ARRANGEMENT INVOLVING INTER-CITY GAS CORPORATION

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS AND OPTION HOLDERS TO BE HELD ON MARCH 16, 1990

NOTICE OF APPLICATION AND MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

February 14, 1990

INTER-CITY GAS CORPORATION

BOX 32, 20 QUEEN STREET WEST
TORONTO ONTARIO CANADA
M5H 3R3
(416) 598-0101

R. G. GRAHAM
PRESIDENT
& CHIEF EXECUTIVE OFFICER

February 14, 1990

Dear Shareholders and Option holders:

You are invited to attend a Special Meeting of holders of Common Shares, First Preference shares eight per cent (8%) Series A, $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series and Options to purchase Common Shares of Inter-City Gas Corporation, to be held in the Winnipeg Convention Centre, Meeting Room No. 16, 375 York Avenue, Winnipeg, Manitoba on Friday March 16, 1990 commencing at 3:00 p.m.

At the Special Meeting, you will be asked to consider and vote upon a proposed Arrangement involving the Corporation. The Arrangement provides for the sale for cash of the Corporation's utilities and propane businesses to a wholly-owned subsidiary of Westcoast Energy Inc. Westcoast is entitled to assign its right to purchase the propane business to Petro-Canada Inc. The utilities and propane businesses will also assume existing liabilities of the Corporation immediately prior to or in connection with the Arrangement. The Arrangement also provides for the recapitalization of the Corporation to provide for what the Board of Directors has determined to be a more appropriate capital structure after the Arrangement.

After the Arrangement, the Corporation will continue to carry on its energy products business under the name "Inter-City Products Corporation". Inter-City Products Corporation will be one of North America's leading corporations engaged in the design, manufacture and marketing of heating, refrigeration and air conditioning equipment, heat transfer equipment and related products and will also be involved in the fabrication of large diameter steel pipe. Management intends to focus on building market share in the Corporation's main product lines and on completing the integration of the Corporation's principal operations in Canada and the United States to lower operating costs, improve product sourcing flexibility and provide better service to customers.

If the Arrangement is approved, holders of Common Shares will receive for each 100 Common Shares of Inter-City Gas Corporation held:

- $2,100 in cash,
- 25 ordinary shares of Inter-City Products Corporation, and
- 25 warrants to purchase new Class C 8% Convertible Preference Shares of Inter-City Products Corporation. Three warrants will entitle a holder to purchase one Class C 8% Convertible Preference Share for $25 from MICC Investments Limited.

The Arrangement provides for the change of each Third Preference Share into 1.662 Common Shares, representing, in effect, a premium from the current conversion ratio of 1.6393. Holders of Third Preference Shares changed into Common Shares under the Arrangement will participate in the Arrangement as Common Shareholders on the same basis as outlined above.

If the Arrangement is approved, all Options issued under the Corporation's Employee Stock Option Plan will become vested and Option holders who exercise their Options prior to the Effective Date of the Arrangement will participate in the Arrangement as Common Shareholders. Prior to the Effective Date of the Arrangement, the Corporation's two outstanding series of Second Preference Shares will be redeemed.

No certificates for fractional shares will be issued. Arrangements will be made to sell fractional shares and the proceeds will be distributed on a pro rata basis to shareholders entitled to such interests. No fractional warrants will be issued to any shareholder. No warrants will be distributed to any resident of any state of the United States in which the distribution of warrants or the issuance of Class C 8% Convertible Preference Shares would be unlawful. Warrants which such shareholders would otherwise be entitled to receive will be sold on their behalf and proceeds distributed to such persons on a pro rata basis.

In order to facilitate the Arrangement, MICC Investments Limited, an affiliate of Central Capital Corporation, has acquired all the outstanding First Preference Shares, which will be changed under the Arrangement into Class C 8% Convertible Preference Shares, and will issue the warrants as part of the Arrangement. Central Capital Corporation and its affiliates beneficially own 44.5% of the Common Shares, 100% of the First Preference Shares and 8.2% of the Third Preference Shares, representing approximately 38% of the voting shares of the Corporation on a fully-diluted basis.

The Arrangement also provides for the redesignation of the Corporation's Common Shares as ordinary shares and the creation of two new classes of Preference Shares in order to provide future financing flexibility. The Corporation has no present plans to issue any such Preference Shares.

The members of the board of directors, other than those who are directors or officers of Central Capital Corporation or MICC Investments Limited who refrained from voting because of the interest of Central Capital and MICC Investments Limited in the Arrangement and Mr. Davis who refrained from voting because of the interest of Westcoast Energy Inc. in the Arrangement, have unanimously determined that the Arrangement is in the best interests of the Corporation and is fair to the public holders of Common Shares and Third Preference Shares and recommend that such shareholders vote for approval of the Arrangement. In arriving at its recommendation, the Board of Directors considered the opinion of Burns Fry Limited, a Canadian investment dealer, that the Arrangement is fair from a financial point of view to the public holders of Common Shares and Third Preference Shares. A copy of this opinion appears as Schedule D to the attached Management Information Circular and Proxy Statement and should be read in its entirety. The Board of Directors also considered a report of a special committee of the Board of Directors that the Arrangement is fair to the public holders of Common Shares and Third Preference Shares.

Holders of Common Shares, First Preference Shares and Third Preference Shares will be asked to consider and vote on a separate resolution fixing the number of directors of Inter-City Products Corporation at five, a reduction from the present size of the Corporation's board of twelve directors. The Board of Directors of the Corporation has unanimously determined that the reduction in board size is in the best interests of the Corporation and recommends that shareholders vote in favour of this matter.

The attached Management Information Circular and Proxy Statement contains a detailed description of the proposed Arrangement, Inter-City Products Corporation, the proposed reduction in board size, as well as historical and pro forma financial statements. Please give this material your careful consideration, and if you require assistance, consult your financial, income tax or other professional advisers.

It is not yet possible to specify precisely when the Effective Date of the Arrangement will occur, but it could be as early as March 26, 1990. The Corporation anticipates that the Effective Date will be on the eighth day after the Special Meeting or, in the event the eighth day is not a business day, on the first business day thereafter. When the Effective Date has been determined it will be publicized in major local and national newspapers.

Upon the Arrangement becoming effective, certificates representing Common Shares or Third Preference Shares must be surrendered in order to receive the cash and certificates representing ordinary shares of Inter-City Products Corporation and warrants to which the holder will be entitled.

The matters to be acted upon at the Special Meeting are important and your shares or options should be represented whether or not you are able to attend personally. Your vote is important because a majority of the votes cast by holders of Common Shares and Third Preference Shares (other than Central Capital Corporation and its related parties), each voting as a separate class, is required to pass the Arrangement Resolution. Accordingly, you are requested to:

(a) complete and return the enclosed form of Proxy relating to the shares or options held by you; and

(b) complete and return, with your share certificates, the Letter of Transmittal located at the back of this document.

Central Capital Corporation has advised the Corporation that it intends to vote all shares owned by it, directly or indirectly, in favour of the Arrangement.

A postpaid envelope has been provided for use in returning the Proxy. In the event you are also returning your share certificates with the Letter of Transmittal, we suggest that you send them in the second envelope provided through registered mail or hand deliver them to the Depositary or the Forwarding Agent at the locations indicated

on the Letter of Transmittal. You should note that if you surrender your share certificates, you will not be able to sell the shares to which those certificates relate prior to the Effective Date of the Arrangement. Your share certificates will be returned on request.

You may, of course, attend the Special Meeting and vote in person even if you have already returned your Proxy.

Thank you for your attention.

Yours sincerely,

ROBERT G. GRAHAM
Chairman of the Board,
President and Chief Executive Officer

INTER-CITY GAS CORPORATION

NOTICE OF SPECIAL MEETING OF HOLDERS OF COMMON SHARES, FIRST PREFERENCE SHARES EIGHT PER CENT (8%) SERIES A, $2.125 CUMULATIVE REDEEMABLE VOTING CONVERTIBLE THIRD PREFERENCE SHARES, 1985 SERIES AND OPTIONS

A Special Meeting (the "Special Meeting") of holders of common shares ("Common Shares"), First Preference shares eight per cent (8%) Series A ("First Preference Shares"), $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series ("Third Preference Shares") and options to purchase Common Shares ("Options") of Inter-City Gas Corporation (the "Corporation") pursuant to the Corporation's Employee Stock Option Plan will be held in the Winnipeg Convention Centre, Meeting Room No. 16, 375 York Avenue, Winnipeg, Manitoba on March 16, 1990 at 3:00 p.m. (Winnipeg time) for the holders of Common Shares, First Preference Shares, Third Preference Shares and Options:

(i) to consider, pursuant to an order dated February 13, 1990, (the "Interim Order") of the Court of Queen's Bench for the Province of Manitoba and, if deemed advisable, to pass, with or without variation, a special resolution (the "Arrangement Resolution") to approve an arrangement (the "Arrangement") under section 185 of The Corporations Act (Manitoba) (the "MCA"), which will result, among other things, in the change of the Third Preference Shares into Common Shares, the sale of the Corporation's utilities business and propane business, the recapitalization of the Corporation and the change of the name of the Corporation to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc.", all as more particularly described in the attached Management Information Circular and Proxy Statement;

and for the holders of Common Shares, First Preference Shares and Third Preference Shares:

(ii) to consider and, if deemed advisable, to pass, with or without variation, a special resolution (the "Board Size Resolution") fixing the number of directors of the Corporation at five; and

(iii) to transact such other business as may be properly brought before the meeting.

The texts of the Arrangement Resolution and the Board Size Resolution are set forth in Schedule A and Schedule B, respectively, to the accompanying Management Information Circular and Proxy Statement. Pursuant to the Interim Order, holders of Common Shares, First Preference Shares, Third Preference Shares and Options have been granted the right to dissent and to be paid the fair value of their shares of the Corporation or Options in respect of the Arrangement Resolution. A holder of Common Shares, First Preference Shares, Third Preference Shares or Options wishing to dissent must give a written objection ("Objection Notice") to the Corporation, addressed to the Secretary, at its registered office at Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba, Canada, R3C 3T7, at or prior to the Special Meeting in order for it to be effective. Any shareholder or Option holder who gives an Objection Notice will be deemed to have validly dissented without further action required. Any shareholder or Option holder who gives an Objection Notice will have a minimum of seven days after the Special Meeting and such greater number of days ending at 3:00 p.m. (Winnipeg time) on the business day immediately preceding the Effective Date to give written notice to the Corporation, addressed to the Secretary, at its registered office at Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba, Canada, R3C 3T7, that he wishes to withdraw his Objection Notice.

Only holders of record at the close of business on February 16, 1990 of Common Shares, First Preference Shares, Third Preference Shares and Options will be entitled to vote, each as a separate class in respect of the Arrangement Resolution and as a single class in respect of the Board Size Resolution, at the Special Meeting or adjournments thereof, except that a person who has acquired shares subsequent to February 16, 1990 will be entitled to vote such shares upon making a written request to that effect by March 6, 1990 to the Secretary of the Corporation at the registered office of the Corporation indicated above and establishing that such person owns such shares.

Your vote is important regardless of the number of shares or Options you own. Shareholders and Option holders who are unable to attend the Special Meeting in person are asked to sign, date and return the enclosed form of proxy relating to the shares or Options held by you in the postpaid envelope provided for that purpose.

To be used at the Special Meeting, a proxy must be deposited with Central Guaranty Trust Company at one of its principal offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal or Halifax in Canada at any time up to 3:00 p.m. (local time) on the last business day preceding the day of the Special Meeting (or any adjournment of the Special Meeting), or with the Chairman of the Special Meeting prior to the commencement of the Special Meeting on the day of the Special Meeting or the day of any adjournment of the Special Meeting.

By order of the board of directors

J. E. CARSTAIRS,
Secretary

Winnipeg, February 14, 1990

File No. CI 90-01-44230

IN THE QUEEN'S BENCH
WINNIPEG CENTRE

B E T W E E N:

INTER-CITY GAS CORPORATION ("ICG"), THE CHANCELLOR HOLDINGS CORPORATION, 2451417 MANITOBA LTD., AND 2484685 MANITOBA LTD.

Applicants,

— and —

THE HOLDERS OF COMMON SHARES, FIRST PREFERENCE SHARES EIGHT PER CENT (8%) SERIES A, $2.125 CUMULATIVE REDEEMABLE VOTING CONVERTIBLE THIRD PREFERENCE SHARES, 1985 SERIES OF ICG, AND OPTIONS TO PURCHASE COMMON SHARES OF ICG UNDER THE EMPLOYEE STOCK OPTION PLAN ESTABLISHED BY ICG, AND THE DIRECTOR UNDER THE CORPORATIONS ACT,

Respondents.

IN THE MATTER OF an application by the Applicants under section 185 of The Corporations Act, R.S.M. 1987, c. C225

NOTICE OF APPLICATION

(court seal)

TO: THE RESPONDENTS

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicants. The claim made by the Applicants appears on the following page.

THIS APPLICATION will come on for a hearing before a judge, on Monday, March 19, 1990 at 10:00 a.m., at the Law Courts Building, Broadway & Kennedy, Winnipeg, Manitoba.

IF YOU WISH TO OPPOSE THIS APPLICATION, you or a Manitoba lawyer acting for you must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must serve a copy of the evidence on the Applicants' lawyers or, where an Applicant does not have a lawyer, serve it on that Applicant, and file it, with proof of service, in the court office where the Application is to be heard as soon as possible, but not later than four (4) days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.

DATED February 13, 1990.

Issued By "L. ANTHONY"
Registrar

TO: THE RESPONDENTS

AND TO: WESTCOAST ENERGY INC.

AND TO: WESTCOAST GAS INC.

AND TO: CENTRAL CAPITAL CORPORATION

AND TO: PETRO-CANADA INC.

APPLICATION

1. The Applicants make application for an Order approving the arrangement proposed by the Applicants and described in the Management Information Circular and Proxy Statement to be distributed to holders of Common Shares, First Preference shares eight per cent (8%) Series A, $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series of ICG, and Options to purchase Common Shares of ICG under the Employee Stock Option Plan established by ICG.

2. The grounds for the application are the provisions of Section 185 of The Corporations Act R.S.M. 1987, c. C225 and Rule 14.05(2)(b) of the Court of Queen's Bench Rules.

3. The following documentary evidence will be used at the hearing of the application:

   (1) The Interim Order to be granted by this Honourable Court;

   (2) The Affidavit and the exhibits thereto of Peter Marriott to be sworn;

   (3) The further Affidavit of a deponent of ICG reporting on the results of the Special Meeting held pursuant to the Interim Order, and such other matters as are appropriate; and

   (4) Such further material as may be permitted.

4. This Notice of Application will be sent to all holders of Common Shares, First Preference shares eight per cent (8%) Series A, $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series of ICG, and all holders of Options to purchase Common Shares of ICG under the Employee Stock Option Plan established by ICG pursuant to the provisions of the Interim Order to be granted by this Honourable Court, including, pursuant to Rule 17.02(k) and Rule 17.02(l) of the Court of Queen's Bench Rules, all such shareholders and option holders whose registered addresses are outside Manitoba.

February 13, 1990.

THOMPSON, DORFMAN, SWEATMAN
500 Bank of Canada Building
3 Lombard Place
Winnipeg, Manitoba
R3B 1N4
Counsel for ICG

JEFFREY D. GLATT
c/o Davies, Ward & Beck
Barristers and Solicitors
P.O. Box 63
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Toronto, Ontario
M5X 1B1
Counsel for The Chancellor
Holdings Corporation,
2451417 Manitoba Ltd. and
2484685 Manitoba Ltd.

INTER-CITY GAS CORPORATION

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

ARRANGEMENT INVOLVING INTER-CITY GAS CORPORATION AND ITS SHAREHOLDERS AND OPTION HOLDERS

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GLOSSARY OF TERMS

The following is a glossary of certain defined terms used frequently throughout this Management Information Circular and Proxy Statement and the summary thereof. These defined terms are not used in the financial statements which are attached to this Management Information Circular and Proxy Statement.

"Advance Tax Ruling" means an advance income tax ruling from Revenue Canada, Taxation relating to the Arrangement and the other transactions contemplated by the Arrangement Agreement and corresponding rulings from taxation authorities in Alberta, Ontario and Quebec, in each case in form and on terms satisfactory to each party to the Arrangement Agreement, to obtain confirmation that the transfer of the Utilities Division to Utilities Holdings and of the Propane Division initially to Propane Company (which will subsequently be acquired by Propane Holdings) qualifies as a "Butterfly" reorganization thereby allowing such transfers to occur with no current income taxes being imposed upon any of the Corporation, Utilities Company, Utilities Holdings, Propane Company or Propane Holdings, in respect thereof.

"affiliate" means an affiliated corporation and, for the purposes of this Management Proxy Circular, (i) one corporation is affiliated with another corporation if one of them is the subsidiary of the other or both are subsidiaries of the same corporation or each of them is controlled by the same person, and (ii) if two corporations are affiliated with the same corporation at the same time, they are deemed to be affiliated with each other.

"Arrangement" means the series of stages, consisting of the Change of Third Preference Shares, the Utilities Division and Propane Division Transactions, the Recapitalization and the change of the Corporation's name to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc." proposed to be undertaken pursuant to the provisions of section 185 of the MCA as described under the heading "THE ARRANGEMENT" and set out as Exhibit I to the Arrangement Agreement.

"Arrangement Agreement" means the agreement made December 11, 1989 as amended and restated by an amending agreement made as of February 12, 1990 among the Corporation, Westcoast, WestCoast Gas, Central Capital, Utilities Holdings, Propane Holdings, Newco and MICCI, attached as Schedule C to this Management Proxy Circular.

"Arrangement Resolution" means the special resolution approving the Arrangement, attached as Schedule A to this Management Proxy Circular, to be submitted to the Common Shareholders, First Preference Shareholders, Third Preference Shareholders and Option Holders at the Special Meeting.

"associate" means, where used to indicate a relationship with any corporation, (i) any corporation of which such corporation beneficially owns, directly or indirectly, voting securities carrying more than 10 per cent of the voting rights attached to all outstanding voting securities of the corporation, (ii) any partner of that corporation, or (iii) any trust or estate in which such corporation has a substantial beneficial interest or as to which such corporation serves as trustee or in a similar capacity.

"Board of Directors" and ***"Board"*** means the board of directors of the Corporation or Inter-City Products, as the case may be.

"Board Size Resolution" means the special resolution fixing the number of directors of the Corporation at five, attached as Schedule B to this Management Proxy Circular, to be submitted to the Common Shareholders, First Preference Shareholders and Third Preference Shareholders at the Special Meeting.

"Burns Fry" means Burns Fry Limited, financial adviser to the Corporation and the Special Committee.

"CA Director" means the Director of Investigation and Research under the Competition Act.

"Central Capital" means Central Capital Corporation.

"Central Capital Related Parties" means Central Capital and its affiliates, associates and insiders.

"Central Capital-Westcoast Letter" means the letter of understanding dated July 4, 1989 entered into between Central Capital and Westcoast.

"Change in the Number of Common Shares Retained" means the change in the number of the Common Shares retained as a step of the Recapitalization with the result that, immediately following the Arrangement, the number of Inter-City Products Ordinary Shares outstanding will be one-quarter of the number of Common Shares as were outstanding immediately following the Change of Third Preference Shares.

"Change of Third Preference Shares" means a stage of the Arrangement consisting of the change of the then outstanding Third Preference Shares into Common Shares with the result that Third Preference Shareholders will participate in the remaining stages of the Arrangement as Common Shareholders.

"Class A Preference Shares" means the Class A Preference Shares of Inter-City Products to be created under the Arrangement.

"Class B Preference Shares" means the Class B Preference Shares of Inter-City Products to be created under the Arrangement.

"Class C 8% Convertible Preference Shares" means the 8% Cumulative Redeemable Convertible Class C Preference Shares of Inter-City Products into which the First Preference Shares will be changed under the Arrangement.

"Common Shares" means the common shares of the Corporation prior to the Redesignation of Common Shares, and the term *"Common Shareholders"* means the holders thereof.

"Common Share Transfers" means the transfer by Common Shareholders of a portion of their Common Shares to each of Utilities Holdings and Propane Holdings as a step of the Utilities Division and Propane Division Transactions.

"Competition Act" means the Competition Act, R.S.C. 1985, c. C-34, as amended.

"control" means, with respect to control of a corporation by a person, the holding (other than by way of security only) by or for the benefit of that person of securities of the corporation to which are attached more than 50% of the votes that may be cast to elect directors of the corporation; provided that the votes attached to those securities are sufficient, if exercised, to elect a majority of the directors of the corporation.

"Corporation" means Inter-City Gas Corporation prior to completion of the Arrangement.

"Court" means the Court of Queen's Bench for the Province of Manitoba.

"Creation of Class C 8% Convertible Preference Shares and Warrant Offering" means the change of the First Preference Shares into Class C 8% Convertible Preference Shares and the issuance of the Warrants as a step of the Recapitalization.

"Depositary" means Central Guaranty Trust Company, designated as the recipient for the Proxies and Letters of Transmittal and the certificates representing Common Shares or Third Preference Shares transmitted therewith.

"Director" means the Director under the MCA.

"Effective Date" means the date on which a certificate of amendment is issued under the MCA giving effect to the Arrangement.

"Effective Time" means the effective time of the Arrangement on the Effective Date as shown on the certificate of amendment to be issued under the MCA giving effect to the Arrangement.

"Energy Products Business" and *"Energy Products Division"* mean the business carried on by that division of the Corporation which is engaged in the design, manufacture and marketing of heating, refrigeration and air conditioning equipment, heat transfer equipment and related products and the fabrication of large diameter steel pipe.

"Final Order" means the final order of the Court approving the Arrangement.

"First Preference Shares" means the First Preference shares eight per cent (8%) Series A of the Corporation and the term *"First Preference Shareholders"* means the holders thereof.

"Forwarding Agent" means First Chicago Trust Company of New York, designated as the agent of the Depositary in the United States for the deposit in person (by hand or courier) of Letters of Transmittal and certificates representing Common Shares or Third Preference Shares transmitted therewith, at its office in New York.

"GAAP" means generally accepted accounting principles.

"Heil-Quaker" means Heil-Quaker Corporation, a corporation indirectly wholly-owned by the Corporation which is engaged in the design, manufacture and marketing of heating, air conditioning and refrigeration equipment and related products for sale primarily in the United States.

"ICG Canada" means ICG Utilities (Canada) Ltd., a corporation wholly-owned by the Corporation.

"ICG Ontario" means ICG Utilities (Ontario) Ltd, a corporation all of the voting shares of which are owned by ICG Canada.

"insider" when used in respect of any corporation has the meaning ascribed thereto in the Securities Act, R.S.O. 1980, c.466, as amended.

"Inter-City Products" means the Corporation after completion of the Arrangement, which will carry on the Energy Products Business under the name "Inter-City Products Corporation/Société de Produits Inter-Cité Inc.".

"Inter-City Products Ordinary Shares" means the ordinary shares of Inter-City Products after the Arrangement and the term *"Inter-City Products Ordinary Shareholders"* means the holders thereof.

"Interim Order" means the interim order of the Court dated February 13, 1990, attached as Schedule E to this Management Proxy Circular, providing for, among other things, the calling and holding of the Special Meeting.

"Jamestown Investments" means Jamestown Investments Limited, a corporation indirectly 50% owned by Central Capital, financial adviser to Central Capital.

"KeepRite" means KeepRite Inc., a corporation wholly-owned by the Corporation which is engaged in the design, manufacture and marketing of heating, refrigeration, air conditioning and heat transfer equipment and related products for sale primarily in Canada.

"Letter of Transmittal" means the letter of transmittal, a copy of which is enclosed with this Management Proxy Circular, to be used in transmitting certificates representing Common Shares and Third Preference Shares to the Depositary or Forwarding Agent.

"Letter of Understanding" means the letter of understanding dated July 4, 1989 entered into between the Corporation and Westcoast.

"Management Proxy Circular" means this Management Information Circular and Proxy Statement.

"MCA" means The Corporations Act (Manitoba), R.S.M. 1987, c.C225, as amended.

"Merrill Lynch" means Merrill Lynch Canada Inc. and certain of its affiliates, financial adviser to Central Capital.

"MICC" means The Mortgage Insurance Company of Canada, a subsidiary of MICCI.

"MICCI" means MICC Investments Limited, a subsidiary of Central Capital.

"NASCO" means Northern Allied Supply (Sudbury) Ltd., a corporation wholly-owned by the Corporation which carries on a portion of the Propane Division.

"Newco" means 2484685 Manitoba Ltd., a corporation wholly-owned by Utilities Holdings.

"Notice of Application" means the notice of application made by the Corporation, Utilities Holdings, Propane Holdings and Newco to the Court which is attached to this Management Proxy Circular.

"Notice of Special Meeting" means the Notice of Special Meeting of Common Shareholders, First Preference Shareholders, Third Preference Shareholders and Option Holders attached to this Management Proxy Circular.

"Options" means the unexercised options to acquire Common Shares granted to employees of the Corporation pursuant to the Employee Stock Option Plan established by the Corporation, and *"Option Holders"* means the holders thereof.

"Petro-Canada" means Petro-Canada Inc., except under the heading "INFORMATION CONCERNING PETRO-CANADA INC."

"Propane Company" means the corporation to be incorporated under the name ICG Propane Inc. to which the Corporation proposes to transfer the assets, property and undertaking of the Propane Division.

"Propane Company Transfer" means the acquisition by Propane Holdings of all of the shares of Propane Company as steps of the Utilities Division and Propane Division Transactions.

"Propane Division" means the business carried on by that division of the Corporation which distributes and markets propane, gasoline and related products, equipment and services, all of which will be carried on by Propane Company and NASCO at the Effective Time.

"Propane Division Purchase Price" means the aggregate of the amount of cash to be paid to Common Shareholders for their Propane Holdings Shares and certain of the indebtedness of the Corporation to be assumed by Propane Company on the Propane Rolldown and repaid on the Effective Date.

"Propane Holdings" means The Chancellor Holdings Corporation, all of the preference shares of which are owned by MICC, and all of the common shares of which are owned by Central Capital.

"Propane Holdings Shares" means all of the preference shares of Propane Holdings.

"Propane Rolldown" means the transfer of the Propane Division to Propane Company, including the assumption of certain liabilities of the Corporation.

"Public Shareholders" means the Common Shareholders and Third Preference Shareholders other than Central Capital and its affiliates.

"Recapitalization" means a stage of the Arrangement consisting of the Change in the Number of Common Shares Retained, Creation of the Class C 8% Convertible Preference Shares and Warrant Offering, creation of the Class A Preference Shares and Class B Preference Shares, cancellation of the Corporation's first preference shares, second preference shares and third preference shares and Redesignation of Common Shares.

"Redesignation of Common Shares" means the redesignation of Common Shares as ordinary shares as a step of the Recapitalization.

"Registrar" means Central Guaranty Trust Company.

"Resources Division" means the business formerly carried on by that division of the Corporation which was engaged in the exploration for and development and production of natural gas or crude oil.

"Sale of Utilities Holdings and Propane Holdings" means the acquisition by WestCoast Gas for cash of all of the outstanding Utilities Holdings Shares and the acquisition by WestCoast Gas or, if WestCoast Gas so assigns its right to purchase such shares, Petro-Canada, for cash of all of the outstanding Propane Holdings Shares as steps of the Utilities Division and Propane Division Transactions.

"Second Preference Shares" means the Second Preference shares six and one-half per cent (6½%) Series A and the Second Preference shares seven and one-half per cent (7½%) Series B of the Corporation.

"Shareholders" means the holders of Common Shares, First Preference Shares and Third Preference Shares.

"Special Committee" means the special committee of members of the Board of Directors (none of whom are members of management of the Corporation or directors or officers of Central Capital or any of its affiliates with the exception of Mr. John H. Coleman who is a director of United Financial Management Limited, an indirect subsidiary of Central Capital) which was established to review any proposal which might result in the sale of all or a significant portion of the Corporation's shares or assets and to report thereon to the Board of Directors.

"Special Meeting" means the special meeting of holders of Common Shares, First Preference Shares, Third Preference Shares and Options to be held on March 16, 1990, at 3:00 p.m. (Winnipeg time) to consider the Arrangement Resolution, Board Size Resolution and any other business which properly comes before the meeting.

"State" means any state, territory or possession of the United States of America or the District of Columbia.

"subsidiary" means, when used to indicate a relationship with a specified corporation, a corporation which is controlled by that other corporation.

"Third Preference Shares" means the $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series of the Corporation and *"Third Preference Shareholders"* means the holders thereof.

"Thompson Pipe" means Thompson Pipe and Steel Company, a corporation indirectly wholly-owned by the Corporation, which is engaged in the fabrication of large diameter steel pipe.

"Utilities Company" means ICG Canada and its subsidiaries.

"Utilities Company Transfer" means the acquisition by Utilities Holdings of all of the shares of Utilities Company and the assumption of certain liabilities of the Corporation as steps of the Utilities Division and Propane Division Transactions.

"Utilities Division" means the business carried on by that division of the Corporation which transmits and distributes natural gas and distributes electricity, all of which will be carried on by Utilities Company at the Effective Time.

"Utilities Division and Propane Division Transactions" means a stage of the Arrangement consisting of the Common Share Transfers, Propane Company Transfer, Utilities Company Transfer and Sale of Utilities Holdings and Propane Holdings.

"Utilities Division Purchase Price" means the aggregate of the amount of cash to be paid to Common Shareholders for their Utilities Holdings Shares and the indebtedness of the Corporation to be assumed by Utilities Holdings under the Arrangement, certain of which will be repaid on the Effective Date.

"Utilities Holdings" means 2451417 Manitoba Ltd., a corporation wholly-owned by MICCI.

"Utilities Holdings Shares" means all of the common shares of Utilities Holdings.

"Warrant Agent" means Central Guaranty Trust Company, the warrant agent appointed under the Warrant Agreement.

"Warrant Agreement" means the warrant agreement providing for the issue of Warrants.

"Warrant Commencement Date" means the first date on which the Warrants may be exercised.

"Warrant Expiry Date" means the last date on which the Warrants may be exercised.

"Warrant Offering" means the offering of Warrants by MICCI to or for the benefit of all other Inter-City Products Ordinary Shareholders.

"Warrants" means the warrants to purchase Class C 8% Convertible Preference Shares to be issued by MICCI to or for the benefit of all other holders of Inter-City Products Ordinary Shares on the Effective Date as a step of the Recapitalization and *"Warrantholders"* means the holders thereof.

"Westcoast" means Westcoast Energy Inc.

"WestCoast Gas" means WestCoast Gas Inc., a corporation wholly-owned by Westcoast.

INFORMATION CONCERNING WESTCOAST, PETRO-CANADA AND CENTRAL CAPITAL

The information contained in this Management Proxy Circular concerning Westcoast and its affiliates and Petro-Canada has been provided by Westcoast and Petro-Canada, respectively, to the Corporation for the purposes of this document. Certain of the information contained in this Management Proxy Circular concerning Central Capital Related Parties has been provided by Central Capital to the Corporation for purposes of this document. Each of Westcoast, Petro-Canada and Central Capital, as the case may be, has reviewed all of the information provided by it after its inclusion in this Management Proxy Circular. The Corporation has not made any independent investigations of such information.

