INTER-CITY GAS CORPORATION
ANNUAL REPORT 1984

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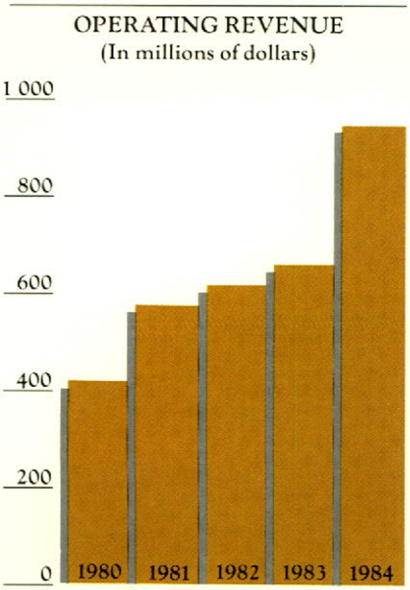
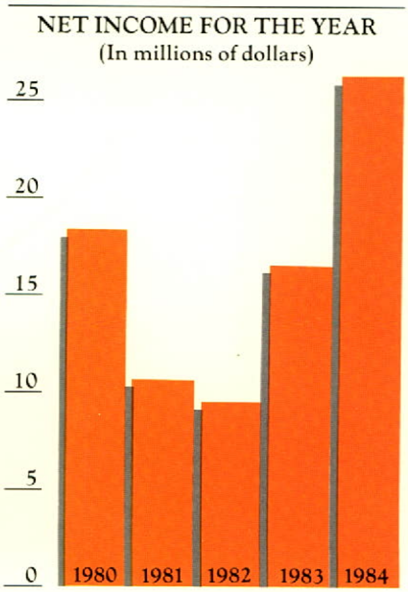
FINANCIAL HIGHLIGHTS

In Thousands of Dollars	1984	1983	1982
Operating revenue	**940,821**	657,150	620,712
Operating profit	**109,626**	65,457	67,711
Net income (loss)			
Before extraordinary items	**26,042**	16,514	9,239
After extraordinary items	**(2,331)**	12,097	10,442
Cash flow from operations	**55,575**	38,977	21,461
Capital expenditures	**115,902**	79,607	81,061
Net income (loss) per common share			
Before extraordinary items	**$ 1.34**	$0.92	$0.61
After extraordinary items	**$(0.19)**	$0.66	$0.70
Dividends per common share	**$ 0.40**	$0.40	$0.40





Before extraordinary items

REPORT TO SHAREHOLDERS

1984 was an important period in the development of ICG.

In our 30th anniversary year, we experienced substantial growth in operating revenue and profits in each of our divisions, and the impact of both a major acquisition and an extraordinary loss.

Financial results must be seen in the light of these developments.

Revenue grew by more than 43% to $940,821,000—generating an operating profit of $109,626,000, an increase of more than $44,000,000 over the previous year.

Before extraordinary items, net income for the year was $26,042,000, or $1.34 per share, versus 92 cents in 1983—an increase of 45%.

However, we felt it prudent to effect a writedown of $28,700,000 in an investment in preferred shares and warrants of MICC Investments Limited.

This negative extraordinary

ROBERT G. GRAHAM
President and Chief Executive Officer

item, reduced by an unrelated income tax recovery of $327,000, accounted for a net loss after extraordinary items of $2,331,000 or 19 cents per share.

The major contribution to both revenue and profit was made by our acquisition of Northern and Central Gas Corporation Limited, formerly owned by Norcen Energy Resources Limited.

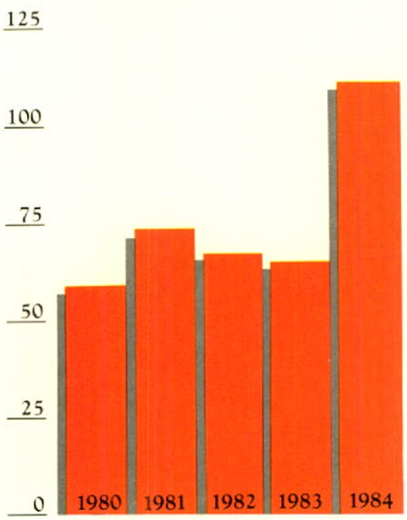
While the acquisition was completed after the year-end, the agreement was retroactive to September 30, 1984. In the final quarter of the year, contribution to net income to common shareholders from this acquisition was $9,678,000.

Gas distribution is, however, a seasonal business, in which the winter months (the first and fourth quarters) generate most of the revenue and all of the profit.

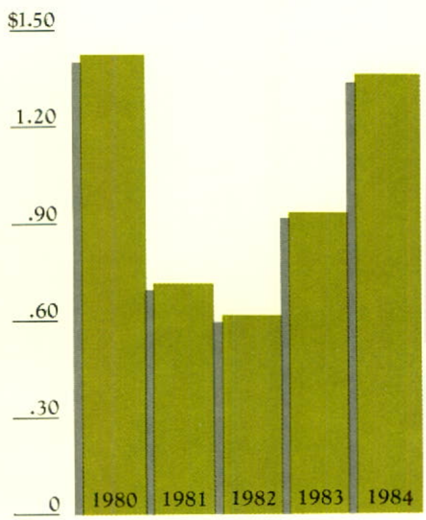
On a full pro forma basis for 1984, revenue including these newly-acquired operations would have been nearly $1.5 billion producing net income before extraordinary items of $26.9 million.

Perhaps overshadowed by these other two developments, but of equal importance, was internal growth in ICG's "existing" operations. In each of the Company's four Divisions, there were substantial increases in operating revenue and profits.

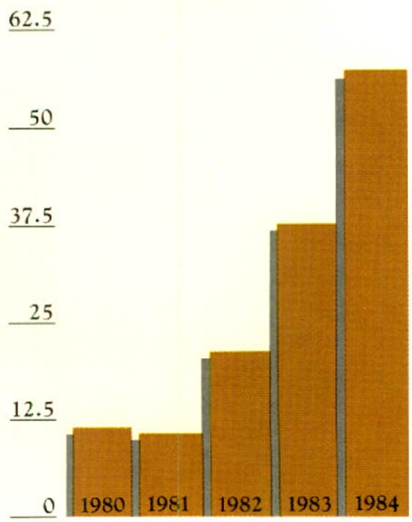
OPERATING PROFIT
(In millions of dollars)



NET INCOME PER COMMON SHARE
(before extraordinary items)



CASH FLOW FROM OPERATIONS
(In millions of dollars)



A few of the more important reasons for these will be detailed later; however, it's worth emphasizing that our new gas distribution operations are being added to an already strong and growing company.

Groundwork laid over the past several years is now beginning to pay off in greater operating profits from existing businesses. In addition, we expect greater profits from newer ventures. For example, Gaz Inter-Cité Québec made its first profit contribution in 1984. We look forward to a growing return on our equity investment in this company as it continues its customer development program.

Looking at other key financial indicators:

• Return on common shareholders' equity grew to 11.1% from 8.1% (a figure that was up from 6.1% in 1982). Further growth toward our objective of 18% is expected in 1985 and 1986.

• Cash flow from operations continued a trend set over the past four years, building to $55.6 million or approximately $3.00 per share—up 42% from 1983.

• Total assets at the end of the year were just under $1.7 billion, an increase of 108% over the previous year, the majority of which was accounted for by the Northern and Central acquisition.

OPERATIONS

ICG Resources enjoyed an excellent year, with production of gas and oil growing by 5% and 17%, respectively. At the same time, exploration and development added significantly to our proven reserve levels. By year-end, our proven reserves were more than 265 billion cubic feet of gas (up nearly 11%) and 11.3 million barrels of oil and gas liquids (an increase of 8%).

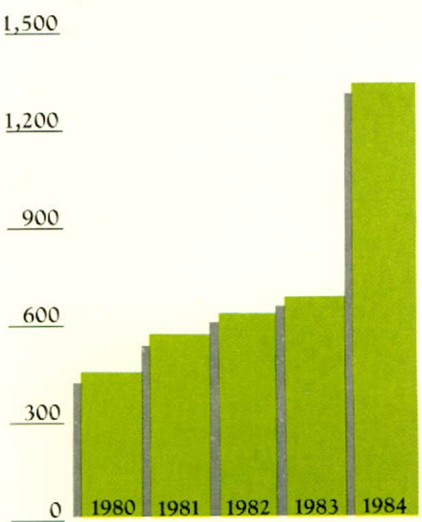
We participated in drilling 141 wells, which resulted in 32 new gas wells and 62 new oil wells—a success ratio of 54.5% for exploratory drilling and 85.3% for development drilling. At year-end, drilling was still underway on 11 wells.

Operating revenue reflected increased sales and higher wellhead prices, growing to $77.5 million from $66.9 million. Operating profits were $44.9 million, up 15.5% over 1983.

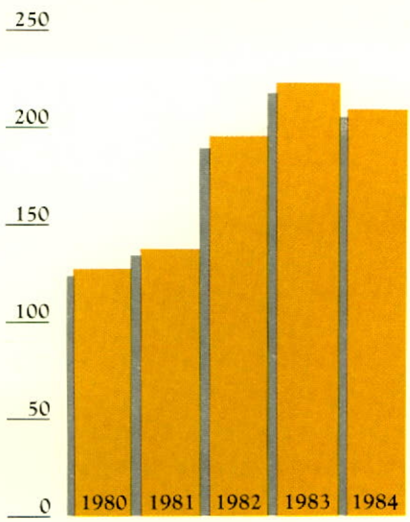
In the Utilities Division, sales volumes were essentially flat as a result of warmer than normal weather in the first quarter of the year. However, revenues and profits increased because our allowed rates of return were applied to higher rate bases.

Including newly-acquired gas distribution systems, revenue increased to $437.9 million from $202.6 million in the previous year, achieving an operating profit of $46.4 million, up from $15.8 million.

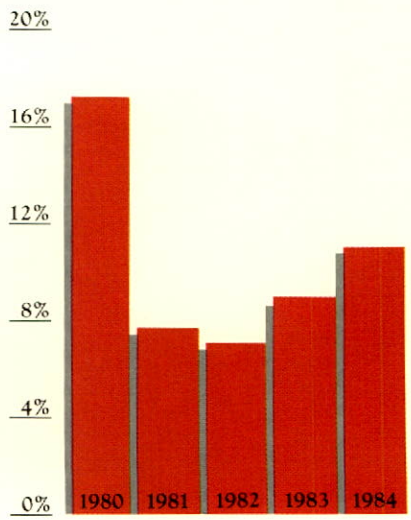
FIXED ASSETS
(At cost in millions of dollars)



COMMON SHAREHOLDERS' EQUITY
(In millions of dollars)



RETURN ON COMMON EQUITY



As part of this, our "existing" gas distribution operations achieved growth of 3% in operating revenue and 13% in operating profit, in spite of marginally lower gas sales.

In 1985, Utilities results will reflect a full year's contribution from Northern and Central. The coming year may also see us add distribution rights for Nova Scotia, through ICG Scotia gas, to those already awarded to ICG Brunswick Gas in neighbouring New Brunswick. Both companies could become more interesting prospects should natural gas become available in the Atlantic Provinces.

We are also well positioned for franchise rights for communities to be served on Vancouver Island should the province of British Columbia and the federal government reach accord on the construction of a transmission line from the mainland.

In the Liquid Gas Division, continued growth in sales of auto propane was the most important development. As a result of effective campaigns to add new fleet customers, ICG auto propane now has nearly one-third of the Canadian automotive propane market. This, together with increased sales to new industrial users not served by natural gas transmission systems, overcame the effects of warm weather and increased natural gas competition in traditional heating markets—and resulted in overall propane sales approximately 9% higher than 1983 levels.

Overall operating revenues for Liquid Gas were up by more than $28 million to $284.7 million for the year. Operating profit was $15.0 million compared with $12.7 million in 1983.

In 1985, Liquid Gas will continue a variety of programs to improve operating efficiency and profitability, while marketing more aggressively and effectively on all fronts. Ongoing research and development will be directed to developing new propane applications.

Perhaps the "success story" of the year was the turnaround in our Manufactured Products Division. Here, programs to cut costs and increase productivity resulted in an operating profit of $5.6 million, against a loss of nearly $2.8 million in 1983—on revenues that were up less than 7%, in very competitive markets.

A particularly strong contribution to this performance was made by ZoneAire Corporation of Johnson City, Tennessee, which increased revenues by more effective marketing, including development of new products to meet customer needs not being addressed by competitors.

Overall, the Division, spearheaded by a management reorganization and plant rationalization, is well positioned to take advantage of substantial market opportunities in the next five years. Specifically, profits are planned to grow substantially over the next five years as a result of dramatic increases in sales, a large proportion of which will come from offshore markets.

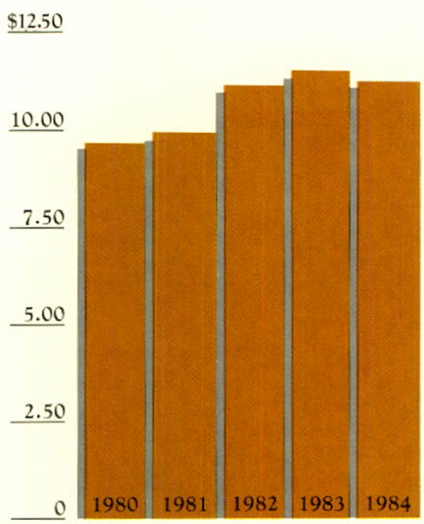
I would like to thank all of our loyal employees, including the many new people who joined us during the year, for their contribution to the year's achievements. With their continued dedication and innovation, ICG's future is a bright one.

Finally, I'd like to record our thanks to Gordon P. Osler, one of the founding directors of ICG. Following his election as Chairman of the Board of TransCanada PipeLines, Mr. Osler is not able to stand for re-election to our Board. His contribution has been invaluable and will be missed.

On Behalf of the Board of Directors,

R. G. GRAHAM
President and Chief Executive Officer

BOOK VALUE PER SHARE



ICG: THIRTY YEARS OF PROGRESS

October 29, 1954 Inter-City Gas Limited, with 6 employees, is formed in Winnipeg, Manitoba.

1954 Before the end of the year, ICG secures first franchise for gas distribution for Neepawa, Manitoba.

1956 Inter-City makes initial share offering to raise capital for gas distribution systems in four Manitoba communities.

1957 Natural gas begins to flow through ICG system, to 597 customers.

1958 In its first annual report, ICG records revenues of $243,800—and a loss of $86,000.

1959 Inter-City reports its first annual profit.

1961 ICG participates in the organization of Columbia Natural Gas Ltd., to serve the East Kootenay region of British Columbia.

Total annual revenues of ICG exceed $1 million for the first time.

1963 More than 250 miles of laterals and distribution systems have been installed to serve ICG customers in Manitoba.

1965 Iron Ranges Natural Gas Company of Minnesota purchased. Included in the acquisition are ICG's first propane distribution operations.

1966 ICG purchases North Star Natural Gas Company, Minnesota.

1969 Minnesota utility operation renamed Inter-City Gas (Minnesota) Inc.

Inter-City now serves 50 communities and more than 20,600 customers.

ICG's first entry into manufacturing made through acquisition of Bulloch's Limited of Winnipeg, manufacturers of oil and gas furnaces and heating equipment.

1970 The Company launches first venture in Ontario: Inter-City Pipelines Ltd. is formed to construct and operate a pipeline from Spruce, Manitoba to International Falls, Minnesota and Fort Frances, Ontario.

1971 Furnasman Ltd., another furnace manufacturing firm, was acquired and merged with Bulloch's to form Inter-City Manufacturing Ltd.

