a 90-foot barge that transports the fuel to more than 200 isolated communities.

The barge weathers the Queen Charlotte Sound waters for close to 20 days each month, carrying an ICG bulk truck with a capacity of 75,000 litres of propane, as well as propane appliances (refrigerators, clothes dryers, ranges, heating equipment, lights) and gasoline, stove oil and oxyacetylene.

At each port of call—generally a floating house settlement, a fishing resort, logging camp or Indian village—the truck drives off to make its rounds.

Since going into service in 1984, ICG's "Floating Branch" has developed a strong reputation along the coastline for promptness and dependable service—two highly valued qualities in isolated locations where links to the outside world are difficult.

Sales from the barge are expected to continue to expand through the development of auto-propane applications, propane-fueled electricity generators and community-wide grid distribution systems. Several proposals to communities to convert from oil to propane are also pending.

Isolated communities along the rugged British Columbia coast receive regular deliveries of propane, propane appliances and other fuels from ICG Liquid Gas' "Floating Branch." An onboard truck makes local deliveries in 200 settlements.

Inter-City Gas Corporation is a diversified energy company active in:

- Exploration and production of oil and gas in Canada and the United States;
- Distribution of natural gas through utilities in Canada and Minnesota;
- Distribution of propane, gasoline and related products;
- Manufacturing and distribution of air conditioning, heating equipment and related products.

INTER-CITY GAS CORPORATION
444 St. Mary Avenue, Winnipeg, Canada R3C 3T7

Printed in Canada

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LITHO'D IN CANADA