EXCHANGE RATE OF THE CANADIAN DOLLAR

In this document, unless otherwise specified, all dollar amounts are expressed in Canadian dollars. Since June 1970, the Government of Canada has permitted a floating exchange rate to determine the value of the Canadian dollar against the U.S. dollar. On January 31, 1990, the noon buying rate in New York City, payable in Canadian dollars as reported by the Federal Reserve Bank of New York was U.S.$0.8435 = Can.$1.00. The closing, low, high, and average spot rates for the Canadian dollar in terms of U.S. dollars at the end of each of the five years ended December 31, 1989 and for the period January 1, 1990 to January 31, 1990, as reported by the Federal Reserve Bank of New York were as follows:

	1990 (Jan 1-Jan 31)	1989	1988	1987	1986	1985
Closing	$0.8422	$0.8632	$0.8386	$0.7696	$0.7244	$0.7152
Low	$0.8361	$0.8254	$0.7688	$0.7248	$0.6913	$0.7107
High	$0.8649	$0.8647	$0.8444	$0.7721	$0.7332	$0.7587
Average	$0.8536	$0.8445	$0.8124	$0.7541	$0.7197	$0.7325

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

Each of the Corporation, Utilities Holdings, Propane Holdings and Newco is a Manitoba corporation and Westcoast, WestCoast Gas, Central Capital and Petro-Canada are Canadian corporations. Most of the directors and officers of these corporations and the experts named herein are residents of Canada, and most of each corporation's assets are located outside of the United States. As a result, it may be difficult for United States investors to effect service within the United States upon any of the corporations and those officers, directors and experts who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liability of any of the corporations and such directors, officers or experts under United States federal securities laws. The Corporation has been advised by Osler, Hoskin & Harcourt, special counsel to the Corporation, that a judgment of a United States court predicated solely upon civil liability under such laws would probably be enforceable in Canada if the United States court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. The Corporation has also been advised by such counsel, however, that there is substantial doubt whether an action could be brought in Canada in the first instance on the basis of liability predicated solely upon such laws.

SUMMARY OF MANAGEMENT PROXY CIRCULAR

The following is a summary of the contents of this Management Proxy Circular. This summary is provided for convenience only and the information contained in this summary should be read in conjunction with and is qualified by the more detailed information and financial statements contained in the body of this Management Proxy Circular including the schedules hereto.

Special Meeting

Date, Time, Place

The Special Meeting of Common Shareholders, First Preference Shareholders, Third Preference Shareholders and Option Holders will be held in the Winnipeg Convention Centre, Meeting Room No. 16, 375 York Avenue, Winnipeg, Manitoba on March 16, 1990 at 3:00 p.m. (Winnipeg time).

Purpose

The purpose of the Special Meeting is to approve the Arrangement Resolution authorizing the Arrangement, including the Change of Third Preference Shares, the Utilities Division and Propane Division Transactions, the Recapitalization and the change of the Corporation's name to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc." and to approve the Board Size Resolution fixing the number of directors of the Corporation at five. See "PURPOSE OF THE MEETING".

Pre-Arrangement Transactions and Obligations

On or immediately prior to the Effective Date and subject to receipt of the Advance Tax Ruling, the Corporation will undertake several transactions in order to combine the Utilities Division in Utilities Company (by the Corporation transferring to Utilities Company the utilities assets which are not now held by Utilities Company in consideration for shares of Utilities Company and cash), to transfer the Propane Division to Propane Company (by transferring the assets, property and undertaking of the Propane Division to Propane Company in consideration for shares of Propane Company and causing Propane Company to assume liabilities of the Corporation, including liabilities incurred in connection with the Corporation's propane business) and to reorganize its capital structure. These transactions include the Propane Rolldown. The Second Preference Shares will be redeemed prior to the Effective Date in accordance with their terms at a cost of approximately $2.6 million. See "THE ARRANGEMENT — Pre-Arrangement Transactions and Obligations".

Details of the Arrangement

The Arrangement consists of the following four stages, certain of which will be completed in a number of steps, which will occur and will be deemed to occur in the following order:

(i) the Change of Third Preference Shares;

(ii) the Utilities Division and Propane Division Transactions, which are:

  (a) the Common Share Transfers,

  (b) the Propane Company Transfer,

  (c) the Utilities Company Transfer, and

  (d) the Sale of Utilities Holdings and Propane Holdings;

(iii) the Recapitalization, which includes:

  (a) the Change in the Number of Common Shares Retained,

  (b) the Creation of the Class C 8% Convertible Preference Shares and the Warrant Offering,

  (c) the creation of the Class A Preference Shares and Class B Preference Shares,

  (d) the cancellation of the Corporation's first preference shares, second preference shares and third preference shares, and

  (e) the Redesignation of Common Shares; and

(iv) the change of the Corporation's name to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc.".

See "THE ARRANGEMENT — Details of the Arrangement".

Change of Third Preference Shares

Each outstanding Third Preference Share will be changed into 1.662 Common Shares. The change on this basis will provide Third Preference Shareholders, in effect, with a premium to their existing conversion ratio of 1.6393, and is intended to compensate such shareholders for one foregone dividend in the amount of $0.53125 per Third Preference Share which would be payable between the anticipated Effective Date and May 2, 1990 when such shares would become redeemable at the option of the Corporation without the consent of the holders thereof at a redemption price of $26.00 plus accrued and unpaid dividends. Third Preference Shares changed into Common Shares under the Arrangement will participate in the other stages of the Arrangement as Common Shares. See "THE ARRANGEMENT — Change of Third Preference Shares".

Utilities Division and Propane Division Transactions

The Arrangement provides for the indirect ownership by Common Shareholders of Utilities Company (which consists of corporations which, with the exception of ICG Ontario, ICG Utilities (Manitoba) Ltd. (formerly Greater Winnipeg Gas Company) Bonnyville Gas Company Ltd. and ICG Scotia Gas Ltd., are, directly or indirectly, wholly-owned by the Corporation) through the acquisition of Utilities Holdings Shares and of Propane Company (a corporation to be incorporated which will be wholly-owned by the Corporation) through the acquisition of Propane Holdings Shares to facilitate the sale as part of the Arrangement of all Utilities Holdings Shares to WestCoast Gas and all Propane Holdings Shares to WestCoast Gas or, if WestCoast Gas assigns its rights to acquire Propane Holdings Shares, to Petro-Canada. In the Common Share Transfers, all Common Shareholders will transfer a portion of their Common Shares to Utilities Holdings in exchange for Utilities Holdings Shares and a portion of their Common Shares to Propane Holdings in exchange for Propane Holdings Shares. The Corporation will purchase from Utilities Holdings and Propane Holdings the Common Shares transferred to such corporations by Common Shareholders and these Common Shares will be cancelled. Common Shareholders will retain that portion of their Common Shares not transferred and cancelled as part of the Common Share Transfers. The Propane Company Transfer will result in Propane Holdings acquiring all of the shares of Propane Company. The Utilities Company Transfer will result in Utilities Holdings acquiring all of the shares of Utilities Company and assuming certain liabilities of the Corporation. In the Sale of Utilities Holdings and Propane Holdings, all outstanding Utilities Holdings Shares will be sold to WestCoast Gas for cash and all outstanding Propane Holdings Shares will be sold to WestCoast Gas, or, if WestCoast Gas assigns its right to acquire Propane Holdings Shares, to Petro-Canada, for cash. Utilities Holdings is wholly-owned by MICCI and has no material assets or undertaking other than Common Shares and one common share of Newco. Propane Holdings is wholly-owned by MICC and Central Capital and has no material assets or undertaking other than Common Shares.

The number of Common Shares to be transferred to Utilities Holdings and Propane Holdings in exchange for Utilities Holdings Shares and Propane Holdings Shares, respectively, will be determined on the basis of a formula set forth in the Arrangement. That formula is intended to result in each Common Shareholder transferring to Utilities Holdings and Propane Holdings such proportion of his Common Shares as the aggregate value of Utilities Holdings and Propane Holdings represents to the value of the Common Shares as at the Effective Time. For purposes of illustration, it is assumed that all Third Preference Shares outstanding as at January 31, 1990 are changed into Common Shares under the Arrangement, all Options outstanding as at January 31, 1990 are exercised prior to the Effective Date, no holders of Common Shares, Third Preference Shares or Options exercise rights of dissent in respect of the Arrangement Resolution and that the aggregate fair market value of the outstanding Common Shares at the Effective Time is based on the closing market price for Common Shares on The Toronto Stock Exchange on February 9, 1990. Based on these assumptions, 28,986,362 Common Shares will be outstanding following the Change of Third Preference Shares. It is also assumed that approximately $377.9 million will be paid by WestCoast Gas for the Utilities Holdings Shares and approximately $230.8 million will be paid by WestCoast Gas for the Propane Holdings Shares or, if WestCoast Gas assigns its right to acquire Propane Holdings Shares, by Petro-Canada. Based on these assumptions, (a) approximately 57.0% of the then outstanding Common Shares will be held by Utilities Holdings, (b) approximately 34.8% of the then outstanding Common Shares will be held by Propane Holdings and (c) approximately 8.2% of the then outstanding Common Shares will be retained and redesignated as ordinary shares.

The Utilities Division Purchase Price is the aggregate of (i) $462 million, (ii) the net after-tax earnings of the Utilities Division for the period between October 1, 1989 and December 31, 1989, and (iii) $9 million. The Propane Division Purchase Price is the aggregate of (i) $220.8 million, (ii) (A) if the income before income taxes (and after interest expense) of the Propane Division for the period between January 1, 1989 and December 31, 1989 less

income taxes payable by NASCO equals or exceeds $10 million, an amount equal to 50% of such income or (B) in any other event, the amount of such income determined on the same basis less $5 million, and (iii) $3 million. The aggregate amount of cash to be received by Common Shareholders for their Utilities Holdings Shares and their Propane Holdings Shares will be equal to the product of $21 and the number of Common Shares participating in the Arrangement. All Common Shares held by Shareholders immediately prior to the Arrangement, as well as Common Shares issued pursuant to the Change of Third Preference Shares, other than Common Shares in respect of which a Common Shareholder dissents in respect of the Arrangement Resolution, will participate in the Arrangement. Holders of Common Shares participating in the Arrangement will be entitled to receive $21 in cash in respect of each such Common Share. The balance of the Utilities Division Purchase Price and the Propane Division Purchase Price will be satisfied by the assumption by Newco (and ultimately Utilities Holdings) and Propane Company of certain liabilities of the Corporation. See "THE ARRANGEMENT — Utilities Division and Propane Division Transactions".

Recapitalization

Change in the Number of Common Shares Retained

The number of Common Shares retained by Common Shareholders and outstanding following the Common Share Transfers will be changed such that, immediately following the Arrangement, the number of Inter-City Products Ordinary Shares will be one-quarter of the number of Common Shares as were outstanding immediately following the Change of Third Preference Shares. The Change in the Number of Common Shares Retained is intended to increase liquidity in the trading market for Inter-City Products Ordinary Shares by increasing the number of outstanding Inter-City Products Ordinary Shares from that which would otherwise have been outstanding after the Arrangement as a result of the cancellation of the Common Shares held by Utilities Holdings and Propane Holdings as part of the Utilities Division and Propane Division Transactions.

The effect of the Change in the Number of Common Shares Retained and subsequent stages of the Arrangement will be that a Common Shareholder holding 100 Common Shares immediately prior to the Arrangement will hold 25 Inter-City Products Ordinary Shares immediately following the Arrangement. This will be the case regardless of the number of Common Shares transferred by such shareholder pursuant to the Common Share Transfers.

The Arrangement further contemplates that the retained Common Shares will be redesignated as ordinary shares and that new share certificates will be issued to reflect the new name of the Corporation and the actual number of ordinary shares to be retained by Common Shareholders. Therefore, following the Change in the Number of Common Shares Retained, the Redesignation of Common Shares and the renaming of the Corporation as "Inter-City Products Corporation/Société de Produits Inter-Cité Inc.", Common Shareholders will remain shareholders of the Corporation and their proportionate voting interest in the Corporation (after taking into account the Change of Third Preference Shares and elimination of fractional interests) will remain unchanged. Shareholders will be given the opportunity through the Warrant Offering to maintain their proportionate voting interest on a fully-diluted basis.

Creation of the Class C 8% Convertible Preference Shares

All of the outstanding First Preference Shares, none of which are convertible into Common Shares or other securities of the Corporation and all of which are held by MICCI, will be changed into Class C 8% Convertible Preference Shares. Cumulative dividends will be payable on the Class C 8% Convertible Preference Shares at the rate of $2.00 per share per annum payable quarterly on the first day of each of January, April, July and October in each year. The Class C 8% Convertible Preference Shares will be convertible into Inter-City Products Ordinary Shares at any time commencing on the business day after the Warrant Expiry Date and prior to the close of business on the earlier of June 30, 2000 and the business day immediately preceding the date fixed for redemption at a conversion rate (the "Conversion Rate") per share determined by dividing $25.00 by 110% of the weighted average trading price (as defined in the Class C 8% Convertible Preference Share conditions) for the Inter-City Products Ordinary Shares during a 20 day trading period commencing 30 days after the Effective Date. The Class C 8% Convertible Preference Shares will not be redeemable on or prior to December 31, 1991. Thereafter, and on or prior to June 30, 1993, the Class C 8% Convertible Preference Shares will be redeemable at $25.00 per share plus accrued and unpaid dividends, provided that the Inter-City Products Ordinary Shares are then trading at a price at least equal to 120% of 110% of such weighted average trading price. The Class C 8% Convertible Preference Shares will

be redeemable at any time after June 30, 1993 at $25.00 per share plus accrued and unpaid dividends. See "THE ARRANGEMENT — Creation of the Class C 8% Convertible Preference Shares and Warrant Offering".

Warrant Offering

MICCI will issue, to or for the benefit of all other Inter-City Products Ordinary Shareholders, Warrants to purchase a percentage of the Class C 8% Convertible Preference Shares held by MICCI in order to provide Inter-City Products Ordinary Shareholders (other than residents of any State in which the distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful) with an opportunity to maintain their proportionate voting interest in Inter-City Products on a fully-diluted basis by exercising the Warrants distributed to them under the Arrangement and converting the Class C 8% Convertible Preference Shares acquired thereby into Inter-City Products Ordinary Shares. The number of Warrants will be equal to the number of outstanding Inter-City Products Ordinary Shares held by shareholders other than MICCI on the basis of one Warrant for each Inter-City Products Ordinary Share held. Each Common Shareholder will be entitled to receive 25 Warrants for each 100 Common Shares held prior to the Arrangement. Warrants will not be distributed to residents of any State in which such distribution would be unlawful. The Warrants which would otherwise be issued to holders of Inter-City Products Ordinary Shares who are residents of a State in which such issuance would be unlawful, will be issued to a warrant sales agent for the benefit of such holders. The warrant sales agent will dispose of such Warrants and the net proceeds of disposition will be allocated and distributed, pro rata, among such holders.

Three Warrants will be required to purchase one Class C 8% Convertible Preference Share from MICCI for a purchase price of $25.00. No fractional Warrants will be issued. The Toronto Stock Exchange has conditionally approved the listing of the Warrants, subject to the fulfillment of all the requirements of such exchange, including distribution to a minimum number of public holders. The Corporation will seek to admit the Warrants to dealings on the American Stock Exchange. The Warrants may be exercised at any time during the 21 day period commencing on the Warrant Commencement Date and terminating on the Warrant Expiry Date. See "THE ARRANGEMENT — Creation of the Class C 8% Convertible Preference Shares and Warrant Offering".

Creation of the Class A Preference Shares and the Class B Preference Shares

The Articles of the Corporation will be amended to create the Class A Preference Shares and the Class B Preference Shares. See "THE ARRANGEMENT — Creation of Class A Preference Shares and Class B Preference Shares".

Cancellation of the Corporation's First Preference Shares, Second Preference Shares and Third Preference Shares

The Articles of the Corporation will be amended to cancel the Corporation's first preference shares, second preference shares and third preference shares. See "THE ARRANGEMENT — Cancellation of the Corporation's First Preference Shares, Second Preference Shares and Third Preference Shares".

Redesignation of Common Shares

The Common Shares will be redesignated as ordinary shares to satisfy certain requirements of The Toronto Stock Exchange. The Inter-City Products Ordinary Shares will have the same terms, rights and attributes as the Common Shares. See "THE ARRANGEMENT — Redesignation of Common Shares".

Change of Name

The Corporation's name will be changed to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc.". See "THE ARRANGEMENT — Change of Name".

Treatment of Shareholders and Option Holders

The amounts to be received by Common Shareholders and Third Preference Shareholders under the Arrangement for each 100 Common Shares or each 100 Third Preference Shares held, as the case may be, are as follows:

Common Shares: $2,100 in cash, 25 Inter-City Products Ordinary Shares and 25 Warrants.

Third Preference Shares: $3,490.20 in cash, 41.55 Inter-City Products Ordinary Shares and 41.55 Warrants.

If the Arrangement Resolution is approved, all Options will become vested and Option Holders who exercise their Options prior to the Effective Date will participate in the Arrangement as Common Shareholders.

No fractional Inter-City Products Ordinary Shares or Warrants will be issued.

Timing

If the requisite approvals of Shareholders and Option Holders and the Court are obtained and the other conditions in the Arrangement Agreement are satisfied at the earliest possible date or waived, the Effective Date could be as early as March 26, 1990. The Corporation currently anticipates the Effective Date will be on the eighth day after the Special Meeting or, in the event the eighth day is not a business day, on the first business day thereafter. It is not possible, however, to specify when the Effective Date will be. See "THE ARRANGEMENT — Timing".

As soon as practicable on or after the Effective Date, the Depositary will forward cheques and certificates for Inter-City Products Ordinary Shares and Warrants to Common Shareholders and Third Preference Shareholders who have completed and forwarded the required documents to the Depositary or Forwarding Agent. See "THE ARRANGEMENT — Entitlement to Cash, Share Certificates and Warrant Certificates".

Financing

Under the Arrangement Agreement, Westcoast has agreed to deposit with the Depositary at the Effective Time the funds necessary to complete the Sale of Utilities Holdings and Propane Holdings (which amount will be equal to $21 for each Common Share participating in the Arrangement) and an amount equal to certain liabilities to be assumed by Newco (and ultimately Utilities Holdings) under the Arrangement and Propane Company under the Propane Rolldown which are required to be repaid on the Effective Date. See "THE ARRANGEMENT — Financing".

Shareholder and Option Holder Approval

The approval of the Arrangement Resolution requires the affirmative vote at the Special Meeting of at least two-thirds of the votes cast by Common Shareholders, First Preference Shareholders, Third Preference Shareholders and Option Holders, each voting as a separate class, and by a majority of the votes cast by Common Shareholders and Third Preference Shareholders (other than Central Capital Related Parties) each voting as a separate class. Central Capital and its affiliates beneficially own 44.5% of the Common Shares, 100% of the First Preference Shares and 8.2% of the Third Preference Shares, representing approximately 38.0% of the voting shares of the Corporation on a fully-diluted basis. Directors and officers of Central Capital beneficially own 1.9% of the Common Shares, 0.6% of the Third Preference Shares and 25.7% of the Options, representing approximately 2.3% of the voting shares of the Corporation on a fully-diluted basis. See "THE ARRANGEMENT — Conditions to the Arrangement Becoming Effective".

Under the Arrangement Agreement, subject to exception only in the event of an unsolicited offer or proposal by a third party to acquire all of the Corporation, Central Capital has agreed that Central Capital and its affiliates will vote all shares in the capital of the Corporation which they own or over which they exercise control or direction in favour of the Arrangement Resolution. See "THE ARRANGEMENT — Details of the Arrangement". Option Holders holding two-thirds of the Options have entered into agreements with Westcoast whereby such Option Holders have agreed to vote all Options held by them in favour of the Arrangement Resolution. See "THE ARRANGEMENT — Treatment of Option Holders".

Rights of Dissenting Shareholders

Under the Arrangement and the Interim Order, a Shareholder or Option Holder is entitled to dissent in respect of the Arrangement Resolution and be paid the fair value of his Common Shares, First Preference Shares, Third Preference Shares or Options if the Corporation has received from such Shareholder or Option Holder a written objection at or prior to the Special Meeting. Provided that the Arrangement becomes effective, each dissenting Shareholder or Option Holder will be entitled to be paid the fair value of his shares or Options in respect of which he dissents in accordance with Section 184 of the MCA (as modified in certain respects by the Interim Order and the Arrangement). See "THE ARRANGEMENT — Rights of Dissenting Shareholders or Option Holders".

Court Approval

An arrangement under the MCA requires Court approval. Prior to the mailing of this Management Proxy Circular, the Corporation obtained the Interim Order providing for the calling and holding of the Special Meeting and certain other procedural matters. The Notice of Application for the Final Order is attached to the front of this Management Proxy Circular.

The Corporation has been advised by Messrs. Thompson, Dorfman, Sweatman, counsel to the Corporation, that the Court will consider, among other things, the fairness of the Arrangement to Shareholders.

Other Conditions of the Arrangement

Pursuant to the Arrangement Agreement, the respective obligations of the parties to the Arrangement Agreement to complete the Arrangement and to file articles of arrangement giving effect to the Arrangement are also subject to the satisfaction or mutual waiver by the Corporation, Westcoast and WestCoast Gas of certain conditions, including the following:

(a) all regulatory approvals in respect of the Utilities Division and Westcoast, described under "THE ARRANGEMENT — Regulatory Matters", shall have been received;

(b) the Corporation shall have received the Advance Tax Ruling; and

(c) generally, all other consents, waivers, orders and approvals, including regulatory and judicial approvals and orders, necessary for the completion of the Arrangement and the other transactions contemplated by the Arrangement Agreement shall have been obtained or received and reasonably satisfactory evidence thereof shall have been delivered to the other parties to the Arrangement Agreement. See "THE ARRANGEMENT — Other Conditions of the Arrangement".

Pursuant to the Arrangement Agreement, the obligations of WestCoast Gas and Westcoast to complete the Arrangement are also subject to the satisfaction or waiver by WestCoast Gas and Westcoast of certain conditions, including the following:

(a) generally, the representations and warranties of the Corporation and Central Capital set out in the Arrangement Agreement shall be true and correct, in certain cases, on and as of the Effective Date and, in other cases, on and as of the date of the Special Meeting;

(b) the consents, waivers, orders and approvals described in paragraph (c) above shall not contain terms or conditions or require undertakings which would have a material adverse effect on the carrying on by Propane Company of the Propane Division, consistent with prior practice, or the carrying on of the Utilities Division, as a whole or in any of the Provinces of Ontario, Manitoba, Alberta or British Columbia, consistent with prior practice;

(c) no substantial damage to the assets of the Utilities Division or the Propane Division shall have occurred prior to the date of the Special Meeting which damage, taking into account all insurance proceeds recoverable as a result thereof, shall have a material adverse effect on the carrying on of the Propane Division, consistent with prior practice, or the carrying on of the Utilities Division, as a whole or in any of the Provinces of Ontario, Manitoba, Alberta or British Columbia, consistent with prior practice; and

(d) no legislation shall have been enacted prior to the date of the Special Meeting which materially adversely affects the carrying on of the Utilities Division, as a whole or in any of the Provinces of Ontario, Manitoba, Alberta or British Columbia, consistent with prior practice, or the Propane Division, consistent with prior practice, which legislation impacts principally companies carrying on like businesses in Canada.

See "THE ARRANGEMENT — Other Conditions of the Arrangement".

Canadian Federal Income Tax Considerations

Canadian residents other than dissenting shareholders who hold their Common Shares as capital property (including Common Shares to be issued under the Change of Third Preference Shares) will realize a capital gain or loss either on the disposition of their Common Shares or on the disposition of their Utilities Holdings Shares and Propane Holdings Shares. Capital gains so realized by individual shareholders will not be eligible for the lifetime capital gains exemption. The receipt and exercise of Warrants may give rise to income tax consequences. In general, non-resident Shareholders other than dissenting shareholders will not be subject to tax as a result of the disposition of shares under the Arrangement, but may be subject to Canadian withholding tax in respect of the issue or exercise of Warrants. See "THE ARRANGEMENT — Canadian Federal Income Tax Considerations".

United States Federal Income Tax Considerations

A United States person (that is, individuals who are citizens or residents of the United States and corporations, trusts and estates which are regarded by the United States as "domestic" entities for Federal income tax purposes) (a "U.S. Taxpayer"), who participates in the Arrangement, should not recognize gain or loss on the receipt of Common Shares in exchange for Third Preference Shares. The U.S. Federal income tax consequences of the Common Share Transfers and Sale of Utilities Holdings and Propane Holdings may vary depending upon whether the form of the transaction is respected for U.S. Federal income tax purposes. If the form of the Arrangement is

respected, a U.S. Taxpayer should recognize gain or loss in an amount equal to the difference between the fair market value of the Propane Holdings Shares and Utilities Holdings Shares and his adjusted basis in the Common Shares exchanged therefor. If the form of the transaction is recast by the United States Internal Revenue Service, a U.S. Taxpayer in all likelihood will be treated as having received a dividend distribution, taxable as ordinary income, in an amount equal to the cash received upon the Sale of Utilities Holdings and Propane Holdings. Because it is uncertain whether the form of the proposed transaction will be respected by the United States Internal Revenue Service or, if challenged by the United States Internal Revenue Service whether such challenge will be sustained by a court, it may be advantageous to a U.S. Taxpayer, from a U.S. Federal income tax point of view, to dispose of his Common Shares prior to the Effective Date. A U.S. Taxpayer should not recognize gain or loss upon the Change in the Number of Common Shares Retained or upon receipt of Inter-City Products Ordinary Shares, except that a U.S. Taxpayer who receives cash in lieu of fractional Inter-City Products Ordinary Shares will be treated as if such fractional shares were issued and then redeemed for the amount of cash, which cash will be treated as a distribution and may be taxable as a dividend. The tax consequences of the receipt of Warrants by a U.S. Taxpayer are unclear: the receipt of Warrants could be treated as part of the consideration received in the Common Share Transfers, as a distribution taxable as ordinary income or as a tax-free distribution of stock rights. In general, the exercise of Warrants, the receipt of Class C 8% Convertible Preference Shares, and the conversion of Class C 8% Convertible Preference Shares into Inter-City Products Ordinary Shares will not result in recognition of gain or loss to a U.S. Taxpayer. In general, the sale, exchange or other disposition of Warrants, Class C 8% Convertible Preference Shares or Inter-City Products Ordinary Shares may result in recognition of gain or loss to a U.S. Taxpayer. A dissenting shareholder who is a U.S. Taxpayer, who complies with each of the steps required to dissent effectively, and who receives a payment equal to the value of his Third Preference Shares or Common Shares will be considered to have had his Third Preference Shares or Common Shares redeemed for the amount of cash received.

Summary Financial Information

The following table presents selected historical financial information for the Corporation. The table should be read in conjunction with the historical financial statements and notes thereto included elsewhere in this Management Proxy Circular.

Inter-City Gas Corporation

(In Millions of Canadian Dollars, Except Per Share Amounts)

	Nine months ended September 30, 1989	Year ended December 31,		
		1988	1987	1986
	(Unaudited)			
Revenues	$1,388.1	$1,761.4	$1,614.9	$1,362.4
Net income from continuing operations — basic per common share	1.13	1.52	0.94	1.07
Total assets	1,779.6	1,857.4	1,704.8	1,649.9
Long-term debt obligations (1)	606.8	718.1	644.6	817.9
Dividends per common share	0.54	0.72	0.63	0.60
Book value per common share	15.75	15.11	14.98	12.41

(1) Long-term debt obligations include long-term debt and redeemable preference shares.

Opinion of Financial Adviser

Burns Fry has provided an opinion to the Board of Directors that the Arrangement is fair from a financial point of view to the Public Shareholders. A copy of this opinion which sets forth the factors considered and the assumptions made appears as Schedule D to this Management Proxy Circular and should be read in its entirety.

Recommendation of Board of Directors

The Board of Directors has determined that the Arrangement is in the best interests of the Corporation and fair to the Public Shareholders and recommends that they vote in favour of the Arrangement Resolution.

Interest of Central Capital and Other Insiders in the Arrangement

Central Capital and its affiliates hold approximately 38% of the voting shares of the Corporation on a fully-diluted basis. On November 22, 1988, Central Capital announced its desire to dispose of its investment in the

Corporation. Central Capital conducted the auction process which resulted in the execution of the Central Capital – Westcoast Letter and the Letter of Understanding.

Central Capital and its affiliates own all of the outstanding Utilities Holdings Shares and Propane Holdings Shares. In 1989, dividends were declared and paid by Utilities Holdings and Propane Holdings, which dividends were reinvested in newly issued shares of their respective payors. The result of the declaration and payment of such dividends may reduce the amount of any capital gain that would be realized for Canadian income tax purposes on the sale of Utilities Holdings Shares and Propane Holdings Shares under the Arrangement by Central Capital and its affiliates.

Under the Arrangement Agreement and in acknowledgement of the role of Central Capital leading to the execution of the Arrangement Agreement, the Corporation has agreed to reimburse Central Capital, forthwith upon completion of the Arrangement, for the reasonable out-of-pocket expenses incurred by Central Capital in connection with the Arrangement except for certain Excluded Expenses (as defined in the Arrangement Agreement). For the period ended December 11, 1989, such expenses, which were in respect of legal and financial advisory services, aggregated $1,151,152. After December 11, 1989, Central Capital will continue to be entitled to reimbursement for certain of its out-of-pocket expenses. The Special Committee considered and recommended reimbursement of these expenses for the period ended December 11, 1989 and the matters in respect of which expenses will be reimbursed after that date.

All of the First Preference Shares, which are to be changed into Class C 8% Convertible Preference Shares under the Arrangement, are owned by MICCI. Under the Arrangement, MICCI will issue, to or for the benefit of each Inter-City Products Ordinary Shareholder other than MICCI, Warrants to purchase a percentage of the Class C 8% Convertible Preference Shares held by it in order to provide Inter-City Products Ordinary Shareholders (other than residents of any State in which the distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful) with an opportunity to maintain their proportionate voting interest in Inter-City Products on a fully-diluted basis. If any Warrants are not exercised, the proportion of the voting shares of Inter-City Products on a fully-diluted basis held by Central Capital and its affiliates will increase. The maximum increase in the proportion of the voting shares of Inter-City Products held on a fully-diluted basis by Central Capital and its affiliates will not be determinable until such time as the Conversion Rate is determined but may result in Central Capital and its affiliates holding in excess of 50% of the voting shares of Inter-City Products on a fully-diluted basis.

Mr. H. Reuben Cohen, Q.C., a director of the Corporation, and Ms. Helen Meyer, Senior Vice-President and Director of Merrill Lynch Canada Inc., are each directors of Petro-Canada.

If the Board Size Resolution is passed, four of the five directors of Inter-City Products will also be directors of Central Capital.

Certain other interests of Central Capital and other insiders of the Corporation in the Arrangement are outlined under "THE ARRANGEMENT — Interest of Central Capital and Other Insiders in the Arrangement".

Stock Exchange Listings

The Inter-City Products Ordinary Shares will continue to be listed for trading on The Toronto Stock Exchange, the Winnipeg Stock Exchange and the American Stock Exchange after the completion of the Arrangement.

The Toronto Stock Exchange has conditionally approved the listing of the Warrants, the Class C 8% Convertible Preference Shares and the Inter-City Products Ordinary Shares issuable on the conversion of the Class C 8% Convertible Preference Shares, subject to the fulfillment of all the requirements of such exchange, including distribution to a minimum number of public holders. Application will be made to list the Inter-City Products Ordinary Shares issuable on the conversion of the Class C 8% Convertible Preference Shares on the Winnipeg Stock Exchange and the American Stock Exchange. Application will also be made to list the Class C 8% Convertible Preference Shares and to admit the Warrants to dealings on the American Stock Exchange.