1972 Furnace manufacturing was further bolstered by the acquisition of the heating division of Anthes Imperial Limited St. Catharines, Ontario.

ICG's annual earnings exceed $1 million for the first time.

1973 An office is established in Calgary to further oil and gas exploration and production operations.

1976 Inter-City purchases 49 per cent of Canadian Hydrocarbons (and acquires remaining shares over the subsequent two years). The acquisition more than doubles the size of the company in many areas, and expands utility, propane and oil and gas operations.

1977 Net income exceeds $5 million for the first time, on total revenues of $82 million. Employees total 2,800.

1978 Natural gas utility customer base now numbers 80,000 in 158 communities.

1979 ICG and Canadian Homestead Oils Ltd. amalgamate to form Inter-City Gas Corporation, four divisions are formed: Resources, Liquid Gas, Utilities, and Manufactured Products.

1980 ICG Brunswick Gas Ltd. is formed to seek gas distribution rights in New Brunswick (later awarded).

1981 Through a 49% ownership in Gaz Inter-Cite Quebec, ICG joins with the Quebec government to develop a 30 year exclusive franchise for natural gas distribution in 80 communities in Quebec.

ICG Scotia Gas Limited is established to pursue the franchise for natural gas distribution in Nova Scotia.

Majority ownership is acquired in KeepRite Inc., Brantford, Ontario.

Later in the year, Les Industries Barrieres, Montreal, is acquired.

1983 Components of the Manufactured Products Division (except Thompson Pipe & Steel Company) are consolidated at ICG KeepRite, through the acquisition, by KeepRite, of the assets of ICG Manufacturing Ltd. and ICG Energy Products Ltd.

Vancouver Island Gas Company Limited applies to distribute natural gas to communities on Vancouver Island once the pipeline from the mainland is constructed.

1984 Inter-City acquires Northern and Central Gas Corporation Limited.

Company revenues and assets double to $1.5 billion and $1.7 billion, respectively. Gas distribution operations now serve over 400,000 customers.

1985 Inter-City Gas Corporation is comprised of more than 31 wholly-owned subsidiary companies and six companies in which ICG has a shared ownership position. The company workforce totals 4,200 employees in Canada and in the United States.

ICG pursues its fourth decade with the same vigor that characterized its first 30 years of existence.

STRATEGIC DIRECTION

The year just concluded was significant for Inter-City Gas Corporation in two major respects: first, as a result of a program of aggressive marketing and productivity improvement, all divisions contributed an operating profit. Secondly, through a major acquisition, the Company virtually doubled its assets and annual revenues.

As a result, it's an appropriate time to restate ICG's corporate strategy and to evaluate the Company's goals and objectives for the next decade.

The following is an edited transcript of a discussion with a number of ICG senior officers in February, 1985.

BASIC DIRECTION

ICG's mission as a diversified energy company has not changed since the day, nearly 16 years ago, when our first non-utility acquisition was made. We remain a supplier of both energy and the tools to utilize that energy — in a variety of forms.

Our pioneering work with auto propane is an example: ICG will be at the forefront of energy technology, supplying energy markets with whatever new fuels prove viable.

Internal growth and acquisitions will be actively pursued within this broad energy framework.

Recent growth through acquisition and geographical expansion in the gas distribution field has been driven by opportunity. It is consistent with our mandate as an energy company and will contribute to meeting our growth and profit objectives. But it does not indicate a shift in direction toward this segment of the energy market. In the years to come, it's likely that expansion in other energy segments — particularly oil and gas exploration and development — will bring our balance of businesses back closer to equal levels.

Through all this, it's worth stressing that ICG is not merely an aggregation of companies linked by a common energy "thread". We're *one* entity in which the whole is clearly greater than the sum of the parts. Specific operational examples of this intra-company synergy are obvious. Less obvious, but just as critical, is the synergistic effect of our people working together across Divisional lines to solve problems, and capitalize on opportunities — to meet common objectives.

SOURCES OF GROWTH

Planned acquisitions have been a major component of ICG's growth over the past 30 years and will continue to play an important role in our financial strategy. Northern and Central was the largest acquisition we've undertaken, but it was no different in terms of the basic criteria applied to assure a good "fit" with ICG's objectives.

It's worth remembering, though, that internal growth is the most fundamental focus at Inter-City. For example, in the

(Left to right.) PETER MARRIOTT, Senior Vice-President and Chief Financial Officer; DON ROGERS, Executive Vice-President and Chief Operating Officer; WAYNE HARDING, Vice-President, Corporate Development; ROY BEENHAM, Senior Vice-President, Administration.

Manufactured Products Division, a concerted effort in 1984 turned a 2.8 million dollar operating loss into a 5.6 million dollar operating profit.

More importantly, as a result of sound, fundamental management techniques and an aggressive approach to "niche" marketing on a global scale, the Company is forecasting a substantial increase in sales—and sharply higher profits and margins—over the next five years.

Each of our other Divisions also works within the framework of a five-year growth plan.

We view our existing businesses as the foundation which must be kept strong and growing to support the acquisitions which are essential to meeting our corporate growth targets.

OPPORTUNITIES

All of the Company's existing businesses are well managed, well structured, well positioned, and growing.

Here are just a few of the specific areas of opportunity:

In our Liquid Gas Division, ICG-branded propane will be sold at Shell service stations throughout western Canada and we hope to sign similar arrangements with other major integrated oil companies across Canada.

In Manufactured Products, we're actively exploring joint ventures in the People's Republic of China to assemble and sell room air conditioners in that country. Other opportunities in the Middle East and a number of Third World countries are being pursued. In addition, we see major potential in various segments of the U.S. market.

At ICG Resources, our programs of the past few years are just now starting to pay real dividends with higher production *and* strong growth in reserves.

In the Utility area, we have the best geographical expansion prospects of any Canadian gas distributor in British Columbia, the Maritimes and, indirectly, in Québec.

(Left to right.) NORMAN DIDUR, Group Vice-President, Utilities; HARRY FORREST, Group Vice-President, Manufactured Products; DICK SIEGFRIED, Group Vice-President, Resources; JOHN STOLLERY, Group Vice-President, Liquid Gas.

DEBT AND EQUITY

In the final analysis, the amount of debt which is appropriate to the Corporation is decided by our balance of businesses. At the present time, the relatively strong weighting of gas distribution utilities in our energy mix can support—in fact, *demands*—a relatively higher debt/equity ratio.

The Northern and Central acquisition, with its high utility debt component, brought our funded debt to over 70% of total capitalization. While we're comfortable with this in the near-term, we do have definite plans to increase the equity side of the ratio in the short term. Plans for an equity-based financing in 1985 will make a contribution toward this objective.

Of our current debt, less than 30% is at floating rates. And, in most cases, we have the option of fixing the rate at our discretion. Our operating lines of credit are primarily in the Manufactured Products and Liquid Gas Divisions. We intend to keep these on a floating basis covered by inventory and receivables.

DIVIDEND POLICY

Growth objectives will require that ICG continue to plough a significant proportion of earnings back into the business. Yet it's clear that some increase in the quarterly dividend is appropriate. No decision on the amount or timing has been taken, but we're aiming for a minimum payout of approximately 40% of sustainable earnings.

MANAGEMENT

To utilize the inherent strength of our management resources, we've established an organizational structure that combines both strong central direction and considerable operating autonomy.

At the corporate level, we participate annually in the development of a running five-year plan for each of the business units—including a detailed budget for the year to come. Once this is done, it's a corporate responsibility to provide least cost capital and a relatively narrow range of services which aren't duplicated in the Divisions—and to be sure our operating companies are staffed by the right senior managers.

In terms of day-to-day business, however, divisional management teams are held accountable for operations and results. They're encouraged to "run their own show"—and are rewarded on the basis of the success they attain.

We're convinced that this strong entrepreneurial spirit is essential to ICG's continued growth.

THE LONG-TERM PICTURE

If there's one key word for ICG, it is *growth*. Both internally and through acquisitions. In revenue and profits.

But, as we've said on numerous occasions, our objective is not to increase size for its own sake. Quite simply, we're out to reward our owners, customers and employees.

Shareholders must be rewarded with increasing profits and dividends...customers with improved service...and employees with expanded opportunities.

Our growth will be structured and well defined. But, by its very nature, it must be driven by opportunity. So while maintaining a strong financial underpinning, we will continue to pursue growth avenues in each of our market areas. As a result, we believe the next 30 years will be even more exciting.

GAS DISTRIBUTION: A FOUNDATION FOR GROWTH

As part of a spectrum of diversified energy operations, Inter-City is now one of Canada's largest natural gas distributors, with natural gas sales of approximately $930 million.

ICG is now "The Gas Company" in 282 communities in British Columbia, Alberta, Manitoba, Ontario, Québec and Minnesota, serving more than 400,000 customers.

Beyond this, investments in Gaz Inter-Cité Québec and Gaz Métropolitain, and expansion project prospects in New Brunswick, Nova Scotia, and on Vancouver Island, bring an added dimension to the Company's gas distribution operations.

ICG's expanding utilities are efficiently run regulated companies that provide a vital service to Canadians—and make a dependable contribution of both cash flow and earnings to the overall Company.

But they're only part of the ICG story. We're also planning expansion in many other segments of the energy marketplace.

In this context, ICG's gas distribution offers a growing market for natural gas from our Resources Division and indirectly stimulates a market for ICG-manufactured gas furnaces.

Most importantly, it provides a stable financial underpinning for Inter-City's overall growth in the years to come.

RESOURCES

Oil and gas production and reserves grew as recent exploration and development programs began to produce results.

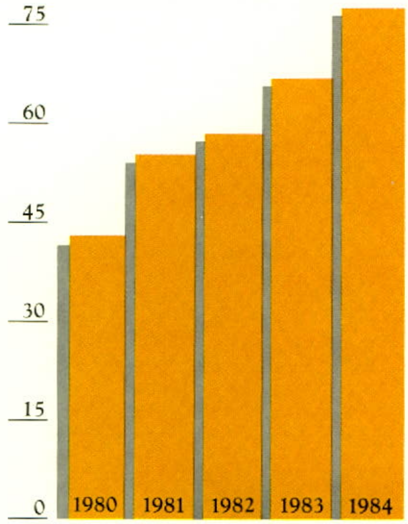
ICG's Resources Division is a significant force in oil and gas exploration and development with assets – land, petroleum, and human – that place it in North America's top echelon. ICG Resources is currently active in Alberta and Saskatchewan, in Hudson Bay, offshore Atlantic Canada, as well as in Wyoming, New Mexico and Texas. ICG land holdings total 3.4 million gross hectares.

While some of the gains made in 1984 by ICG Resources can be attributed to healthier energy markets, in large part, the excellent performance was a direct result of aggressive and well-planned exploration, land and development programs mounted over the past three years.

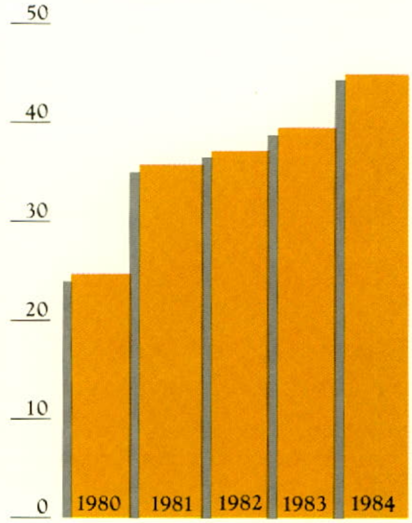
On the strength of significantly higher production, operating profit grew 15.5% to $44.9 million. Operating revenue was $77.5 million, up from $66.9 million in 1983.

During the year, ICG's oil drilling programs met with considerable success. Production of oil and gas liquids (net of royalties) grew to 382 cubic metres (2,404 barrels) per day in 1984 – an increase of 16.8% or 55 cubic metres (346 barrels) per day over the previous year. Prices increased moderately, due largely to the increased value of the American dollar and the effects of both production from new discoveries and infill drilling for which NORP (New Oil Reference Price) prices were received.

OPERATING REVENUE
(In millions of dollars)



OPERATING PROFIT
(In millions of dollars)



Natural gas prices were marginally higher. And gas sales recovered from a decline in 1983 to post an increase of nearly 5%. Net natural gas production averaged 761,000 cubic metres (27 mmcf) per day, versus 726,000 cubic metres (25.8 mmcf) in 1983. Factors in this growth were greater export demand and commencement of production under a 15-year gas contract to supply up to 300,000 cubic metres (10.6 mmcf) per day to Gaz Inter-Cité Québec, with a projected load factor of 75%. ICG supplied a total of 10.8 million cubic metres (383.3 mmcf) under this contract during 1984.

Approval was obtained in November 1984 to supply additional volumes of gas to GICQ. ICG's share of deliveries under this program begins early in 1985 at 216.5 cubic metres (7.7 mmcf) per day, eventually increasing to 461.5 cubic metres (16.6 mmcf) per day. ICG will supply those volumes mainly from the Leafland and Chard areas of Alberta.

HIGHLIGHTS ($000)	1984	1983	1982
Operating revenue	**77,501**	66,882	61,185
Operating profit	**44,943**	38,911	36,785
Capital expenditures	**40,078**	43,973	44,411
Total assets	**349,641**	320,361	289,083
Key volumes			
– Gas – thousands of cubic metres	**277,689**	264,965	295,539
– Oil and gas liquids – cubic metres	**139,281**	119,402	106,977

Proved and Probable Reserves

	1984 Gross	1984 Net	1983 Gross	1983 Net	1982 Gross	1982 Net
Natural Gas — millions of cubic Meters (billions of cubic feet)						
Proved	9,809 (348.2)	7,473 (265.2)	8,914 (316.4)	6,930 (246.0)	9,737 (345.6)	7,451 (264.5)
Probable	1,407 (49.9)	1,279 (45.4)	1,658 (58.8)	1,284 (45.6)	1,987 (770.5)	1,452 (51.5)
Total	11,216 (398.1)	8,752 (310.6)	10,572 (37.2)	8,214 (291.6)	11,724 (416.1)	8,903 (316.0)
Oil and Natural Gas Liquids — thousands of cubic metres (millions of barrels)						
Proved	2,289 (14.4)	1,805 (11.4)	2,025 (12.7)	1,627 (10.3)	1,970 (12.4)	1,559 (9.8)
Probable	193 (1.2)	171 (1.1)	571 (3.6)	447 (2.8)	567 (3.6)	479 (3.0)
Total	2,482 (15.6)	1,976 (12.5)	2,596 (16.3)	2,074 (13.1)	2,537 (16.0)	2,038 (12.8)

This table summarizes the proved and probable reserves before royalty and net after royalty for our Canadian and United States interests, as at Dec. 31, 1984, 1983 and 1982.

RESERVES

The above table summarizes year end reserves, net after royalties.

Beyond those shown, ICG Resources has natural gas reserves in the Canadian Arctic Islands, located in the Drake Point main gas pool, on and offshore Melville Island, estimated to total 14.8 billion cubic metres (525 bcf). In addition, the Company has 6.67% interest in an oil discovery in the South Hibernia area, offshore Newfoundland. ICG Resources' share of initial reserve estimates is 370,000 cubic metres (2.33 million barrels); however, with further drilling, the potential exists to increase reserve estimates eight to ten times.

DRILLING

As in 1983, exploration drilling remained relatively constant, while development drilling showed a sharp increase as the Company continued to pursue NORP oil.

The overall drilling success ratio for 1984 was 72.3%, based on a 54.5% average for exploratory wells and 85.3% for development wells.