Summary of Market Prices of Common Shares and Third Preference Shares

The following tables summarize the market price ranges and volumes of trading of the Common Shares on The Toronto Stock Exchange and the American Stock Exchange and of the market price ranges and volume of trading of the Third Preference Shares on The Toronto Stock Exchange for the periods indicated:

	The Toronto Stock Exchange			American Stock Exchange		
	High	Low	Volume (thousands)	High	Low	Volume (thousands)
Common Shares						
1990 January 2 to January 31	$23.38	$22.50	372	U.S. $20.13	U.S. $18.88	101
1989 Fourth Quarter	$24.88	$22.75	2,943	U.S. $21.13	U.S. $19.63	634
Third Quarter	$25.25	$23.75	4,233	U.S. $21.13	U.S. $20.38	2,445
Second Quarter	$25.50	$22.75	3,981	U.S. $21.38	U.S. $19.25	2,152
First Quarter	$23.88	$21.00	6,469	U.S. $19.88	U.S. $17.50	1,617
1988 Fourth Quarter	$23.63	$15.25	2,923	U.S. $19.63	U.S. $17.13	616
Third Quarter	$23.25	$17.00	9,007	U.S. $19.00	U.S. $14.00	486
Second Quarter	$17.38	$15.25	1,767	U.S. $14.50	U.S. $12.38	96
First Quarter	$17.13	$15.38	1,731	U.S. $13.25	U.S. $11.75	154

	The Toronto Stock Exchange		
	High	Low	Volume (thousands)
Third Preference Shares			
1990 January 2 to January 31	$38.50	$37.13	17.4
1989 Fourth Quarter	$40.75	$37.75	510.9
Third Quarter	$41.25	$35.00	248.5
Second Quarter	$41.75	$37.50	526.8
First Quarter	$38.75	$35.00	365.0
1988 Fourth Quarter	$38.88	$33.75	462.0
Third Quarter	$38.25	$30.25	1,604.7
Second Quarter	$31.00	$27.50	273.8
First Quarter	$30.25	$28.00	217.5

On September 2, 1988, the Corporation announced that it had received unsolicited enquiries relating to the purchase of certain of the Corporation's business divisions and that the Corporation had been advised by Central Capital that Central Capital had received unsolicited enquiries relating to, in one instance, the availability for sale of the Common Shares controlled by Central Capital and, in two other instances, the availability for sale of certain business units of the Corporation. On September 1, 1988, the closing prices of the Common Shares and the Third Preference Shares on The Toronto Stock Exchange were $20.63 and $34.25, respectively, and the closing price of the Common Shares on The American Stock Exchange was U.S.$16.50.

On July 4, 1989, the Corporation announced that it had entered into the Letter of Understanding. On July 3, 1989, the closing prices of the Common Shares and Third Preference Shares on The Toronto Stock Exchange were $25.13 and $41.00, respectively, and the closing price of the Common Shares on the American Stock Exchange was U.S.$21.00.

On December 12, 1989, the Corporation announced that it had entered into the Arrangement Agreement. On December 11, 1989, the closing prices of the Common Shares and Third Preference Shares on The Toronto Stock Exchange were $23.38 and $38.13, respectively, and the closing price of the Common Shares on the American Stock Exchange was U.S.$20.00.

Eligibility for Investment in Canada

In the opinion of Osler, Hoskin & Harcourt, special counsel to the Corporation, had the Arrangement become effective on the date hereof, the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares and Class C 8% Convertible Preference Shares would be eligible investments without resort to the "basket" provisions under the Canadian and British Insurance Companies Act and certain other statutes and persons regulated by the Canadian and British Insurance Companies Act and certain other statutes which hold the Common Shares (including the Common Shares to be issued on the Change of Third Preference Shares) as eligible investments may accept the Utilities Holdings Shares and Propane Holdings Shares in exchange for such Common Shares in accordance with such statutes.

In the opinion of such counsel, the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares and Class C 8% Convertible Preference Shares would be qualified investments for certain trusts or plans under the Income Tax Act (Canada).

In the opinion of such counsel, the Utilities Holdings Shares and Propane Holdings Shares will be, if, as and when listed on a prescribed stock exchange, qualified investments for certain trusts or plans under the Income Tax Act (Canada).

In the further opinion of such counsel, the Warrants will be, if, as and when listed on a prescribed stock exchange, qualified investments for certain trusts or plans under the Income Tax Act (Canada). See "THE ARRANGEMENT — Eligibility for Investment in Canada".

Inter-City Products Corporation

Inter-City Products will be comprised of the three main business units which currently represent the Energy Products Division of the Corporation: Heil-Quaker, KeepRite and Thompson Pipe. Collectively, these business units are engaged in the design, manufacture and marketing of residential and light commercial heating, refrigeration and air conditioning equipment, heat transfer equipment and related products and the fabrication of large diameter steel pipe.

Heil-Quaker is a leading U.S. manufacturer and distributor of heating and air conditioning products for the residential and light commercial markets and sells its products under the "Heil", "Tempstar", "Kenmore" and "ZoneAire" brand names. KeepRite is Canada's largest manufacturer of room and residential air conditioners and is also one of the leading Canadian producers of residential gas, oil and electric furnaces, light commercial heating and air conditioning products, commercial refrigeration and heat transfer apparatus, primarily under the "KeepRite", "ICG", "Electrohome" and "Unifin" brand names. Thompson Pipe fabricates large diameter steel pipe and fittings.

Inter-City Products' principal business strategy will be to continue with the effective design, manufacture and distribution of high quality and reliable residential and light commercial heating, refrigeration and air conditioning equipment and related products and the improvement of market share for each of its products. To implement this strategy, it is expected that Inter-City Products will concentrate on completing the integration of the operations of Heil-Quaker and KeepRite to further capitalize on the strengths of the operations of each business unit and thereby realize lower operating costs, increased sourcing flexibility and improved profitability.

Management expects to place particular emphasis on the United States market for residential and light commercial heating and air conditioning products. In addition, management intends to aggressively target the add-on and replacement markets for each of Inter-City Products' products to reduce its reliance on the more cyclical new housing markets.

The following table presents selected pro forma financial information for Inter-City Products. The table should be read in conjunction with the pro forma financial information included elsewhere in this Management Proxy Circular.

Inter-City Products Corporation

(In Millions of Canadian Dollars, Except Per Share Amounts)

	Nine months ended September 30, 1989 (unaudited)
Revenue	$607.9
Net income from continuing operations — basic per ordinary share	1.89
Total assets	486.6
Long-term debt obligations	118.2
Book value per ordinary share	13.40

Board Size Resolution

In the event the Arrangement Resolution is passed, holders of Common Shares, First Preference Shares and Third Preference Shares will be asked to consider and, if deemed advisable, to pass the Board Size Resolution fixing the number of directors of Inter-City Products at five. The approval of the Board Size Resolution requires the affirmative vote of two-thirds of the votes cast by Common Shareholders, First Preference Shareholders and Third Preference Shareholders, voting together as a single class, at the Special Meeting. See "BOARD SIZE RESOLUTION".

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

This Management Proxy Circular is furnished in connection with the solicitation by the management and board of directors of Inter-City Gas Corporation of proxies for use at the Special Meeting to be held at the time and place and for the purposes set forth in the accompanying Notice of Special Meeting.

It is anticipated that this Management Proxy Circular and accompanying form of proxy will be first mailed to Shareholders and Option Holders on or about February 19, 1990. Unless otherwise stated, information contained in this Management Information Circular is given as at February 14, 1990.

The executive office of the Corporation is located at Suite 3500, 20 Queen Street West, Toronto, Ontario, Canada, M5H 3R3 and its telephone number is (416) 598-0101. The registered and head office of the Corporation is located at Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba, Canada, R3C 3T7 and its telephone number is (204) 944-9920.

PURPOSE OF THE MEETING

The primary purpose of the Special Meeting is to submit the Arrangement Resolution to the holders of Common Shares, First Preference Shares, Third Preference Shares and Options for their approval. The Arrangement provides for the sale of the Utilities Division to WestCoast Gas and the Propane Division to WestCoast Gas or, if WestCoast Gas assigns its right to acquire Propane Holdings Shares, to Petro-Canada. Common Shareholders will sell their Utilities Holdings Shares and Propane Holdings Shares for an amount equal to $21 per Common Share. In addition, certain liabilities of the Corporation will be assumed by Newco (and ultimately Utilities Holdings) under the Arrangement and Propane Company under the Propane Rolldown. Certain of these liabilities are to be repaid on the Effective Date.

The Corporation's name will be changed to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc." and the Common Shares will be redesignated as ordinary shares. Inter-City Products will be one of North America's leading corporations engaged in the design, manufacture and marketing of heating, refrigeration and air conditioning equipment, heat transfer equipment and related products and will also be involved in the fabrication of large diameter steel pipe and fittings. Management intends to focus on building market share in Inter-City Products' main product lines and on completing the integration of Inter-City Products' principal operations in Canada and the United States to lower operating costs, improve product sourcing flexibility and provide better service to customers.

If the Arrangement is completed, Common Shareholders and Third Preference Shareholders will receive for each 100 Common Shares or each 100 Third Preference Shares held, as the case may be:

Common Shares — $2,100 in cash, 25 Inter-City Products Ordinary Shares and 25 Warrants. Three Warrants will entitle a holder to purchase one Class C 8% Convertible Preference Share for $25.

Third Preference Shares — $3,490.20 in cash, 41.55 Inter-City Products Ordinary Shares and 41.55 Warrants. This results from the change under the Arrangement of each Third Preference Share into 1.662 Common Shares and the treatment of these Common Shares under the Arrangement on the same basis as outlined above. This basis for the change of Third Preference Shares into Common Shares represents, in effect, a premium from the current conversion rate of 1.6393 and is intended to compensate holders of such shares for one foregone dividend in the amount of $0.53125 per Third Preference Share which would be payable between the anticipated Effective Date and May 2, 1990 when such shares would become redeemable at the option of the Corporation without the consent of the holders thereof at a redemption price of $26 plus accrued and unpaid dividends.

If the Arrangement Resolution is approved, all Options issued under the Corporation's Employee Stock Option Plan will become vested and Option Holders who exercise their Options prior to the Effective Date will participate in the Arrangement as Common Shareholders.

No certificates for fractional Inter-City Products Ordinary Shares will be issued. Arrangements will be made to sell such fractional shares and the proceeds will be distributed on a pro rata basis to Shareholders entitled to such interests. No fractional Warrants will be issued.

The Recapitalization is intended to provide what the Board of Directors has determined to be an appropriate capital structure for Inter-City Products after the Arrangement. The Change in the Number of Common Shares Retained is intended to improve liquidity in the trading market for Inter-City Products Ordinary Shares. In order to facilitate the Arrangement, MICCI has acquired all of the outstanding First Preference Shares, which will be

changed under the Arrangement into Class C 8% Convertible Preference Shares. Under the Arrangement, MICCI will issue the Warrants. The number of Warrants to be issued will be equal to the number of outstanding Inter-City Products Ordinary Shares held by Shareholders other than MICCI on the basis of one Warrant for each Inter-City Products Ordinary Share held. The Warrants will entitle holders of Inter-City Products Ordinary Shares (other than residents of any State in which the distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful) to maintain their proportionate voting interest in Inter-City Products on a fully-diluted basis by exercising the Warrants distributed to them under the Arrangement and converting the Class C 8% Convertible Preference Shares acquired thereby into Inter-City Products Ordinary Shares.

Two new classes of preference shares will be created in order to provide future financing flexibility. The Corporation has no present plans to issue any such preference shares. The Corporation's existing three classes of preference shares will be cancelled as the Corporation has no plans to issue any such shares in the future. See "THE ARRANGEMENT" and "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION".

At the Special Meeting, holders of Common Shares, First Preference Shares and Third Preference Shares will also be asked to approve the Board Size Resolution fixing the number of directors of the Corporation at five. See "BOARD SIZE RESOLUTION".

THE ARRANGEMENT

Background to the Arrangement

Initial Expressions of Interest in the Corporation

On September 2, 1988, the Board of Directors held a special meeting at which the Board was advised of recent unsolicited enquiries which had been received by Central Capital relating to, in one instance, the availability for sale of the Common Shares controlled by Central Capital and, in two other instances, the availability for sale of certain business units of the Corporation. The Board was also advised that Mr. Robert G. Graham, the Chairman of the Board, President and Chief Executive Officer, recently had received unsolicited enquiries relating to the purchase of certain of the Corporation's business divisions. At that meeting, the Board determined to retain Merrill Lynch as its financial adviser in connection with any possible solicited or unsolicited offers and other possible transactions involving the purchase or sale of all or some of the outstanding Common Shares or securities convertible into Common Shares, or the sale of all or some of the subsidiaries, divisions or assets of the Corporation. Burns Fry was subsequently engaged to provide similar financial advisory services. The Corporation issued a press release on September 2, 1988 outlining these developments.

On November 3, 1988, representatives of Burns Fry and Merrill Lynch reported to the Board of Directors as to the progress of their review of the Corporation's operations and assets and as to their consideration of strategic alternatives intended to maximize shareholder values, including the possible sale of the Corporation or certain of its assets or business divisions, or various options relating to the restructuring or recapitalization of the Corporation.

On November 22, 1988, Central Capital announced that its board of directors had met and expressed a desire to dispose of Central Capital's investment in the Corporation. Central Capital's board of directors believed that its investment in the Corporation did not fit into Central Capital's long-term strategic plans as a participant in the financial services industry. Additionally, in light of concerns raised by federal and provincial regulators in Canada with respect to commercial links between financial institutions and industrial corporations, rising interest rates which caused Central Capital to consider various divestiture opportunities in order to reduce its outstanding indebtedness, Central Capital's view that the North American economy was approaching the end of a strong economic cycle and the unsolicited enquiries received by Central Capital with respect to its interest in the Corporation, as referred to above, Central Capital determined that it was an appropriate time to realize upon its investment in the Corporation. Central Capital also announced that its management was authorized to hold immediate discussions with the Board of Directors and management of the Corporation to maximize shareholder values.

On December 8, 1988, the Corporation and Central Capital entered into a letter agreement (the "Letter Agreement") which confirmed Central Capital's prior indication of its intention to dispose of its investment in the Corporation on a basis which would provide equal treatment for all Common Shareholders. Pursuant to the Letter Agreement, the Corporation agreed to make available to Central Capital certain non-public, confidential and proprietary information (the "Confidential Information") relating to the Corporation. Central Capital agreed to

provide the Confidential Information only to third parties negotiating with it with respect to the acquisition of control of the Corporation who entered into a confidentiality agreement (a "Confidentiality Agreement") with the Corporation. The Letter Agreement also provided that in the event that unforeseen circumstances should occur and Central Capital should dispose of its investment in the Corporation on a basis which did not require and which did not legally require that an equal offer be made to Common Shareholders other than Central Capital, Central Capital would reimburse the Corporation for expenses incurred by the Corporation in preparing the Confidential Information and assisting Central Capital in connection with its desired objective of providing a transaction to realize maximum value for all Common Shareholders. The Letter Agreement was submitted for approval by and was approved by all of the directors of the Corporation who are independent of Central Capital.

In order to facilitate Central Capital's efforts to obtain a transaction in the best interests of all Shareholders, the Corporation and Central Capital agreed that Merrill Lynch should be retained by Central Capital as Central Capital's financial adviser in connection with the auction process. Accordingly, the Corporation confirmed to Merrill Lynch the termination of Merrill Lynch as financial adviser to the Corporation, effective January 15, 1989. Central Capital also engaged Jamestown Investments as a financial adviser to assist it with the auction process.

Central Capital, together with Merrill Lynch and Jamestown Investments, identified and contacted approximately 115 parties around the world who they believed might be interested in investigating the opportunity of acquiring the Corporation. Confidentiality Agreements were entered into with 61 of such parties. Thirty-four of such parties were from Canada, 21 were from the United States, four were from Europe and two were from Australasia.

These parties were provided with memoranda containing Confidential Information prepared by the Corporation which described the Corporation and its operations and certain additional financial information and utilities regulatory information ("Confidential Information Memoranda"). These parties were advised that a two stage auction process was being utilized.

During the first stage of the auction process, parties were invited to review the Confidential Information Memoranda. These parties were not provided access to the Corporation's management or premises. Parties wishing to proceed with an in-depth review of the Corporation were invited to provide a written non-binding indication of interest in acquiring the shares of the Corporation. These parties were advised that following receipt of the indications of interest, Central Capital and Merrill Lynch would select, at their sole discretion, the parties to be invited to participate in the second stage of the auction process. Prior to the submission of indications of interest during the first stage of the auction process, parties were advised that indications of interest to acquire all of the shares of the Corporation or to acquire one or more of the Utilities Division, Propane Division or Energy Products Division would be accepted.

After reviewing the non-binding indications of interest received by Central Capital from potential bidders at the conclusion of the first stage of the auction process and after considering the prices suggested by the bidders in such indications of interest and the perceived desire and ability of each such potential bidder to complete a transaction, Central Capital and Merrill Lynch selected 11 bidders to proceed to the second stage of the auction process. Of those parties invited to participate in the second stage, three had expressed initial interest in acquiring all of the shares of the Corporation, in each case on behalf of a consortium of parties interested in the Corporation's three separate business divisions. The other eight participants in the second stage had expressed initial interest in one or two of the business divisions of the Corporation.

During the second stage of the auction process, parties were given an opportunity to meet with the senior management group of the Corporation to discuss the Corporation's business and operations, tour its facilities and selected branch locations and make use of a data room established to assist them in their due diligence review. The second stage of the auction process was conducted during the period between early March, 1989 and May 30, 1989.

On May 2, 1989, Merrill Lynch wrote to the parties who had participated in the second stage of the auction process inviting the submission of final proposals relating to the acquisition of all of the shares of the Corporation. Final proposals were invited for two types of bids. The first type of bid ("Category A Bid") was for all of the outstanding Common Shares to be submitted on a cash per Common Share basis. The second type of bid ("Category B Bid") was to acquire any of the three separate business divisions of the Corporation for cash. Merrill Lynch indicated to the parties that it was available to assist parties submitting Category A Bids to secure purchasers for those business divisions which that party did not wish to retain by introducing, where appropriate, that party to

one or more parties which had submitted a Category B Bid. The deadline established by Central Capital and Merrill Lynch for the submission of Category A and Category B Bids was May 30, 1989.

Central Capital has advised the Corporation that, following receipt of Category A and Category B Bids, it sought clarification of certain matters contained in certain of the Category A and Category B Bids which had been received. Central Capital has further advised the Corporation that it discussed terms of certain Category A and Category B Bids which had been received and sought clarification of the terms of such bids from the parties which had submitted them. Mr. Robert G. Graham, Chairman of the Board, President and Chief Executive Officer of the Corporation was involved in certain of these negotiations, including certain of the negotiations involving Westcoast. Central Capital and Merrill Lynch advised the Corporation that no final bid proposals were received relating to the acquisition of the Energy Products Division and that no Category A Bid was received which did not require the sale of the Energy Products Division to a party other than the party submitting the Category A Bid. Central Capital has advised the Corporation that, based on its review of the bid proposals received, it determined to enter into detailed negotiations with Westcoast. This determination was reached primarily on the basis that the Westcoast bid proposal provided the highest consideration for each of the Utilities Division and the Propane Division. In addition, the Westcoast bid proposal involved fewer regulatory risks since Westcoast was familiar to certain provincial utilities regulators with jurisdiction in respect of the completion of a transaction involving the Corporation's utilities operations, and Westcoast's acquisition of these businesses would not require approval under the Investment Canada Act. These negotiations resulted in the execution of the Central Capital-Westcoast Letter.

At a meeting held on July 4, 1989, the Board of Directors authorized Mr. Robert G. Graham to execute, on behalf of the Corporation, the Letter of Understanding in respect of the proposed acquisition by Westcoast of the Utilities Division and the Propane Division subject to subsequent approval of the Letter of Understanding by the Board of Directors following receipt of a report of the Special Committee in respect thereof.

Letter of Understanding and Central Capital-Westcoast Letter

On July 4, 1989, the Corporation entered into the Letter of Understanding. On the same date, Central Capital and Westcoast entered into the Central Capital-Westcoast Letter. By its terms, the Letter of Understanding was binding upon the Corporation and Westcoast only after it was approved by the boards of directors of both the Corporation and Westcoast and the Central Capital-Westcoast Letter was approved by the boards of directors of both Central Capital and Westcoast. Westcoast has advised the Corporation that its board of directors approved the Letter of Understanding and the Central Capital-Westcoast Letter on July 6, 1989. Central Capital has advised the Corporation that its board of directors approved the Central Capital-Westcoast Letter on July 10, 1989.

Pursuant to the Letter of Understanding, the Corporation agreed that, during the period from the approval of the Letter of Understanding by the boards of directors of the Corporation and Westcoast to the earlier of (a) the date upon which the Corporation and Westcoast agreed that they would be unable to settle the definitive agreements providing for the proposed acquisition and (b) December 31, 1989, provided that such definitive agreements had not been settled by that date, it would not solicit, encourage, assist or agree to any offers or proposals of any kind for the acquisition by any party other than Westcoast or Petro-Canada of the Utilities Division or the Propane Division of the Corporation. This prohibition did not apply to unsolicited offers or proposals by third parties to acquire the Corporation as a whole. The Corporation did agree, however, that if control of the Corporation was acquired pursuant to any such offer or proposal the Corporation would pay a fee to Westcoast in the amount of $10 million, if the successful offer or proposal was made by a party which at July 4, 1989 was not bound by a confidentiality agreement with the Corporation, and in the amount of $15 million if the successful offer or proposal was made by a party which at July 4, 1989 was bound by a confidentiality agreement with the Corporation.

Westcoast and the Corporation agreed to work diligently and in good faith towards settling definitive agreements providing for the proposed acquisition by Westcoast of the Utilities Division and the Propane Division. In addition, the Corporation agreed to cause the Utilities Division and the Propane Division to be conducted in the ordinary course of business consistent with past practice and so as to maintain the goodwill of such businesses.

Pursuant to the Central Capital-Westcoast Letter, Central Capital agreed that during the period from the approval of the Central Capital-Westcoast Letter by the board of directors of each of Central Capital and Westcoast to the time of the approval of the Letter of Understanding by the Board of Directors, it would not solicit, encourage, assist or agree to any offer or proposal for the acquisition of the Corporation as a whole. The Central Capital-Westcoast Letter also provided that, notwithstanding the foregoing, if during such period an offer or

proposal to acquire the Corporation as a whole was made by an unsolicited third party, Central Capital could accept such offer or proposal provided it paid a fee to Westcoast equal to one-half of the amount by which 70% of the consideration received, directly or indirectly, by Central Capital under such third party offer or proposal exceeded the consideration to be received, directly or indirectly, by Central Capital under the proposed acquisition by Westcoast, subject to a minimum fee of $2 million and a maximum fee of $10 million.

Pursuant to the Central Capital-Westcoast Letter, Central Capital also agreed that, provided the Central Capital-Westcoast Letter was approved by the board of directors of each of Central Capital and Westcoast, Central Capital would not solicit, encourage, assist or agree to, and would not vote or allow to be voted any shares of the Corporation controlled by Central Capital in favour of, any offer or proposal of any kind for the acquisition by any party other than Westcoast or Petro-Canada of the Utilities Division or the Propane Division (except in connection with the acquisition of the Corporation as a whole) until the earlier of (a) the date upon which the Corporation and Westcoast agreed that they were unable to settle the definitive agreements providing for the proposed acquisition, and (b) December 31, 1989, provided that such definitive agreements had not been settled by that date.

Subject to the provisions outlined above, Central Capital agreed, pursuant to the Central Capital-Westcoast Letter, to cause any shares of the Corporation controlled by Central Capital to be voted in favour of the proposed acquisition.

The provisions of the Letter of Understanding and the Central Capital-Westcoast Letter did not survive execution of the Arrangement Agreement on December 11, 1989. The Arrangement Agreement, however, contains provisions which restrict the ability of the Corporation and Central Capital to solicit offers for all or part of the Corporation or take certain action in respect of certain offers or proposals and which require the Corporation to pay a fee to Westcoast in the circumstances outlined above. See "THE ARRANGEMENT — Pre-Arrangement Transactions and Obligations".

Approval of Letter of Understanding By the Special Committee and Board of Directors

The Special Committee was established on March 16, 1989. Messrs. Michel Belanger, John H. Coleman, William G. Davis, P.C., C.C., Q.C., John F. Fraser, J. Derek Riley, and Alan Sweatman, Q.C. were named to the Special Committee. None of the members of the Special Committee is a member of management of the Corporation or a director or officer of Central Capital or any of its affiliates, with the exception of Mr. John H. Coleman who is a director of United Financial Management Limited, an indirect subsidiary of Central Capital. Mr. Alan Sweatman Q.C. was elected Chairman of the Special Committee. The Special Committee was authorized to consult with such lawyers, accountants and other professional advisers as it deemed appropriate in the course of its activities. In connection with its mandate, the Special Committee met on April 13, 1989, May 17, 1989, July 19, 1989, July 27, 1989, August 3, 1989, September 19, 1989 and November 21, 1989. Mr. Davis resigned from the Special Committee, effective July 4, 1989, as the legal firm to which he is counsel is counsel to Westcoast in connection with Westcoast's interest in the Corporation. Mr. Davis took no part in the activities of the Special Committee on or after July 4, 1989.

At meetings of the Special Committee held on April 13, 1989 and May 17, 1989, representatives of Burns Fry reported on, among other things, meetings and discussions that they had held with representatives of Merrill Lynch in respect of a review of the status of the auction process at those dates. See "THE ARRANGEMENT — Background to the Arrangement — Initial Expressions of Interest in the Corporation" and "THE ARRANGEMENT — Opinion of Financial Adviser".

Following July 4, 1989 and at the request of the Special Committee, representatives of Burns Fry met with representatives of Merrill Lynch and Central Capital to review the auction process which had been conducted by Merrill Lynch and Central Capital. That review included consideration of the number and identity of parties which had been provided Confidential Information Memoranda, the indications of interest received following the first stage of the auction process and bid proposals received following the second stage of the auction process.

At the meeting of the Special Committee held on August 3, 1989, Burns Fry reported on its meetings and discussions with Merrill Lynch and Central Capital and advised the Special Committee that, based on those meetings and its review of the bid proposals received following the second stage of the auction process, the Westcoast bid proposal to acquire the Utilities Division and the Propane Division represented the bid proposal offering the highest consideration for the Utilities Division and the Propane Division. At its August 3, 1989 meeting, the Special Committee unanimously recommended to the Board of Directors approval of the Letter of

Understanding. On August 3, 1989, the Board of Directors considered and unanimously approved the Letter of Understanding.

The Arrangement Agreement

The board of directors of each of the Corporation, Westcoast, WestCoast Gas, Utilities Holdings, Propane Holdings, Newco, Central Capital and MICCI have authorized the Arrangement and such companies have entered into the Arrangement Agreement for the purpose of carrying out the Arrangement. The Arrangement Agreement was amended in certain respects and restated pursuant to an amending agreement made as of February 12, 1990. The amendments generally were intended to clarify certain matters and to deal with matters relevant to certain regulatory approvals. A copy of the Arrangement Agreement is annexed as Schedule C to this Management Proxy Circular and a copy of the Arrangement is annexed as Exhibit I to the Arrangement Agreement. The following description of the Arrangement is qualified in its entirety by reference to the full text of the Arrangement Agreement.

Pre-Arrangement Transactions and Obligations

The Arrangement Agreement requires that the Corporation reorganize in certain respects to facilitate the sale of the Utilities Division and the Propane Division as separate business units. Prior to the Effective Date and subject to receipt of the Advance Tax Ruling, the Corporation will undertake several transactions in order to combine the Utilities Division in Utilities Company, transfer the Propane Division to Propane Company and reorganize its capital structure. These transactions include:

(i) the transfer by the Corporation to Utilities Company of its 60% joint venture interest in the Manitoba pipeline joint venture established pursuant to an agreement dated September 1, 1984 among the Corporation, Omega Hydrocarbons Limited and The Manitoba Oil and Gas Corporation (its interest now held by Tundra Oil and Gas Limited);

(ii) the transfer by the Corporation to Utilities Company of certain common stream agreements, gas purchase agreements, transportation agreements and meter equipment and other marketing assets owned by the Corporation in connection with the Utilities Division;

(iii) the transfer by CHL Holdings Inc., a corporation indirectly wholly-owned by the Corporation, to Utilities Company of the series B preferred shares, common stock purchase warrants and an increasing rate subordinated note of Itron, Inc. and five limited partnership units of AMRplus Partners;

(iv) the transfer by the Corporation to Utilities Company of all of the common shares of ICG Brunswick Gas (1985) Inc. and all amounts owing to the Corporation by ICG Brunswick Gas (1985) Inc. and a 50% common share interest in ICG Scotia Gas Ltd.;

(v) the Propane Rolldown;

(vi) at the option of the Corporation, a restructuring of the indebtedness owed by the Corporation to certain Canadian chartered banks in respect of the Utilities Division such that Utilities Company or its subsidiaries will assume liability to repay directly to such banks the Corporation's indebtedness in respect of the Utilities Division; and

(vii) the entering into of a pension and benefits agreement among Westcoast, WestCoast Gas, the Corporation, Propane Company and Utilities Company under which responsibility for, and the assets and liabilities relating to, the union and salaried pension and group benefit plans of the Corporation will be allocated among the Corporation, Propane Company and Utilities Company.

It is the Corporation's intention to effect such transactions on or prior to the Effective Date. In addition, the Corporation has agreed to redeem the Second Preference Shares in accordance with their terms at a cost of approximately $2.6 million prior to the Effective Date. On February 12, 1990, the Corporation issued a Notice of Redemption providing for the redemption of the Second Preference Shares on March 15, 1990. The Corporation has also agreed to suspend the operation of its employee stock option, share ownership and dividend reinvestment and share purchase plans pending completion of the Arrangement.

The Arrangement Agreement provides that, until the Effective Date, neither the Corporation nor Central Capital will solicit any offers or proposals for the acquisition of the Utilities Division or the Propane Division or solicit or enter into any negotiations for the acquisition of the Corporation as a whole. In addition, Central Capital has agreed not to vote any securities of the Corporation held by it or any of its subsidiaries in favour of any offer or proposal for the acquisition of the Utilities Division or Propane Division (except in connection with the acquisition

of the Corporation as a whole). The Corporation and Central Capital, however, are each able to terminate the Arrangement Agreement in order to accept an unsolicited offer to acquire the Corporation as a whole provided the Corporation pays a fee to Westcoast in the amount of $10 million, if such unsolicited offer is received from a party which is not bound by a confidentiality agreement with the Corporation entered into on or after September 2, 1988, and in the amount of $15 million, if such unsolicited offer is received from a party which is bound by such a confidentiality agreement.

Prior to the Effective Date, the Corporation is required to afford Westcoast, WestCoast Gas, Petro-Canada and their authorized representatives reasonable access to the Corporation, its officers, employees and agents and its books and records in order to enable Westcoast, WestCoast Gas and Petro-Canada to continue their due diligence investigations relating to the Utilities Division and the Propane Division. Westcoast and Petro-Canada have agreed to keep all non-public information obtained through such investigations confidential.

The Arrangement Agreement requires that the Corporation co-operate with Westcoast in using all reasonable efforts to obtain the approval of the Shareholders and Option Holders and to support the granting of any consents required in connection with the Arrangement. In this regard, the Corporation agreed with Westcoast that the Board of Directors would recommend in this Management Proxy Circular that Shareholders and Option Holders vote in favour of the Arrangement Resolution unless Burns Fry advised the Board of Directors that it was unable to provide an opinion that the Arrangement is fair, from a financial point of view, to the Public Shareholders.

Westcoast has agreed that, until the Effective Date, subject to certain limited exceptions to facilitate the Arrangement or unless the Board of Directors otherwise agrees, neither Westcoast nor any of its representatives or affiliates will (i) acquire or propose to acquire any securities or assets of the Corporation; (ii) solicit proxies from Shareholders or otherwise attempt to influence the conduct of Shareholders other than Shareholders who are Option Holders; (iii) participate with any third party in order to propose or effect a transaction relating to the acquisition of control of the Corporation or to influence the conduct of the Board of Directors; or (iv) make any public announcement or disclosure with respect to the foregoing.

Details of the Arrangement

The Arrangement consists of the following four stages, certain of which will be completed in a number of steps, which will occur and will be deemed to occur in the following order:

(i) the Change of Third Preference Shares;

(ii) the Utilities Division and Propane Division Transactions, which are:
  (a) the Common Share Transfers,
  (b) the Propane Company Transfer,
  (c) the Utilities Company Transfer, and
  (d) the Sale of Utilities Holdings and Propane Holdings;

(iii) the Recapitalization, which includes:
  (a) the Change in the Number of Common Shares Retained,
  (b) the Creation of the Class C 8% Convertible Preference Shares and the Warrant Offering,
  (c) the creation of the Class A Preference Shares and Class B Preference Shares,
  (d) the cancellation of the Corporation's first preference shares, second preference shares and the third preference shares, and
  (e) the Redesignation of Common Shares; and

(iv) the change of the Corporation's name to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc.".

Change of Third Preference Shares

The stated capital of the Third Preference Shares will be reduced to zero and amounts equal in the aggregate to the stated capital of the Third Preference Shares will be added to the stated capital of the Common Shares and to a surplus account of the Corporation. Each outstanding Third Preference Share will be changed into 1.662 Common Shares. By their terms, the Third Preference Shares are convertible into Common Shares at a conversion ratio of 1.6393. Accordingly, the change of Third Preference Shares into Common Shares on this basis will provide Third

Preference Shareholders, in effect, with a premium to the existing conversion ratio. (See "INFORMATION CONCERNING THE CORPORATION — Description of Share Capital"). The change of the Third Preference Shares into Common Shares on this basis is intended to compensate Third Preference Shareholders for one foregone dividend in the amount of $0.53125 per Third Preference Share which would be payable between the anticipated Effective Date and May 2, 1990 when such shares would become redeemable at the option of the Corporation without the consent of the holders thereof at a redemption price of $26.00 per share plus accrued and unpaid dividends. Assuming that all 2,717,527 Third Preference Shares outstanding as at January 31, 1990 are changed into Common Shares under the Arrangement, 61,688 more Common Shares will be issued to Third Preference Shareholders than would have been issuable on the conversion of the Third Preference Shares in accordance with their terms. Third Preference Shares changed into Common Shares under the Arrangement will participate in the other stages of the Arrangement as Common Shares.

Utilities Division and Propane Division Transactions

The Arrangement provides for the indirect ownership by Common Shareholders of Utilities Company (which consists of corporations which, with the exception of ICG Ontario, ICG Utilities (Manitoba) Ltd. (formerly Greater Winnipeg Gas Company), Bonnyville Gas Company Ltd. and ICG Scotia Gas Ltd., are, directly or indirectly, wholly-owned subsidiaries of the Corporation) through the acquisition of Utilities Holdings Shares and of Propane Company (a corporation to be incorporated which will be wholly-owned by the Corporation) through the acquisition of Propane Holdings Shares to facilitate the sale as part of the Arrangement of all Utilities Holdings Shares to WestCoast Gas and all Propane Holdings Shares to WestCoast Gas or, if WestCoast Gas assigns its right to acquire Propane Holdings Shares, to Petro-Canada.

The Utilities Division Purchase Price is the aggregate of (i) $462 million, (ii) the net after-tax earnings of the Utilities Division for the period between October 1, 1989 and December 31, 1989, and (iii) $9 million. The Propane Division Purchase Price is the aggregate of (i) $220.8 million, (ii) (A) if the income before income taxes (and after interest expense) of the Propane Division for the period between January 1, 1989 and December 31, 1989 less income taxes payable by NASCO equals or exceeds $10 million, an amount equal to 50% of such income or (B) in any other event, the amount of such income determined on the same basis less $5 million, and (iii) $3 million. The aggregate amount of cash to be received by Common Shareholders for their Utilities Holdings Shares and their Propane Holdings Shares will be equal to the product of $21 and the number of Common Shares participating in the Arrangement. All Common Shares held by Shareholders immediately prior to the Arrangement, as well as Common Shares issued pursuant to the Change of Third Preference Shares, other than Common Shares in respect of which a Common Shareholder dissents in respect of the Arrangement Resolution, will participate in the Arrangement. Holders of Common Shares participating in the Arrangement will be entitled to receive $21 in cash in respect of each such Common Share. The balance of the Utilities Division Purchase Price and the Propane Division Purchase Price will be satisfied by the assumption by Newco (and ultimately Utilities Holdings) and Propane Company of certain liabilities (consisting of bank debt and an inter-company note in the principal amount of approximately $41.5 million issued by the Corporation to ICG Ontario) of the Corporation, based on certain assumptions, expected to be approximately $112.1 million. See "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION — Notes to Pro Forma Condensed Consolidated Financial Information (unaudited)" and, in particular, Note 2(a) thereof.

Common Share Transfers

All Common Shareholders will transfer a portion of their Common Shares to Utilities Holdings in exchange for Utilities Holdings Shares and a portion of their Common Shares to Propane Holdings in exchange for Propane Holdings Shares. Utilities Holdings is wholly-owned by MICCI and has no material assets or undertaking other than Common Shares. Propane Holdings is wholly-owned by MICC and Central Capital and has no material assets or undertaking other than Common Shares and one common share of Newco.

The number of Common Shares to be transferred to Utilities Holdings and Propane Holdings in exchange for Utilities Holdings Shares and Propane Holdings Shares, respectively, will be determined on the basis of a formula set forth in the Arrangement. That formula is intended to result in each Common Shareholder transferring to Utilities Holdings and Propane Holdings such proportion of his Common Shares as the aggregate value of Utilities Holdings and Propane Holdings represents to the value of the Common Shares as at the Effective Time. For purposes of illustration, it is assumed that all Third Preference Shares outstanding as at January 31, 1990 are

changed into Common Shares under the Arrangement, all Options outstanding as at January 31, 1990 are exercised prior to the Effective Date, no holders of Common Shares, Third Preference Shares or Options exercise rights of dissent in respect of the Arrangement Resolution and that the aggregate fair market value of the outstanding Common Shares at the Effective Time is based on the closing market price for Common Shares on The Toronto Stock Exchange on February 9, 1990. Based on these assumptions 28,986,362 Common Shares will be outstanding following the Change of Third Preference Shares. It is also assumed that approximately $377.9 million will be paid by WestCoast Gas for the Utilities Holdings Shares and approximately $230.8 million will be paid by WestCoast Gas for the Propane Holdings Shares or, if WestCoast Gas assigns its right to acquire Propane Holdings Shares, by Petro-Canada. Based on these assumptions, (a) approximately 57.0% of the then outstanding Common Shares will be held by Utilities Holdings, (b) approximately 34.8% of the then outstanding Common Shares will be held by Propane Holdings and (c) approximately 8.2% of the then outstanding Common Shares will be retained and redesignated as ordinary shares. See "THE ARRANGEMENT — Details of the Arrangement — Recapitalization — Redesignation of Common Shares".

Propane Company Transfer

The Propane Company Transfer provides for the acquisition by Propane Holdings of all of the shares of Propane Company. The Propane Company Transfer will be effected in the following steps:

(a) the Corporation will transfer all of the outstanding shares of Propane Company to Propane Holdings in exchange for special shares of Propane Holdings;

(b) Propane Holdings will redeem the special shares in its capital held by the Corporation for a promissory note (the "Propane Holdings Note");

(c) the Corporation will purchase for cancellation the Common Shares held by Propane Holdings for a promissory note (the " ICG Propane Note"); and

(d) the Propane Holdings Note held by the Corporation will be set-off against the ICG Propane Note held by Propane Holdings and the two notes will be cancelled.

Propane Company (a corporation to be incorporated under the name ICG Propane Inc.) will be wholly-owned by the Corporation; and Propane Holdings (The Chancellor Holdings Corporation) is wholly-owned by MICC and Central Capital. All of the business of the Propane Division will be carried on by the Propane Company and NASCO at the Effective Time.

Utilities Company Transfer

The Utilities Company Transfer provides for the acquisition by Utilities Holdings of all of the shares of Utilities Company. The Utilities Company Transfer will be effected in the following steps:

(a) the Corporation will transfer all of the outstanding common shares of Utilities Company to Newco in exchange for special shares of Newco and the assumption by Newco of certain liabilities of the Corporation;

(b) Newco will redeem the special shares in its capital held by the Corporation for a promissory note (the "Newco Note");

(c) Newco will be wound up into Utilities Holdings with Utilities Holdings thereby acquiring all of Newco's assets, including all of the outstanding common shares of Utilities Company and assuming all of Newco's liabilities, including its obligations under the Newco Note;

(d) the Corporation will purchase for cancellation the Common Shares held by Utilities Holdings for a promissory note (the "ICG Utilities Note"); and

(e) the Newco Note held by the Corporation will be set-off against the ICG Utilities Note held by Utilities Holdings and the two notes will be cancelled.

The amount of liabilities of the Corporation to be assumed by Newco (and ultimately Utilities Holdings) is dependent on a number of factors, including the number of Common Shares participating in the Arrangement, the amount of net after-tax earnings (or loss) of the Utilities Division for the period between October 1, 1989 and December 31, 1989 and the amount of liabilities to be assumed by Propane Company as described above under "Propane Company Transfer".

Utilities Company (ICG Canada and its subsidiaries) is, with the exception of ICG Ontario, ICG Utilities (Manitoba) Ltd. (formerly Greater Winnipeg Gas Company), Bonnyville Gas Company Ltd. and ICG Scotia Gas Ltd., directly and indirectly wholly-owned by the Corporation; Utilities Holdings (2451417 Manitoba Ltd.) is wholly-owned by MICCI; and Newco (2484685 Manitoba Ltd.) is wholly-owned by Utilities Holdings. All of the business of the Utilities Division will be carried on by Utilities Company at the Effective Time. Newco has no material assets or undertaking.

Sale of Utilities Holdings and Propane Holdings

The option granted by Central Capital and held by MICC in respect of the one outstanding common share of Propane Holdings will be cancelled. Central Capital will sell the one outstanding common share of Propane Holdings for $1.00 to WestCoast Gas or, if WestCoast Gas assigns its rights to acquire Propane Holdings Shares, to Petro-Canada. Common Shareholders will then sell all of the outstanding Utilities Holdings Shares to WestCoast Gas and all of the outstanding Propane Holdings Shares to WestCoast Gas or, if WestCoast Gas assigns its rights to acquire Propane Holdings Shares, to Petro-Canada for cash in an aggregate amount equal to the product of $21 and the number of Common Shares participating in the Arrangement.

All Common Shares held by Shareholders immediately prior to the Arrangement, as well as Common Shares issued pursuant to the Change of Third Preference Shares, other than Common Shares in respect of which a Common Shareholder dissents in respect of the Arrangement Resolution, will participate in the Arrangement. Holders of Common Shares participating in the Arrangement will be entitled to receive $21 in cash in respect of each such Common Share.

Recapitalization

Change in the Number of Common Shares Retained

The number of Common Shares retained by Common Shareholders and outstanding following the Common Share Transfers will be changed such that, immediately following the Arrangement, the number of Inter-City Products Ordinary Shares will be one-quarter of the number of Common Shares as were outstanding immediately following the Change of Third Preference Shares.

A substantial number of the Common Shares will be transferred to Utilities Holdings and Propane Holdings under the Arrangement and purchased for cancellation under the Utilities Company Transfer and Propane Company Transfer. The Change in the Number of Common Shares Retained is intended to increase liquidity in the trading market for Inter-City Products Ordinary Shares by increasing the number of outstanding Inter-City Products Ordinary Shares from that which would otherwise have been outstanding after the Arrangement.

The effect of the Change in the Number of Common Shares Retained and subsequent stages of the Arrangement will be that a Common Shareholder holding 100 Common Shares immediately prior to the Arrangement will hold 25 Inter-City Products Ordinary Shares immediately following the Arrangement. This will be the case regardless of the number of Common Shares transferred by such shareholder pursuant to the Common Share Transfers.

The Arrangement further contemplates that the retained Common Shares will be redesignated as ordinary shares and that new share certificates will be issued to reflect the new name of the Corporation and the actual number of ordinary shares to be retained by Common Shareholders. Therefore, following the Change in the Number of Common Shares Retained, the Redesignation of Common Shares and the renaming of the Corporation as "Inter-City Products Corporation/Société de Produits Inter-Cité Inc.", Common Shareholders will remain shareholders of the Corporation and their proportionate voting interest in the Corporation (after taking into account the Change of Third Preference Shares and elimination of fractional interests) will remain unchanged. Shareholders will be given the opportunity through the Warrant Offering to maintain their proportionate voting interest on a fully-diluted basis.

Creation of the Class C 8% Convertible Preference Shares and Warrant Offering

Purchase of First Preference Shares

In order to facilitate the Arrangement, MICCI acquired all of the outstanding First Preference Shares from Norcen International Ltd. ("NIL") on December 27, 1989. The Recapitalization includes the change of the First Preference Shares, none of which are convertible into Common Shares or other securities of the Corporation and all

of which are held by MICCI, into Class C 8% Convertible Preference Shares and the issuance by MICCI of the Warrants. The Warrant Offering is intended to provide Inter-City Products Ordinary Shareholders with an opportunity to maintain their proportionate voting interest in Inter-City Products on a fully-diluted basis.

The First Preference Shares were issued in January, 1985 in connection with the acquisition by the Corporation and two of its subsidiaries from Norcen Energy Resources Limited ("Norcen") of Northern and Central Gas Corporation Limited ("Northern and Central"), which subsequently was renamed ICG Utilities (Ontario) Ltd. In connection with that acquisition, the Corporation acquired from Northern and Central a demand subordinated note ("Norcen Note") of Newco Ltd. (a predecessor of Norcen) bearing interest at 7.6% per annum. The Corporation and Norcen also entered into an agreement dated January 25, 1985 (the "Set-Off Agreement") whereby any failure on the part of the Corporation to meet any dividend, purchase or redemption obligation in respect of the First Preference Shares could, at the option of Norcen, be set-off in satisfaction of interest or principal payments in respect of the Norcen Note, and any failure on the part of Norcen to make any interest or principal payments in respect of the Norcen Note could, at the option of the Corporation, be set-off in satisfaction of any dividend, purchase or redemption obligation in respect of the First Preference Shares. The Set-Off Agreement also provided that Norcen could not transfer the First Preference Shares without the consent of the Corporation and that the Corporation could not transfer the Norcen Note without the consent of Norcen.

Central Capital, MICCI, Norcen and NIL entered into an agreement dated December 12, 1989 which provided for the acquisition by MICCI from NIL of the First Preference Shares for an aggregate purchase price of $60,998,000, subject to adjustment for accrued and unpaid dividends. Such purchase price was determined on the basis of $700 per First Preference Share (being the redemption price for the First Preference Shares). MICCI also agreed to assume the indebtedness of Norcen under the Norcen Note in the principal amount of $45,628,000 in consideration for the payment by Norcen to MICCI of an amount equal to that principal amount and all accrued and unpaid interest thereon to December 27, 1989. The Corporation consented to the transfer of the First Preference Shares from Norcen to NIL and to the subsequent transfer of such shares from NIL to MICCI.

The terms of the First Preference Shares require that the Corporation seek to purchase for cancellation First Preference Shares in a prescribed amount on January 1 of each year from 1988 to 1995. First Preference Shares with a par value of $8,001,000 were scheduled for purchase on January 1, 1990. Under the Arrangement Agreement, MICCI has agreed to defer tendering such First Preference Shares until 30 days after the Termination Date (as defined in the Arrangement Agreement) and not to tender such shares if the Arrangement is completed. Under the Arrangement Agreement, the Corporation has agreed to demand and MICCI has agreed to pay on the Effective Date the principal amount due on the Norcen Note plus accrued interest thereon to the Effective Date. The Corporation has advised MICCI and Central Capital that it will not demand for payment any principal amount outstanding under the Norcen Note without the prior written consent of MICCI and Central Capital except in accordance with the schedule of principal payments in respect of the Norcen Note fixed by the terms of the First Preference Shares (with the payment of $4,148,000 scheduled for December 31, 1989 deferred until April 30, 1990) provided that in the event of any default in the payment of interest or a principal instalment on the Norcen Note, when due, and subject to operation of a notice and cure provision, the Corporation may demand payment of the full amount then payable under the Norcen Note.

Change of First Preference Shares

The Articles of the Corporation will be amended to change the 87,140 outstanding First Preference Shares into 2,439,920 Class C 8% Convertible Preference Shares. The change of the First Preference Shares into Class C 8% Convertible Preference Shares is part of the Recapitalization intended to establish what the Board of Directors has determined to be a more appropriate capital structure for Inter-City Products. The Board of Directors believes it appropriate to convert the First Preference Shares into Class C 8% Convertible Preference Shares as part of the Arrangement, because this change will eliminate the requirement to redeem $60 million of equity over the next five years and, in the opinion of the Board, will provide Shareholders with a more attractive security than the First Preference Shares.

The stated capital of the First Preference Shares will be reduced to zero and amounts equal in the aggregate to the stated capital of the First Preference Shares will be added to the stated capital of the Inter-City Products Ordinary Shares and to a surplus account of the Corporation. The stated capital of the Inter-City Products Ordinary Shares will be reduced by $51,388,000 and an amount equal to $51,388,000 will be added to the stated capital of the

Class C 8% Convertible Preference Shares. A copy of the terms and conditions of the Class C 8% Convertible Preference Shares is annexed as Appendix I to the Arrangement annexed as Exhibit I to the Arrangement Agreement. The following is a summary of the material attributes of the Class C 8% Convertible Preference Shares.

Dividends

The holders of the Class C 8% Convertible Preference Shares will be entitled to receive, as and when declared by the Board of Directors, fixed cumulative preferential cash dividends at the rate of $2.00 per share per annum payable quarterly on the first day of January, April, July and October in each year. The first dividend payment on the Class C 8% Convertible Preference Shares will be $0.50, representing a pro-rated dividend payment in respect of the last dividend payment period for the First Preference Shares and a pro-rated dividend payment in respect of the first dividend period for the Class C 8% Convertible Preference Shares. Warrantholders will be entitled to receive dividends accruing on the Class C 8% Convertible Preference Shares after the Warrant Expiry Date.

Priority

The Class C 8% Convertible Preference Shares shall be entitled to preference over the Inter-City Products Ordinary Shares, and shall rank junior to the Class A Preference Shares and Class B Preference Shares with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up, whether voluntary or involuntary.

Conversion Privilege

The registered holder of a Class C 8% Convertible Preference Share shall have the right, at his option, at any time on or after the first business day immediately following the Warrant Expiry Date and prior to the close of business on the earlier of (i) June 30, 2000 and (ii) in the case of Class C 8% Convertible Preference Shares called for redemption, the business day immediately preceding the date fixed for redemption of such shares, to convert such Class C 8% Convertible Preference Share into fully paid and non-assessable Inter-City Products Ordinary Shares at a conversion rate (the "Conversion Rate") for each share determined by dividing (a) $25.00 by (b) 110% of the weighted average trading price ("Weighted Average Trading Price") for the Inter-City Products Ordinary Shares (determined by dividing the aggregate sale price of all Inter-City Products Ordinary Shares sold in board lots on The Toronto Stock Exchange during the period of 20 consecutive trading days commencing on the 30th day following the Effective Date by the total number of Inter-City Products Ordinary Shares so sold in such board lots). As soon as practicable following the Warrant Commencement Date, Inter-City Products will publish a notice specifying the Conversion Rate. The Conversion Rate is subject to adjustment in certain events. If a Class C 8% Convertible Preference Share is called for redemption and Inter-City Products shall fail to redeem such share in accordance with the notice of redemption, the right of conversion shall revive and continue as if such Class C 8% Convertible Preference Share had not been called for redemption. The registered holders of Class C 8% Convertible Preference Shares will be entitled to not less than 21 days and not more than 50 days notice of the date on which the conversion privilege is to expire.

No adjustment will be made for dividends on Inter-City Products Ordinary Shares issuable upon conversion or dividends accrued on Class C 8% Convertible Preference Shares surrendered for conversion. Fractional shares will not be issued on any conversion, but in lieu thereof, Inter-City Products will make an equivalent cash payment in respect of such fractions.

See "INFORMATION CONCERNING INTER-CITY PRODUCTS — Description of Share Capital" for a description of the attributes of the Inter-City Products Ordinary Shares.

Redemption

The Class C 8% Convertible Preference Shares will not be redeemable on or prior to December 31, 1991; thereafter and on or prior to June 30, 1993, the Class C 8% Convertible Preference Shares will be redeemable at $25.00 per share plus accrued and unpaid dividends if and only if the Redemption Trading Price is at least equal to 120% of 110% of the Weighted Average Trading Price. The Redemption Trading Price shall be equal to the weighted average of the trading prices at which board lots of the Inter-City Products Ordinary Shares have traded on The Toronto Stock Exchange, determined by dividing the aggregate sale price of all Inter-City Products Ordinary Shares sold in board lots on The Toronto Stock Exchange by the total number of Inter-City Products Ordinary Shares so traded in such board lots, during the period of 20 consecutive trading days ending on the fifth

trading day prior to the date of sending the notice of redemption. The Class C 8% Convertible Preference Shares will be redeemable at any time after June 30, 1993 at $25.00 per share plus accrued and unpaid dividends.

Adjustment of Conversion Rate

The provisions attaching to the Class C 8% Convertible Preference Shares provide for the adjustment of the Conversion Rate in certain events, including:

(a) the subdivision or consolidation or reclassification of the outstanding Inter-City Products Ordinary Shares;

(b) the issue of any Inter-City Products Ordinary Shares or securities exchangeable for or convertible into Inter-City Products Ordinary Shares to all or substantially all holders of Inter-City Products Ordinary Shares by way of stock dividend, other than an issue of Inter-City Products Ordinary Shares or securities exchangeable for or convertible into Inter-City Products Ordinary Shares to holders of Inter-City Products Ordinary Shares who have elected to receive dividends in Inter-City Products Ordinary Shares or securities exchangeable for or convertible into Inter-City Products Ordinary Shares in lieu of receiving cash dividends paid in the ordinary course; and

(c) the distribution to all or substantially all holders of Inter-City Products Ordinary Shares of shares of any other class or of rights, options or warrants (other than rights, options or warrants to acquire within a period of 45 days Inter-City Products Ordinary Shares or securities convertible into or exchangeable for Inter-City Products Ordinary Shares at greater than 95% of the Current Market Price, as such term is defined below, of the Inter-City Products Ordinary Shares) or of evidences of indebtedness or of assets (excluding dividends paid in the ordinary course), unless the holders of the Class C 8% Convertible Preference Shares are allowed to participate as though they had converted their Class C 8% Convertible Preference Shares into Inter-City Products Ordinary Shares prior to the applicable record date for such distribution.

Inter-City Products will be required to give at least 14 days notice to holders of Class C 8% Convertible Preference Shares of the record date for any of the above events. The holders of Class C 8% Convertible Preference Shares will be entitled to notice of all adjustments in the Conversion Rate. Inter-City Products will not be required to make adjustments in the Conversion Rate unless the cumulative effect of such adjustments would change the Conversion Rate then in effect by at least 1%.

The "Current Market Price" of the Inter-City Products Ordinary Shares at any date is defined as the average weighted price at which the Inter-City Products Ordinary Shares have traded on The Toronto Stock Exchange, or, if the Inter-City Products Ordinary Shares are not listed and posted for trading on The Toronto Stock Exchange, on such stock exchange on which such shares are listed and posted for trading which may be selected for such purpose by the Board of Directors or, if the Inter-City Products Ordinary Shares are not then listed and posted for trading on any stock exchange, then on the over-the-counter market, during the 20 consecutive trading days ending on a date not earlier than the second trading day preceding such date.

Purchase for Cancellation

Except as noted under "Restriction on Dividends, Retirement and Issue of Shares", Inter-City Products may at any time or from time to time purchase for cancellation all or any number of Class C 8% Convertible Preference Shares at any price by tender to all holders of Class C 8% Convertible Preference Shares or through the facilities of any stock exchange on which the Class C 8% Convertible Preference Shares are listed and posted for trading or in any other manner provided that the purchase price does not exceed the highest price offered on the date of such purchase for a board lot of Class C 8% Convertible Preference Shares on any stock exchange on which such shares are listed and posted for trading.

Except as noted under "Restriction on Dividends, Retirement and Issue of Shares", during each period of 12 consecutive months commencing June 30, 2000, Inter-City Products will make reasonable efforts to purchase for cancellation in the open market 10% of the Class C 8% Convertible Preference Shares outstanding at the commencement of such 12 month period at a price not to exceed the redemption price of such shares plus costs of purchase.

Restriction on Dividends, Retirement and Issue of Shares

So long as any of Class C 8% Convertible Preference Shares are outstanding, Inter-City Products shall not, at any time, without the approval of the holders of the outstanding Class C 8% Convertible Preference Shares:

(a) declare, pay or set apart for payment any dividend on the Inter-City Products Ordinary Shares or any other shares of Inter-City Products ranking junior to the Class C 8% Convertible Preference Shares (other than a stock dividend payable in shares of Inter-City Products ranking junior to the Class C 8% Convertible Preference Shares);

(b) call for redemption, redeem, purchase, retire for value or make any capital distribution on or in respect of any Inter-City Products Ordinary Shares or any other shares of Inter-City Products ranking junior to the Class C 8% Convertible Preference Shares (except out of the net cash proceeds of a substantially concurrent issue of shares of Inter-City Products ranking junior to the Class C 8% Convertible Preference Shares);

(c) call for redemption, redeem, purchase or otherwise retire for value less than all the Class C 8% Convertible Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to the Class C 8% Convertible Preference Shares, call for redemption, redeem, purchase or otherwise retire any other shares of Inter-City Products ranking on a parity with the Class C 8% Convertible Preference Shares; or

(e) reserve, set aside, allot or issue any shares ranking prior to or on a parity with the Class C 8% Convertible Preference Shares,

unless all dividends up to and including the dividend payment date for the last complete period for which dividends shall be payable shall have been declared and paid or set apart for payment in respect of the Class C 8% Convertible Preference Shares and all cumulative shares of Inter-City Products ranking prior to or on a parity with the Class C 8% Convertible Preference Shares in respect of the payment of dividends and there shall have been paid or set apart for payment all declared and unpaid non-cumulative dividends in respect of all non-cumulative shares of Inter-City Products ranking prior to or on a parity with the Class C 8% Convertible Preference Shares in respect of the payment of dividends.

Voting Rights

Subject to applicable law, the holders of Class C 8% Convertible Preference Shares will not be entitled as such to receive notice of or to attend or to vote at any meeting of the shareholders of Inter-City Products unless Inter-City Products shall have failed to pay eight quarterly dividends, whether or not consecutive, on the Class C 8% Convertible Preference Shares. In that event and so long as any dividends on such shares remain in arrears, the holders of such shares will be entitled to receive notice of and to attend meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share held for the election of two members of the Board of Directors. The number of directors of the Corporation is currently fixed at twelve and, in the event the Board Size Resolution is approved, will be fixed at five. It would be necessary for there to be a vacancy on the Board of Directors or an increase in the number of directors approved by special resolution in order for directors to be elected by Class C 8% Convertible Preference Shareholders.

Modification

Any amendment to the Articles of Inter-City Products to remove or vary any rights, privileges, restrictions or conditions attaching to the Class C 8% Convertible Preference Shares, in addition to authorization by special resolution, must be given by at least two-thirds of the votes cast at a meeting of the holders of Class C 8% Convertible Preference Shares duly called for that purpose and at every such meeting a holder of Class C 8% Convertible Preference Shares shall be entitled to one vote in respect of each Class C 8% Convertible Preference Share held in addition to any other vote required by the MCA.

Liquidation

In the event of the liquidation, dissolution or winding-up of Inter-City Products, or any other distribution of its assets among its shareholders for the purpose of winding up its affairs, the holders of Class C 8% Convertible

Preference Shares will be entitled to receive $25.00 per share plus an amount equal to all accrued and unpaid dividends thereon up to the date of payment or distribution before any payment or distribution is made to the holders of the Inter-City Products Ordinary Shares or any other shares ranking junior to the Class C 8% Convertible Preference Shares. Upon payment of such amounts, the holders of the Class C 8% Convertible Preference Shares will not be entitled to share in any further distribution of the assets of Inter-City Products.

Warrant Offering

MICCI will issue the Warrants to or for the benefit of each Inter-City Products Ordinary Shareholder other than MICCI in order to provide Inter-City Products Ordinary Shareholders (other than residents of any State in which the distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful) with an opportunity to maintain their proportionate voting interest in Inter-City Products on a fully-diluted basis by exercising the Warrants distributed to them under the Arrangement and converting the Class C 8% Convertible Preference Shares acquired thereby into Inter-City Products Ordinary Shares. The number of Warrants will be equal to the number of outstanding Inter-City Products Ordinary Shares held by shareholders other than MICCI and will be issued on the basis of one Warrant for each Inter-City Products Ordinary Share held. The Warrants which would otherwise be issued to holders of Inter-City Products Ordinary Shares who are residents of a State in which such issuance would be unlawful will be issued to a warrant sales agent for the benefit of such holders. The warrant sales agent will dispose of such Warrants and the net proceeds of disposition will be allocated and distributed, pro rata, among such holders. Three Warrants will be required to purchase one Class C 8% Convertible Preference Share from MICCI for a purchase price of $25.00. No fractional Warrants will be issued.

The Warrants may be exercised at any time during the 21 day period commencing on the Warrant Commencement Date and terminating on the Warrant Expiry Date. The Warrant Commencement Date will be the business day following a period of 30 calendar days plus a period of 20 trading days after the Effective Date.

The Toronto Stock Exchange has conditionally approved the listing and posting for trading of the Warrants, subject to the fulfillment of all the requirements of such exchange, including distribution to a minimum number of public holders. Application will also be made to list the Class C 8% Convertible Preference Shares and to admit the Warrants to dealings on the American Stock Exchange. See "THE ARRANGEMENT — Details of the Arrangement — Recapitalization — Creation of Class C 8% Convertible Preference Shares and Warrant Offering — The Warrant Offering".

Creation of Class A Preference Shares and Class B Preference Shares

The Articles of the Corporation will be amended to provide for the creation of Class A and Class B Preference Shares in order to provide future financing flexibility. The Board of Directors has no present plans to issue any such Preference Shares. For a description of the terms and conditions of the Class A and Class B Preference Shares, see "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION — Description of Share Capital — Class A Preference Shares and Class B Preference Shares". A copy of the terms and conditions of the Class A Preference Shares and Class B Preference Shares is annexed as Appendix II to the Arrangement annexed as Exhibit I to the Arrangement Agreement.