Drilling

Wells	Gross Exploratory 1984	Gross Exploratory 1983	Gross Development 1984	Gross Development 1983	Total Gross 1984	Total Gross 1983	Total Net 1984	Total Net 1983
Oil	22	24	40	40	62	64	14.29	28.77
Gas	8	12	24	9	32	21	14.03	4.86
Abandoned	25	16	11	12	36	28	9.51	9.38
Drilling	6	6	5	1	11	7	3.74	0.47
Total	61	58	80	62	141	120	41.57	43.48

Exploratory success — 54.5% Development success — 85.3%
Overall success ratio — 72.3%

Natural gas is flared at the Terra Nova K-08 oil discovery in the South Hibernia area. Producing from four zones, the well tested in excess of 1700 cubic meters per day.

EXPLORATION

HIBERNIA

• In 1984, ICG participated in five wells in the South Hibernia area. One of these, Terra Nova K-08 was a significant oil discovery with four zones cumulatively testing in excess of 1,700 cubic metres (10,700 barrels) of oil per day. As a result of the South Hibernia drilling program, ICG has earned working interests from 4.5% to 10% in 338,000 hectares which surround the Terra Nova discovery.

• Late in the year, ICG participated in a 4,400 kilometre three-dimensional seismic program designed to further delineate the Terra Nova structure and to define potential for additional productive areas. Based on interpretation of this data, two more locations are planned toward the end of 1985.

ALBERTA AND SASKATCHEWAN

• In the Cowpar-Chard and Leafland areas of Alberta, 10 wells were drilled in 1984. Eight of these were completed as natural gas producers. These wells will deliver gas to the newly-developed Québec markets in 1985.

• In the Joarcam field, southeast of Edmonton, three oil wells were drilled on lands in which ICG has a 30.6% working interest. The wells are currently producing a total of 50 cubic metres (315 barrels) per day.

• In the Zama/Schekilie area, four wells were drilled in 1984, resulting in two oil discoveries producing at a combined average rate of 120 cubic metres (755 barrels) per day, of which ICG's share of production is 19.2 cubic metres (121 barrels) per day. Further anomalies have been identified by seismic on ICG lands in the area, and additional wells will be drilled in 1985.

• In the Central Alberta area, three wells were drilled, resulting in two oil wells at Chigwell. ICG has working interests in approximately 3,000 hectares and has an additional 13,000 hectares under option in ICG lands. In 1985, at least six wells will be drilled. ICG's working interest will range between 25% and 40%.

• In the Red Earth/Lubicon area, two of the five wells drilled were oil discoveries. In 1985, five wells are planned on lands in the Lubicon area in which ICG has a 25% working interest. Three of these will be step-outs to previous oil discoveries.

ICG Resources' exploration and drilling programs of the past several years began to pay greater dividends in 1984, through higher production, oil and gas reserve levels, and profits. Emphasis for 1985 in Canada is on Alberta and Saskatchewan, Hudson Bay and South Hibernia—and on the San Juan and Powder River basins in the United States.

Gross and Net Production for 1984, 1983 and 1982

	Canada				United States				Total			
	Oil & Gas Liquids (thousands of cubic metres)		Gas (millions of cubic metres)		Oil & Gas Liquids (thousands of cubic metres)		Gas (millions of cubic metres)		Oil & Gas Liquids (thousands of cubic metres)		Gas (millions of cubic metres)	
	Gross*	Net**	Gross*	Net**	Gross*	Net**	Gross*	Net**	Gross*	Net**	Gross*	Net**
1984	164	121	344	264	19	18	14	14	183	139	358	278
1983	145	103	325	252	17	16	13	13	162	119	338	265
1982	135	93	368	277	15	14	19	19	150	107	387	296

*Before Royalty **After Royalty

• In the Senex area, ICG completed a major seismic program during the year. Additional seismic work, is planned and at least one well will be drilled during 1985. ICG's working interest in this project is 25%.

• In the Gold Creek region, ICG participated in an 11-well program which resulted in nine oil and gas discoveries. At East Gold Creek, the Company has a 10% interest in five wells which have now been drilled in the pool. In 1985, exploration activity will be directed toward evaluating oil potential of ICG lands.

• In 1985, up to 15 wells could be drilled on promising prospects in western and southeastern Saskatchewan, located largely on lands acquired during 1984.

HUDSON BAY

• As a result of negotiations finalized in 1984, the coming year will see ICG participate in two wells in Hudson Bay. One will be drilled on a 426,000 hectare exploration agreement area in which ICG has a 42.7% working interest, the other on lands in which ICG has negotiated the right to earn a 15% working interest.

UNITED STATES

• Particular success in 1984 was encountered in the San Juan Basin, New Mexico. Of the 13 exploration and development wells, all are potential oil wells. Two of these had initial potentials greater than 47.6 cubic metres (300 barrels) per day—with five currently producing greater than 15.9 cubic metres (100 barrels) per day. A drilling program is planned for 1985. ICG interests range from 3.56% to 23.75%.

• A major U.S. emphasis in 1985 will be oil prospects in the Powder River Basin, Wyoming, where ICG's interests are as high as 33%.

LAND

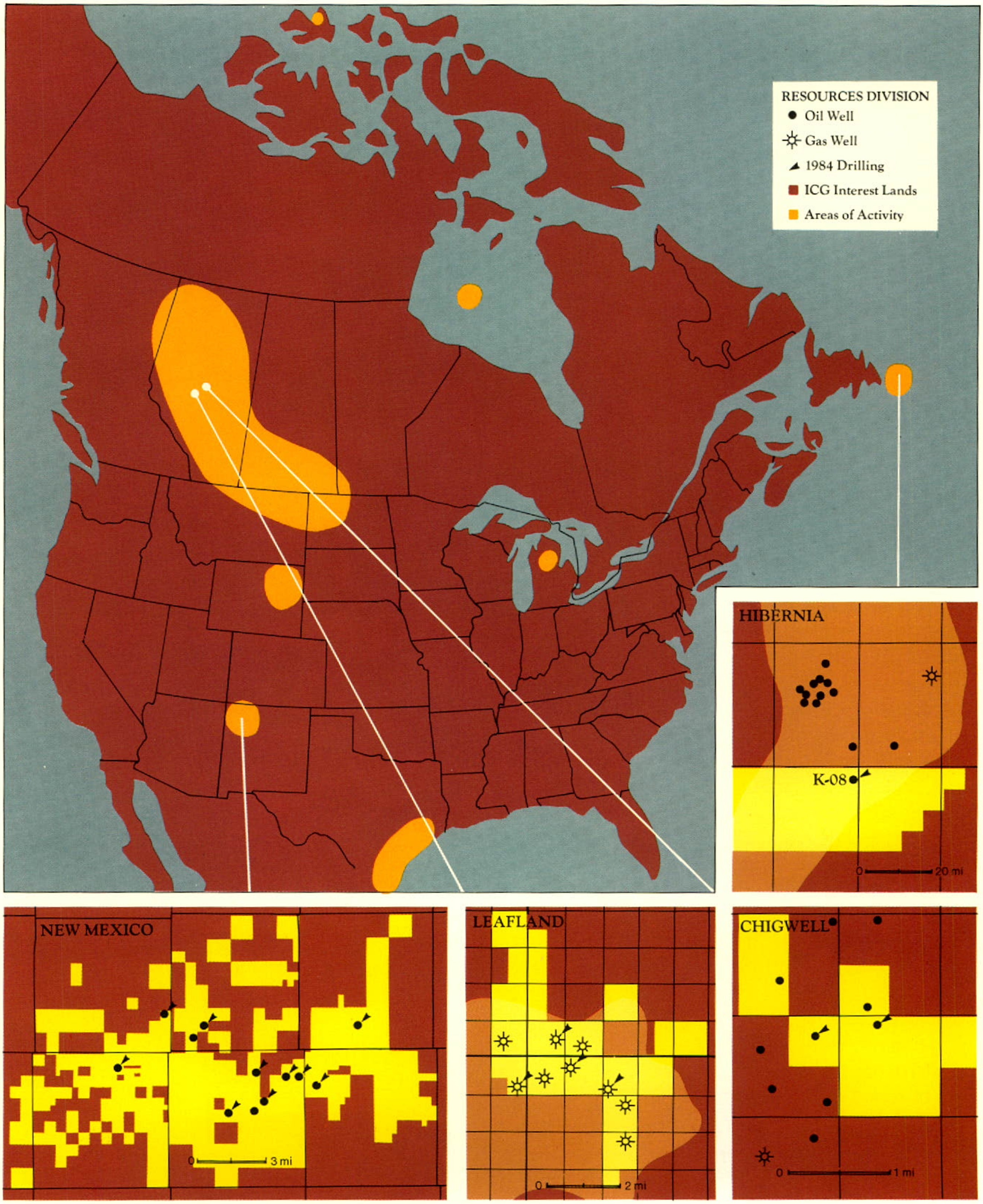
In 1984, $2.8 million was invested in acquiring prospective land, with the result that ICG now holds interests in 3.4 million gross hectares (0.935 million hectares net). Not included in these totals are royalty interests in 168,000 additional hectares and working interest in 338,000 hectares in the Terra Nova area.

CAPITAL BUDGET

The 1985 capital budget is planned at $51 million, up 28% from last year. The prime thrust will again be toward oil prospects, with a secondary emphasis on discovering gas reserves which could find their way to market within a three-year period.

Land	Thousands of Hectares Gross	Net
Canada		
Alberta	880	292
British Columbia	160	40
Saskatchewan	130	15
Manitoba	1	1
Arctic Isands	376	44
Hudson Bay	1823	531
	3370	923
United States	60	12
	3430	935

In 1984, the Resources Division invested $2.8 million in acquiring and maintaining lands which we feel are highly prospective.



RESOURCES DIVISION
Oil Well
Gas Well
1984 Drilling
ICG Interest Lands
Areas of Activity
HIBERNIA
K-08
0
20 mi
NEW MEXICO
0
3 mi
LEAFLAND
0
2 mi
CHIGWELL
0
1 mi

UTILITIES

ICG's expanded natural gas distribution system now serves more than 400,000 customers in nearly 300 communities.

ICG's Utilities Division is a major distributor of natural gas, serving more than 400,000 residential, commercial and industrial customers in British Columbia, Alberta, Manitoba, Ontario, Québec and Minnesota. ICG also holds the gas distribution franchise for New Brunswick, has an investment in Gaz Métropolitain which serves greater Montréal and surrounding areas, and is a 49% shareholder in Gaz Inter-Cité Québec, a natural gas utility serving most of the province of Québec east of Montréal. The Division also distributes electric power to the City of Yellowknife, North West Territories.

ICG is now "The Gas Company"—providing natural gas and service—to a greater number of industrial, commercial and residential customers than ever before.

1984 was a year of dramatic growth for ICG in natural gas distribution.

As a result of the acquisition of Northern and Central Gas, including its subsidiary Greater Winnipeg Gas, more than 300,000 customers in Manitoba, Ontario and Québec were added to the network across Canada.

Reflecting the final quarter's contribution of these new operations, operating profits for the year grew to $46.4 million from $15.8 million in 1983, on revenues of $437.9 million, up from $202.6 million. Of the 1984 totals, $28.5 million in operating profit and $230.3 million in operating revenue were provided by the acquisition.

After an abnormally warm first quarter, natural gas sales for "existing" operations increased only marginally to $207.6 million, from $202.6 million in 1983. Operating profits increased by 13% to $17.9 million, from $15.8 million a year earlier.

Exclusive of acquired operations, the number of gas customers served increased by 3%. However, most of this growth was offset by both warmer weather and more efficient fuel use by the residential sector.

Sales of natural gas to industrial users were down by 2%—the net result of reduced consumption by large customers in Manitoba and Minnesota, partially offset by a continued upturn in the forest products industry in Alberta and British Columbia.

During 1984, a total of $18.1 million was invested on expansion and other projects. Nearly one-third of this amount went toward replacing and reinforcing the distribution systems in the province of Alberta. Government grants accounted for $5.6 million of the capital program.

Between October and December, ICG Utilities carried out construction of an 85 km oil pipeline, to carry up to 11,000

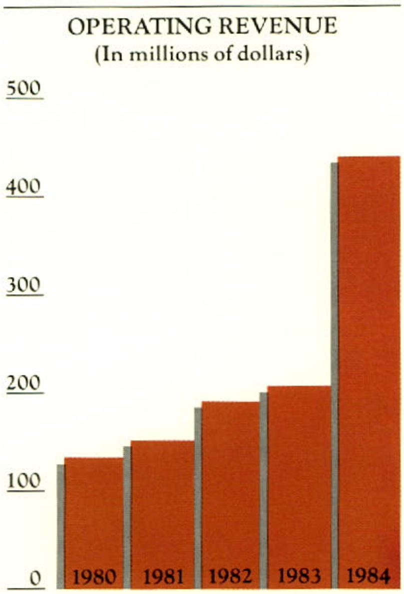
HIGHLIGHTS ($000)	1984	1983	1982
Operating revenue	437,863	202,611	189,585
Operating profit	46,396	15,758	11,541
Capital expenditures	56,117	18,253	20,812
Total assets	814,633	185,015	172,068
Key volumes			
—Gas—thousands of cubic metres	2,546,460	1,204,902	1,204,057

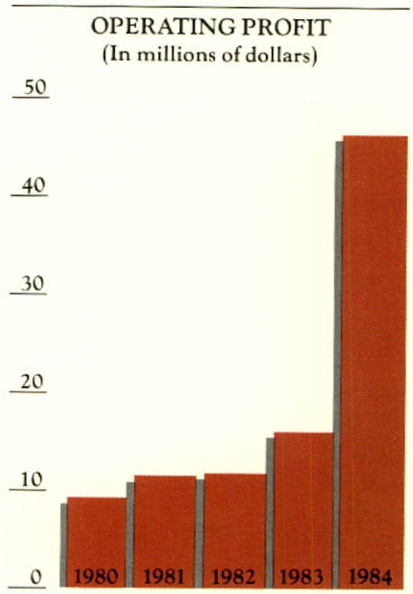
barrels of crude oil per day from fields in the Waskada area of Manitoba to an interconnection with the Interprovincial Pipeline near Cromer, Manitoba. ICG's 60% participation involved a capital investment of approximately $2.5 million. Oil is now flowing, and the line is expected to make a profit contribution beginning in 1985.

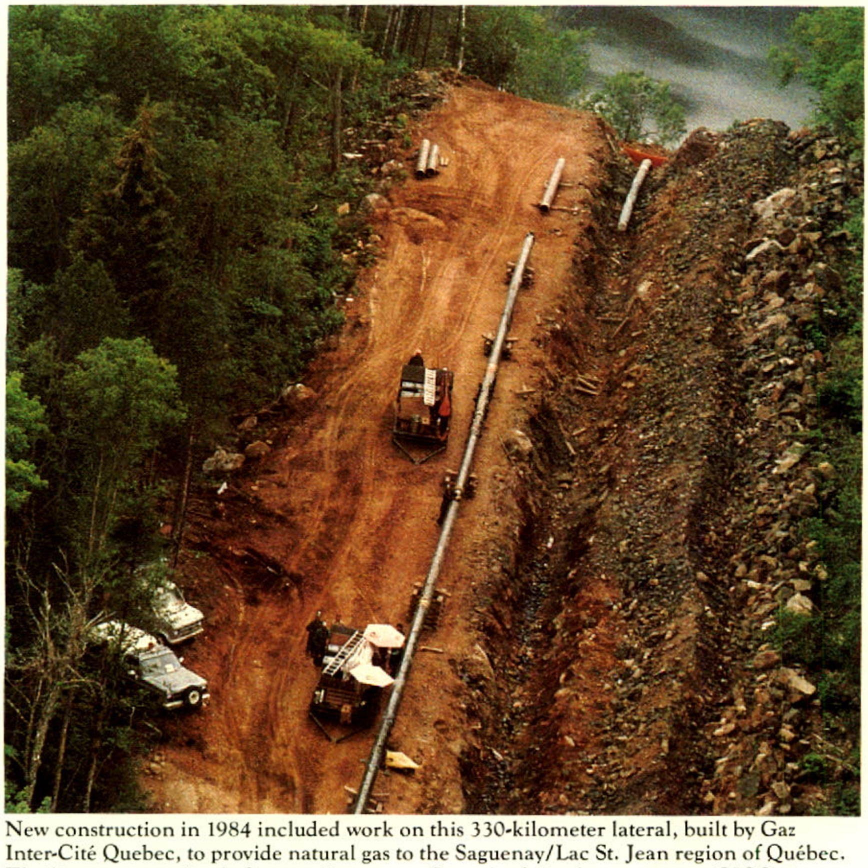
During the year, a total of 27 rate adjustment applications were submitted. Twenty of these applications requested permission to pass on increased costs resulting from gas supply price increases and higher federal taxes. The remaining seven requested approval to recover operating and maintenance expenses and borrowing costs to support an overall return on equity of about 15.35%. (The allowed return on equity in 1984 for Greater Winnipeg Gas was 14.25%, for Northern and Central 15.75%.)