Subject to the discussion below, Class A Preference Shares or Class B Preference Shares would be available for issuance without further action by shareholders. The creation of a series of Class A Preference Shares or Class B Preference Shares could be limited in certain circumstances by the provisions of Ontario Securities Commission Policy Statement 1.3 relating to "Restricted Shares" which requires minority shareholder approval for the creation of any class of securities which are Restricted Shares or which have the effect of making another class of securities Restricted Shares within the meaning of that Policy Statement. The Policy Statement provides discretion to the Director appointed under the Securities Act (Ontario) to deem shares to be Restricted Shares. The Policy Statement also provides that Restricted Shares are shares of a company that carry a residual right to participate to an unlimited degree in earnings of an issuer and in its assets upon liquidation or winding-up; but which do not have voting rights exercisable in all circumstances, irrespective of the number of shares owned, which voting rights are not less, on a per share basis, than the voting rights attaching to any other shares of an outstanding class of shares of the issuer.

Although the Board of Directors has no present plans to create a series of either Class A Preference Shares or Class B Preference Shares, such shares could in the future be issued in one or more transactions with terms,

provisions and rights which may make a take-over of Inter-City Products more difficult. For example, the shares could be issued in a private placement to persons who might side with management in a take-over bid or other attempt to obtain control of Inter-City Products. Such shares could also be made convertible into large numbers of Inter-City Products Ordinary Shares, effectively diluting the share ownership of persons seeking to obtain control. The creation of the Class A Preference Shares and Class B Preference Shares is not in response to any efforts of which the Board of Directors is aware to accumulate the shares of Inter-City Products or obtain control of Inter-City Products.

The creation of a series of Class A Preference Shares or Class B Preference Shares in transactions which might make a take-over bid more difficult may be limited in certain circumstances by the requirements of National Policy No. 38 of the Canadian Securities Administrators dealing with the use of take-over bid defensive tactics. In addition, shareholder approval may be required in certain circumstances before a series of Class A Preference Shares or Class B Preference Shares may be issued.

Cancellation of the Corporation's First Preference Shares, Second Preference Shares and Third Preference Shares

The Articles of the Corporation will be amended to cancel the Corporation's classes of first preference shares, second preference shares and third preference shares. The First Preference Shares will be changed into Class C 8% Convertible Preference Shares under the Arrangement. The Second Preference Shares will be redeemed prior to the Effective Date. All outstanding Third Preference Shares will be changed into Common Shares under the Arrangement. After the Effective Date, there will be no First Preference Shares, Second Preference Shares or Third Preference Shares outstanding. The Corporation has no plans to issue any additional first preference shares, second preference shares or third preference shares and, accordingly, it is proposed that the first preference shares, second preference shares and third preference shares be cancelled.

Redesignation of Common Shares

The Common Shares will be redesignated as ordinary shares to satisfy certain requirements of The Toronto Stock Exchange. The Inter-City Products Ordinary Shares will have the same terms, rights and attributes as the Common Shares.

Change of Name

The Corporation's name will be changed to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc.". The Arrangement provides for the sale of the Utilities Division to WestCoast Gas and the sale of the Propane Division to WestCoast Gas, or if WestCoast Gas assigns its right to acquire the Propane Holdings Shares, to Petro-Canada. The names "ICG" and "Inter-City Gas" have traditionally been associated with those businesses. In connection with the Arrangement, Propane Company will acquire the Corporation's rights in the name "ICG Propane". KeepRite will retain the right to use the trademark "ICG" and certain related trademarks until September 30, 1992. The name "Inter-City Products Corporation" symbolizes management's intention to focus on the continued development of the Energy Products Business following the Effective Date.

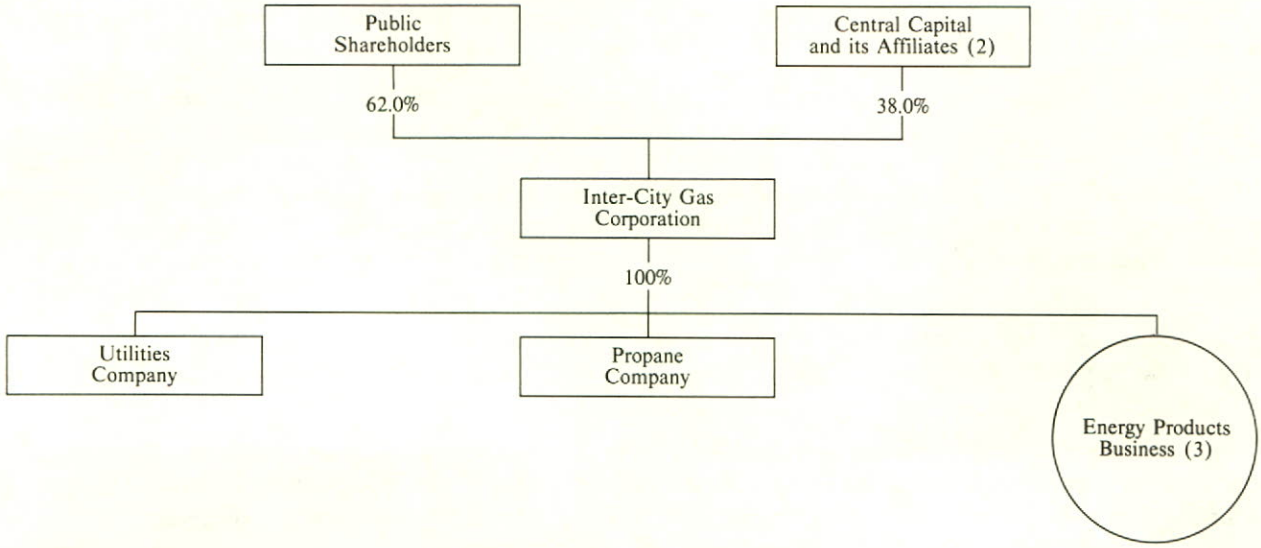
Treatment of Option Holders

In the event that the Arrangement Resolution is passed, all Options will become vested and will be immediately exercisable notwithstanding that such Options may not be currently exercisable according to their terms. Option Holders will be required to exercise their Options and thereby purchase Common Shares in order to participate in the Arrangement. Option Holders who validly exercise their Options prior to the Effective Date will participate in the Arrangement as Common Shareholders. The Corporation's Employee Stock Option Plan under which the Options have been granted does not contain any anti-dilution provisions. Accordingly, Option Holders are cautioned that if they do not validly exercise their Options prior to the Effective Date, the value of the Options which they will continue to hold is expected to be significantly reduced following the Effective Date.

Corporate Structure

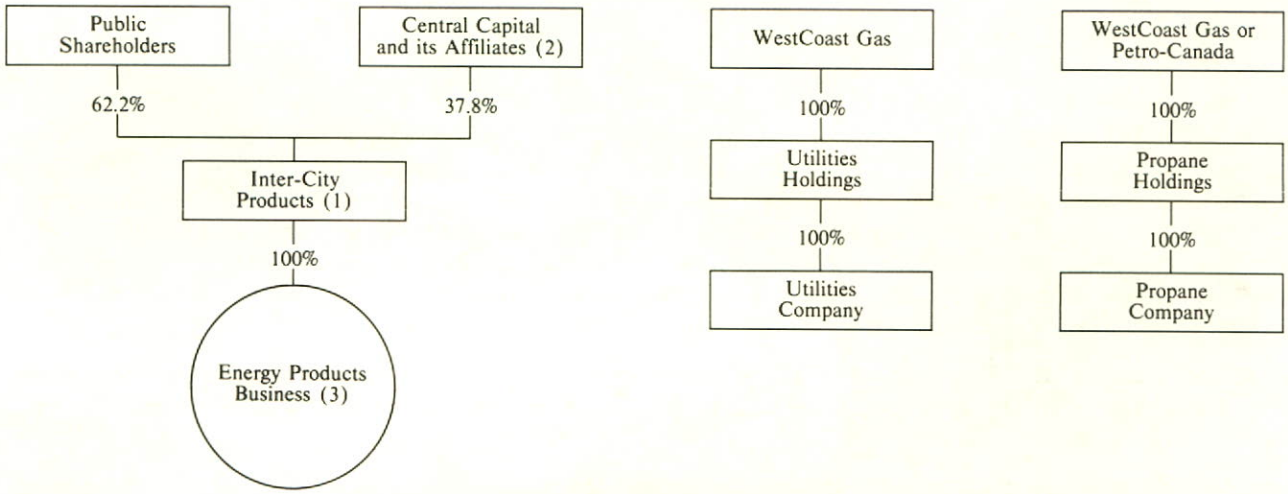
The following diagrams show the corporate relationships of the Corporation, Central Capital and its affiliates and the Public Shareholders (i) as they will exist immediately prior to the Arrangement but after the pre-Arrangement transactions; and (ii) as they will exist immediately after the Effective Date.

(i) Immediately prior to Arrangement but after Pre-Arrangement Transactions (approximate ownership percentage determined on a fully-diluted basis (1))



(1) Approximate ownership percentage includes the Common Shares, First Preference Shares, Third Preference Shares with a conversion rate of 1.6393 and Options but does not include the Second Preference Shares.
(2) Utilities Holdings, Propane Holdings, 2451409 Manitoba Ltd. and Central Guaranty Trust Company.
(3) Including KeepRite, Heil-Quaker and Thompson Pipe.

(ii) Immediately after the Effective Date (with approximate ownership percentages not reflecting the creation of the Class C 8% Convertible Preference Shares (1))



(1) Approximate ownership percentage includes the Inter-City Products Ordinary Shares held after the Change of Third Preference Shares at a conversion rate of 1.662 and the exercise of Options. The ownership of voting shares of Inter-City Products on a fully-diluted basis cannot be determined until such time as the Conversion Rate for the Class C 8% Convertible Preference Shares is established and the number of Warrants which have been exercised is determined. The Conversion Rate for the Class C 8% Convertible Preference Shares will be established on the Warrant Commencement Date.
(2) Does not include 2,439,920 Class C 8% Convertible Preference Shares. On the Effective Date, MICCI will issue, to or for the benefit of all other Inter-City Products Ordinary Shareholders, Warrants to purchase a percentage of the Class C 8% Convertible Preference Shares held by it. If any Warrants are not exercised, the proportion of the voting shares of Inter-City Products held on a fully-diluted basis by Central Capital and its affiliates will increase and, in certain events, may result in Central Capital and its affiliates holding in excess of 50% of the voting shares of Inter-City Products on a fully-diluted basis.
(3) Including KeepRite, Heil-Quaker and Thompson Pipe.

Recommendation of Board of Directors

The Special Committee presented a full report to the Board of Directors on November 22, 1989, which recommended the proposed Arrangement and related transactions as set out in this Management Proxy Circular. In arriving at its recommendation, the Special Committee received advice from Burns Fry. In respect of the Arrangement, such advice related to the Utilities Division Purchase Price and the Propane Division Purchase Price, the basis on which Third Preference Shares would be changed into Common Shares and involved consideration of the financial impact of various cash payment levels on the capitalization of Inter-City Products following the Arrangement.

With respect to the change of the First Preference Shares into Class C 8% Convertible Preference Shares and the Warrant Offering, Burns Fry advised the Special Committee as to the appropriate terms and conditions to attach to the Class C 8% Convertible Preference Shares and the Warrant Offering. The terms and conditions of the Class C 8% Convertible Preference Shares and the Warrant Offering were arrived at through negotiations between management of the Corporation, assisted by Burns Fry, and Central Capital. Due to the relationship between Central Capital and the Corporation, these negotiations may be considered not to have been conducted at arm's length.

The recommendation of the Special Committee was also influenced by the fact that Burns Fry was prepared to deliver to the Board of Directors its opinion as to the fairness of the Arrangement from a financial point of view to the Public Shareholders.

On November 21, 1989, Burns Fry provided the Board of Directors with a draft fairness opinion substantially in the form of the fairness opinion and a covering letter indicating that it would provide its executed fairness opinion in the form attached thereto subject to certain conditions, including: finalization of financing arrangements for Inter-City Products on terms not materially different from those previously described to Burns Fry by the Corporation's management; execution of the Arrangement Agreement in the form reviewed by Burns Fry without material changes thereto; and no subsequent occurrence which would materially adversely impact on the ability of Burns Fry to deliver its fairness opinion. Burns Fry confirmed that the conditions outlined spoke as of the date of its letter and in the event that certain of these conditions which required that certain prospective events occur (e.g. execution of the Arrangement Agreement in the form reviewed by Burns Fry without material changes thereto) were satisfied it would provide its fairness opinion dated as of November 21, 1989.

On December 11, 1989, Burns Fry provided the Board of Directors with a draft fairness opinion substantially in the form of the fairness opinion and a covering letter indicating that it would provide its executed fairness opinion in the form attached thereto, subject to certain conditions, including: the entering into by the Corporation of financing proposals with The Toronto-Dominion Bank as disclosed to Burns Fry or financing agreements on similar terms in all material respects; execution of the Arrangement Agreement in the form reviewed by Burns Fry without material changes thereto; and no subsequent occurrence which would materially adversely effect the ability of Burns Fry to deliver its fairness opinion. Burns Fry confirmed that the conditions outlined spoke as of the date of its letter and in the event that certain of these conditions which required that certain prospective events occur (e.g. execution of the Arrangement Agreement in the form reviewed by Burns Fry without material changes thereto) were satisfied it would provide its fairness opinion dated as of December 11, 1989.

On December 11, 1989, the Board of Directors approved the entering into of the Arrangement Agreement and on February 12, 1990 approved the amending agreement providing for the amendment and restatement of the Arrangement Agreement.

On February 12, 1990, Burns Fry provided its fairness opinion, subject to its final review of this Management Proxy Circular and execution of the amending agreement to the Arrangement Agreement. On February 14, 1990, Burns Fry provided its fairness opinion for inclusion in the Management Proxy Circular.

The members of the Board of Directors, other than those who are directors or officers of Central Capital or MICCI who refrained from voting because of the interest of Central Capital and MICCI in the Arrangement Agreement and Mr. Davis who refrained from voting because of the interest of Westcoast in the Arrangement Agreement, have unanimously determined that the Arrangement is fair to the Public Shareholders and is in the best interests of the Corporation and recommend that they vote in favour of the Arrangement Resolution. In arriving at its recommendation, the Board of Directors considered the following material factors:

(a) the terms of the Arrangement which will result in each Common Shareholder receiving $21 for each Common Share held by him and retaining Inter-City Products Ordinary Shares and each Third Preference Shareholder receiving $34.90 for each Third Preference Share held by him as a result of the Change of Third Preference Shares at, in effect, the adjusted conversion ratio and retaining Inter-City Products Ordinary Shares;

(b) the terms and conditions of the Class C 8% Convertible Preference Shares which were designed to be attractive to existing Public Shareholders and the terms and conditions of the Warrant Offering which would provide for the distribution of the Class C 8% Convertible Preference Shares to Public Shareholders (noting that Warrants otherwise issuable to residents of any State in which the distribution of the Warrants or the issuance of the Class C 8% Convertible Preference Shares would be unlawful would be sold for the benefit of such shareholders by a warrant sales agent) (See "Creation of Class C 8% Convertible Preference Shares and Warrant Offering");

(c) the capital structure of Inter-City Products after the Arrangement which would provide for an adequate debt-equity ratio while not requiring an immediate injection of equity capital;

(d) the effect of the Arrangement on Inter-City Products which would enable Inter-City Products to focus on developing the Energy Products Business;

(e) the opinion of Burns Fry as referred to under "Opinion of Financial Adviser";

(f) the procedures by which the Arrangement will be approved, including in particular the majority approval required by holders of Common Shares and Third Preference Shares other than Central Capital Related Parties, each voting as a separate class, at the Special Meeting;

(g) the eligibility of Inter-City Products Ordinary Shares and Class C 8% Convertible Preference Shares as investments for certain classes of investors (See "Eligibility for Investment in Canada");

(h) the availability of rights of dissent to Common Shareholders and Third Preference Shareholders which would entitle a shareholder to dissent and be paid the fair value for his shares in the Corporation; and

(i) the unanimous recommendation of the Special Committee which noted that the advice of Burns Fry as to the fairness of the Arrangement was an important basis for its recommendation that the Arrangement Resolution be approved.

In view of the variety of factors considered in connection with its consideration of the Arrangement, the Board of Directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its decision.

Under the MCA, any director of a corporation who is a director or officer of any person who is a party to a proposed material contract with the corporation is required to disclose in writing to the corporation or request to have entered in the minutes of the meeting the nature and extent of his interest. If such a director votes on a resolution to approve certain of such contracts, including a contract such as the Arrangement Agreement, the resolution is not valid unless it is approved by at least 66⅔% of the votes of all shareholders to whom notice of the nature and extent of the director's interest in the contract or transaction are declared and disclosed in reasonable detail. As Central Capital is a party to the Arrangement Agreement, each of Messrs. H. Reuben Cohen, Q.C., Clarence W. Cole, Leonard Ellen and Robert G. Graham, directors of both the Corporation and Central Capital, disclosed his interest as a director of Central Capital in the Arrangement Agreement and abstained from voting in respect of the resolution to approve the Arrangement Agreement.

Opinion of Financial Adviser

By letter agreement dated August 23, 1989 (the "Opinion Agreement"), the Board of Directors retained Burns Fry to provide financial advice in respect of the Arrangement and to provide its opinion as to certain matters relating thereto. Burns Fry has provided an opinion (the "Fairness Opinion") to the Board of Directors that the Arrangement is fair from a financial point of view to the Public Shareholders. Burns Fry received no instructions and was subject to no limitations imposed by the Corporation in connection with its advice and was selected to perform the services referred to above on the basis of its expertise in such matters and its familiarity with the Corporation. The Corporation has agreed to pay Burns Fry a fee of $675,000 for Burns Fry's services in providing the Fairness Opinion.

In providing the Fairness Opinion, Burns Fry reviewed certain documents, undertook various procedures, and made certain assumptions which are described in the Fairness Opinion attached as Schedule D to this Management Proxy Circular, which should be read in its entirety by Public Shareholders. Burns Fry relied upon the completeness, accuracy and fair presentation of all information provided to them by the Corporation or obtained from public sources without independent verification.

Burns Fry is a fully integrated Canadian investment dealer which arranges for the public underwriting and private placements of equity and debt securities on behalf of corporate and government issuers. Burns Fry offers advisory services to corporations and government and research to its clients.

By letter agreement dated September 1, 1989 (the "Advisory Agreement"), the Corporation has agreed to pay Burns Fry a fee of $75,000 per month for a minimum period of five months commencing August 15, 1989 for its financial advice in respect of the Arrangement and the capitalization of Inter-City Products. The Corporation has agreed under the Advisory Agreement to reimburse Burns Fry only for those out-of-pocket expenses of Burns Fry incurred in connection with the services provided thereunder which have been approved in advance by the Corporation. In addition, under each of the Opinion Agreement and the Advisory Agreement, the Corporation has agreed to indemnify Burns Fry against certain liabilities, including liabilities under applicable securities laws, which may be incurred by Burns Fry in connection with the provision of services described therein, or to contribute to payments which Burns Fry may be required to make in respect of such liabilities.

By letter agreement dated November 3, 1988 (the "November 3 Agreement"), Burns Fry was initially retained, to provide overall financial advisory services to the Corporation and its Board of Directors, with respect to possible solicited or unsolicited offers and other possible transactions involving the purchase or sale of all or some of the shares, subsidiaries, assets or divisions of the Corporation. By letter agreement dated November 3, 1988 (the "Merrill Letter"), the Corporation retained Merrill Lynch to provide similar financial advisory services on similar terms to those on which Burns Fry was engaged. The Corporation confirmed to Merrill Lynch the termination of Merrill Lynch as financial adviser to the Corporation, effective January 15, 1989.

By letter agreement dated March 31, 1989 (the "March 31 Agreement"), the November 3 Agreement was terminated and Burns Fry was retained to provide substantially the same services for the period from January 15, 1989 to June 15, 1989, which was further extended to August 15, 1989. In addition, under each of the November 3 Agreement, the March 31 Agreement and the Merrill Letter, the Corporation agreed to reimburse Burns Fry or Merrill Lynch, as the case may be, for reasonable out-of-pocket expenses, including the fees and disbursements of its counsel, and agreed to indemnify Burns Fry or Merrill Lynch, as the case may be, against certain liabilities, including liabilities under applicable securities laws, which may be incurred by Burns Fry or Merrill Lynch, as the case may be, in connection with the provision of services described therein, or to contribute to payments which Burns Fry or Merrill Lynch, as the case may be, may be required to make in respect of such liabilities.

By separate letter agreement (the "Resources Agreement") dated March 31, 1989, Burns Fry was retained as the Corporation's financial adviser and exclusive agent with regard to the sale of the common shares or assets of ICG Resources Ltd. ("ICG Resources"), a wholly-owned subsidiary of the Corporation and the sale of common shares of Ranger Oil Limited owned by the Corporation. Pursuant to the Resources Agreement, the Corporation agreed to reimburse Burns Fry for reasonable out-of-pocket expenses, including the fees and disbursements of its counsel, and agreed to indemnify Burns Fry against certain liabilities, including liabilities under applicable securities laws, which may be incurred by Burns Fry in connection with the provision of services described therein, or to contribute to payments which Burns Fry may be required to make in respect of such liabilities. The Corporation paid Burns Fry $854,000 in fees relating to the sale of ICG Resources pursuant to the provisions of the Resources Agreement. In addition to the services described above, during the past two years Burns Fry has provided various additional financial advisory services to the Corporation for which it has received fees aggregating approximately $242,000.

Since the initial engagement of Burns Fry under the November 3 Agreement and up to January 31, 1990, the Corporation has paid Burns Fry a total of $2,279,000 in fees under the agreements referred to above and Merrill Lynch a total of $600,000 in fees under the Merrill Letter. In addition, the Corporation has agreed to reimburse Central Capital, in the event the Arrangement is completed, for certain out-of-pocket expenses incurred by Central Capital in connection with the Arrangement including $566,089 which Central Capital has agreed to pay Merrill Lynch in respect of fees and out-of-pocket expenses incurred by Merrill Lynch. See "THE ARRANGEMENT — Interest of Central Capital and Other Insiders in Arrangement".

For information concerning reports prepared by Burns Fry in respect of certain assets of the Corporation, including the common equity values of Greater Winnipeg Gas Company, ICG Ontario and ICG Utilities (Manitoba) Ltd., see "INFORMATION CONCERNING THE CORPORATION — Utilities Division".

Conditions to the Arrangement Becoming Effective

In order for the Arrangement to become effective, the following must occur:

(a) the Arrangement must receive the approval of the Common Shareholders, First Preference Shareholders, Third Preference Shareholders and Option Holders, each voting as a separate class, in the manner referred to under "Shareholder and Option Holder Approval" below;

(b) the Arrangement must receive the approval of a majority of the Common Shareholders and Third Preference Shareholders other than Central Capital Related Parties, each voting as a separate class, as described under "Shareholder and Option Holder Approval" below;

(c) the Arrangement must be approved by the Court as described under "Court Approval" below; and

(d) the other conditions of the Arrangement referred to under "Other Conditions of the Arrangement" below must be fulfilled or waived.

Upon fulfillment or waiver of the foregoing conditions, the Board of Directors intends to cause articles of arrangement to be filed with the Director together with such other material as may be required by the Director in order that the Director may issue a certificate of amendment giving effect to the Arrangement.

The precise timing of the Effective Date cannot be predicted, but will be publicized in major local and national newspapers when known.

Notwithstanding the foregoing, the Arrangement Agreement may be terminated (and consequently the Arrangement not proceeded with) at any time before or after the holding of the Special Meeting but no later than the Effective Date by agreement of the Corporation, Westcoast, WestCoast Gas, Central Capital, Utilities Holdings, Propane Holdings, Newco and MICCI without any further action on the part of the Shareholders, Option Holders or the Court.

Shareholder and Option Holder Approval

As provided in the Interim Order, in order for the Arrangement to be implemented, the Arrangement Resolution must be passed, with or without variation, by at least two-thirds of the votes cast by the Common Shareholders, First Preference Shareholders, Third Preference Shareholders and Option Holders, each voting as a separate class, at the Special Meeting.

In addition to the approval of Shareholders and Option Holders described above, the Interim Order provides that, in order for the Arrangement to be implemented, the Arrangement Resolution must be passed, with or without variation, by a majority of the votes cast by Common Shareholders and Third Preference Shareholders, other than Central Capital Related Parties, each voting as a separate class, at the Special Meeting.

In the event the Arrangement Resolution is not approved by the Shareholders and Option Holders in the manner described above, the Arrangement will not proceed.

Intentions of Certain Shareholders and Option Holders

Central Capital and its affiliates beneficially own 10,570,400 Common Shares, 87,140 First Preference Shares and 223,800 Third Preference Shares representing approximately 44.5% of the outstanding Common Shares, all of the outstanding First Preference Shares and approximately 8.2% of the outstanding Third Preference Shares, representing approximately 38% of the voting shares of the Corporation on a fully-diluted basis. Directors and officers of Central Capital beneficially own 1.9% of the Common Shares, 0.6% of the Third Preference Shares and 25.7% of the Options, representing approximately 2.3% of the voting shares of the Corporation on a fully-diluted basis. Under the Arrangement Agreement, subject to exception only in the event of an unsolicited offer or proposal by a third party to acquire all of the Corporation, Central Capital has agreed that (i) Central Capital and its subsidiaries will vote all shares in the capital of the Corporation which they own or over which they exercise control or direction in favour of the Arrangement, (ii) Central Capital and certain of its subsidiaries will not take any action, directly or indirectly, with the intention of adversely affecting the completion of the Arrangement, and (iii) Central Capital and certain of its subsidiaries will not transfer any Common Shares, First Preference Shares or

Third Preference Shares which they beneficially own or over which they exercise control or direction except as permitted by the Arrangement Agreement.

Option Holders holding two-thirds of the Options have entered into agreements with Westcoast, whereby such Option Holders have agreed to vote all Options held by them in favour of the Arrangement Resolution.

The directors of the Corporation intend to vote any shares of the Corporation held by them in favour of the Arrangement.

Court Approval

An arrangement under the MCA requires Court approval. Prior to the mailing of this Management Proxy Circular, the Corporation obtained the Interim Order providing for the calling and holding of the Special Meeting and other procedural matters. The Notice of Application for the Final Order appears at the front of this Management Proxy Circular.

As set out in the Notice of Application, the hearing in respect of the Final Order is scheduled to take place on March 19, 1990, subject to Shareholder and Option Holder approval of the Arrangement at the Special Meeting. At this hearing, all holders of Common Shares, First Preference Shares, Third Preference Shares or Options who wish to participate or to be represented or to present evidence or argument may do so, subject to filing a notice of appearance and satisfying other requirements.

The authority of the Court is very broad under the MCA. The Corporation has been advised by Messrs. Thompson, Dorfman, Sweatman, counsel to the Corporation, that the Court will consider, among other things, the fairness of the Arrangement to the Shareholders. The Court may approve the Arrangement either as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court shall order.

Other Conditions of the Arrangement

Pursuant to the Arrangement Agreement, the respective obligations of the parties to the Arrangement Agreement to complete the Arrangement and to file articles of arrangement giving effect to the Arrangement are also subject to the satisfaction or mutual waiver by the Corporation, Westcoast and WestCoast Gas of the following conditions:

(a) the Interim Order shall have been obtained in form and substance satisfactory to each party to the Arrangement Agreement;

(b) the Arrangement shall have been approved at the Special Meeting in accordance with the Interim Order;

(c) the Final Order shall have been obtained in form and substance satisfactory to each party to the Arrangement Agreement;

(d) Westcoast shall have been advised by the CA Director that he has determined not to make application under the Competition Act for an order in respect of the Arrangement and the acquisition of the Propane Holdings Shares by Petro-Canada or, if he has determined to make such application, the Competition Tribunal has determined to permit the transactions contemplated by the Arrangement Agreement and by the Arrangement to be completed, in either case either without conditions or on conditions which are in form and content satisfactory to the Corporation and Westcoast, acting reasonably;

(e) all regulatory approvals in respect of the Utilities Division and Westcoast, described under "Regulatory Matters" below, shall have been received;

(f) the Corporation shall have received the Advance Tax Ruling;

(g) all other consents, waivers, orders and approvals, including regulatory and judicial approvals and orders, necessary for the completion of the Arrangement and the other transactions contemplated by the Arrangement Agreement (and any other consents, waivers, orders and approvals necessary to ensure the continued holding by certain subsidiaries of the Corporation of all permits which it requires, or is required to have, to own its properties and assets and to carry on the business as presently conducted by it in a manner consistent with prior practice after the completion of the Arrangement and the other transactions contemplated by the Arrangement Agreement) shall have been obtained or received and reasonably satisfactory evidence thereof shall have been delivered to the other parties to the Arrangement

Agreement, except for any such consents, waivers, orders and approvals that if not obtained, either individually or in the aggregate, would not have a material adverse effect on the Corporation or Westcoast or the carrying on by Propane Company and NASCO of the Propane Division, consistent with prior practice, or the carrying on of the Utilities Division as a whole or in any of the Provinces of Ontario, Manitoba, Alberta or British Columbia, consistent with prior practice;

(h) no preliminary or permanent injunction, restraining order or other order of any court or regulatory body in Canada or the United States which prevents the consummation of the transactions contemplated by the Arrangement Agreement or which restrains or prohibits in any material respect the carrying on by Propane Company and NASCO of the Propane Division, consistent with prior practice, or which restrains or prohibits, in any material respect, the carrying on of the Utilities Division as a whole or in any of the Provinces of Ontario, Manitoba, Alberta or British Columbia, consistent with prior practice shall have been issued and remain in effect, and no such injunction or order shall be pending or threatened; and

(i) the Arrangement Agreement shall not have been terminated pursuant to its terms.

Pursuant to the Arrangement Agreement, the obligations of the Corporation to complete the Arrangement and to file articles of arrangement giving effect to the Arrangement are also subject to the satisfaction or waiver by the Corporation of certain conditions, including the following conditions:

(a) each of Westcoast, WestCoast Gas, Central Capital, Propane Holdings, Utilities Holdings and MICCI shall have performed each obligation to be performed by it under the Arrangement Agreement in favour of the Corporation on or prior to the Effective Date; and

(b) the representations and warranties of Westcoast, WestCoast Gas and Central Capital set out in the Arrangement Agreement shall be true and correct on and as of the Effective Date as if made on and as of such date, except as affected by transactions contemplated or permitted by the Arrangement Agreement.