General rate applications, along with decisions on 1983 applications rendered in 1984, contributed $6.5 million in additional revenue. On an annualized basis, this amounts to an increase of approximately $6.8 million.

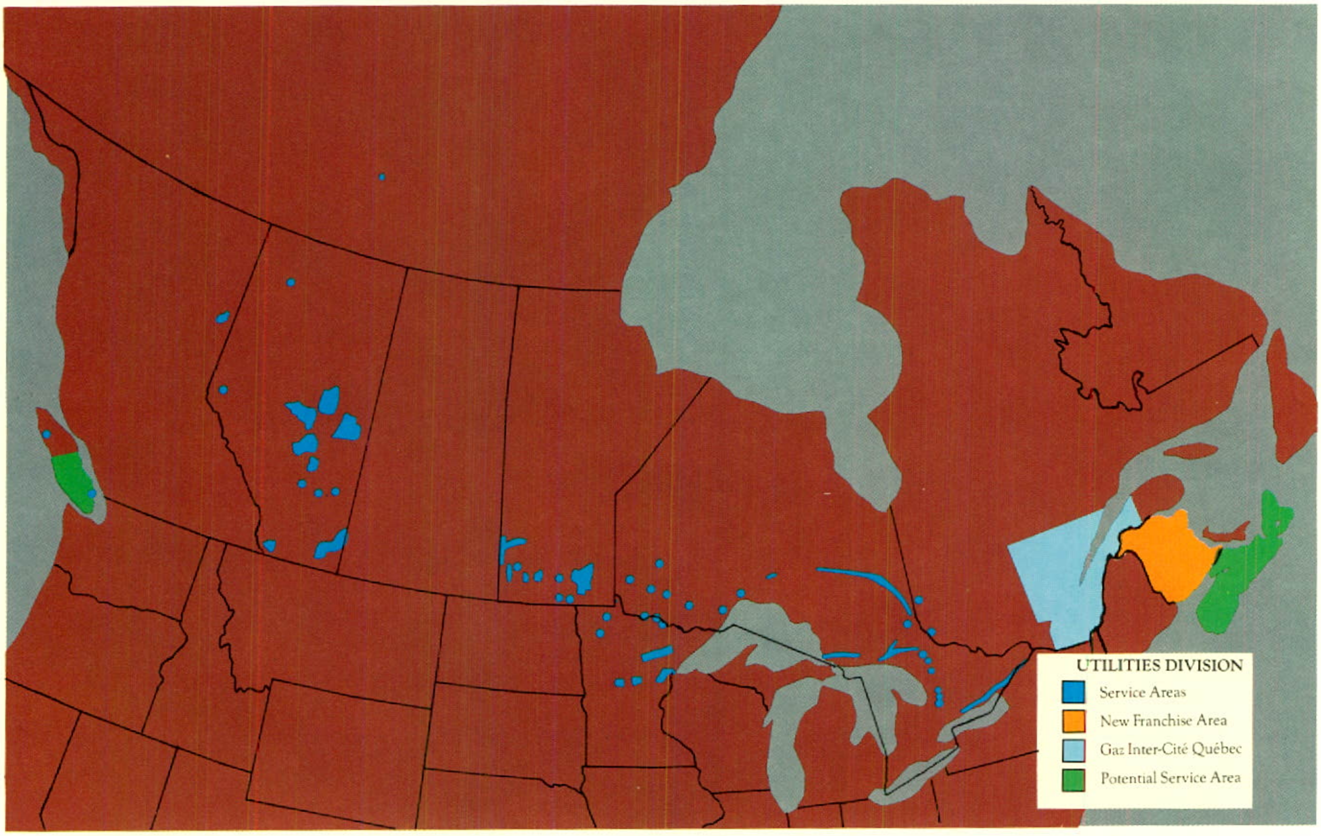
Gaz Inter-Cité Québec, in which ICG holds a 49% interest, has grown significantly since the beginning of operations in 1982. Estimated 1984 annualized revenues total $181.2 million on estimated annualized volumes of more than 800 million cubic metres (28 bcf) to more than 6,600 customers, of whom 74% are large industrial users. During







New construction in 1984 included work on this 330-kilometer lateral, built by Gaz Inter-Cité Quebec, to provide natural gas to the Saguenay/Lac St. Jean region of Québec. The line was completely financed by a grant from the federal government. GICQ, in which ICG hold a 49% interest, delivered an estimated 800 million cubic meters (28 bcf) to more than 6,600 predominantly industrial customers during 1984.



ICG Utilities' gas distribution network now serves nearly 300 communities across Canada and in Minnesota. Expansion prospects exist in New Brunswick, Nova Scotia and on Vancouver Island.

the year, construction was completed on a 330-kilometre lateral from Grand'Mère to the Saguenay/Lac St-Jean area, completely financed by a $180 million grant from the Federal Government.

No new franchise applications were made during the year, however, ICG maintains its interest in securing the gas distribution rights for the Province of Nova Scotia. While financing arrangements are not yet settled between the B.C. and federal governments, the pipeline contract to extend natural gas service to Vancouver Island has been awarded and ICG will actively participate in any hearings which award the distribution rights of natural gas on the Island.

In 1985, ICG Utilities will continue to pursue gains in efficiency and productivity. In addition, comprehensive and aggressive marketing programs have recently been implemented to replace sales lost to energy conservation and increased equipment efficiency. A special emphasis will be placed on industrial markets created by new co-generation technology and on prospects for sales of compressed natural gas as an automotive fuel.

Work has begun on a $52 million project to construct a 10-inch gas transmission line and associated laterals to serve the Blind River and Elliot Lake areas of Northern Ontario. Approximately $30 million of the cost of these facilities will be underwritten by the federal government under DSEP grants.

The first phase of the integration of Northern and Central and Greater Winnipeg Gas on a jurisdictional basis is underway. Every effort will be made to gain maximum efficiencies of scale while maintaining high levels of service in individual markets.

• Improved catalogues, and a standardized parts numbering system for the several thousand items stocked, will simplify ordering procedure, reduce carrying costs and improve service.

• More Authorized Fuelling Centres will be added in strategic locations offering, in most cases, gasoline and diesel fuel as well as propane. A few locations that have not been able to meet minimum volume criteria will be closed.

• An ICG "appliance store" will be opened in a prime retail location to test the concept.

• In Winnipeg, an "Energy Centre" will be opened combining fuel and appliance sales and a gas utility bill payment office. The development will be located in a mall with several other retail specialty stores.

But while the Division's base is being broadened, propane will continue to be the mainstay, and programs will be intensified to secure long-term fleet contracts. With only about 10% of Canadian commercial fleets currently using propane, considerable room exists for future growth.

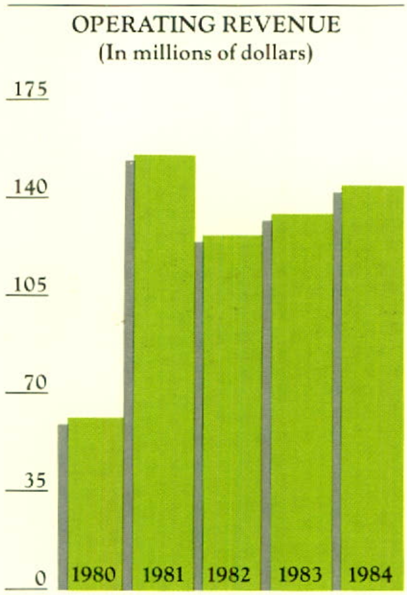
ICG propane is burned to generate steam for secondary oil recovery in the western Canadian oil patch. The Liquid Gas division was a pioneer in developing this market.

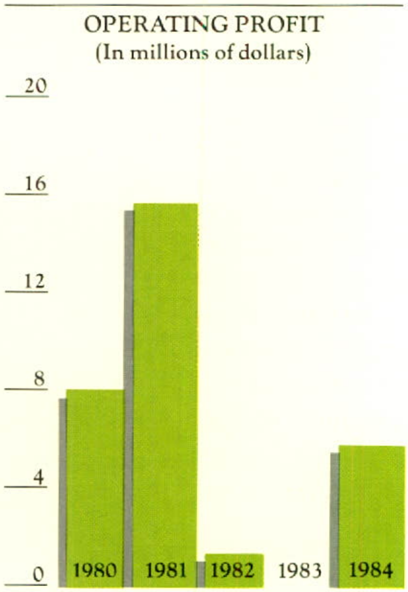
ICG propane is being retailed through Shell service stations in western Canada. Liquid Gas hopes to negotiate similar arrangements with other integrated oil companies.

MANUFACTURED PRODUCTS

Marketing and improved cost control were major factors in a significant profit turnaround at KeepRite and Thompson Pipe.

ICG's Manufactured Products Division is a leading manufacturer of residential and light commercial air conditioning, heating and commercial refrigeration products, specialized industrial heat exchangers, packaged energy conservation products, and large diameter and corrugated water transmission pipe. The Division is comprised of two subsidiary companies: KeepRite Inc. (with plants in Brantford and Winnipeg) and Thompson Pipe & Steel Company of Denver, Colorado. KeepRite's Divisions and subsidiaries include Unifin International, London, Ontario; ICG Barrière, Laval, Québec; KeepRite Cardinal Inc., Lisbon, Ohio; and ZoneAire Corporation, Johnson City, Tennessee.





In a major turnaround, the operating loss of 1983 was reversed in the Manufactured Products Division—largely as a result of a determined effort to cut costs across the board.

Revenues for the year were $140.5 million, compared to $131.3 million the year before. Operating profit grew from a loss of $2.8 million in 1983 to a gain of $5.6 million in 1984. Overall, gross profits increased by $9.6 million over the previous year.

At KeepRite Inc., sales were $123.3 million, up from $117.5 million in 1983. Greatest revenue gains were made through sales of residential split and room air conditioners as the Company maintained its share of a rapidly expanding market.

KeepRite's operating profit for the year was $4.4 million, compared with a loss of $1.9 million in 1983. Here, cost-cutting programs were a significant factor, reducing the cost-of-product as a percentage of sales by 5%. These gains were partially offset by some one-time expenses incurred centralizing manufacturing operations for ICG KeepRite.

U.S. sales for ZoneAire Corporation nearly doubled in 1984, to $9.3 million. Operating profit was also up sharply. A major factor in this growth was a new line of one- to four-ton wall-hung heat pumps made to meet the needs of the manufactured housing industry. ZoneAire identified this market opportunity and moved quickly to fill it.

At Unifin International, substantial losses were incurred in the first phase of a two-year turnaround. In 1984, operating costs were cut drastically and a substantial investment made in a sophisticated computer-aided design and manufacturing

HIGHLIGHTS ($000)	1984	1983	1982
Operating revenue	140,522	131,260	124,111
Operating profit	5,604	(2,784)	1,382
Capital expenditures	1,690	1,090	1,587
Total assets	98,942	88,414	102,164
Key volumes			
—Air conditioners—units	86,570	111,551	82,453
—Gas furnaces—units	21,368	24,382	18,955
—Steel pipe—thousands of kilograms	8,318	6,729	9,012

(CAD/CAM) which reduces the need for draughting and cuts lead time in custom building heat exchangers. As a result of the new system, and of a policy of pursuing only those sales where the Company's technological superiority is a benefit to customers, the new management team at Unifin expects to reach at least the breakeven point in 1985.

In establishing a five-year growth plan for KeepRite, all aspects of each business—products, strategies, methods and goals—were examined in detail. As a result:

• A number of new products were added. Others were discontinued.

• Regional distribution centres were re-organized.

Consolidation of manufacturing for KeepRite at its Brantford, Ontario plant helped reduce the cost of product per sale. Greater productivity and profitability remain a major objective throughout the Manufactured Products Division for the coming years.

Unifin International has invested in state-of-the-art CAD/CAM (computer aided design and manufacturing) equipment to obtain a significant technological edge in the marketplace. Losses were cut in 1984. Break-even is the objective for 1985.

• With the co-operation of suppliers, a "just-in-time" ordering system was put in place to reduce inventory costs.

• Ambitious goals were set to increase manufacturing productivity in the coming years.

• "Niche" markets were identified in the United States and abroad, and detailed marketing strategies established.

Over the next five years, KeepRite plans to increase sales dramatically and to meet ambitious profitability targets. To achieve this objective, the Company will look to maintain its leading position in Canadian markets, while developing a greater presence in the United States and offshore.

Negotiations continue with agencies of the government of the People's Republic of China toward joint venture assembly plants in that country to serve a massive potential market. Promising contacts have also been made in other Pacific Rim countries, as well as in the Middle East.

New products will also play an important role. In Canada, the product line is being refined and re-developed to incorporate state-of-the-art technology. To serve new U.S. markets, KeepRite is looking at purchasing or developing new product technology and is considering possible joint venture distribution to regional U.S. markets.

While lower costs and higher productivity will continue to be watchwords for 1985, greater attention will be focussed on building sales through a revitalized sales force.

At Thompson Pipe & Steel Company, market conditions improved in 1984, generating higher volumes and better margins. On the year, steel pipe shipments increased almost 24%. As a result, operating revenue increased from $10.9 million (U.S.) to $13.1 million (U.S.), while gross profit grew to $3.0 million (U.S.) from $1.3 million (U.S.). Operating profit for 1984 amounted to $.9 million (U.S.) versus a loss of $.7 million (U.S.) in 1983.

The backlog of orders at December 31, 1984 was $4.8 million (U.S.) compared with $5.6 million (U.S.) a year earlier.

Retail sales of air conditioners and heat pumps were an important factor in the 1984 profit turnaround at KeepRite. An ambitious 5-year plan calls for the company to maintain its Canadian market share, while building U.S. and offshore sales.

FINANCIAL DISCUSSION

The 1984 results have been impacted by three significant factors. On the positive side are the consolidation of the operating results of Northern and Central Gas Corporation Limited ("Northern and Central") for the fourth quarter and the improved performance of our other operating divisions for the year compared to 1983. Results for the year have been negatively impacted by the Company's investment in preferred shares and warrants of MICC Investments Limited ("MICC"). Dividends on the preferred shares, which amounted to $4.7 million in 1983, were suspended throughout 1984. In addition, due to the losses experienced by MICC's mortgage insurance operations, the Company has recorded as an extraordinary item a provision of $28.7 million against its $38.7 million investment in MICC.

Net income before extraordinary items is $26.0 million. The increase of $9.5 million over 1983 is accounted for as follows:

Contribution from Northern and Central	$10.2 million
Other operating divisions	4.0 million
Loss of MICC dividend income	(4.7) million
	$ 9.5 million

The contribution from Northern and Central in the fourth quarter reflects the seasonal nature of the business and is not indicative of the contribution to be expected for a full twelve months.

Net income to common shareholders before extraordinary items is $1.34 per common share; after extraordinary items there is a loss per common share of 19 cents. The return before extraordinary items on common shareholders' equity is 11.1% compared to 8.1% in 1983 and 6.1% in 1982.

Information by industry segment and geographical area 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 $283.7 million of which $230.3 million resulted from the acquisition of Northern and Central. Increases in operating revenues were experienced in all other divisions in 1984 amounting to $53.4 million, an improvement of 8%.

In the Resources Division, operating revenue increased $10.6 million – 16% – as a result of higher oil and gas production and higher average selling prices. Revenues from gas plants also exceeded 1983 due to higher volumes processed offset by lower prices on certain products.

In the Utilities Division, excluding Northern and Central, volumes declined by 8,692 thousand cubic metres (less than 1%). The decrease occurred in sales to industrial customers. Volume sales to rate schedule customers were flat with 1983 reflecting offsetting variances from increased customers and warmer weather. Operating revenue increased $4.9 million as a result of rate of return increases and increased foreign exchange differentials on the translation of revenues from the U.S. operations offset by those decreases in the cost of purchased gas which are passed on to customers.

Propane volumes in the Liquid Gas Division increased 9% from 832 million litres to 908 million litres reflecting the continuing growth in the auto-propane market which accounted for 61 million litres of the increase. The increase of $28.4 million in operating revenue is primarily due to the increase in volumes. Selling prices were also slightly higher in 1984. Revenues from sales of industrial gases, welding equipment, merchandise and parts also increased. Gasoline volumes declined resulting in lower revenues from this area.

Volume sales of air conditioners have declined considerably from the 1983 level which included a number of special one-time customer orders. However, the decrease in operating revenue from the sale of air conditioners has not been significant. In 1984, sales of higher priced products have increased considerably. The decrease in volumes has been experienced primarily in the lower priced products and volumes of other products have increased over 1983 resulting in an overall increase in operating revenue. In our U.S. steel pipe manufacturing operations, pipe shipments increased as a result of more work coming to bid which, in turn, resulted in higher revenues.

OPERATING PROFIT AND INCOME FROM RELATED COMPANIES

Operating profit has increased from $65.5 million in 1983 to $109.6 million in 1984. The consolidation of Northern and Central's operating results for the fourth quarter has accounted for $28.2 million of the increase. The increase in other operating divisions is $15.9 million or 24%. All divisions show improvements in operating profit over 1983.

Operating profit in the Resources Division has increased $6.0 million – 15% – over 1983. Higher production expenses, depletion and depreciation charges, and gas plant operating expenses, corresponding to the increased production and totalling $4.1 million and increased administrative and general expenses have partially offset the increase in operating revenue.

In the Utilities Division, excluding Northern and Central, operating profit has increased $2.1 million. Rate of return increases improved gross profit by $6.3 million. The impact on operating profit has been offset by higher operating, maintenance and general expenses and higher depreciation charges as well as lower income from other sources.

Gross profit in the Liquid Gas Division increased $8.7 million primarily as a result of higher propane volumes. Gross margins on propane also improved slightly. Gross profits on sales of other products also increased over 1983 corresponding to the increase in revenues. Operating expenses increased a total of $7.8 million, thus offsetting much of the increase in gross profit and other income. Employee remuneration increased due to general salary and wage increases, additional employees and increased overtime, commissions and employee benefits. Increased depreciation expense, lease costs and provisions for uncollectible accounts, accounted for most of the remaining increase in operating expenses. The increase in operating profit of $2.3 million represents an improvement of 18% over 1983.

The most significant improvement in operating profit has come from the Manufactured Products Division. This division achieved an operating profit of $5.6 million in 1984 compared to an operating loss of $2.8 million in 1983. The improvement has come from both the Canadian and U.S. operations. Significantly improved margins and the resultant increase in gross profits account for virtually all of the improvement. Operating expenses increased approximately 9% in 1984 over 1983.

Income from related companies in 1984 arises primarily through the acquisition of Northern and Central and is represented by dividends and interest on a note receivable and debt of related companies. In 1983, income from related companies is represented by dividend income of $4.7 million from the Company's investment in preferred shares of MICC less the loss recorded in Gaz Inter-Cite Quebec Inc. Dividend payments on MICC preferred shares were suspended throughout 1984 and remain suspended at this time.

Income before financial expenses amounts to $114.4 million in 1984 compared to $69.8 million in 1983.

FINANCIAL EXPENSES

Financial expenses for 1984 amounted to $56.9 million including $17.8 million attributable to Northern and Central directly and the imputed financing costs charged against operations as a result of the transaction not closing until after the effective date of acquisition. Financial expenses attributable to other operations are $39.1 million, an increase of $3.5 million over 1983. The increase is due to increased borrowings, slightly higher average interest rates and lower interest capitalized offset by lower foreign exchange losses.

PROVISION FOR TAXES

The effective rate of income taxes for 1984 is 43.7% including Northern and Central compared to 44.0% in 1983. The overall rate for 1984 is favourably impacted through the acquisition of Northern and Central's utility operations which, in accordance with industry practice, provide only for income taxes which are allowed by regulatory authorities for rate-making purposes. On the other hand, the loss of the MICC dividend income has had a negative impact as this represented non-taxable income in 1983.

The Alberta royalty tax credit program has been reduced by 50% from the 1983 level resulting in a negative impact on income for the year of $2.0 million.. Energy taxes are $0.3 million higher than 1983 due to higher oil and gas production offset by the elimination of certain taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided from operations in 1984, after deducting interest and taxes, amounted to $55.6 million, an increase of $16.6 million over 1983. In the fourth quarter of 1984, Northern and Central contributed cash flow from operations in the amount of $4.4 million. Substantially all of the increase from other operating divisions is attributable to higher earnings achieved in 1984.

The issuance of long-term debt, $163.0 million of which was utilized to finance the acquisition of Northern and Central, provided a total of $230.0 million, net of repayments of $18.2 million. $51.9 million of the net total is represented by Northern and Central's financing requirements during the fourth quarter. Other sources of cash were $8.7 million in contributions and grants for fixed assets, Petroleum Incentives Program grants of $20.4 million and collections on notes and mortgages and the disposal of assets amounting to $12.0 million in total. In the first quarter of 1984, KeepRite Inc., a 92% owned subsidiary completed a rights offering. Substantially all of the minority shareholders subscribed for the additional shares under the offering resulting in additional financing for that company of $1.7 million.

The major uses of cash are additions to property, plant and equipment in the amount of $120.7 million, of which Northern and Central accounts for $35.8 million, payments to shareholders and minority interests in the form of dividends and share redemptions in the amount of $13.1 million and investments in related companies of $7.7 million. In addition, Northern and Central repaid advances of $19.7 million from its former owner which had been advanced prior to September 30, 1984, the effective date of our acquisition.

Working capital at December 31, 1984 is $32.4 million compared to $12.6 million last year and a working capital deficit of $9.1 million 1982.

As at December 31, 1984 the Company has unutilized operating lines of credit of approximately $87.4 million, unutilized revolving bank credits of $71.5 million and an additional $30.0 million available under a long-term credit agreement. These credit facilities, together with the cash flow projected to be generated from operations and other cash receipts in 1985, will be adequate to meet the Company's anticipated expenditure and investment requirements in the coming year.

During 1984, the Company continued to fix interest rates on its floating rate debt as it considered prudent in order to minimize its exposure to the uncertainties of fluctuating short-term rates. In addition, with respect to debt that remains tied to floating rates, the Company makes extensive use of money market instruments such as Bankers' Acceptances to fix interest rates on portions thereof over various periods of time from 30 days to 365 days.

The acquisition of Northern and Central, combined with the provision recorded against the investment in MICC, has increased the debt to equity ratio of the Company. Consequently, management is reviewing opportunities to increase the equity base in 1985.

1983 COMPARED WITH 1982

In 1983 net income before extraordinary items amounted to $16.5 million, an increase of $7.3 million over the $9.2 million achieved in 1982. Of the increase, $4.4 million was attributable to income from related companies, primarily the MICC dividend income. On a per share basis after deducting dividends on preference shares, net income to common shareholders was 92 cents before extraordinary items and 66 cents after extraordinary items.

As a result of the reorganization of the Manufactured Products Division in Canada in 1983 and as a consequence of the losses reported by KeepRite Inc. in 1982 and 1983, it was determined that the excess cost of the shares acquired in KeepRite over their underlying book value, which had been attributed to goodwill, had minimal ongoing value. An amount of $4.7 million was, therefore, written off as an extraordinary charge against income in 1983. Costs of closing the St. Catharine's manufacturing plant resulted in a further extraordinary charge of $0.9 million. Income tax benefits realized on the utilization of prior years' tax losses amounted to $1.2 million in both 1983 and 1982.

Operating revenue increased from $620.7 million to $657.2 million, an increase of 6%. Increases were achieved in all divisions except the U.S. manufacturing operations. Operating revenue increases were attributable in the Resources Division to higher oil and gas prices and higher oil production offset by lower gas production; in the Utilities Division, to rate of return and pass-through increases and increased volumes to industrial customers offset by lower volumes to rate schedule customers due to warmer weather; in the Liquid Gas Division, to higher propane selling prices offset by lower volumes; and in the Manufactured Products Division—Canadian operations, to higher volumes of major product lines. The U.S. manufacturing operations were adversely affected by the low level of spending on major construction projects.

Operating profits declined $2.2 million from 1982 to 1983. Operating profits increased in the Resources and Utilities Divisions by $2.1 million and $4.1 million, respectively, and in the Liquid Gas and Manufactured Products Division, decreased by $3.7 million and $4.2 million, respectively. Decreases in the latter two divisions were largely attributable to reduced margins and higher operating expenses.

Financial expenses decreased $9.3 million as a result of lower interest rates and the benefit of the equity financing completed at the end of 1982. Interest capitalized decreased substantially as a result of the lower interest rates and net new borrowings offset some of the decrease due to lower rates. Income taxes increased as a result of higher income before taxes.

OUTLOOK FOR 1985

The acquisition of Northern and Central will have a significant impact on operating results in 1985 and further enhance the improvement the Company otherwise expects to achieve in net income to common shareholders and return on shareholders' equity. Volumes in the Resources Division are expected to increase as a result of new properties coming on-stream and higher gas export sales. Continued growth is expected in the auto-propane market. However, volumes in the traditional propane markets and natural gas volumes in the Utilities Division, excluding Northern and Central, are expected to increase only marginally. The Manufactured Products Division in Canada achieved a significant turnaround in 1984 and continued improvement is expected in 1985.

FINANCIAL STATEMENTS

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Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Inter-City Gas Corporation as of December 31, 1984 and 1983 and the related consolidated statements of income, retained earnings and changes in financial position for the years ended December 31, 1984, 1983 and 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Inter-City Gas Corporation as of December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years ended December 31, 1984, 1983 and 1982, in conformity with generally accepted accounting principles applied, except for the change in the method of accounting for foreign currency translation as explained in Note 3 to the financial statements, on a consistent basis.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants

Winnipeg, Manitoba
February 26, 1985

CONSOLIDATED BALANCE SHEET

As at December 31, 1984 and 1983

(In Thousands of Dollars)	1984	1983
ASSETS		
Current Assets		
Cash and short term deposits	4,657	7,431
Accounts and notes receivable less allowance for doubtful accounts; 1984—$6,298; 1983—$2,450	270,655	124,524
Income taxes recoverable	6,285	3,053
Inventories	99,479	74,362
Prepaid expenses	2,722	1,695
	383,798	211,065
Investments		
Investments in related companies	252,859	60,480
Notes, mortgages and other investments	15,442	12,733
Employee share purchase plan loans	4,698	4,701
	272,999	77,914
Fixed Assets		
Property, plant and equipment—at cost	1,325,299	688,127
Accumulated depreciation and depletion	318,904	173,488
	1,006,395	514,639
Other Assets and Deferred Costs—at cost, less amortization		
Financing expenses	5,992	3,474
Other deferred costs	10,420	7,399
Deferred foreign exchange loss, net	11,174	—
	27,586	10,873
	1,690,778	814,491

See accompanying notes

On behalf of the Board

DIRECTOR

DIRECTOR

	1984	1983
LIABILITIES		
Current Liabilities		
Bank advances	73,050	67,907
Accounts payable and accrued liabilities	235,154	115,463
Income taxes payable	13,936	2,752
Current maturities of long-term debt	29,230	12,390
	351,370	198,512
Long-Term Debt	848,119	288,213
Advances Under Natural Gas Sales Contracts	15,479	16,736
Contributions and Grants in Aid of Construction	60,812	23,320
Deferred Income Taxes	76,592	61,202
Minority Interests in Subsidiaries	48,170	5,862
	1,400,542	593,845
REDEEMABLE PREFERENCE SHARES	84,086	8,393
COMMON SHAREHOLDERS' EQUITY		
Stated Capital	177,122	177,065
Contributed Surplus	8,250	8,250
Retained Earnings	34,615	45,534
Foreign Currency Translation Adjustment	4,759	—
	224,746	230,849
Common Shares of the Company Held by Subsidiaries	18,596	18,596
	206,150	212,253
	1,690,778	814,491

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 1984, 1983 and 1982

(In Thousands of Dollars)	1984	1983	1982
Operating Revenue	940,821	657,150	620,712
Operating Costs			
Cost of sales	635,556	441,679	414,209
Operating, selling and administrative	161,477	123,496	116,112
Depreciation and depletion	34,162	26,518	22,680
	831,195	591,693	553,001
Operating Profit	109,626	65,457	67,711
Income from Related Companies	4,770	4,348	—
	114,396	69,805	67,711
Financial Expenses			
Interest on long-term debt	54,812	32,551	35,964
Other Interest	9,243	10,723	18,992
Interest capitalized	(8,757)	(9,140)	(11,864)
Amortization of other assets	1,304	1,161	1,167
Loss on foreign exchange	300	316	651
	56,902	35,611	44,910
Income Before Taxes	57,494	34,194	22,801
Provision for Taxes			
Income taxes	25,136	15,043	11,075
Alberta royalty tax credit	(2,000)	(4,000)	(4,745)
Energy taxes	7,214	6,899	7,548
	30,350	17,942	13,878
Income After Taxes	27,144	16,252	8,923
Minority Interests in Subsidiary Companies	(1,102)	262	316
Income Before Extraordinary Items	26,042	16,514	9,239
Extraordinary Items			
Reduction of current income taxes on application of prior years' losses	327	1,188	1,203
Provision for loss on investment	(28,700)	—	—
Write-off of goodwill	—	(4,697)	—
Costs of closing manufacturing plant	—	(908)	—
	(28,373)	(4,417)	1,203
Net Income (Loss) for the Year	(2,331)	12,097	10,442

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1984, 1983 and 1982

(In Thousands of Dollars)	1984	1983	1982
Cash Provided from Operations	122,316	87,315	81,477
Deduct: Interest	58,032	42,927	52,295
Income and energy taxes, net	8,709	5,411	7,721
	66,741	48,338	60,016
	55,575	38,977	21,461
Cash Provided from Other Sources			
Long-term debt issued	248,181	68,012	53,586
Preference shares issued	77,000	—	—
Common shares issued and sale of warrants	57	18,117	50,258
Customer contributions	8,673	6,307	7,918
Notes, mortgages, sale of fixed assets	12,035	7,325	8,786
Petroleum Incentives Program grants	20,391	9,612	—
Minority investment in subsidiary company	1,688	—	—
Receipts under take-or-pay contracts	—	2,760	8,937
Redemption of preferred shares held in related company	—	1,800	—
	368,025	113,933	129,485
	423,600	152,910	150,946
Cash Utilized For			
Additions to property, plant and equipment (net of capitalized interest and overhead)	120,653	62,479	64,763
Repayment of long-term debt	18,246	29,978	10,928
Dividends paid to shareholders and minority interests	9,134	8,042	6,836
Investments in related companies	7,684	14,523	41,017
Redemption of preference shares and purchase of minority interests	3,923	1,424	1,817
Deferred costs and other	12,197	5,138	4,553
Investment in Northern and Central	240,000	—	—
Repayment of advances from related company to Northern and Central at date of acquisition	19,680	—	—
	431,517	121,584	129,914
Increase (Decrease) in Cash	(7,917)	31,326	21,032
Cash Balance—Beginning of the year	(60,476)	(91,802)	(112,834)
Cash Balance—End of the year	(68,393)	(60,476)	(91,802)

See accompanying notes

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the Years Ended December 31, 1984, 1983 and 1982

(In Thousands of Dollars)	1984	1983	1982
Balance—Beginning of the Year	45,534	41,165	40,821
Net income (loss) for the year	(2,331)	12,097	10,442
	43,203	53,262	51,263
Dividends—			
First preference shares, Series A	524	—	—
First preference shares, Series B	192	248	306
First preference shares, Series C	254	309	363
Second preference shares, Series A	101	104	107
Second preference shares, Series B	106	111	115
Common shares	7,411	6,956	5,393
	8,588	7,728	6,284
Repurchase and cancellation of common shares	—	—	3,814
Balance—End of the year	34,615	45,534	41,165

See accompanying notes

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 Currency Translation

Effective January 1, 1984, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants on foreign currency translation. These recommendations provide specific procedures for the translation of foreign currency transactions and for the translation of foreign currency financial statements for incorporation into the consolidated financial statements of the Company.