Pursuant to the Arrangement Agreement, the obligations of WestCoast Gas and Westcoast to complete the Arrangement are also subject to the satisfaction or waiver by WestCoast Gas and Westcoast of certain conditions, including the following conditions:

(a) the Corporation, Central Capital, Utilities Holdings and Propane Holdings shall have performed each obligation to be performed by it under the Arrangement Agreement in favour of Westcoast or WestCoast Gas on or prior to the Effective Date;

(b) the representations and warranties of the Corporation and Central Capital set out in the Arrangement Agreement shall be true and correct except as affected by transactions contemplated or permitted by the Arrangement Agreement on and as of the Effective Date as if made on and as of such date except for certain representations and warranties of the Corporation to the extent that they relate to matters beyond the control of the Corporation, which representations and warranties shall be true and correct on and as of the date of the Special Meeting as if made on and as of such date;

(c) the consents, waivers, orders and approvals described in paragraph (g) above shall not contain terms or conditions or require undertakings which would have a material adverse effect on the carrying on by Propane Company of the Propane Division, consistent with prior practice, or the carrying on of the Utilities Division as a whole or in any of the Provinces of Ontario, Manitoba, Alberta or British Columbia, consistent with prior practice;

(d) no substantial damage to the assets of the Utilities Division or the Propane Division shall have occurred prior to the date of the Special Meeting which damage, taking into account all insurance proceeds recoverable as a result thereof, shall have a material adverse effect on the carrying on of the Propane Division, consistent with prior practice, or the carrying on of the Utilities Division, as a whole or in any of the Provinces of Ontario, Manitoba, Alberta or British Columbia, consistent with prior practice;

(e) no legislation shall have been enacted prior to the date of the Special Meeting which materially adversely affects the Utilities Division as a whole or in any of the Provinces of Ontario, Manitoba, Alberta or British Columbia, consistent with prior practice, or the Propane Division, consistent with prior practice, which legislation impacts principally companies carrying on like businesses in Canada;

(f) the pre-arrangement transactions described under "THE ARRANGEMENT — Pre-Arrangement Transactions and Obligations" at paragraphs (i) to (vii) shall have been completed and as a consequence thereof or of the transactions forming part of the Arrangement, none of Utilities Holdings, Propane Holdings, Newco, Utilities Company, any subsidiaries of Utilities Company, Propane Company or NASCO shall have incurred any adverse tax consequences or shall have suffered or incurred or become liable for any taxes, expenses or other costs which, in the aggregate, have a material adverse effect on the financial position of any of them, in each case on a consolidated basis, and WestCoast Gas shall be satisfied, acting reasonably, that none of them will incur or suffer any such consequences or liabilities; and

(g) the terms of and all documentation relating to the pre-arrangement transactions described under "THE ARRANGEMENT — Pre-Arrangement Transactions and Obligations" at paragraphs (i) to (vii) and the implementation thereof (including all election forms filed or to be filed in connection therewith), and all actions or proceedings taken on or prior to the Effective Date in connection therewith and with the transactions forming part of the Arrangement shall be satisfactory to WestCoast Gas and its counsel, acting reasonably, and WestCoast Gas shall have received copies of all such documentation or other evidence as it may reasonably request in order to establish the consummation of such pre-arrangement transactions and the transactions forming part of the Arrangement and the taking of all corporate proceedings in connection therewith in compliance with the terms and conditions of the Arrangement Agreement, in form and substance satisfactory to WestCoast Gas and its counsel, acting reasonably.

Pursuant to the Arrangement Agreement the obligations of Central Capital to complete the Arrangement are also subject to the satisfaction or waiver by Central Capital of certain conditions, including the following conditions:

(a) each of Westcoast and WestCoast Gas shall have performed each obligation to be performed by it under the Arrangement Agreement in favour of Central Capital on or prior to the Effective Date;

(b) the representations and warranties of Westcoast and WestCoast Gas set out in the Arrangement Agreement shall be true and correct on and as of the Effective Date as if made on and as of such date, except as affected by transactions contemplated or permitted by the Arrangement Agreement;

(c) the Advance Tax Ruling shall have been obtained;

(d) all regulatory approvals necessary to the issue and distribution of the Warrants in accordance with the provisions of the Arrangement Agreement and the Arrangement, the distribution of the Class C 8% Convertible Preference Shares upon the exercise of the Warrants and any other acquisition or distribution of securities by Central Capital or the subsidiaries of Central Capital in accordance with the provisions of the Arrangement Agreement and the Arrangement shall have been obtained or in the opinion of Central will be obtained;

(e) no preliminary or permanent injunction, restraining order or other order of any court or regulatory body in Canada or the United States which prevents the consummation of the transactions contemplated by the Arrangement Agreement shall have been issued and remain in effect, and no such injunction or order shall be pending or threatened; and

(f) the Arrangement Agreement shall not have been terminated pursuant to its terms.

The Arrangement Agreement requires that each party thereto give prompt notice to each other party of any representation and warranty of the Corporation, Westcoast, WestCoast Gas or Central Capital which was untrue or incorrect as at December 11, 1989 and, thereafter to the Effective Time, of any event or state of facts which occurrence or failure would, or would be likely to, (i) cause any of the representations or warranties of any party contained in the Arrangement Agreement to be untrue or inaccurate in any material respect, or (ii) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any party to the Arrangement Agreement. No party may elect not to complete the transactions contemplated by the Arrangement Agreement on the basis that another party has failed to comply with an obligation in favour of the first party or breached a representation or warranty given by such party under the Arrangement Agreement unless, prior to the filing on the Effective Date of articles of arrangement for the purpose of giving effect to the Arrangement, the party intending to rely thereon has delivered a written notice to the other parties to the Arrangement Agreement (the "defaulting parties") specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the party delivering such notice is asserting as the basis for failing to complete the

transaction. If any such notice is delivered less than 30 days prior to April 2, 1990, provided that one or more of the defaulting parties are proceeding diligently to cure such breach, the Termination Date shall be extended to a date which is the earlier of (i) 30 days after the date of delivery of such notice and (ii) April 30, 1990. The ability of a party to give such a notice after April 2, 1990 is limited.

Regulatory Matters

Approval of Utilities Regulators

The respective obligations of the parties to the Arrangement Agreement to complete the Arrangement are subject to the satisfaction or mutual waiver by the Corporation, Westcoast and WestCoast Gas of the following regulatory utilities approvals being obtained by the Corporation or Westcoast either without conditions or on conditions in form and substance satisfactory to the Corporation and Westcoast. Westcoast has agreed that it will accept any conditions to such approvals which are no more onerous than the conditions applicable to the regulatory approvals under which the Utilities Division and the Propane Division are presently carried on.

Ontario

Pursuant to undertakings dated June 16, 1988 (the "1988 Undertakings") given by the Corporation, Utilities Company and ICG Ontario to the Ontario Lieutenant Governor-in-Council ("Ontario Cabinet"), the Corporation undertook to take no action without first obtaining leave of the Ontario Cabinet, that is intended to result in any person acquiring control of any person that owns or controls, directly or indirectly, more than 20 percent of the voting shares of ICG Ontario where such voting shares of ICG Ontario constitute a "significant asset" of such person (the "ICG Ontario Change of Control"). The 1988 Undertakings further provide that an application for such leave shall be made to the Ontario Energy Board ("OEB") and that the OEB may consider such an application with or without a public hearing.

Utilities Company owns all the common shares of ICG Ontario and such common shares constitute a "significant asset" of Utilities Company within the meaning of the 1988 Undertakings. Accordingly, the Corporation has applied to the OEB for leave of the Ontario Cabinet in respect of the transfer of shares of Utilities Company pursuant to the Arrangement. The Ontario Cabinet may grant such leave subject to conditions or undertakings pertaining to Westcoast. Westcoast has advised the OEB that it is prepared to enter into substantially the same undertakings as those to which the Corporation is a party under the 1988 Undertakings. The 1988 Undertakings include, in addition to the requirement to obtain leave in respect of the ICG Ontario Change of Control, undertakings:

(a) to maintain on the board of directors of ICG Ontario at least two representatives of ICG Ontario's franchise area who have no business connection with the Corporation, ICG Ontario or any other natural gas distribution or transmission company;

(b) to maintain ICG Ontario's head office and main operating office in Ontario;

(c) to limit the extent of "affiliated transactions" undertaken by ICG Ontario without the prior approval of the OEB;

(d) to maintain common equity in ICG Ontario at a level approved or deemed appropriate by the OEB;

(e) to limit the extent of intercorporate indebtedness, guarantees and investments undertaken by ICG Ontario without the prior approval of the OEB; and

(f) to limit ICG Ontario from engaging or investing, without the approval of the OEB, in any activity that is not subject to regulation by the OEB.

By Order-in-Council dated October 12, 1989, the Ontario Cabinet required the OEB to examine and, after holding a public hearing with respect thereto, to report to the Ontario Cabinet on the matter of whether leave should be given to the Corporation under the 1988 Undertakings in respect of the ICG Ontario Change of Control pursuant to the Arrangement.

The hearing by the OEB in respect of both the application by the Corporation and the reference to the OEB by the Ontario Cabinet commenced on December 12, 1989 and concluded on December 20, 1989. The OEB has delivered its Report dated January 31, 1990 to the Ontario Cabinet. The Report was released to the public on February 12, 1990. The Report recommends that, subject to satisfying certain conditions including execution of

undertakings which are substantially similar to the 1988 Undertakings, the Ontario Cabinet approve the ICG Change of Control pursuant to the Arrangement. If the Ontario Cabinet grants the Corporation leave under the 1988 Undertakings in respect of the Arrangement, such leave would be granted by way of Order-in-Council.

Manitoba

The Public Utilities Board of Manitoba ("MPUB") held a public hearing on January 10, 1990 to inquire into the indirect acquisition of the Corporation's Manitoba utility operations by Westcoast under the Arrangement. By an order dated January 26, 1990, the MPUB approved the indirect acquisition of the Corporation's Manitoba utility operations by Westcoast under the Arrangement.

Alberta

The Corporation is subject, in the Province of Alberta, to the regulatory direction and control of the Public Utilities Board (the "PUB") pursuant to the provisions of the Alberta Gas Utilities Act (the "GU Act") and the Alberta Public Utilities Board Act (the "PUB Act"). The Corporation is designated by regulations under the GU Act as the owner of a gas utility and under the PUB Act as the owner of a public utility and, in the absence of an exempting order, may not, without the approval of the PUB, sell, lease, mortgage or otherwise dispose of or encumber its properties, franchises, privileges or rights, or any part thereof, or merge or consolidate its property, franchises, privileges or rights or any part thereof. However, by an order (the "1981 Exemption Order") dated June 18, 1981, the PUB declared that these statutory restrictions on the transfer of the property of a designated owner shall not apply to the Corporation for so long as the 1981 Exemption Order remained unrevoked and subject to the condition that the Corporation complies with its undertaking (the "1981 Undertaking") dated May 29, 1981 given to the PUB in support of the Corporation's application for the 1981 Exemption Order.

Pursuant to the 1981 Undertaking, the Corporation is required to file with the PUB, prior to the closing date of any transaction involving the Corporation which, but for the 1981 Exemption Order, would require the approval or an order of the PUB, a written statement setting forth the particulars of the said transaction, the status of the Corporation and any Alberta gas utility owned directly or indirectly by the Corporation, and the fact that the said transaction does not or will not affect the Corporation's furnishing or supply of gas to the public of Alberta.

The Arrangement constitutes a transaction which, but for the 1981 Exemption Order, would require the approval or order of the PUB pursuant to the GU Act or the PUB Act in respect of the acquisition of the Corporation's utilities operations in Alberta by WestCoast Gas and any sale of the Corporation's propane business in Alberta to Petro-Canada. Accordingly, the Corporation has complied with the 1981 Undertaking and has made the appropriate filing with the PUB. The PUB has acknowledged receipt of that filing and has indicated to the Corporation that, as of January 24, 1990, the 1981 Exemption Order has not been rescinded. The PUB has further indicated to the Corporation that, provided there is no change as of the Effective Date in the information included in the filing, the PUB will confirm that as of the Effective Date the 1981 Exemption Order remains unrescinded.

An application is being made to the PUB for a declaration that certain provisions of the PUB Act and GU Act which require the consent of the PUB to the "union" of the owner of a public or gas utility with any other owner of a public or gas utility do not apply to the Corporation, Westcoast and WestCoast Gas for the purpose of Arrangement. The application has been made because there is an issue as to whether Westcoast and WestCoast Gas are owners of a public or gas utility, within the meaning of the PUB Act and the GU Act, by reason of their indirect interest in a corporation that furnishes gas to members of the public of Alberta.

British Columbia

Westcoast and WestCoast Gas applied to the British Columbia Utilities Commission (the "BCUC") pursuant to the provisions of the British Columbia Utilities Commission Act for an order approving the indirect acquisition by WestCoast Gas, through the acquisition of the shares of Utilities Holdings, of all the issued and outstanding common shares of ICG Utilities (British Columbia) Ltd. and Victoria Gas Company (1988) Ltd. (the "BC Utilities Companies"). The BC Utilities Companies own and operate the Corporation's British Columbia utilities. By an order dated February 14, 1990 the BCUC approved the indirect acquisition of the BC Utilities Companies by WestCoast Gas.

Northwest Territories

An indirect wholly-owned subsidiary of the Corporation, ICG Northern Utilities Ltd., distributes electricity in the City of Yellowknife, Northwest Territories. The Corporation has applied to the Northwest Territories Public Utilities Board (the "NWTPUB") for an order declaring that, for the purposes of the Northwest Territories Public Utilities Act (the "NWTPU Act"), the Corporation is not a public utility and that the provisions of the NWTPU Act relating to the change in control of a public utility do not apply to the Corporation. No hearing is required in respect of the Corporation's application. The Corporation anticipates that the NWTPUB will consider the Corporation's application by mid-February 1990.

Other Jurisdictions

The Corporation believes that no regulatory approvals are required in respect of the transactions contemplated by the Arrangement in the other jurisdictions in which the Corporation directly or indirectly owns or operates utility businesses. It is a condition of the Arrangement that all approvals necessary for the completion of the Arrangement and the other transactions contemplated by the Arrangement Agreement or to ensure the continued holding of those permits which are required by Utilities Company or any of certain of the subsidiaries of the Corporation to own its properties and assets and to carry on the business as presently conducted by them in a manner consistent with prior practice are obtained.

Competition Act

Under the Competition Act, the Competition Tribunal (the "Tribunal") may, in respect of a completed merger, upon the application of the CA Director (within a period of three years following substantial completion of the merger) take action to, among other things, dissolve the merger or, in respect of a proposed merger, prohibit the proposed merger from proceeding if the Tribunal finds that a merger or a proposed merger prevents or lessens, or is likely to prevent or lessen, competition substantially. In addition, the Tribunal, upon the application of the CA Director, may in certain circumstances make a temporary order (with, or in some cases without, prior notice) to, among other things, prevent a proposed merger from proceeding for a stated period of time (subject in some cases to prescribed time limits).

Part IX of the Competition Act and the Notifiable Transactions Regulations made thereunder effectively provide that, subject to certain exceptions, the acquisition of all Utilities Holdings Shares by WestCoast Gas or the acquisition of all Propane Holdings Shares by WestCoast Gas or, if WestCoast Gas assigns its right to acquire the Propane Holdings Shares, by Petro-Canada of all common shares in the capital of Propane Holdings, may not be consummated unless notice prescribed under the Competition Act has been given to the CA Director and certain waiting period requirements have been satisfied.

On September 27, September 28, and October 5, 1989, in the case of the Corporation and Westcoast, and on September 27 and October 18, 1989, in the case of the Corporation and Petro-Canada material comprising the filings in respect of the transactions referred to above in this section were filed with the CA Director's office. These filings were certified by the CA Director's office to be complete on October 5, 1989, in the case of the material filed on behalf of the Corporation and Westcoast, and on October 18, 1989 in the case of the material filed on behalf of the Corporation and Petro-Canada. By letters dated October 26, 1989 and November 8, 1989, the CA Director advised that the relevant waiting periods in respect of the material filed on behalf of the Corporation and Westcoast, and the Corporation and Petro-Canada, expired on October 26, 1989 and November 8, 1989, respectively. By letter dated January 26, 1990, the CA Director advised that following an examination of the proposed transactions pursuant to the merger provisions of the Competition Act he had concluded that he did not have grounds on which to apply to the Tribunal for relief, to prohibit, or otherwise challenge the completion of the proposed transactions under section 92 of the Competition Act.

Advance Tax Ruling

The Arrangement is conditional upon receipt of a favourable Advance Tax Ruling. The advance income tax ruling process permits a taxpayer to obtain confirmation in advance as to the tax consequences of a proposed transaction. The Corporation has applied for the Advance Tax Ruling. The principal purpose of applying for such ruling is to obtain confirmation from Revenue Canada Taxation that the transfer of the Utilities Division to Utilities Holdings and of the Propane Division initially to Propane Company (which will subsequently be acquired by Propane Holdings) qualifies as a "Butterfly" reorganization thereby allowing such transfers to occur with no current

income taxes being imposed upon any of the Corporation, Utilities Company, Utilities Holdings, Propane Company or Propane Holdings, in respect thereof. See "THE ARRANGEMENT — Canadian Federal Income Tax Considerations".

Conduct of Business Prior to the Effective Date

Under the Arrangement Agreement, the Corporation has agreed that unless Westcoast consents in writing or certain other limited exceptions apply, it shall, and it shall cause Utilities Company and each of its subsidiaries, and prior to the incorporation of Propane Company, it shall cause NASCO, and after the incorporation of Propane Company, it shall cause Propane Company and NASCO:

(a) to carry on the Utilities and Propane Divisions, respectively, in the ordinary course, consistent with prior practice, and, to the extent consistent with such prior practice, to use reasonable efforts to preserve the Utilities and Propane Divisions, including maintaining the goodwill of the Utilities Division and the Propane Division, respectively, with the employees, customers, suppliers, regulatory authorities and others having business dealings with such businesses;

(b) to maintain all assets, whether owned or leased, in good condition and repair on a basis consistent with prior practice, and to maintain insurance upon such assets comparable in amount, scope and coverage to that in effect on the date of the execution of the Arrangement Agreement;

(c) to maintain its books, records and accounts in the ordinary course of business consistent with prior practice; and

(d) to refrain from doing all acts and things in order that certain representations and warranties in the Arrangement Agreement shall be true and correct on the Effective Date as if such representations and warranties were made at and as of such date and to satisfy or cause to be satisfied the conditions in the Arrangement Agreement which are within their control.

Furthermore, the Corporation has agreed that unless Westcoast consents in writing or certain other limited exceptions apply, it shall not, and it shall not permit Utilities Company or any of its subsidiaries, or prior to the incorporation of Propane Company, NASCO, and after the incorporation of the Propane Company, it shall not permit Propane Company or NASCO to:

(a) merge into or with, or amalgamate or consolidate with, or acquire all or substantially all of the shares or assets of, or enter into any corporate reorganization with, any other person or corporation;

(b) perform any act or enter into any transaction or negotiation which reasonably could be expected to interfere or be inconsistent with the completion of the transactions contemplated by the Arrangement Agreement;

(c) amend its corporate charter, by-laws or similar organizational documents;

(d) issue or agree to issue any additional shares, or rights of any kind to acquire shares of, any class of its share capital or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of shares in its share capital; or

(e) enter into any new employment contract, amend any existing employment contract or grant any increases in compensation or benefits, other than as permitted under the Arrangement Agreement.

Termination of Arrangement Agreement

The Arrangement Agreement:

(i) may be terminated at any time prior to the Effective Time, whether before or after the Special Meeting by the Corporation or Central Capital in order that an unsolicited offer or proposal from a third party may be accepted as contemplated in the Arrangement Agreement;

(ii) shall automatically terminate on April 2, 1990 or such later date as may be determined in accordance with the Arrangement Agreement (but in no event later than April 30, 1990) in the event the Arrangement has not been completed on or before such date; or

(iii) may be terminated by mutual agreement of the parties to the Arrangement Agreement on such terms and conditions which may be agreed upon without, subject to applicable law, any further notice to or action on the part of their respective security holders.

Interest of Central Capital and Other Insiders in the Arrangement

Central Capital and its affiliates hold approximately 38% of the voting shares of the Corporation on a fully-diluted basis. On November 22, 1988, Central Capital announced its desire to dispose of its investment in the Corporation. Central Capital conducted the auction process which resulted in the execution of the Central Capital-Westcoast Letter and the Letter of Understanding. See "THE ARRANGEMENT — Background to the Arrangement".

Central Capital and its affiliates own all of the outstanding Utilities Holdings Shares and Propane Holdings Shares. In 1989, dividends were declared and paid by Utilities Holdings and Propane Holdings, which dividends were reinvested in newly issued shares of their respective payors. The result of the declaration and payment of such dividends may reduce the amount of any capital gain that would be realized for Canadian income tax purposes on the sale of shares of Utilities Holdings and Propane Holdings by Central Capital and its affiliates under the Arrangement.

Each of Central Capital, Utilities Holdings, Propane Holdings, Newco and MICCI is an affiliate of Central Capital and a party to the Arrangement Agreement. Under the Arrangement Agreement, Central Capital makes certain representations and warranties to the Corporation, Westcoast and WestCoast Gas, agrees to effect certain transactions prior to the Effective Time, covenants and agrees with Westcoast and WestCoast Gas to take or refrain from taking certain action in respect of the Arrangement and agrees to indemnify Westcoast, WestCoast Gas, Utilities Holdings and Propane Holdings against certain losses (as defined in the Arrangement Agreement). In particular, Central Capital has agreed that it and its subsidiaries will vote all shares in the capital of the Corporation which it or they own or over which they exercise control or direction in favour of the Arrangement. See "THE ARRANGEMENT — Conditions to the Arrangement Becoming Effective — Intention of Certain Shareholders and Option Holders".

Under the Arrangement Agreement and in acknowledgement of the role of Central Capital leading to the execution of the Arrangement Agreement, the Corporation has agreed to reimburse Central Capital, forthwith upon completion of the Arrangement, for the reasonable out-of-pocket expenses, except for certain Excluded Expenses (as defined in the Arrangement Agreement) incurred by Central Capital in connection with the Arrangement. For the period ended December 11, 1989, such expenses, which were in respect of legal and financial advisory services, aggregated $1,151,152. After December 11, 1989, Central Capital will continue to be entitled to reimbursement for certain of its out-of-pocket expenses, including those relating to the creation of the Class C 8% Convertible Preference Shares and the Warrant Offering. The Special Committee considered and recommended reimbursement of these expenses for the period ended December 11, 1989 and the matters in respect of which expenses will be reimbursed after that date. Central Capital has indicated to the Corporation that it will waive its entitlement to reimbursement if necessary to allow the Corporation to obtain the Advance Tax Ruling.

MICCI owns all of the First Preference Shares which are to be changed into Class C 8% Convertible Preference Shares under the Arrangement. Under the Arrangement, MICCI will issue, to or for the benefit of all other Inter-City Products Ordinary Shareholders, Warrants to purchase a percentage of the Class C 8% Convertible Preference Shares held by it in order to provide Inter-City Products Ordinary Shareholders (other than residents of any State in which the distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful) with an opportunity to maintain their proportionate voting interest in Inter-City Products on a fully-diluted basis. If any Warrants are not exercised, the proportion of the voting shares of Inter-City Products on a

fully-diluted basis held by Central Capital and its affiliates will increase. The maximum increase in the proportion of the voting shares of Inter-City Products held on a fully-diluted basis by Central Capital will not be determinable until such time as the Conversion Rate is determined but may result in Central Capital and its affiliates holding in excess of 50 per cent of the voting shares of Inter-City Products on a fully-diluted basis. See "THE ARRANGEMENT — The Warrant Offering".

Under the Arrangement Agreement, the Corporation has agreed to demand on the Effective Date and MICCI has agreed to pay the Norcen Note plus accrued interest thereon to the Effective Date. The Corporation has advised Central Capital and MICCI that, in the event the Arrangement is not completed, it will not make demand for payment of any principal amount outstanding under the Norcen Note without the prior written consent of MICCI and Central Capital except in accordance with the schedule of principal payments established by the Norcen Note (with the payment of $4,148,000 scheduled for December 31, 1989 deferred until April 30, 1990) provided that in the event of any default in the payment of interest or a principal instalment on the Norcen Note, when due, and subject to a notice and cure provision, the Corporation may demand payment of the full amount then payable under the Norcen Note. See "THE ARRANGEMENT — Creation of the Class C 8% Convertible Preference Shares and Warrant Offering — Purchase of First Preference Shares".

During the year ended December 31, 1989, the Corporation and its subsidiaries were indebted to Bank of Montreal (of which Mr. Stanley Davison, a director of the Corporation, is Vice-Chairman and a director and Mr. John F. Fraser, a director of the Corporation, is a director) in the maximum aggregate amount of $25.9 million. The balance owing on December 31, 1989 was $25.9 million. Interest payments amounted to $1.8 million for the year. The average rate of interest on all loans outstanding during the year was approximately 11.96%. The amount of indebtedness at January 31, 1990 was $30.7 million. Interest payments in 1990 to January 31 , 1990 amounted to $0.3 million. The average rate of interest on such payments in 1990 was 12.64%. Any balance owing by the Corporation and its subsidiaries in respect of indebtedness to Bank of Montreal will either be assumed by Newco (and ultimately Utilities Holdings) or Propane Company or repaid by the Corporation or its subsidiaries on the Effective Date.

During the year ended December 31, 1989, the Corporation and its subsidiaries were indebted to the National Bank of Canada (of which Mr. Michel Belanger, a director of the Corporation, is the Chairman) in the maximum aggregate amount of $25.4 million. The balance owing on December 31, 1989 was $25.4 million. Interest payments amounted to $2.4 million for the year. The average rate of interest on all loans outstanding during the year was approximately 11.97%. The amount of indebtedness at January 31, 1990 was $30.2 million. Interest payments in 1990 to January 31, 1990 amounted to $0.3 million. The average rate of interest on such payments in 1990 was 12.65%. Any balance owing by the Corporation and its subsidiaries in respect of indebtedness to the National Bank of Canada will either be assumed by Newco (and ultimately Utilities Holdings) or Propane Company or repaid by the Corporation or its subsidiaries on the Effective Date.

During the year ended December 31, 1989, the Corporation and its subsidiaries were indebted to the Canadian Imperial Bank of Commerce (of which Mr. William G. Davis, P.C., C.C., Q.C., a director of the Corporation, is a director) in the maximum aggregate amount of $289.9 million. The balance owing on December 31, 1989 was $193.5 million. Interest payments amounted to $25.3 million for the year. The average rate of interest on all loans outstanding during the year was approximately 12.16%. The amount of indebtedness at January 31, 1990 was $147.8 million. Interest payments in 1990 to January 31, 1990 amounted to $1.6 million. The average rate of interest on such payments in 1990 was 12.84%. Any balance owing by the Corporation and its subsidiaries in respect of indebtedness to Canadian Imperial Bank of Commerce will either be assumed by Newco (and ultimately Utilities Holdings) or Propane Company or repaid by the Corporation or its subsidiaries on the Effective Date.

During the year ended December 31, 1988, the Corporation and its subsidiaries were indebted to The Toronto-Dominion Bank (of which Mr. Alan Sweatman, Q.C., a director of the Corporation, is a director) in the maximum aggregate amount of $176.5 million. The balance owing on December 31, 1989 was $104.4 million. Interest payments amounted to $19.5 million for the year. The average rate of interest on all loans outstanding during the year was approximately 11.49%. The amount of indebtedness at January 31, 1990 was $94.9 million. Interest payments in 1990 to January 31, 1990 amounted to $0.9 million. The average rate of interest on such payments in 1990 was 11.29%. Certain of the indebtedness owing by the Corporation and its subsidiaries to The Toronto-Dominion Bank will be assumed by Newco (and ultimately Utilities Holdings) or Propane Company on the

Effective Date. The indebtedness owing to The Toronto-Dominion Bank by the Corporation's Energy Products Division subsidiaries will remain outstanding after the Effective Date.

None of the loans described in the four preceding paragraphs is in default. Although Inter-City Products will remain primarily liable for all debt assumed by Propane Company and Newco (and ultimately Utilities Holdings) under the Propane Rolldown and the Arrangement (other than debt owed by the Corporation to ICG Ontario) all or substantially all of such assumed debt will be repaid on the Effective Date out of the funds delivered to the Depositary by WestCoast Gas, or, if WestCoast Gas assigns its right to acquire Propane Holdings Shares, to Petro-Canada.

Effective May 5, 1989, the Corporation and its subsidiary CHL Holdings Inc. sold their shares in ICG Resources. In connection with that transaction, a promissory note in the principal amount of $25.5 million, which was owed by ICG Canada to ICG Resources which in turn owed a like amount under like terms and conditions to Central Capital, was restructured such that the amount outstanding is now owed directly from ICG Canada to Central Capital. There were no changes to any of the terms and conditions of the promissory note. The amount outstanding on such note at December 31, 1989 was $24 million. Such note bears interest at the rate of 14% per annum and is supported by a letter of credit from a Canadian chartered bank at a fee of ¾% per annum. Repayment terms are $1.5 million semi-annually from 1990 to 1995 with the balance due on June 1, 1996.

Messrs. Clarence W. Cole, Leonard Ellen, H. Reuben Cohen, Q.C. and Robert G. Graham are directors of Central Guaranty Trustco Ltd., the principal shareholder of Central Guaranty Trust Company and an affiliate of Central Capital. Central Guaranty Trust Company has ongoing business relations with the Corporation and will receive fees for its services as Depositary and Warrant Agent.

Mr. Alan Sweatman, Q.C. is a partner in the law firm of Thompson, Dorfman, Sweatman. This firm acted as legal counsel to the Corporation in connection with the Arrangement and will receive fees in respect of such services. Mr. Sweatman is also a director of The Toronto-Dominion Bank which has agreed, subject to certain conditions, to refinance a portion of the Corporation's and KeepRite's outstanding bank advances in a maximum amount of $52 million following the Effective Date.

Mr. H. Reuben Cohen, Q.C., a director of the Corporation, and Ms. Helen Meyer, Senior Vice-President and Director of Merrill Lynch Canada Inc. are each directors of Petro-Canada.

Timing

If the Special Meeting is held on March 16, 1990 as scheduled, and not adjourned, and the Common Shareholders, First Preference Shareholders, Third Preference Shareholders and Option Holders approve the Arrangement Resolution by the requisite majority, the Corporation will apply on March 19, 1990, to the Court for the Final Order permitting the Arrangement to be effected. The Interim Order provides that the Effective Date shall be no earlier than the eighth day following the date of the approval of the Arrangement by Shareholders and Option Holders in order to provide any dissenting Shareholders with an opportunity to withdraw their objection notice. If the Final Order is obtained on March 19, 1990 and the other conditions contained in the Arrangement Agreement are satisfied or waived, the Arrangement could occur as early as March 26, 1990.

Upon fulfillment or waiver of the conditions to the Arrangement, the Board of Directors intends to cause articles of arrangement to be filed with the Director under the MCA together with such other material as may be required by the Director in order that the Director may issue a Certificate of Amendment giving effect to the Arrangement.

The Corporation currently anticipates that the Effective Date will be eight days after the Special Meeting. It is not possible, however, to specify when the Effective Date will occur. The Effective Date could be delayed for a number of reasons, including an objection before the Court in its hearing of the application for the Final Order. As soon as the Effective Date has been determined, it will be publicized in major local and national newspapers.

Financing

Under the Arrangement Agreement, Westcoast has agreed to deposit with the Depositary at the Effective Time the funds necessary to complete the Sale of Utilities Holdings and Propane Holdings (which amount will be equal to $21 for each Common Share participating in the Arrangement) and an amount equal to certain liabilities to be assumed by Newco (and ultimately Utilities Holdings) under the Arrangement and Propane Company under the

Propane Rolldown which are required to be repaid on the Effective Date. Westcoast has provided the Corporation with a letter dated December 11, 1989 from a Canadian chartered bank confirming that such bank has committed to provide financing of $715 million. It is not expected that the amount of funds required to complete the Sale of Utilities Holdings and Propane Holdings and to repay the assumed liabilities which are required to be repaid on the Effective Date will be greater than $715 million. Westcoast has agreed to deliver no later than two business days prior to the intended Effective Time a letter or letters from a Canadian chartered bank confirming that such bank will make available such amount as is required to complete the Sale of Utilities Holdings and Propane Holdings and to repay the assumed liabilities which are required to be repaid on the Effective Date.