With respect to foreign currency accounts and integrated foreign operations monetary assets and liabilities are translated at each balance sheet date to reflect the current exchange rate. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at average rates for the period except for depreciation and amortization which are translated at the historical rate of the related asset. Gains or losses on translation are taken into income except that gains or losses on the translation of long-term monetary items are initially deferred then amortized over the term.

With respect to self-sustaining foreign operations where fluctuations in foreign currency translation rates have no impact on the operations of that enterprise and, thus, the Company's exposure to exchange rate changes is limited to its net investment in that operation, all assets and liabilities are translated at the exchange rate in effect on the balance sheet date and all revenue and expense items are translated at the average rate for the year. Gains or losses on translation are deferred and included as a separate component of shareholders' equity.

Previously, current assets and current liabilities were translated at current exchange rates and non-current assets and liabilities were translated at historical rates. Revenues and expenses were translated at average rates for the year except depreciation and amortization which were translated at the historical rate of the related asset. All gains or losses on translations were reflected in income.

The rate of exchange, as at December 31, 1984, was $1.3214 Cdn. = $1.00 U.S. (1983–$1.2442 Cdn. = $1.00 U.S.) and the average exchange rate for the year was $1.2948 Cdn. = $1.00 U.S. (1983–$1.2323 Cdn. = $1.00 U.S.; 1982–$1.2340 Cdn. = $1.00 U.S.).

Inventories

Natural gas in storage is carried at cost which includes transportation and storage. Propane and petroleum products are valued at the lower of cost (first-in, first-out) and replacement cost. Raw materials, work-in-progress, finished goods and merchandise, materials and supplies are valued at the lower of cost (first-in, first-out) and net realizable value. Cost is determined for work-in-progress and finished goods at standard prices.

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. The Company carries oil and gas properties at the lower of cost less accumulated depletion and depreciation and net recoverable value. Net recoverable value includes estimated future net revenues from proved and probable reserves and the estimated fair value of unproved properties. As at December 31, 1984, net recoverable value exceeds the carrying value of the Company's 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%
Customer installations	3%-10%
Transportation equipment	10%-33%
Machinery, equipment and furniture	5%-25%

Depreciation of transmission lines and distribution systems and other assets employed in utility operations is provided on the straight-line method at rates approved by regulatory authorities. The application of such rates is equivalent to composite rates of 3.15% to 3.33%.

Depletion of oil and gas properties and depreciation of production and related equipment are provided on a unit of production method based on estimated proved reserves. Costs associated with properties where exploration is in progress and, therefore, not fully evaluated and the cost and estimated reserves applicable to the Drake Point Main Gas Pool in the Arctic Islands are excluded from the calculations.

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

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 depreciation of 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 to the end of the fiscal period.

Income Taxes
Subsidiaries in the Utilities Division provide only for income taxes allowed by regulatory authorities in the calculation of their rates of return for rate-making purposes and generally includes only income taxes currently payable. 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 oil and gas properties.

2. ACQUISITION OF NORTHERN AND CENTRAL GAS CORPORATION LIMITED
The Company has acquired all of the issued and outstanding common shares of Northern and Central Gas Corporation Limited ("Northern and Central") effective September 30, 1984, from Norcen Energy Resources Limited ("Norcen"). Northern and Central distributes natural gas in the province of Ontario and in the provinces of Manitoba and Quebec through its subsidiaries Greater Winnipeg Gas Company and Le Gaz Provincial du Nord de Quebec Ltee, respectively. The total consideration of $240,000,000 consisted of $163,000,000 in cash, financed by a term bank loan and the issuance of $77,000,000 8% Series A first preference shares of the Company to Norcen.

Final approvals were received subsequent to December 31, 1984 and the transaction closed on January 25, 1985 at which time the bank loan facility was drawn upon to pay the cash portion and the preference shares were issued. However, because the effective date of the acquisition is September 30, 1984, the entire transaction has been accounted for retroactively to that date.

The purchase agreement provided for an adjustment to the purchase price, to be paid in cash by either the vendor or the purchaser, as the case may be, on March 1, 1985, dependent upon the retained earnings of Northern and Central, as defined, at December 31, 1984. Consequently, the Company has recorded an amount of $952,000 due from Norcen and reduced the purchase price accordingly.

The acquisition has been accounted for by the purchase method of accounting as follows:

		($000)
Net assets acquired –		
Fixed assets		
Net book value	380,063	
Increase to fair market value	31,916	
	411,979	
Investments	219,379	
Other non-current assets	10,506	641,864
Working capital deficiency	13,307	
Long-term debt	322,462	
Customer contributions	23,118	
Minority interest	37	
Redeemable preference shares	43,142	402,066
Net purchase price including capitalized costs		239,798

The consolidated balance sheet includes the accounts of Northern and Central as at December 31, 1984 and the consolidated statements of income and changes in financial position include the results of Northern and Central's operations for the period from October 1 to December 31, 1984.

The acquisition of Northern and Central has increased net income to common shareholders by $9,678,000 or 52 cents per share. The results of Northern and Central for the fourth quarter of 1984 reflect the seasonal nature of the business acquired and are not indicative of the results expected for a full twelve months. Because the transaction did not close until subsequent to the year-end, imputed interest expense, net of income taxes, has been charged against income for the period.

Cash flow from operations for the quarter amounted to $4,442,000, long-term debt issued and capital expenditures amounted to $56,810,000 and $35,816,000, respectively.

On a pro-forma basis assuming the acquisition had taken place on January 1, 1984, certain key operating figures, on an annualized basis, would have been as follows:

	($000)
Consolidated Statement of Income	
Operating revenue	1,452,635
Operating profit	136,202
Income before extraordinary items	26,868
Loss after extraordinary items	(1,505)
Consolidated Statement of Changes in Financial Position	
Cash flow from operations	51,338
Long-term debt issued	253,081
Capital expenditures	149,457
Net income (loss) per common share —	
Before extraordinary items	$1.08
After extraordinary items	$(0.45)

3. CHANGE IN ACCOUNTING POLICY— FOREIGN CURRENCY TRANSLATION

In the first quarter of 1984, the Company adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants on foreign currency translation as described in Note 1. As a consequence, net unrealized foreign exchanges losses in the amount of $11,174,000 resulting from the translation of long-term monetary assets and liabilities at current exchange rates are deferred in the balance sheet and will be amortized against future period earnings. The foreign currency translation adjustment of $4,759,000 included as a component of shareholders' equity represents the unrealized gain on translation of financial statements of self-sustaining foreign operations. This change has not had a material impact on earnings in the current year.

4. 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 $160,491,000 (1983—$129,041,000) of which $73,050,000 was utilized at December 31, 1984 (1983—$67,907,000). The weighted average interest rate on the outstanding bank advances at December 31, 1984 was 11.53% (1983—10.93%). 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, 1984 was $81,566,000 (1983—$119,200,000). The average bank advances outstanding, calculated by averaging month-end balances, during the year ended December 31, 1984 was $72,608,000 (1983—$107,311,000).

Virtually all of the Company's lines of credit are at bank prime rates with options to utilize various short-term money market instruments, primarily Bankers' Acceptances. Bank prime rates averaged 12.06% in 1984 (1983—11.22%).

5. INVENTORIES

Inventories are classified as follows:

	1984	1983
	($000)	($000)
Natural gas in storage	16,932	2,633
Propane and petroleum products	11,638	12,821
Raw materials	20,221	18,971
Work-in-process	6,391	5,022
Finished goods	17,221	16,257
Merchandise, materials and supplies	27,076	18,658
	99,479	74,362

6. INVESTMENTS IN RELATED COMPANIES

Investments in related companies are comprised of the following:

	1984	1983
	($000)	($000)
Gaz Metropolitain, inc. (GMi)—		
Common shares (i)	78,874	—
Preference shares	18,332	—
Debt (ii)	68,309	—
	165,515	—
Note receivable from Norcen Energy Resources Limited (iii)	47,300	—
MICC Investments Limited (iv)—		
Preferred shares	10,000	34,200
Warrants	—	4,500
	10,000	38,700
Gaz Inter-Cite Quebec Inc. (v)—		
Common shares	24,265	16,876
ICG Brunswick Gas Ltd. (vi)—		
Common shares	53	53
Advances	2,587	2,100
	2,640	2,153
ICG Scotia Gas Limited (vi)—		
Common shares	28	28
Advances	3,111	2,723
	3,139	2,751
	252,859	60,480

(i) In prior years, Northern and Central issued two series of exchangeable subordinated debentures, exchangeable into Northern and Central's holding of 10,127,049 GMi common shares (34.3% interest at December 31, 1984). Both issues confer upon the holders the right to vote the shares subject to exchange during the terms of the issues and prior to exercising the exchange right. As a result, Northern and Central has no voting interest in GMi and, accordingly, the investment is accounted for by the cost method.

The first issue of $26,000,000 principal amount of 12% exchangeable subordinated debentures due in 2000 are exchangeable until July 1990 at the option of the holders into 3,250,000 common shares of GMi.

The second issue of $55,016,000 principal amount of 13% exchangeable subordinated debentures redeemable in 1988 are exchangeable at any time during the period into 6,877,049 common shares of GMi. Northern and Central has the option to pay the redemption price in cash or by tendering the common shares of GMi subject to the exchange right.

(ii) Excludes current maturities of $6,097,000 in 1984 which are included in accounts receivable.

(iii) The note receivable owed by Norcen Energy Resources Limited to the Company is a subordinated demand note bearing interest at 7.6% and is subject to minimum annual principal repayments of $1,672,000 in 1988 and $4,148,000 thereafter to 1999. This note was previously owed to Northern and Central. As part of the acquisition transaction, it was assigned to the Company in exchange for an identical note from the Company to Northern and Central. The Company and Norcen have entered into a set-off agreement whereby each party has the right to set-off its financial obligations to the other party under the redeemable preference shares and the note, respectively, in the event that either party defaults in its obligations thereunder.

(iv) Dividends on the preference shares held in MICC Investments Limited were suspended in 1984 and the redemption requirement of $1,800,000 on December 31, 1984 was not met. As a result of this and the operating losses experienced by MICC's mortgage insurance operations, the Company has recorded a total provision of $28,700,000 against the investment in preference shares and common share purchase warrants.

The preference shares 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 entitle the Company to acquire 3,000,000 common shares at $12.00 per share, expire in December 1987.

(v) Gaz Inter-Cite Quebec Inc. commenced operations as of January 1, 1983. The investment is accounted for on an equity basis and, accordingly, the Company has recorded equity earnings of $40,000 for 1984 to reflect its 49% interest in the results for the year ending December 31, 1984 (1983—loss of $332,000). Certain financial information on results of operations for the year and balances at year-end, are as follows:

	1984	1983
	($000)	($000)
Net sales	52,408	7,646
Gross profit	12,259	2,177
Income (loss) for the year	83	(678)
Current assets	54,502	29,708
Plant and deferred costs	500,721	211,303
Current liabilities	95,227	43,202
Long-term debt	116,973	68,752
Grants and contributions	293,488	94,621

(vi) There have been no operations in ICG Brunswick Gas Ltd. or ICG Scotia Gas Limited to December 31, 1984.

7. FIXED ASSETS

Property, plant and equipment are classified as follows:

	1984			1983
	Cost	Accumulated Depreciation and Depletion	Net Book Value	Net Book Value
	($000)	($000)	($000)	($000)
Oil and gas properties	321,625	65,401	256,224	231,580
Production and other equipment	65,700	20,344	45,356	43,164
Transmission lines and distribution systems	637,976	103,994	533,982	121,304
Customer installations	126,339	57,775	68,564	38,526
Machinery, equipment and furniture	84,189	35,080	49,109	38,783
Transportation equipment	38,668	22,687	15,981	11,191
Buildings	42,269	13,623	28,646	22,892
Land	8,533	—	8,533	7,199
	1,325,299	318,904	1,006,395	514,639

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

	1984			1983
	Cost	Accumulated Depreciation and Depletion	Net Book Value	Net Book Value
	($000)	($000)	($000)	($000)
Customer installations	17,225	3,055	14,170	11,441
Transportation equipment	21,085	10,232	10,853	8,197
Machinery and equipment	2,113	1,158	955	556
	40,423	14,445	25,978	20,194

8. LONG-TERM DEBT

The details of long-term debt are as follows:

	1984	1983
	($000)	($000)
Revolving bank credits, unsecured	63,485	—
Term bank loans, secured, repayable during the period 1985 to 1998—		
—at fixed interest rates varying from 12.35% to 13.5%	55,000	18,856
—at variable interest rates (see below)	255,037	122,100
	310,037	140,956
Debentures at fixed interest rates varying from 5% to 17¾% repayable during the period 1985 to 2008	230,696	21,617
Promissory notes at fixed interest rates varying from 6% to 14½% repayable during the period 1985 to 1996	127,439	114,536
First mortgage bonds at fixed interest rates varying from 6½% to 11⅜% repayable during the period 1985 to 1998	116,358	—
Capitalized lease obligations at fixed interest rates varying from 8⅜% to 14½% repayable during the period 1985 to 1994	27,275	21,396
Sundry notes and mortgages	2,059	2,098
	877,349	300,603
Current maturities included in current liabilities	29,230	12,390
	848,119	288,213

The revolving bank credits, which by their terms may be due within one year, are anticipated to be refinanced within the next year through the issuance of long-term capital. Interest is at bank prime rates.

The weighted average interest rate on all fixed rate debt instruments is 11.9% at December 31, 1984 (1983—13.0%).

With respect to variable interest rate debt, the Company has options to fix interest rates for various periods of time through the use of short-term money market instruments, primarily Bankers' Acceptances. Accordingly, as at December 31, 1984, interest rates have been fixed for periods of 30 to 365 days at a weighted average rate of 10.6% on $219,037,000 of the $255,037,000 variable interest rate term bank loans.