The Warrant Offering

MICCI will issue, to or for the benefit of all other Inter-City Products Ordinary Shareholders, Warrants to purchase a percentage of the Class C 8% Convertible Preference Shares. The number of Warrants to be issued will be equal to the number of outstanding Inter-City Products Ordinary Shares held by Shareholders other than MICCI on the basis of one Warrant for each Inter-City Products Ordinary Share held. The Warrants will entitle holders of Inter-City Products Ordinary Shares (other than residents of any State in which the distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful) to maintain their proportionate voting interest in Inter-City Products on a fully-diluted basis by exercising the Warrants distributed to them under the Arrangement and converting the Class C 8% Convertible Preference Shares acquired thereby into Inter-City Products Ordinary Shares. No fractional Warrants will be issued.

Three Warrants will be required to purchase one Class C 8% Convertible Preference Share from MICCI for a purchase price of $25.00. The Warrants may be exercised at any time during the 21 day period commencing on the Warrant Commencement Date and terminating on the Warrant Expiry Date. The Warrant Commencement Date will be the business day following a period of 30 calendar days and a period of 20 trading days after the Effective Date.

Under the Warrant Agreement, Inter-City Products shall not take any action in respect of the Class C 8% Convertible Preference Shares which would dilute the interest of the Warrantholders without the consent of MICCI. In the event Inter-City Products takes such action with the consent of MICCI, MICCI and Inter-City Products will jointly agree on the appropriate adjustments to the exercise price and the number of Class C 8% Convertible Preference Shares purchasable upon exercise.

The Warrants will be distributed to holders of Inter-City Products Ordinary Shares (other than residents of any State in which the distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful) who forward a completed Letter of Transmittal and share certificates to the Depositary or the Forwarding Agent as described under "THE ARRANGEMENT — Entitlement to Cash, Share Certificates and Warrant Certificates". The Warrants will be issued under and governed by the Warrant Agreement among MICCI, the Warrant Agent and the Corporation. MICCI will appoint the principal offices of the Warrant Agent in each of Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax as the offices at which Warrants may be surrendered for exercise or exchange.

The Warrants may be exercised by completing and executing the subscription form on the Warrant certificate and delivering it, accompanied by full payment of the subscription price for the Class C 8% Convertible Preference Shares for which the Warrantholder is subscribing in cash, certified cheque or bank draft payable to MICCI at the offices of the Warrant Agent at the addresses indicated on the Warrant certificate so as to be received on or before 4:00 p.m. (local time) on the Warrant Expiry Date. The purchase of all Class C 8% Convertible Preference Shares purchased pursuant to the exercise of the Warrants will be effective as at and from the business day after the Warrant Expiry Date and Warrantholders who exercise Warrants will be entitled to receive dividends accruing on the Class C 8% Convertible Preference Shares after the Warrant Expiry Date. See "THE ARRANGEMENT — Creation of the Class C 8% Convertible Preference Shares and Warrant Offering".

Subscriptions for Class C 8% Convertible Preference Shares must be for whole Class C 8% Convertible Preference Shares only. No fractional Class C 8% Convertible Preference Shares will be issued upon the exercise of any Warrants. Holders of Warrants do not have any voting or pre-emptive rights or any other rights which a holder of Class C 8% Convertible Preference Shares or a holder of any other shares in the capital of the Corporation would have. The Warrants will expire at 4:00 p.m. (local time) at the place of exercise on the Warrant Expiry Date. Warrants not exercised prior to that time on the Warrant Expiry Date will be void and of no effect.

Warrants may be bought or sold in Canada or the United States through usual investment channels such as brokers and investment dealers. The Toronto Stock Exchange has conditionally approved the listing and posting for trading of the Warrants, subject to the fulfillment of all the requirements of such exchange including distribution to a minimum number of public holders. The Corporation will also seek to admit the Warrants to dealings on the American Stock Exchange. Warrantholders are cautioned however that until such time as the ratio at which the Class C 8% Convertible Preference Shares will be converted is established, which is currently anticipated to be on the Warrant Commencement Date, the value of the Warrants cannot be determined and any trading of the Warrants is speculative. It is anticipated that trading in the Warrants will terminate at 12:00 noon (Toronto time) on the Warrant Expiry Date.

The certificates evidencing the Warrants will be distributed in registered form to Shareholders who have sent a completed Letter of Transmittal and share certificates representing Common Shares and/or Third Preference Shares to the Depositary or the Forwarding Agent. The Warrants evidenced by Warrant certificates may be transferred to others by delivery of the Warrant certificate with the transfer panel duly executed and completed.

Warrant certificates evidencing more than one Warrant may be divided, combined or reregistered by sending them to the Warrant Agent at any of its offices which have been designated for such purpose, accompanied by instructions as to such division. New Warrant certificates will then be issued representing the same aggregate number of whole Warrants, divided as the holder shall have requested.

The Warrants to be issued and distributed to holders of Inter-City Products Ordinary Shares (other than MICCI) under the the Arrangement are not and will not be registered under the United States Securities Act of 1933 and will be issued and distributed pursuant to an exemption therefrom. The Corporation intends to file a registration statement with the United States Securities and Exchange Commission to register the Class C 8% Convertible Preference Shares to be issued and distributed upon the exercise of the Warrants under the United States Securities Act of 1933. Warrants will not be exercisable by U.S. Persons unless and until that registration statement has become effective and appropriate State securities law requirements have been satisfied. Warrants will not be distributed to residents of any State in which the distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful. Steps will be taken to ensure that neither the Warrants nor the Class C 8% Convertible Preference Shares will be transferred into any State in which such transfer would be unlawful. The Warrants are not, and under no circumstances are to be construed as, an offering or a solicitation of any offer to buy any securities of the Corporation or MICCI in any State in which an offering or solicitation would be unlawful. The Corporation and MICCI have arranged for Warrants that would otherwise have been distributed to such State residents holding Inter-City Products Ordinary Shares to be distributed to a warrant sales agent for the benefit of such holders. The warrant sales agent will sell these Warrants in the open market and allocate and distribute the net proceeds of sale to such State residents holding Inter-City Products Ordinary Shares on a pro rata basis based on the number of Warrants which would have otherwise been distributed to each such holder. Inter-City Products will pay the costs of selling the Warrants and distributing the net proceeds from the sale.

The Warrant Agreement may be viewed at any time prior to the Warrant Expiry Date by any holder of Warrants during normal business hours at at any of the offices of the Warrant Agent indicated above.

All Class C 8% Convertible Preference Shares not subscribed for will be returned to MICCI. If any Warrants are not exercised, the proportion of the voting shares of Inter-City Products on a fully-diluted basis held by Central Capital and its affiliates will be increased. See "THE ARRANGEMENT — Interest of Central Capital and Other Insiders in the Arrangement".

Entitlement to Cash, Share Certificates and Warrant Certificates

Holders of Common Shares and holders of Third Preference Shares must complete a Letter of Transmittal in respect of such shares and forward the certificates representing such shares and a completed Letter of Transmittal to the Depositary or Forwarding Agent in order to receive the cash and certificates representing Inter-City Products Ordinary Shares and Warrants to which they are entitled after the Effective Date. A copy of the Letter of Transmittal for use by Common Shareholders and Third Preference Shareholders in transmitting Common Shares and Third Preference Shares, as the case may be, is enclosed with this Management Proxy Circular. Additional copies of the Letter of Transmittal may be obtained from the Depositary or Forwarding Agent. Shareholders should forward the completed Letter of Transmittal and the share certificates immediately in the envelope provided by registered mail to the Depositary or by hand delivery or courier to the Depositary or Forwarding Agent. The details

of the procedures for the deposit of certificates representing Common Shares and Third Preference Shares with the Depositary and Forwarding Agent are set out in the Letter of Transmittal.

If Common Shareholders and Third Preference Shareholders surrender their share certificates, they will not be able to sell the shares to which those certificates relate. Share certificates will be returned upon request.

Unless otherwise provided in the Arrangement, on and after the Effective Date, certificates formerly representing Common Shares will represent only the right to receive cash and certificates representing Inter-City Products Ordinary Shares and Warrants and certificates formerly representing Third Preference Shares will represent only the right to receive cash and certificates representing Inter-City Products Ordinary Shares and Warrants. As soon as practicable after the Effective Date, the Depositary will pay the appropriate amount of cash and will deliver certificates representing the appropriate number of Inter-City Products Ordinary Shares to shareholders and Warrants to shareholders (other than residents of any State in which such delivery would be unlawful) who have forwarded the required documents. If the Arrangement is not proceeded with, all transmitted share certificates will be returned forthwith.

Shareholders are cautioned that Warrants will expire on the Warrant Expiry Date, which will be the business day following a period of 30 calendar days followed by 20 trading days and a further 21 calendar days after the Effective Date. The Depositary or Forwarding Agent must receive a completed Letter of Transmittal and share certificates representing Common Shares or Third Preference Shares in sufficient time in order for shareholders to receive Warrant certificates and exercise the Warrants prior to 4:00 p.m. on the Warrant Expiry Date.

Failure to Forward Letters of Transmittal and to Deposit Certificates

Any certificate formerly representing Common Shares or Third Preference Shares and not deposited with a completed Letter of Transmittal and all of the other documents and instruments required by the Arrangement, on or prior to the sixth anniversary of the Effective Date, will cease to represent a claim or interest of any kind or nature against Inter-City Products and will cease to constitute the holder thereof a shareholder of Inter-City Products. On such date, all cash and securities to which a former holder of a certificate referred to in the preceding sentence was entitled shall be deemed to have been surrendered to Inter-City Products.

Fractional Shares

No certificates or scrip representing fractional Inter-City Products Ordinary Shares will be issued. In lieu thereof, arrangements will be made for the sale of fractional interests in such shares for cash through the Depositary on behalf of Shareholders entitled to such interests and the distribution of the proceeds thereof on a pro rata basis to Shareholders entitled to such fractional interests.

Canadian Federal Income Tax Considerations

In the opinion of Osler, Hoskin & Harcourt, special counsel to the Corporation, the following summary fairly presents the principal Canadian federal income tax considerations under the Income Tax Act (Canada) (the "ITA") generally applicable in respect of the Arrangement to holders of Common Shares and Third Preference Shares (collectively "ICG Shares") who, for purposes of the ITA, hold such shares as capital property and deal at arm's length with ICG, Central Capital, Propane Holdings and Utilities Holdings. ICG Shares will generally be considered to be capital property to a holder thereof unless they are held in the course of carrying on a business or have been acquired in a transaction or transactions considered to be an adventure in the nature of trade. Certain holders whose ICG Shares might not otherwise qualify as capital property may be entitled to obtain such qualification by making the election provided by subsection 39(4) of the ITA.

This summary is based upon the current provisions of the ITA, the regulations thereunder, and special counsel's understanding of the administrative practices published by Revenue Canada, Taxation. This summary takes into account specific proposals to amend the ITA announced prior to the date hereof but does not take into account or anticipate any other changes in law, whether by judicial, governmental or legislative action or decision, or the tax legislation of any province, territory or foreign jurisdiction. An application for an advance income tax ruling has been made to Revenue Canada, Taxation, in order to confirm certain of the tax consequences described below.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any particular shareholder. Shareholders should consult their own tax advisors as to the tax consequences to them under the Arrangement.

Shareholders Resident in Canada

The following summary is applicable to shareholders who, for purposes of the ITA, are resident in Canada.

Change of Third Preference Shares

A shareholder will not be considered to have received a dividend and will not realize a capital gain or capital loss on the exchange of Third Preference Shares for Common Shares. The shareholder will be deemed to have disposed of such Third Preference Shares for proceeds of disposition equal to the adjusted cost base to him of those shares immediately before the exchange and will be deemed to have acquired the Common Shares at a cost equal to such deemed proceeds of disposition.

Common Share Transfers

Except as referred to below, a shareholder will not be considered to have received a dividend and will not realize a capital gain or capital loss on the exchange of Common Shares for Utilities Holdings Shares or on the exchange of Common Shares for Propane Holdings Shares. Such a shareholder will be deemed to have disposed of the Common Shares so exchanged for proceeds of disposition equal to the adjusted cost base to him of those shares immediately before the exchange and will be deemed to have acquired the Utilities Holdings Shares and the Propane Holdings Shares, as applicable, at a cost equal to such deemed proceeds of disposition.

A shareholder may choose to recognize a capital gain or capital loss on the exchange of Common Shares for Utilities Holdings Shares (or Propane Holdings Shares) by including the capital gain or capital loss in his income tax return for the taxation year in which the exchange occurs. The rules relating to the computation and treatment of a capital gain or capital loss are as described below under the heading "Sale of Utilities Holdings and Propane Holdings". In this regard, the proceeds of disposition realized by the shareholder will be equal to the fair market value of the Utilities Holdings Shares (or Propane Holdings Shares). A shareholder who chooses to recognize a capital gain or capital loss on the exchange will be considered to have acquired his Utilities Holdings Shares (or Propane Holdings Shares) at a cost equal to the fair market value thereof.

Sale of Utilities Holdings and Propane Holdings

A shareholder who disposes of Utilities Holdings Shares (or Propane Holdings Shares) under the Arrangement will generally realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of such Utilities Holdings Shares (or Propane Holdings Shares) net of any costs of disposition, exceed (or are less than) the adjusted cost base to the shareholder of those shares. A shareholder will be required to include in computing income ¾ of any such capital gain (the "taxable capital gain") and will generally be entitled to deduct ¾ of any such capital loss (the "allowable capital loss") against taxable capital gains to the extent and under the circumstances prescribed in the ITA. For corporations, special transitional rules apply where the capital gain or capital loss is realized in a taxation year that straddles January 1, 1990. The amount of any capital loss realized by a corporation will generally be reduced from that otherwise determined, to the extent and under the circumstances prescribed in the ITA, by the amount of dividends received by the corporation on the ICG Shares.

The lifetime capital gains exemption provided for individuals resident in Canada on certain capital gains is not available with respect to the disposition under the Arrangement of Common Shares, Utilities Holdings Shares or Propane Holdings Shares. With respect to any disposition of ICG Shares other than under the Arrangement, the lifetime capital gains exemption will not be available if such disposition is part of the same series of transactions or events as the Arrangement. It will be a question of fact in each case as to whether any disposition of ICG Shares is part of the same series of transactions or events as the Arrangement.

Dissenting Shareholders

A dissenting shareholder who receives a payment equal to the fair value of his Common Shares and/or Third Preference Shares will be considered to have had such shares cancelled for an amount equal to such payment. A dissenting shareholder generally will be deemed to have received a dividend equal to the amount by which the payment exceeds the paid-up capital of his shares and will realize a capital gain (or capital loss) to the extent that the paid-up capital of such shares, net of any costs of disposition, exceeds (or is less than) his adjusted cost base of such shares. It is not clear whether such deemed dividend would arise on the Effective Date or at the time that the dissenting shareholder is paid fair value for his shares. With respect to the Third Preference Shares, an advance ruling has been requested to confirm that the deemed dividend will be computed by reference to the paid-up capital

of such shares immediately prior to the Effective Time of the Arrangement. If such ruling is not granted, it is possible that the amount of the deemed dividend on such Third Preference Shares would be computed by reference to paid-up capital of nil. The Corporation estimates that as of January 31, 1990, the paid-up capital for purposes of the ITA of each Common Share was $7.41, and of each Third Preference Share was $21.06. See the comments above under "Sale of Utilities Holdings and Propane Holdings" regarding the treatment of any such gain or loss.

The income tax treatment accorded any deemed dividend received by a dissenting shareholder will be that normally accorded to taxable dividends received by the holder on shares of a taxable Canadian corporation, subject to the possible recharacterization, under subsection 55(2) of the ITA, of such deemed dividend as proceeds of disposition in the case of certain corporate shareholders.

Benefit

It is possible that shareholders who receive Warrants pursuant to the distribution of Warrants by MICCI, will be viewed as having received a taxable benefit. In such a case, the amount of the taxable benefit would be required to be included in income. The cost of the Warrants will be considered to be equal to the amount, if any, of any taxable benefit that is so included in income.

In general, if a shareholder who receives a Warrant pursuant to the Warrant Offering disposes of, or is deemed to dispose of, a Warrant (other than on the exercise or expiry thereof), the shareholder will realize a capital gain equal to the amount by which the proceeds or deemed proceeds of disposition of the Warrant, net of any costs of disposition, exceed the adjusted cost base of the Warrant to the Holder. In the event of the expiry of Warrants, that shareholder will realize a capital loss equal to his adjusted cost base, if any, thereof. Upon the exercise of Warrants by a shareholder, the cost to a shareholder of the Class C 8% Convertible Preference Shares acquired will be equal to the aggregate of the shareholder's adjusted cost base of the Warrants and the amount paid by the shareholder on the exercise thereof.

Conversion of Class C 8% Convertible Preference Shares into Inter-City Products Ordinary Shares

A shareholder of Class C 8% Convertible Preference Shares will not realize a capital gain or capital loss upon the conversion of Class C 8% Convertible Preference Shares into Inter-City Products Ordinary Shares, in accordance with the terms and conditions of the Class C 8% Convertible Preference Shares. Under the current published practice of Revenue Canada, Taxation, a shareholder of a Class C 8% Convertible Preference Share who upon conversion receives cash not in excess of $200 in lieu of a fraction of a share may either treat this amount as proceeds of disposition of a fraction of a Class C 8% Convertible Preference Share or, alternatively, reduce the adjusted cost base of the shares which he receives on the conversion by the amount of cash received. In the event that the shareholder chooses to recognize a disposition, he may realize a capital gain or a capital loss.

In general, it would appear that Class C 8% Convertible Preference Shares will not be term preferred shares. However, specified financial institutions, and partnerships and trusts having such institutions as members or beneficiaries, and which are considering acquiring more than 10% of the Class C 8% Convertible Preference Shares (including acquisitions by non-arm's length parties) should consult their own tax advisors in light of their specific circumstances.

The Class C 8% Convertible Preference Shares are taxable preferred shares and the Corporation will make a special election to ensure that corporate holders will not be liable for Part IV.1 tax.

On a redemption of a Class C 8% Convertible Preference Share, the holder will be deemed to have received a dividend in respect of such share equal to the amount by which the payment made by Inter-City Products exceeds the paid-up capital of the share, subject to the possible recharacterization of such excess as proceeds of disposition in the case of certain corporate shareholders. The Corporation estimates that the amount of the deemed dividend would be approximately $3.94 per share, plus the amount of any accrued dividends. For shareholders who are individuals such deemed dividend will be included in income and will be subject to the usual gross-up and dividend tax credit rules normally applicable to dividends received from taxable Canadian corporations. For corporate shareholders, subject to the possible recharacterization referred to above, such deemed dividend will be included in income and will normally be deductible in computing taxable income. For a corporate holder that is a specified financial institution, such deemed dividend will be deductible in computing taxable income provided the share is not a term preferred share acquired in the ordinary course of business. The amount of any such deemed dividend will be excluded from the holder's proceeds of disposition for the purposes of computing the capital gain or loss realized on

the redemption (unless recharacterized as described above). The amount of any capital loss realized by a corporate shareholder may be reduced from that otherwise determined by the amount of dividends received on the share to the extent and under the circumstances prescribed in the ITA. Private corporations and certain other corporate shareholders may be subject to a 25% refundable tax under Part IV of the ITA in respect of any such deemed dividend.

Change in the Number of Common Shares Retained and Redesignation as Ordinary Shares

A holder of Common Shares will, in general, not realize a capital gain or a capital loss in respect of the Change in the Number of Common Shares Retained or upon the redesignation of such shares as ordinary shares. However, where a holder receives cash on the sale of a fractional interest in a Common Share, the holder will be considered to have disposed of the fractional interest in the share and may thereby realize a capital gain or a capital loss.

Eligibility for Investment

Class C 8% Convertible Preference Shares and Warrants (if, as and when such Warrants are listed on a prescribed stock exchange) will be qualified investments for a trust governed by a registered retirement savings plan, a deferred profit sharing plan or a registered retirement income fund.

Shareholders Not Resident in Canada

The following summary is applicable to a shareholder who, for purposes of the ITA, has not been and will not be resident in Canada at any time while he has held or will hold his ICG Shares, Warrants or Class C 8% Convertible Preference Shares and to whom such shares and Warrants are not taxable Canadian property. ICG Shares (or Warrants or Class C 8% Convertible Preference Shares) will not be taxable Canadian property provided that the holder does not use or hold, and is not deemed to use or hold his ICG Shares (or Warrants or Class C 8% Convertible Preference Shares) in connection with carrying on a business in Canada and who has not, either alone or in combination with persons with whom he does not deal at arm's length, owned 25% or more of the issued shares of any class or series of the capital stock of the Corporation at any time within five years preceding the Effective Date (or the date of disposition of his Warrants or Class C 8% Convertible Preference Shares).

A shareholder other than a dissenting shareholder will not be subject to tax under the ITA on the exchange of Third Preference Shares, the exchange of Common Shares or the sale of Utilities Holdings Shares or Propane Holdings Shares.

A dissenting shareholder who receives a payment equal to the fair value of his Common Shares and/or Third Preference Shares will be considered to have had such shares cancelled for an amount equal to such payment. A dissenting shareholder will be deemed to have received a dividend equal to the amount by which the payment exceeds the paid-up capital of such shares. It is not clear whether such deemed dividend would arise on the Effective Date or at the time that the dissenting shareholder is paid fair value for his shares. With respect to the Third Preference Shares, an advance ruling has been requested to confirm that the deemed dividend will be computed by reference to the paid-up capital of such shares immediately prior to the Effective Time of the Arrangement. If such ruling is not granted, it is possible that the amount of the deemed dividend on such Third Preference Shares would be computed by reference to paid-up capital of nil. The Corporation estimates that as of January 31, 1990, the paid-up capital for purposes of the ITA of each Common Share was $7.41 and of each Third Preference Share was $21.06. Any such dividend would be subject to Canadian withholding tax. The rate of withholding tax is 25% unless reduced by a tax treaty. For U.S. residents, the treaty-reduced rate generally applicable is 15%.

It is possible that non-resident shareholders to whom Warrants are issued by MICCI, or who receive cash in lieu of Warrants, will be considered to have received a taxable benefit which would be subject to Canadian withholding tax as a deemed dividend. A non-resident shareholder who disposes of Warrants will not be subject to tax under the ITA.

Non-resident shareholders who acquire Class C 8% Convertible Preference Shares will be subject to Canadian withholding tax in respect of any dividends thereon at the rate of 25% unless reduced by a tax treaty. On disposition of a Class C 8% Convertible Preference Share (other than a redemption) the non-resident shareholder will normally be exempt from tax under the ITA provided such shares are not taxable Canadian property. On a redemption of a Class C 8% Convertible Preference Share any resulting deemed dividend will be subject to Canadian withholding

tax at the rate of 25% unless reduced by a tax treaty. The Corporation estimates that the amount of any such deemed dividend will be approximately $3.94 per share plus the amount of any accrued dividends.

Change in the Number of Common Shares Retained and Redesignation as Ordinary Shares

A holder of Common Shares will not be subject to tax under the ITA as a result of the Change in the Number of Common Shares Retained, including in respect of any cash received on the sale of a fractional interest in a share or upon the redesignation of such shares as ordinary shares.

United States Federal Income Tax Considerations

Steptoe & Johnson, United States counsel to the Corporation, have advised the Corporation that the following summary fairly and adequately describes the United States Federal income tax consequences of the Arrangement to a shareholder of the Corporation who is a United States person (that is, individuals who are citizens or residents of the United States and corporations, trusts and estates which are regarded by the United States as "domestic" entities for Federal income tax purposes) (a "U.S. Taxpayer"). This discussion is not applicable to dealers in stocks or securities, to organizations which are generally exempt from Federal income tax, to shares acquired as compensation or to a U.S. Taxpayer owning, or considered as owning, 10 per cent of the total combined voting power of all classes of stock entitled to vote of the Corporation at any time during the five year period ending on the Effective Date.

This discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), the regulations thereunder, and judicial and administrative interpretations thereof, all as presently in effect. Shareholders are urged to consult their own tax advisers with respect to their particular circumstances and with respect to applicable state and local tax law. In this regard, U.S. Taxpayers should be advised that Congress is expected to consider legislation during 1990 that would provide a preferential income tax rate for capital gains as opposed to ordinary income. It is unknown at the present time whether or not such legislation will be enacted, and if enacted (1) what the preferential rate will be; (2) what property will be eligible to receive preferential treatment; (3) what the requisite holding periods will be; and (4) what the effective date of any such legislation will be.

Change of Third Preference Shares

A U.S. Taxpayer should not recognize gain or loss on the receipt of Common Shares in exchange for Third Preference Shares, provided that the fair market value of the Common Shares received in the exchange equals the fair market value of the Third Preference Shares exchanged therefor. Provided that the Third Preference Shares are held as capital assets, the holding period for the Common Shares received in the exchange will include the period during which such U.S. Taxpayer held the Third Preference Shares. A U.S. Taxpayer's adjusted basis in the Common Shares received in the exchange will be the same as the U.S. Taxpayer's adjusted basis in the Third Preference Shares transferred in exchange therefor.

If the fair market value of the Common Shares received in the exchange exceeds the fair market value of the Third Preference Shares exchanged therefor, a U.S. Taxpayer may be treated as having received a distribution in an amount equal to such excess. The distribution will be treated as a dividend, taxable as ordinary income, to the extent of the U.S. Taxpayer's allocable share of the Corporation's current and accumulated earnings and profits. In such event, a U.S. Taxpayer's adjusted basis in the Common Shares received in the exchange will be equal to the U.S. Taxpayer's adjusted basis in the Third Preference Shares exchanged therefor increased by the amount which is treated as a distribution.

Common Share Transfers and Sale of Utilities Holdings and Propane Holdings

The U.S. Federal income tax consequences of the proposed Arrangement may vary depending on whether the form of the transaction is respected for U.S. Federal income tax purposes. Provided that the form of the proposed Arrangement is respected, a U.S. Taxpayer should recognize gain or loss on the exchange of a portion of his Common Shares for Utilities Holdings Shares and for Propane Holdings Shares in an amount equal to the difference between the fair market value of the Utilities Holdings Shares and Propane Holdings Shares and his adjusted basis in the Common Shares exchanged therefor. Because the form of the proposed Arrangement was selected to effectuate Canadian tax objectives and for various other reasons, the form of the Arrangement should be respected. However, the United States Internal Revenue Service (the "Service") may disagree and assert that the form of the transaction should be recast. In this event a U.S. Taxpayer who participates in the Arrangement in all

likelihood will be treated by the Service as having received a distribution from the Corporation in an amount equal to the cash received upon the sale of the Utilities Holdings Shares and Propane Holdings Shares. If the form of the Arrangement were recast, it is expected that the Service would require a U.S. Taxpayer to treat the distribution as a dividend, taxable as ordinary income.

Because it is uncertain whether the form of the proposed transaction will be respected by the Service or, if challenged by the Service whether such challenge will be sustained by a court, it may be advantageous to a U.S. Taxpayer, from a U.S. Federal income tax point of view, to dispose of his Common Shares prior to the Effective Date.

The U.S. Federal income tax consequences of each of these alternatives is more fully described below.

Consequences if the Form of the Arrangement is Respected

Common Share Transfers

Provided that the form of the proposed Arrangement is respected, a U.S. Taxpayer should recognize gain or loss on the exchange of Common Shares for Utilities Holdings Shares and on the exchange of Common Shares for Propane Holdings Shares. With respect to the exchange of Common Shares for Utilities Holdings Shares, such gain or loss will be in an amount equal to the difference between the fair market value of the Utilities Holdings Shares and the U.S. Taxpayer's adjusted basis in the Common Shares exchanged therefor. Similarly, with respect to the exchange of Common Shares for Propane Holdings Shares, such gain or loss will be in an amount equal to the difference between the fair market value of the Propane Holdings Shares and the U.S. Taxpayer's adjusted basis in the Common Shares exchanged therefor.

In general, for purposes of determining gain or loss, the adjusted basis of shares of stock must be determined by reference to the cost (or other tax basis) of the specific shares exchanged. However, the steps necessary to accomplish the Arrangement under Canadian law make it unlikely that a U.S. Taxpayer will be able to identify which Common Shares are exchanged for the Utilities Holdings Shares or for the Propane Holdings Shares. In this circumstance, the United States Income Tax Regulations provide that to the extent a U.S. Taxpayer acquired his Common Shares on different dates or at different prices, and the lot from which the Common Shares are exchanged cannot be adequately identified, the exchanged Common Shares shall be charged against the earliest of such lots purchased or acquired in order to determine the cost (or other tax basis) of such stock. The gain or loss recognized on the exchanges of Common Shares for Utilities Holdings Shares and for Propane Holdings Shares will be capital gain or loss provided that the Common Shares are held as capital assets, and will be long-term or short-term capital gain or loss depending on the U.S. Taxpayer's holding period in the Common Shares exchanged.

Under the Code, capital losses generally cannot be used to offset ordinary income (including dividend income). There is an exception for individual taxpayers to the extent of U.S. $3,000 (U.S. $1,500 in the case of a married individual filing a separate return).

The adjusted basis of a U.S. Taxpayer in the Utilities Holdings Shares and Propane Holdings Shares will equal the fair market value of such shares at the time of the exchange.

Sale of Utilities Holdings and Propane Holdings

If the tax effect of the transfers of Common Shares is as set forth above, a U.S. Taxpayer should not recognize gain or loss on the sale of his Utilities Holdings Shares to WestCoast Gas and on the sale of his Propane Holdings Shares to WestCoast Gas or its designee because the amount of cash received on the sale of the Utilities Holdings Shares and Propane Holdings Shares immediately following the exchanges described above should equal the U.S. Taxpayer's adjusted basis in such shares.

Consequences if the Form of the Arrangement is not Respected

The prearrangement of the steps necessary to accomplish the Arrangement under Canadian law may cause the Service to seek to recast the transaction. If the Service were to succeed in recasting the transaction, the U.S. Federal income tax consequences would be different from those described above under the heading "Consequences if the Form of the Arrangement is Respected".

In such an event, a U.S. Taxpayer would be deemed to receive a distribution in an amount equal to the cash received by the U.S. Taxpayer on the sale of the Utilities Holdings Shares and Propane Holdings Shares. The

distribution would be a dividend, taxable as ordinary income, to the extent of the U.S. Taxpayer's allocable share of the Corporation's current and accumulated earnings and profits ("E & P"). Any amount of the distribution in excess of the U.S. Taxpayer's allocable share of the Corporation's E & P would be treated as a return of capital to the extent of such shareholder's adjusted basis for his Common Shares, and as capital gain (assuming such shareholder holds his Common Shares as capital assets) to the extent of any remainder.

For this purpose, the Corporation's E & P would be determined by applying U.S. Federal income tax concepts to the Corporation's historic activities and transactions, including transactions pursuant to the Arrangement. The Corporation does not anticipate that it will determine the amount of its E & P nor provide such information to its shareholders. In the absence of such information, it is anticipated that the Service would require a U.S. Taxpayer to treat the entire amount of the distribution as a dividend, taxable as ordinary income. A U.S. Taxpayer that is a corporation would not be eligible for the 70% dividends-received deduction with respect to the distribution, however, because the Corporation is a foreign corporation.