Of the long-term debt, $74,406,000 is offset by amounts owing from GMi, a related company (see Note 6)

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

Year	($000)
1985	24,373
1986	97,091
1987	38,096
1988	123,734 [see Note 6(i)]
1989	122,209

Minimum lease payments required under capital leases are as follows:

Year	($000)
1985	8,934
1986	7,729
1987	6,452
1988	4,318
1989	3,188
Subsequent years	11,275
Total minimum lease payments	41,896
Less—amount representing interest	14,621
Balance of capitalized lease obligations	27,275

9. 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. These amounts are being repaid commencing November 1, 1984 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.

10. MINORITY INTERESTS IN SUBSIDIARIES

The minority interests in subsidiaries are comprised of the following:

	1984	1983
	($000)	($000)
Preference shares in—		
Northern and Central Gas Corporation Limited	41,512	—
Canadian Hydrocarbons Limited	3,019	3,659
ICG Utility Investments Ltd. (formerly ICG Utilities Ltd.)	1,634	1,963
	46,165	5,622
Equity interest in—		
KeepRite Inc.	1,953	221
Greater Winnipeg Gas Company	35	—
Vancouver Island Gas Company Limited	17	19
	2,005	240
	48,170	5,862

11. REDEEMABLE PREFERENCE SHARES

(a) **Authorized**

600,000 first preference shares issuable in series of which 110,000 have been designated as Series A shares carrying a cumulative dividend entitlement of $56.00 per share and redeemable at $700.00 per share; 265,000 have been designated as Series B shares carrying a cumulative dividend entitlement of $1.65 per share and redeemable at $21.40 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**

	1984		1983	
	Number	Amount	Number	Amount
		($000)		($000)
First preference shares—				
Series A	110,000	77,000	—	—
Series B	99,000	1,980	133,450	2,669
Series C	108,000	2,160	134,000	2,680
Second preference shares—				
Series A	76,473	1,530	78,873	1,578
Series B	70,810	1,416	73,310	1,466
		84,086		8,393

The Series A first preference shares were issued to Norcen Energy Resources Limited as partial consideration for the acquisition of all of the issued and outstanding common shares of Northern and Central Gas Corporation Limited.

(c) **Purchase Fund Requirements**

First preference shares Series A

To offer to purchase an amount of $8,000,000 in each of the years 1988 to 1990; $10,000,000 in each of the years 1991 to 1993; $12,000,000 in 1994; and the balance of $11,000,000 in 1995 [see Note 6 (iii)].

First preference shares Series B and C

To offer to purchase 13% of the original issue amount in each of the years 1985 and 1986 and 5% each year thereafter. In each of the years 1984 and 1983, 34,450 Series B and 26,000 Series C 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 1984, 2,400 Series A shares and 2,500 Series B shares were purchased and cancelled (1983—2,500 and 2,300).

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

Year	($000)
1985	1,297
1986	1,295
1987	548
1988	8,546
1989	8,544

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 1984, 1983 and 1982 are as follows:

	1984		1983		1982	
	Number	**Amount ($000)**	Number	Amount ($000)	Number	Amount ($000)
Issued and fully paid — beginning of the year	**23,474,697**	**177,065**	21,961,497	158,948	19,470,747	123,258
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
Issued to employees under the employee stock option plan	**6,400**	**57**	13,200	117	800	7
Issued on exercise of share purchase warrants	—	—	—	—	200	1
Issued and fully paid — end of the year	**23,481,097**	**177,122**	23,474,697	177,065	21,961,497	158,948
Less shares held by subsidiaries	**4,953,735**		4,953,735		4,886,447	
	18,527,362		18,520,962		17,075,050	

(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 preceding the date of authorization.

Changes in the issued and outstanding share options from inception of the plan to December 31, 1984 are as follows:

	1984	1983	1982
Balance — beginning of the year	**489,100**	480,700	—
Issued	**90,000**	35,000	481,500
Exercised	**(6,400)**	(13,200)	(800)
Cancelled	**(25,500)**	(13,400)	—
Balance — end of the year	**547,200**	489,100	480,700

The option exercise prices and the number of options outstanding at December 31, 1984 at each price are as follows:

Price	No. of Shares
$ 8.875	248,200
9.25	25,000
10.125	65,000
11.25	31,000
11.75	4,000
12.75	174,000
	547,200

(d) **Dividend Reinvestment, Stock Dividend and Share Purchase Plans**

A total of 1,000,000 common shares have been set aside for issuance under the Dividend Reinvestment and Share Purchase Plan and the Stock Dividend and Share Purchase Plan (500,000 for each plan) as approved by the Board of Directors on December 13, 1984. These plans take effect in the first quarter of 1985.

Generally, the plans allow shareholders to elect to reinvest cash dividends on common shares in additional common shares, to receive dividends on common shares in the form of stock dividends in lieu of cash dividends and to make optional cash payments of up to $5,000 per quarter to purchase additional common shares of the Company. Common shares purchased through cash dividend reinvestment and stock dividends issued are at 95% of the Average Market Price. Shares purchased through the optional cash payments are at the Average Market Price. The Average Market Price is defined as the average of the closing prices for a board lot on the Toronto Stock Exchange for the five trading days immediately preceding the Investment Date.

13. DIVIDEND RESTRICTION

Provisions of the term bank loan agreement related to the acquisition of Northern and Central require the Company to maintain consolidated net worth, as defined, at an amount not less than $200,000,000. As at December 31, 1984, consolidated net worth is $206,150,000. Consequently, dividends are restricted to an amount of $6,150,000 plus future earnings.

14. INCOME TAXES

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

	1984	1983	1982
	($000)	($000)	($000)
Income before income taxes	57,494	34,194	22,801
Federal statutory tax rate	46.0%	46.9%	47.8%
Computed income taxes	26,447	16,037	10,899
Increase (decrease) in income taxes resulting from —			
Deductible energy taxes	(572)	(836)	(1,178)
Excess of non-deductible oil and gas expenditures over tax deductions	1,208	546	615
Inventory allowance	(936)	(1,066)	(924)
Non-deductible expenses and losses	1,758	4,011	1,595
Regulated natural gas divisions	(2,276)	(1,918)	(1)
Investment tax credit	(666)	(667)	(220)
Non-taxable dividend income	(914)	(2,189)	(100)
Other	1,087	1,125	389
Effective income taxes	25,136	15,043	11,075
Effective rate of income taxes	43.7%	44.0%	48.6%

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

	1984	1983	1982
	($000)	($000)	($000)
Income before income taxes			
Canada	49,745	31,709	18,821
United States	7,749	2,485	3,980
	57,494	34,194	22,801
Current income tax expense			
Canada	9,194	4,168	5,554
United States	1,980	(608)	564
	11,174	3,560	6,118
Deferred income tax expense			
Canada	12,245	10,465	4,377
United States	1,717	1,018	580
	13,962	11,483	4,957
	25,136	15,043	11,075

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

	1984	1983	1982
	($000)	($000)	($000)
Excess of tax depreciation over book depreciation	(1,254)	4,842	(1,510)
Drilling and exploration costs claimed net of book depletion	9,436	1,440	244
Items capitalized for book purposes and expensed for tax purposes	6,294	6,060	7,057
Loss carry forward	—	—	(971)
Other	(514)	(859)	137
Deferred income tax expense	13,962	11,483	4,957

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 $2,276,000 (1983 – $1,918,000; 1982 – $1,000). At December 31, 1984, the accumulated, unrecorded deferred income taxes on regulated income would have amounted to approximately $79,597,000 (1983 – $7,209,000), which includes an amount of $71,100,000 relating to Northern and Central Gas Corporation Limited acquired in 1984.

Various consolidated subsidiaries of the Company have accumulated losses for income tax purposes totalling approximately $19,005,000 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:

	($000)
1985	360
1986	57
1987	3,294
1990	12,268
1991	3,026
	19,005

15. NET INCOME (LOSS) PER COMMON SHARE

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

	1984	1983	1982
	($000)	($000)	($000)
Income before extraordinary items	**26,042**	16,514	9,239
Less dividends on preference shares	**1,177**	772	891
Income to common shareholders before extraordinary items	**24,865**	15,742	8,348
Extraordinary items	**(28,373)**	(4,417)	1,203
Net income (loss) to common shareholders	**(3,508)**	11,325	9,551
Weighted average number of shares outstanding during the year	**23,479,696**	22,033,942	19,376,268
Less – weighted average of shares held by subsidiaries	**4,953,735**	4,891,462	5,657,659
	18,525,961	17,142,480	13,718,609
Net income (loss) per common share			
Before extraordinary items	**$ 1.34**	$0.92	$0.61
After extraordinary items	**$(0.19)**	$0.66	$0.70

The exercise of the share purchase warrants and stock options outstanding as at December 31, 1984 would have resulted in fully diluted net income per common share before extraordinary items of $1.24 and would have been anti-dilutive with respect to the loss per common share after extraordinary items.

16. 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 1984 was $1,932,000 (1983 – $1,315,000), including contributions in respect of unfunded past service benefits. A comparison of accumulated plan benefits and plan net assets is as follows:

	1984		1983	
	Canada	**United States**	Canada	United States
	($000)	**($000)**	($000)	($000)
Actuarial present value of accumulated plan benefits	**42,635**	**2,642**	12,149	2,474
Net assets available for benefits	**42,615**	**2,271**	12,422	2,010

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 5% to 6½% for the Canadian plans and were 7% for the United States plans. Valuation dates range from December 1981 to January 1984 for the Canadian plans and from January 1984 to June 1984 for the United States plans. Unfunded liabilities for past service benefits in the U.S. plans are being funded by payments of $56,000 U.S. and $16,000 U.S. over periods of six and twenty years, respectively. Unfunded liabilities for past service benefits in certain Canadian plans are being funded by annual payments ranging from $3,000 per year to $112,000 per year over fifteen years.

17. LEASE COMMITMENTS

Lease rental expense during the current year amounted to $7,425,000 (1983—$7,271,000). The approximate aggregate minimum annual rentals under long-term leases, excluding capital leases, at December 31, 1984, are as follows:

Year	($000)
1985	7,264
1986	5,788
1987	5,080
1988	4,958
1989	4,837
Subsequent years	10,051

18. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1980 to 1984 is as follows. Amounts are in thousands of dollars except per share amounts.

	1984	1983	1982	1981	1980
Operating revenue	**940,821**	657,150	620,712	571,256	417,775
Net income (loss) for the year					
Continuing operations	**26,042**	16,514	9,239	10,459	18,106
Discontinued business and extraordinary items	**(28,373)**	(4,417)	1,203	479	236
	(2,331)	12,097	10,442	10,938	18,342
Basic net income (loss) per common share					
Continuing operations	**$ 1.34**	$ 0.92	$0.61	$0.70	$1.40
Discontinued business and extraordinary items	**$(1.53)**	(0.26)	0.09	0.04	0.02
	$(0.19)	$0.66	$0.70	$0.74	$1.42
Dividends per common share	**$ 0.40**	$0.40	$0.40	$0.40	$0.32
Total assets	**1,690,778**	814,491	765,755	648,960	502,219
Long-term obligations	**932,205**	296,606	253,869	216,701	111,337

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

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, 1984, 1983 and 1982 as it relates to operating revenue, operating profit and income from related companies, identifiable assets, capital expenditures and depreciation and depletion. The operations of Northern and Central acquired in 1984 are classified as one business segment and, accordingly, are included below in the Utilities Division.

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 investments in related companies and employee share purchase plan loans.

	Operating Revenue			Operating Profit and Income from Related Companies		
	1984	1983	1982	1984	1983	1982
	($000)	($000)	($000)	($000)	($000)	($000)
Resources						
Canada	69,378	59,387	52,897	38,780	33,271	30,439
United States	8,123	7,495	8,288	6,163	5,640	6,346
	77,501	66,882	61,185	44,943	38,911	36,785
Utilities						
Canada	368,413	136,782	124,966	42,459	13,092	7,590
United States	69,450	65,829	64,619	3,937	2,666	3,951
	437,863	202,611	189,585	46,396	15,758	11,541
Liquid Gas						
Canada	284,659	256,251	244,384	15,034	12,748	16,409
Manufactured Products						
Canada	109,970	109,884	100,007	3,388	(2,486)	207
United States	30,552	21,376	24,104	2,216	(298)	1,175
	140,522	131,260	124,111	5,604	(2,784)	1,382
Corporate and other income	276	146	1,447	2,419	5,172	1,594
	940,821	657,150	620,712	114,396	69,805	67,711

	Identifiable Assets			Capital Expenditures			Depreciation and Depletion Expenses		
	1984	1983	1982	1984	1983	1982	1984	1983	1982
	($000)	($000)	($000)	($000)	($000)	($000)	($000)	($000)	($000)
Resources									
Canada	302,291	271,818	246,266	36,571	36,350	37,788	11,388	10,536	8,418
United States	47,350	48,543	42,817	3,507	7,623	6,623	942	762	769
	349,641	320,361	289,083	40,078	43,973	44,411	12,330	11,298	9,187
Utilities									
Canada	778,346	151,590	135,945	54,974	16,703	18,394	6,016	2,812	2,335
United States	36,287	33,425	36,123	1,143	1,550	2,418	1,128	713	625
	814,633	185,015	172,068	56,117	18,253	20,812	7,144	3,525	2,960
Liquid Gas									
Canada	151,641	147,247	138,977	13,779	14,589	12,532	10,225	8,995	7,819
Manufactured Products									
Canada	76,217	71,757	86,040	1,364	661	1,072	1,293	1,253	1,528
United States	22,725	16,657	16,124	326	429	515	701	551	529
	98,942	88,414	102,164	1,690	1,090	1,587	1,994	1,804	2,057
Corporate Assets	275,921	73,454	63,463	4,238	1,702	1,719	2,469	896	657
	1,690,778	814,491	765,755	115,902	79,607	81,061	34,162	26,518	22,680

Comparative figures for 1983 and 1982 have been restated to reflect the transfer of certain operations from Corporate to the Resources Division in 1984.

SUPPLEMENTARY INFORMATION

The following information on Quarterly Financial Data, Oil and Gas Producing Activities and Changing Prices is provided by management as supplementary information as required by the Canadian Institute of Chartered Accountants and by the Securities and Exchange Commission but do not form part of the basic financial statements.

QUARTERLY FINANCIAL DATA

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

	3 Months Ended				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
1984					
Operating revenue	200,756	158,031	137,250	444,784	940,821
Gross profit	70,998	58,306	51,180	124,781	305,265
Net income (loss) after dividends on preference shares					
Before extraordinary items	8,291	1,488	(1,447)	16,533	24,865
After extraordinary items	8,291	1,758	(1,212)	(12,345)	(3,508)
Net income (loss) per common share					
Before extraordinary items	$0.45	$0.08	$(0.08)	$0.89	$1.34
After extraordinary items	$0.45	$0.09	($0.07)	$(0.66)	$(0.19)
1983					
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 items	8,173	(3,037)	(2,805)	6,017	8,348
After extraordinary items	8,173	(2,251)	(2,805)	6,434	9,551
Net income (loss) per common share					
Before extraordinary items	$0.60	$(0.22)	$(0.21)	$0.42	$0.61*
After extraordinary items	$0.60	$(0.16)	$(0.21)	$0.45	$0.70*

*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.

OIL AND GAS PRODUCING ACTIVITIES

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 to the consolidated financial statements, 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, 1984 and 1983 are:

	Canada	U.S.	Total
	($000)	($000)	($000)
(i) Cost—			
1984			
Oil and gas properties	**284,748**	**35,715**	**320,463**
Production and other equipment	**52,046**	**3,106**	**55,152**
	336,794	**38,821**	**375,615**
1983			
Oil and gas properties	253,239	32,590	285,829
Production and other equipment	48,012	2,751	50,763
	301,251	35,341	336,592
(ii) Accumulated depreciation and depletion—			
1984			
Oil and gas properties	**58,878**	**5,850**	**64,728**
Production and other equipment	**14,620**	**844**	**15,464**
	73,498	**6,694**	**80,192**
1983			
Oil and gas properties	49,943	5,015	54,958
Production and other equipment	13,046	695	13,741
	62,989	5,710	68,699

Capitalized costs include an amount of $31,496,000 (1983—$31,610,000) attributable to the Arctic Islands. In accordance with the accounting policy described in Note 1 to the consolidated financial statements, no depreciation or depletion is recorded in respect of these costs as there is no production from these reserves.

Costs totalling $12,743,000 (1983—$9,217,000) 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, 1984, 1983 and 1982 are:

	1984			1983			1982		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
	($000)	**($000)**	**($000)**	($000)	($000)	($000)	($000)	($000)	($000)
Property acquisition	**2,605**	**219**	**2,824**	5,321	1,091	6,412	6,007	1,079	7,086
Exploration	**20,251**	**1,696**	**21,947**	17,526	4,426	21,952	18,959	4,868	23,827
Development	**12,971**	**1,592**	**14,563**	11,129	2,055	13,184	10,440	676	11,116
	35,827	**3,507**	**39,334**	33,976	7,572	41,548	35,406	6,623	42,029

Expenditures reported for 1984 are net of Petroleum Incentives Program grants of $21,535,000 (1983—$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, 1984, 1983 and 1982 are:

	1984			1983			1982		
	Canada	U.S.	Total	Canada	U.S.	Total	Canada	U.S.	Total
	($000)	($000)	($000)	($000)	($000)	($000)	($000)	($000)	($000)
Revenues	52,199	6,069	58,268	44,101	5,237	49,338	41,132	5,840	46,972
Production expenses	8,657	738	9,395	7,525	709	8,234	7,655	327	7,982
Administrative expenses	2,834	315	3,149	2,395	406	2,801	1,260	205	1,465
Depletion and depreciation	10,634	713	11,347	9,736	535	10,271	7,988	551	8,539
Taxes—									
Current	(585)	626	41	240	(1,169)	(929)	2,364	1,076	3,440
Deferred	14,407	940	15,347	11,004	2,337	13,341	6,633	425	7,058
Energy	6,315	899	7,214	5,900	999	6,899	5,087	1,396	6,483
ARTC	(1,927)	—	(1,927)	(3,880)	—	(3,880)	(4,735)	—	(4,735)
	40,335	4,231	44,566	32,920	3,817	36,737	26,252	3,980	30,232
Results of operations (excluding corporate overhead and interest costs)	11,864	1,838	13,702	11,181	1,420	12,601	14,880	1,860	16,740

(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, 1984, 1983 and 1982 are as follows:

	Oil and Gas Liquids			Gas		
	Canada	U.S.	Total	Canada	U.S.	Total
1982	(Thousands Of Cubic Metres)			(Millions Of Cubic Metres)		
Proved developed and undeveloped reserves, January 1, 1982	1,560	129	1,689	7,109	235	7,344
Revisions to estimates	(49)	6	(43)	301	(149)	152
Extension, 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)
Extension, 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
1984						
Revisions to estimates	73	35	108	(173)	14	(159)
Extension, discoveries and additions	196	13	209	980	—	980
Production	(121)	(18)	(139)	(264)	(14)	(278)
Proved developed and undeveloped reserves, December 31, 1984	1,660	145	1,805	7,405	68	7,473
Proved developed reserves only						
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
December 31, 1984	1,634	145	1,779	6,943	68	7,011

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 calculations 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 calculations.

Estimated future net revenues from proved reserves, stated in millions of dollars as at December 31, 1984, 1983 and 1982, are:

	(In Millions Of Dollars)								
	1984			1983			1982		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
Future revenues	1,101	44	1,145	966	34	1,000	1,109	36	1,145
Future production and development costs	(270)	(4)	(274)	(244)	(3)	(247)	(246)	(3)	(249)
Future income and other taxes	(424)	(20)	(444)	(393)	(17)	(410)	(451)	(18)	(469)
Future net revenues	407	20	427	329	14	343	412	15	427
10% annual discount for estimated timing of cash flows	(238)	(9)	(247)	(187)	(6)	(193)	(229)	(7)	(236)
Discounted future net revenue	169	11	180	142	8	150	183	8	191

Changes in value of discounted future net revenues from proved reserves during the years ended December 31, 1984, 1983 and 1982, are:

	(In Millions of Dollars)		
	1984	1983	1982
Sales, net of production expenses	(49)	(41)	(38)
Net changes in prices and production costs	22	(50)	44
Extensions and discoveries less related costs	55	13	7
Development costs incurred during the year	15	13	11
Revisions of previous estimates	(14)	(27)	(2)
Accretion of discount	15	19	17
Net change in income and other taxes	(14)	32	(17)
	30	(41)	22

CHANGING PRICES

The following 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.

The following 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 present the true impact on the Company of actual inflated dollar transactions, although it is believed to have been prepared on a reasonable basis. 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.

Two of the Company's operating divisions, which in total accounted for 55% of operating revenue in 1984 and 69% of identifiable assets at December 31, 1984 operate in highly regulated business environments. In the Utilities Division, prices are established by regulatory authority on the basis of historical costs of the investment. In the Resources Division, prices to producers of oil and gas are established by governmental authorities. In addition, within the Liquid Gas Division, propane and gasoline prices while not specifically regulated do bear a relationship to regulated oil and natural gas prices. Therefore, if the Company replaces the assets in these and other divisions, it will do so only on the premise that it can obtain an adequate return on its investment and build that return into the prices of its products.

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.

	1984	1983*
	($000)	($000)
Income before extraordinary items — historical cost basis	26,042	17,234
Current cost adjustments —		
Increase in cost of sales	4,827	4,291
Increase in depreciation and depletion	21,333	18,784
Loss after current cost adjustments	(118)	(5,841)

The primary deficiency in the prescribed procedures is that income taxes are not adjusted to a current cost basis. The provision for income taxes is the amount computed under the historical cost concept as opposed to an appropriate level of taxation computed on the economic gain measured under the current cost concept. This results in an unrealistic charge against earnings. Consequently, the resultant income or loss figure after current cost adjustments is not highly meaningful in itself.

The impact of adjusting selected balance sheet items to a current cost basis is as follows:

	December 31, 1984		1983*
	Historical Cost Basis	Current Cost Basis	Current Cost Basis
	($000)	($000)	($000)
Inventories	99,479	101,544	79,828
Property, plant and equipment, net	1,006,395	1,731,950	847,883
Net assets (common shareholders' equity)	206,150	933,770	536,734

While the rate of inflation has declined considerably over the past two years, the current cost adjustment to property, plant and equipment and depreciation and depletion charges reflects the impact of significantly higher inflation in prior years.

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).

	1984		1983*	
	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	(118)	(118)	(5,841)	(5,841)
Extraordinary items	(28,373)	(28,373)	(4,584)	(4,584)
Dividend on preference shares	(1,177)	(1,177)	(806)	(806)
	(29,668)	(29,668)	(11,231)	(11,231)
Financing adjustment based on current cost adjustments	11,188		9,190	
Loss attributable to common shareholders on an operating capability concept of capital	(18,480)		(2,041)	
Increase during the year in current cost of inventories and property, plant and equipment		75,832		59,161
Less: general inflation component		(39,699)		(35,681)
		36,133		23,480
Income before general purchasing power gain		6,465		12,249
General purchasing power gain		17,098		14,527
Income attributable to common shareholders under a financial concept of capital		23,563		26,776

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 $75,832,000 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 $36,133,000 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 net monetary liability position during a period of general inflation.

*Restated to 1984 average-for-the-year or year-end dollars as applicable.

TEN-YEAR SUMMARY OF OPERATIONS

(In Thousands of Dollars)	1984	1983	1982
Operating revenue	940,821	657,150	620,712
Operating costs			
Cost of sales	635,556	441,679	414,209
Operating, selling and administrative	161,477	123,496	116,112
Depreciation and depletion	34,162	26,518	22,680
	831,195	591,693	553,001
Operating profit	109,626	65,457	67,711
Income from related companies	4,770	4,348	—
	114,396	69,805	67,711
Financial expenses	56,902	35,611	44,910
Income before taxes	57,494	34,194	22,801
Provision for taxes	30,350	17,942	13,878
	27,144	16,252	8,923
Minority interest	(1,102)	262	316
Discontinued business	—	—	—
Extraordinary items	(28,373)	(4,417)	1,203
Net income (loss) for the year	(2,331)	12,097	10,442
Net income (loss) per common share	$(0.19)	$0.66	$0.70
Dividends—			
Preference shares	1,177	772	891
Common shares	7,411	6,956	5,393
Dividends paid per common share	.40	.40	.40
Fixed assets (cost)	1,325,299	688,127	608,458
Common shareholders' equity	206,150	212,253	189,767
Number of common shares outstanding	18,527*	18,521*	17,075*
Book value per share	$11.13	$11.46	$11.11

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

1981	1980	1979	1978	1977	1976	1975
571,256	417,775	454,383	229,090	81,995	67,728	52,630
384,439	271,441	333,894	169,441	58,160	48,560	36,603
95,002	73,827	68,329	33,555	9,943	8,409	6,941
18,717	15,314	12,843	7,076	3,258	2,215	1,648
498,158	360,582	415,066	210,072	71,361	59,184	45,192
73,098	57,193	39,317	19,018	10,634	8,544	7,438
—	—	2,187	2,471	2,852	1,207	—
73,098	57,193	41,504	21,489	13,486	9,751	7,438
42,365	22,535	19,285	11,386	7,439	4,330	2,642
30,733	34,658	22,219	10,103	6,047	5,421	4,796
17,916	15,009	9,312	2,410	737	1,572	2,174
12,817	19,649	12,907	7,693	5,310	3,849	2,622
(2,358)	(1,543)	(968)	(505)	—	—	—
—	(228)	—	—	—	—	—
479	464	495	121	(188)	—	—
10,938	18,342	12,434	7,309	5,122	3,849	2,622
$0.74	$1.42	$1.43	$1.21	$0.94	$0.73	$0.56
983	1,592	1,619	1,335	1,100	903	713
5,377	3,823	2,372	1,570	1,160	1,031	825
.40	.32	.31	.28	.27	.24	.24
533,523	430,898	289,244	267,508	66,606	60,393	52,832
135,098	128,951	54,967	42,657	17,431	14,549	9,625
13,589*	13,437*	7,889*	7,162*	4,297	4,296	3,436
$9.94	$9.60	$6.97	$5.96	$4.06	$3.39	$2.80

DIRECTORS AND OFFICERS

Directors

H. Reuben Cohen, Q.C.
Moncton, New Brunswick
Director of various companies

John H. Coleman
Toronto, Ontario
President of J.H.C. Associates Limited

Stanley Davison
Calgary, Alberta
Vice-Chairman, Bank of Montreal

Leonard Ellen
Montreal, Quebec
Chairman, Leonard Ellen Canada Inc.

Robert G. Graham
Winnipeg, Manitoba
President and Chief Executive Officer

Wayne R. Harding
Treasure Island, Florida
Vice-President, Corporate Development

Gordon P. Osler
Toronto, Ontario
Chairman of Stanton Pipes Limited and Slater Steel Industries Limited

J. Derek Riley
Winnipeg, Manitoba
President, Dominion Bronze and Iron Limited

Donald S. Rogers
Winnipeg, Manitoba
Executive Vice-President and Chief Operating Officer

George C. Solomon
Regina, Saskatchewan
President of Western Limited

Alan Sweatman, Q.C.
Winnipeg, Manitoba
Partner, Thompson, Dorfman, Sweatman

AUDIT COMMITTEE

J. Derek Riley **Alan Sweatman,** Q.C. **Leonard Ellen**

Officers

R. G. Graham	President and Chief Executive Officer
D. S. Rogers	Executive Vice-President and Chief Operating Officer
P. Marriott	Senior Vice-President and Chief Financial Officer
C. R. Beenham	Senior Vice-President, Administration
W. R. Harding	Vice-President, Corporate Development
N. J. Didur	Group Vice-President – Utilities
H. J. Forrest	Group Vice-President – Manufactured Products
R. C. Siegfried	Group Vice-President – Resources
J. Stollery	Group Vice-President – Liquid Gas
J. E. Carstairs	Vice-President and Secretary
R. Noseworthy	Vice-President, Management Information Services
K. J. Mondor	Corporate Controller
T. M. Carey	Assistant Secretary

SHAREHOLDER INFORMATION

Annual Meeting
The Annual Meeting of the Shareholders of Inter-City Gas Corporation will be held on Tuesday, May 14, 1985, at 11:00 a.m. in the Winnipeg Art Gallery, 300 Memorial Blvd., Winnipeg, Manitoba, Canada.

10-K Report
The SEC Annual Report on Form 10-K for the year ended December 31, 1984 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 Avenue
Winnipeg, Manitoba R3C 3T7

Common Shares
The common shares of Inter-City Gas Corporation are listed on the Winnipeg, Toronto and American Stock Exchanges. The markets where most of the shares are traded are Toronto and New York.

Transfer Agents
Guaranty Trust Company of Canada, Winnipeg, Toronto, Calgary, Vancouver, Montreal, Regina and Halifax. Morgan Guaranty Trust Company, New York, N.Y.

Shareholder Investment Plans
The Company offers common shareholders two convenient ways of acquiring additional Inter-City Gas Corporation common shares at regular intervals and without payment of brokerage commissions or service charges. These are known as Dividend Reinvestment and Share Purchase Plan and Stock Dividend and Share Purchase Plan. For information write – or call collect:

Guaranty Trust Company of Canada
Room 209-428 Portage Avenue
Winnipeg, Manitoba R3C 0C9

Attention: Services Department
Telephone: (204) 947-9303

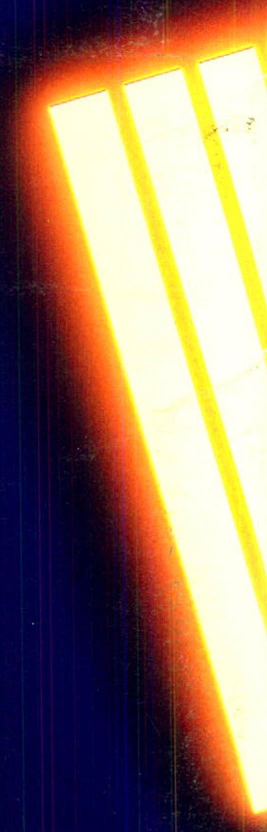
Quarterly Dividends and Common Share Prices

1984	Dividends per share	Common Share Price (ASE—U.S.$)		Common Share Price (TSE—CDN$)	
Quarter		High	Low	High	Low
First	.10	9.50	7.625	11.875	10.125
Second	.10	8.75	6.875	11.375	8.875
Third	.10	7.875	7.00	11.00	9.50
Fourth	.10	7.75	6.875	10.125	9.125
Year	.40				

1983	Dividends per share	Common Share Price (ASE—U.S.$)		Common Share Price (TSE—CDN$)	
Quarter		High	Low	High	Low
First	.10	11.50	8.375	14.125	10.125
Second	.10	11.50	9.00	13.125	11.00
Third	.10	10.375	9.00	12.75	11.00
Fourth	.10	10.375	8.50	12.875	10.50
Year	.40				

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



INTER-CITY GAS CORPORATION

Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Canada R3C 3T7