If the transaction is recast by the Service and the entire amount of the distribution is treated as a dividend, the adjusted basis of a U.S. Taxpayer in his Common Shares will be unaffected by the distribution. As a result, the consummation of the Arrangement may result in the creation of, or increase in the amount of, a U.S. Taxpayer's unrealized loss with respect to his Common Shares.

If a U.S. Taxpayer subsequently disposed of the Inter-City Products Ordinary Shares, and realized a loss as the result of such disposition, such loss would be capital in the nature (assuming such shareholder holds his common shares as capital assets). Under the Code, capital losses generally cannot be used to offset ordinary income (including dividend income). There is an exception for individual taxpayers to the extent of U.S. $3,000 (U.S. $1,500 in the case of a married individual filing a separate return).

In the event that the full amount of the distribution is not treated as a dividend and is treated, in part, as a return of capital, the adjusted basis of a U.S. Taxpayer in his Common Shares would be reduced by any amount of the distribution which is treated as a return of capital.

In light of the uncertainty as to whether or not the form of the proposed Arrangement will be respected, a U.S. Taxpayer who wishes to insure sale or exchange treatment for U.S. Federal income tax purposes may do so only by disposing of his Common Shares prior to the Effective Date. In this event a U.S. Taxpayer will recognize gain or loss equal to the difference between his adjusted basis in the Common Shares and the amount received for them. The gain or loss recognized on the disposition of the Common Shares will be capital gain or loss provided that the Common Shares are held as capital assets, and will be long-term or short-term capital gain or loss depending on the U.S. Taxpayer's holding period in such Common Shares.

The factors a U.S. Taxpayer should consider in making a decision as to whether or not to dispose of his Common Shares prior to the Effective Date include, but are not limited to, the following:

(i) whether or not such shareholder desires to remain a shareholder after the Effective Date and, if so,

(ii) the tax and other costs which will be incurred as a result of a U.S. Taxpayer's selling his Common Shares prior to the Effective Date and purchasing Inter-City Products Ordinary Shares after the Effective Date, and

(iii) the risks of changing market prices and possible application of the "wash sale" rules which would be involved in the series of transactions described in subparagraph (ii).

The Code imposes various penalties and additions to tax, including a penalty under Code Section 6662 for a "substantial understatement" of tax liability. The substantial understatement penalty can be reduced or eliminated through adequate disclosure to the Service. A U.S. Taxpayer who does not dispose of his Common Shares prior to the Effective Date but, instead, transfers such Common Shares in accordance with the Arrangement, should consult with his own tax adviser as to whether or not, in light of such U.S. Taxpayer's particular circumstances, the relevant facts affecting the tax treatment of the gain or loss recognized by such U.S. Taxpayer on the transfers of his Common Shares should be disclosed on his U.S. Federal income tax return or in a statement attached thereto.

Change in the Number of Common Shares Retained and Receipt of Inter-City Products Ordinary Shares

A U.S. Taxpayer should not recognize gain or loss upon the subdivision of Common Shares or upon receipt of Inter-City Products Ordinary Shares. Provided that the Common Shares are held as capital assets, the holding period for the Inter-City Products Ordinary Shares received by a U.S. Taxpayer in exchange for his Common

Shares will include the period during which the U.S. Taxpayer held such Common Shares. A U.S. Taxpayer's adjusted basis in his Inter-City Products Ordinary Shares will be the same as that Taxpayer's adjusted basis in the Common Shares transferred in exchange therefor. Thus, if the form of the Arrangement is respected, such adjusted basis should equal a U.S. Taxpayer's aggregate adjusted basis in Common Shares prior to the exchanges for Utilities Holdings Shares and Propane Holdings Shares reduced by the adjusted basis attributed to the Common Shares transferred for the Utilities Holdings Shares and Propane Holdings Shares, as described under the heading "Common Share Transfers and Sale of Utilities Holdings and Propane Holdings — Consequences if the Form of the Arrangement is Respected — Common Share Transfers". If the form of the Arrangement is not respected, then a U.S. Taxpayer's adjusted basis in his Inter-City Products Ordinary Shares would be equal to his adjusted basis in his Common Shares, reduced by the amount of the distribution in excess of the U.S. Taxpayer's allocable share of the Corporation's E & P, as described under the heading "Common Share Transfers and Sale of Utilities Holdings and Propane Holdings — Consequences if the Form of the Arrangement is not Respected."

A U.S. Taxpayer who receives cash in lieu of fractional Inter-City Products Ordinary Shares will be treated as if such fractional shares were issued and then redeemed for the amount of such cash. This payment will be treated as a distribution and may be taxable as a dividend, unless the redemption: (i) results in the "complete termination" of the shareholder's interest in the Corporation within the meaning of Section 302(b)(3) of the Code; (ii) is "substantially disproportionate" with respect to the shareholder within the meaning of Section 302(b)(2) of the Code; or (iii) is "not essentially equivalent to a dividend" within the meaning of Section 302(b)(1) of the Code. In determining whether the redemption satisfies one of these three tests, the constructive stock ownership rules of Section 318 of the Code will apply. In the event that the redemption satisfies one of these three tests, a U.S. Taxpayer will recognize gain or loss equal to the difference between the amount of cash received and his cost (or other tax basis) in such fractional Shares. Such gain or loss will be capital gain or loss if the shares are held as capital assets, and will be long-term or short-term capital gain or loss depending on the U.S. Taxpayer's holding period in such shares.

Warrant Offering

The United States Federal income tax consequences to a U.S. Taxpayer of the receipt of Warrants are unclear. If the form of the transaction is respected and the Warrants are treated for U.S. Federal income tax purposes as part of the consideration received by a U.S. Taxpayer in the Common Share Transfers, a U.S. Taxpayer must take into account in computing his gain or loss on the Common Share Transfers the fair market value of the Warrants (as of the date on which the Warrants are issued) received by such U.S. Taxpayer as well as the fair market value of the Utilities Holdings Shares and the Propane Holdings Shares. See "Common Share Transfers and Sale of Utilities Holdings and Propane Holdings — Consequences if the Form of the Arrangement is Respected — Common Share Transfers," above. In the alternative, for U.S. Federal income tax purposes the Service may treat the receipt of Warrants as wholly independent of the Common Share Transfers. In this event, a U.S. Taxpayer may have ordinary income equal to the fair market value of the Warrants (as of the date on which the Warrants are issued) received by such U.S. Taxpayer. In either of these situations, a shareholder who is a U.S. Taxpayer will have an adjusted basis in the Warrants equal to the fair market value of such Warrants on the date on which the Warrants are issued, and the U.S. Taxpayer's holding period in the Warrants will begin on the date on which the Warrants are issued to him.

If the form of the Arrangement is recast as described under the heading "Common Share Transfers and Sale of Utilities Holdings and Propane Holdings — Consequences if the Form of the Arrangement is Not Respected" then the receipt of Warrants may be treated for U.S. Federal income tax purposes as the receipt of an additional distribution made by the Corporation with respect to its stock. As a general rule a distribution of stock rights made by a corporation with respect to its stock is tax-free to the shareholders. However, there is an exception to the general rule where the distribution has the result of some shareholders receiving property, including cash, and others increasing their proportionate interests in the corporation. If there are shareholders who reside in any State in which the distribution of the Warrants or the issuance of the Class C 8% Convertible Preference Shares would be unlawful and cash is distributed to them in lieu of Warrants, a U.S. Taxpayer who receives Warrants may be treated as receiving a distribution from the Corporation, taxable as ordinary income, in an amount equal to the fair market value (as of the date on which the Warrants are issued) of the Warrants he receives. If the receipt of Warrants is treated as a tax-free receipt of stock rights of the Corporation, then a U.S. Taxpayer must allocate his adjusted basis in his Inter-City Products Ordinary Shares between the Warrants and the Inter-City Products Ordinary Shares, based upon their relative fair market values at the time he receives the Warrants; his holding period in the Warrants will include the holding period of his Inter-City Products Ordinary Shares. If the receipt of Warrants is treated as a

receipt of stock rights from the Corporation that falls within the above-described exception and therefore is not tax-free, a U.S. Taxpayer who receives Warrants will have an adjusted basis in the Warrants equal to the fair market value of such Warrants (on the date on which the Warrants are issued) and the U.S. Taxpayer's holding period in the Warrants will begin on the date on which the Warrants are issued to him.

A U.S. Taxpayer should consult with his own tax adviser concerning the above-described alternatives.

On a subsequent sale of a Warrant, a U.S. Taxpayer should recognize gain or loss to the extent that the amount realized on such sale exceeds (or is less than) the U.S. Taxpayer's adjusted basis in the Warrant. Such gain or loss will be capital gain or loss provided that the Warrant is held as a capital asset and will be long-term or short-term gain or loss depending upon the U.S. Taxpayer's holding period in the Warrant. A U.S. Taxpayer who fails to exercise a Warrant will be deemed to have sold or exchanged the Warrant on the expiration date of such Warrant and should realize a capital loss in an amount equal to his adjusted basis in the Warrant. Such loss will be long-term or short-term capital loss depending on such U.S. Taxpayer's holding period in such Warrant.

A U.S. Taxpayer who resides in any State in which the distribution of the Warrants or the issuance of the Class C 8% Convertible Preference Shares would be unlawful and who receives cash upon the sale of the Warrants distributed for his benefit to a warrant sales agent, will be treated for U.S. Federal income tax purposes as if he had received the Warrants and then sold them. The tax consequences of the constructive receipt of the Warrants are the same as those described in the preceding paragraphs with respect to the actual receipt of Warrants. Upon the deemed sale of his Warrants, a U.S. Taxpayer will recognize gain or loss to the extent that the amount that he receives in cash from the warrant sales agent exceeds (or is less than) his adjusted basis in the Warrants. Such gain or loss will be capital gain or loss provided that the Warrants are considered held by the U.S. Taxpayer as capital assets, and will be long-term or short-term capital gain or loss depending upon the holding period of the Warrants. A U.S. Taxpayer should consult with his own tax adviser concerning whether he may defer the recognition of any income attributable to the Warrants until the time when the warrant sales agent disposes of the Warrants and distributes the net proceeds of disposition.

Exercise of Warrants and Purchase of Class C 8% Convertible Preference Shares

A U.S. Taxpayer should not recognize gain or loss on the exercise of the Warrants, and his adjusted basis in the Class C 8% Convertible Preference Shares received on such exercise will equal his basis in the Warrants plus the amount paid for the Class C 8% Convertible Preference Shares. The U.S. Taxpayer's holding period for the Class C 8% Convertible Preference Shares will begin on the date on which he exercises the Warrants.

On a subsequent sale of Class C 8% Convertible Preference Shares a U.S. Taxpayer should recognize gain or loss equal to the amount by which the amount realized on such sale exceeds (or is less than) his adjusted basis in the Class C 8% Convertible Preference Shares. Such gain or loss will be capital gain or loss provided that the Class C 8% Convertible Preference Shares are held as capital assets, and will be long-term or short-term capital gain or loss depending on the U.S. Taxpayer's holding period in such Class C 8% Convertible Preference Shares.

A U.S. Taxpayer who receives cash in lieu of fractional Class C 8% Convertible Preference Shares will be treated as if he had received such fractional Class C 8% Convertible Preference Shares and they were then redeemed for cash. Such payment will be treated as a distribution and may be taxable as a dividend, under the principles described under the heading "Change in the Number of Common Shares Retained and Receipt of Inter-City Products Ordinary Shares".

To the extent that a dividend is paid on the Class C 8% Convertible Preference Shares, such distribution will be taxable to a U.S. Taxpayer as ordinary income, to the extent of the U.S. Taxpayer's allocable share of Inter-City Products' E&P. A U.S. Taxpayer that is a corporation will not be eligible for the 70% dividends-received deduction with respect to the distribution, however, because Inter-City Products is a foreign corporation. Inter-City Products does not anticipate that it will determine the amount of its E&P nor provide such information to its shareholders. Accordingly, it is anticipated that the Service would require a U.S. Taxpayer to treat the entire amount of the distribution as ordinary income.

Conversion of Class C 8% Convertible Preference Shares into Inter-City Products Ordinary Shares

A U.S. Taxpayer should not recognize gain or loss on the conversion of Class C 8% Convertible Preference Shares into Inter-City Products Ordinary Shares, provided that the fair market value of the Inter-City Products Ordinary Shares into which the Class C 8% Convertible Preference Shares are converted does not exceed the fair

market value of the Class C 8% Convertible Preference Shares that are converted. Provided that the Class C 8% Convertible Preference Shares are held as capital assets, a U.S. Taxpayer's adjusted basis in the Inter-City Products Ordinary Shares into which such shares are converted will be the same as the U.S. Taxpayer's adjusted basis in the Class C 8% Convertible Preference Shares that are converted. A U.S. Taxpayer's holding period for the Inter-City Products Ordinary Shares received in the conversion will include the period during which such U.S. Taxpayer held the Class C 8% Convertible Preference Shares. A U.S. Taxpayer should recognize gain or loss on a subsequent sale of an Inter-City Products Ordinary Share to the extent that the amount realized on such sale exceeds (or is less than) the U.S. Taxpayer's adjusted basis in the Inter-City Products Ordinary Share. Such gain or loss will be capital gain or loss provided that the Inter-City Products Ordinary Share is held as a capital asset and will be long-term or short-term gain or loss depending upon the U.S. Taxpayer's holding period in such Inter-City Products Ordinary Share. A payment to a U.S. Taxpayer in redemption of his Class C 8% Convertible Preference Shares will be treated as a distribution and may be taxable as a dividend under the principles described under the heading "Change in the Number of Common Shares Retained and Receipt of Inter-City Products Ordinary Shares".

A U.S. Taxpayer who receives cash in lieu of fractional Inter-City Products Ordinary Shares will be treated as if such fractional Inter-City Products Ordinary Shares had been issued to him and then redeemed for the amount of such cash. Such payment will be treated as a distribution and may be taxable as a dividend under the principles described under the heading "Change in the Number of Common Shares Retained and Receipt of Inter-City Products Ordinary Shares."

Foreign Tax Credit

As explained above, under the heading "Canadian Federal Income Tax Consequences — Shareholders Not Resident in Canada", Canadian tax may be withheld with respect to the Warrants, the proceeds obtained by the warrant sales agent on the disposition of Warrants for the benefit of U.S. Taxpayers, dividends on Class C 8% Convertible Preference Shares, and any proceeds of redemption of Class C 8% Convertible Preference Shares. If Canadian tax is so withheld, then, subject to the limitations set out in the Code, a U.S. Taxpayer may be entitled to a credit against his U.S. Federal income tax for any Canadian income tax payable on account thereof. U.S. Taxpayers should consult their own tax advisers concerning the availability of any credit, in their particular circumstances, for any Canadian tax paid or withheld.

Dissenting Shareholders

As discussed under the heading "THE ARRANGEMENT — Dissenting Shareholders or Option Holders" a holder of Third Preference Shares or Common Shares may dissent with respect to the Arrangement.

A dissenting shareholder who is a U.S. Taxpayer, who complies with each of the steps required to dissent effectively, and who receives a payment equal to the value of his Third Preference Shares or Common Shares will be considered to have had his Third Preference Shares or Common Shares redeemed for the amount of cash received. This payment will be treated as a distribution and may be taxable as a dividend unless the redemption: (i) results in the "complete termination" of the shareholder's interest in the Corporation within the meaning of Section 302(b)(3) of the Code; (ii) is "substantially disproportionate" with respect to the shareholder within the meaning of Section 302(b)(2) of the Code; or (iii) is "not essentially equivalent to a dividend" within the meaning of Section 302(b)(1) of the Code. In determining whether the redemption satisfies one of these three tests, the constructive stock ownership rules of Section 318 of the Code will apply. In the event that the redemption satisfies one of the three tests, a U.S. Taxpayer will recognize gain or loss in an amount equal to the difference between the amount received and his adjusted basis in the Third Preference Shares or Common Shares. Such gain or loss will be capital gain or loss if the Shares are held as capital assets, and will be long-term or short-term capital gain or loss depending on the shareholder's holding period.

If, as explained above under the heading "Canadian Federal Income Tax Consequences — Shareholders not resident in Canada", Canadian tax is withheld on any amount paid to the Shareholder, then, subject to limitations set out in the Code, a U.S. Taxpayer may be entitled to a credit against his United States Federal income tax for any Canadian tax payable on account of the payment to him for his Third Preference Shares or Common Shares. U.S. Taxpayers who dissent from the Arrangement should consult their tax advisers concerning the availability of any credit, in their particular circumstances, for any Canadian tax paid or withheld on the receipt of amounts in respect of the fair value of their shares.

Dissenting Shareholders or Option Holders

Under the Arrangement and pursuant to the Interim Order, a Shareholder or Option Holder is entitled to dissent and be paid the fair value of his Common Shares, First Preference Shares, Third Preference Shares or Options if the Shareholder or Option Holder objects to the Arrangement Resolution and the Arrangement becomes effective. A Shareholder or Option Holder may dissent only with respect to all of the Common Shares, First Preference Shares or Third Preference Shares held by the Shareholder on behalf of any one beneficial owner and registered in the Shareholder's name and with respect to all Options held by the Option Holder. A Shareholder or Option Holder who holds Common Shares, First Preference Shares, Third Preference Shares or Options is entitled to dissent with respect to all his shares of one class or Options but not with respect to another class. However, a Shareholder or Option Holder is not entitled to dissent with respect to any Common Shares, First Preference Shares or Third Preference Shares or Options on the Arrangement if the Shareholder or Option Holder votes any of such shares beneficially owned by one owner in favour of the Arrangement Resolution.

In order to dissent, a Shareholder or Option Holder must send to Inter-City Gas Corporation c/o the Secretary, Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba, R3C 3T7 at or before the Special Meeting a written objection ("Objection Notice") to the Arrangement Resolution. A vote against the Arrangement Resolution or an abstention does not constitute such an Objection Notice, but a Shareholder or Option Holder need not vote his Common Shares, First Preference Shares, Third Preference Shares or Options, as the case may be, against the Arrangement Resolution in order to dissent. Immediately after the approval of the Arrangement Resolution by the Shareholders and Option Holders of the Corporation at the Special Meeting, Inter-City Products will deliver to each Shareholder or Option Holder who has filed an Objection Notice, at the address specified for such purpose in such Shareholder's or Option Holder's Objection Notice, a notice stating that the Arrangement Resolution has been approved (the "Company Notice"). A Company Notice is not required to be sent to any Shareholder or Option Holder who voted for the Arrangement Resolution or who has withdrawn his Objection Notice.

On sending the Objection Notice to the Corporation, a Shareholder or Option Holder will be deemed to have validly dissented and such a dissenting Shareholder or Option Holder ceases to have any rights as a Shareholder or Option Holder except the right to be paid the fair value of the shares or Options in respect of which he has dissented and such shares or Options will be deemed to have been cancelled by the Corporation pursuant to the Arrangement unless the dissenting Shareholder or Option Holder withdraws the Objection Notice not later than 3:00 p.m. (Winnipeg Time) on the business day immediately preceding the Effective Date or the Arrangement does not proceed, in which case such Shareholder's or Option Holder's rights are reinstated as of the date he sent the Objection Notice.

Not later than seven days after the Effective Date, Inter-City Products will send to each of the dissenting Shareholders or Option Holders a written offer (the "Offer to Purchase") to pay for the Common Shares, First Preference Shares, Third Preference Shares or Options which are the subject of the Objection Notice, as the case may be, in an amount considered by the directors of Inter-City Products to be the fair value thereof, accompanied by a statement showing how the fair value was determined. Every Offer to Purchase in respect of each class of previously-existing shares of the Corporation or Options shall be on the same terms.

Dissenting Shareholders and Option Holders who accept the Offer to Purchase will be paid within ten days of acceptance. The Offer to Purchase lapses if Inter-City Products does not receive an acceptance within 30 days after the date on which the Offer to Purchase was made.

If Inter-City Products fails to make the Offer to Purchase or the dissenting Shareholder or dissenting Option Holder fails to accept the Offer to Purchase within the time limit prescribed therefor, Inter-City Products may apply, under the MCA, to a court to fix a fair value for the shares within 50 days after the Effective Date or within such further period as the court may allow. Management of the Corporation intends to have Inter-City Products make the Offer to Purchase and if such Offer to Purchase is not accepted by the dissenting Shareholder or dissenting Option Holder, management of the Corporation intends to have Inter-City Products make application to the court to fix the fair value for the Common Shares, First Preference Shares, Third Preference Shares and/or Options. Upon any such application by Inter-City Products, Inter-City Products shall notify each affected dissenting Shareholder or dissenting Option Holder of the date, place and consequences of the application and of such dissenting Shareholder's or dissenting Option Holder's right to appear and be heard in person or by his counsel. If Inter-City Products fails to make such an application, the dissenting Shareholder or dissenting Option Holder has the right to so apply within a further period of 20 days or within such further period as the court may allow. The

application referred to above shall be made to a court having jurisdiction in Manitoba or in the province where the dissenting Shareholder or dissenting Option Holder resides if Inter-City Products carries on business in that province. All dissenting Shareholders or dissenting Option Holders whose shares or Options have not been purchased by Inter-City Products will be joined as parties to the application and will be bound by the decision of the court. The court may determine whether any person is a dissenting Shareholder or dissenting Option Holder who should be joined as a party and the court will fix a fair value for the Common Shares, First Preference Shares, Third Preference Shares and/or Options of all dissenting Shareholders or dissenting Option Holders.

Provided that the Arrangement becomes effective a Shareholder or Option Holder who complies with each of the steps required to dissent effectively is entitled to be paid the fair value of the Common Shares, First Preference Shares, Third Preference Shares or Options in respect of which he dissents, determined as of the close of business on the day before the Special Meeting. Such fair value as determined by the court may be more than, less than, or equal to the consideration to be received under the Arrangement or the Offer to Purchase.

Qualification of Securities

The Corporation does not intend to file a registration statement with the United States Securities and Exchange Commission to register the Warrants. The Warrants will be issued in reliance on an exemption therefrom under section 3(a)(10) of the United States Securities Act of 1933. The Corporation intends to file a registration statement with the United States Securities and Exchange Commission to register the Class C 8% Convertible Preference Shares issuable on the exercise of Warrants under the United States Securities Act of 1933. The Warrants will not be exercisable by U.S. Persons unless and until that registration statement has become effective and appropriate State securities law requirements have been satisfied and the Warrants will be so legended, if necessary.

Stock Exchange Listings

The Inter-City Products Ordinary Shares will continue to be listed for trading on The Toronto Stock Exchange, the Winnipeg Stock Exchange and the American Stock Exchange after the completion of the Arrangement.

The Toronto Stock Exchange has conditionally approved the listing of the Warrants, the Class C 8% Convertible Preference Shares and the Inter-City Products Ordinary Shares issuable on the conversion of the Class C 8% Convertible Preference Shares, subject to the fulfillment of all the requirements of such exchange, including distribution to a minimum number of public holders. Application will be made to list the Inter-City Products Ordinary Shares issuable on the conversion of the Class C 8% Convertible Preference Shares on the Winnipeg Stock Exchange and on the American Stock Exchange. Application will also be made to list the Class C 8% Convertible Preference Shares and to admit the Warrants to dealings on the American Stock Exchange.

The Winnipeg Stock Exchange has conditionally approved the listing of the Utilities Holdings Shares and Propane Holdings Shares on the Effective Date.

Eligibility for Investment in Canada

In the opinion of Osler, Hoskin & Harcourt, special counsel to the Corporation, had the Arrangement become effective on the date hereof, the Inter-City Products Ordinary Shares and Class C 8% Convertible Preference Shares would be eligible investments, without resort to the so-called "basket provisions" subject to general investment conditions or restrictions:

(a) for insurance companies registered or licensed under the Canadian and British Insurance Companies Act (Canada), or the Foreign Insurance Companies Act (Canada) and certain insurers incorporated or licensed under the Insurance Act (Ontario) and the Insurance Act (Alberta);

(b) for loan companies regulated under the Loan Companies Act (Canada), trust companies regulated under the Trust Companies Act (Canada), trust companies regulated under the Trust Companies Act (Alberta) and trust companies subject to the provisions of the Trust Company Act (British Columbia);

(c) for pension plans regulated under the Pension Benefits Standards Act, 1985 (Canada) or the Employment Pension Plans Act (Alberta); and

(d) for trustees whose investment powers are governed by the Trustee Act (Ontario) or the Trustee Act (Alberta).

In the opinion of such counsel, had the Arrangement become effective on the date hereof, a company registered, licensed, regulated, subject to the provisions of or governed, as the case may be, by one of the statutes referred to in (a), (b), (c) or (d) above with the exception of the Trustee Act (Ontario), the Trust Companies Act (Alberta) and the Trust Company Act (British Columbia) and which holds Common Shares as an eligible investment, may accept and hold Utilities Holdings Shares and Propane Holdings Shares in exchange for such Common Shares in accordance with such statutes and subject to general investment conditions or restrictions thereof.

In the opinion of such counsel, had the Arrangement become effective on the date hereof, a Third Preference Shareholder registered, licensed, regulated, subject to the provisions of or governed, as the case may be, by one of the statutes referred to in (a), (b), (c) or (d) above may accept and hold the Common Shares to be issued on the Change of Third Preference Shares in accordance with such statutes and subject to any general investment conditions or restrictions thereof.

In the opinion of such counsel, had the Arrangement become effective on the date hereof, the Pension Benefits Act, 1987 (Ontario) and regulation thereunder (the "PBA") would not preclude investment in the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares, Class C 8% Convertible Preference Shares, Utilities Holdings Shares or Propane Holdings Shares, at the date hereof, by a pension fund registered thereunder which has filed a statement of investment policies and goals, subject to the prudent investment criteria and the general investment provisions thereof and provided that the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares, Class C 8% Convertible Preference Shares, Utilities Holdings Shares or Propane Holdings Shares, as the case may be, are within a category of investment specifically permitted and for which guidelines have been established in such statement. In the further opinion of such counsel, the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares, Class C 8% Convertible Preference Shares, Utilities Holdings Shares or Propane Holdings Shares are investments in which the PBA states that a pension fund registered thereunder may invest, at the date hereof, if the pension fund has not been required to file and has not filed a statement of investment policies and goals, subject to the prudent investment criteria and the general investment provisions of the PBA, and subject to the general investment provisions of the Pension Benefits Act (Ontario) as it existed at December 31, 1987, without resorting to the so-called "basket" provision thereof.

In the opinion of such counsel, had the Arrangement become effective on the date hereof, the provisions of the Loan and Trust Corporations Act, 1987 (Ontario) and the Regulations under that Act would not, subject to compliance with prudent investment standards and the general investment provisions of that Act, preclude the funds received as deposits by loan corporations and trust corporations registered under that Act from being invested in the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares, Class C 8% Convertible Preference Shares, as the case may be, at the date hereof, without resort to the so-called "basket" provisions thereof.

In the opinion of such counsel, had the Arrangement become effective on the date hereof, the provisions of an Act respecting insurance (Quebec) would not preclude the investment in the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares, Class C 8% Convertible Preference Shares, Utilities Holdings Shares or Propane Holdings Shares, as the case may be, at the date hereof, by an insurer governed thereunder, other than a mutual association or professional corporation, subject to the general investment provisions of that Act.

In the opinion of such counsel, had the Arrangement become effective on the date hereof, the provisions of the Supplemental Pension Plans Act (Quebec) and regulations thereunder would not preclude investment in the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares, Class C 8% Convertible Preference Shares, Utilities Holding Shares or Propane Holdings Shares, as the case may be, at the date hereof, by a pension plan registered thereunder, subject to the general and specific investment provisions set out both therein and in the written statement of investment policy of the pension committee established to administer a particular pension plan registered thereunder.

In the opinion of such counsel, the Common Shares to be issued on the Change of Third Preference Shares, Inter-City Products Ordinary Shares and Class C 8% Convertible Preference Shares, would be qualified investments for trusts governed by a registered retirement savings plan, a registered retirement income fund or a deferred profit sharing plan under the Income Tax Act (Canada).

In the opinion of such counsel, Utilities Holdings Shares and Propane Holdings Shares will be, if, as and when listed on a prescribed stock exchange, qualified investments for trusts governed by a registered savings plan, a registered retirement income fund or a deferred profit sharing plan under the Income Tax Act (Canada).

In the further opinion of such counsel, the Warrants will be, if, as and when listed on a prescribed stock exchange, qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans under the Income Tax Act (Canada).

Expenses of the Arrangement

Except as noted below, the costs (exclusive of any amounts payable in respect of the Corporation's severance allowance agreements) incurred by the Corporation, Central Capital, Westcoast, WestCoast Gas and Petro-Canada relating to the Arrangement, including without limitation, financial, advisory, accounting and legal fees, the expense of the fairness opinion and the preparation of this Management Proxy Circular will be borne by the party incurring such costs.

The total of such costs which the Corporation expects to incur is expected to approximate $8.3 million. The Corporation has agreed to reimburse Central Capital for certain expenses incurred by Central Capital in connection with the Arrangement. See "THE ARRANGEMENT — Interest of Central Capital and Other Insiders in the Arrangement".

BOARD SIZE RESOLUTION

In the event that the Arrangement Resolution is passed, the holders of Common Shares, First Preference Shares and Third Preference Shares will be asked to consider and, if deemed advisable, to pass the Board Size Resolution to fix the number of directors of Inter-City Products at five. The full text of the Board Size Resolution is attached as Schedule B.

The articles of the Corporation provide that the number of directors of the Corporation shall be no fewer than five and no more than thirteen. The exact number of directors of the Corporation is fixed by the holders of voting shares by special resolution and at the present time has been fixed at twelve.

Recommendation of Board of Directors and Special Committee

The Special Committee has reviewed and considered the proposed reduction in the number of directors of Inter-City Products to five and has recommended its approval to the Board of Directors. The Special Committee has recommended that Inter-City Products take steps after the Effective Date so that its Board of Directors includes at least two directors independent of management and Central Capital. Any further change in the number of directors will be subject to approval by special resolution at a meeting of shareholders of Inter-City Products.

In light of the sale of the Corporation's Resources Division, effective April 30, 1989, and the Arrangement which will result in the Corporation no longer operating the Utilities Division or the Propane Division, the Board of Directors believes that it would be appropriate to reduce the size of the Board of Directors to reflect the intention of Inter-City Products to focus on the Energy Products Business.

The Board of Directors has determined that the reduction in the number of directors is in the best interests of the Corporation and has authorized the submission of the Board Size Resolution to the holders of the Common Shares, First Preference Shares and Third Preference Shares.

The Board of Directors unanimously recommends that the holders of Common Shares, First Preference Shares and Third Preference Shares vote in favour of the Board Size Resolution.

Shareholder Approval

In order to reduce the number of directors of the Corporation to five, the Board Size Resolution must be passed by the holders of Common Shares, First Preference Shares and Third Preference Shares voting together as a single class, with or without variation, by at least two-thirds of the votes cast at the Special Meeting. In the event the Board Size Resolution is not approved by the Shareholders in the manner described above, the number of directors of the Corporation will remain fixed at twelve.

INFORMATION CONCERNING THE CORPORATION

The Corporation was incorporated in 1954 under the laws of Manitoba. It has its executive office at Suite 3500, 20 Queen Street West, Toronto, Ontario, Canada M5H 3R3, and its telephone number is (416) 598-0101. Its registered and head office is located at Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba, Canada R3C 3T7 and its telephone number is (204) 944-9920.

The Corporation is engaged in the following businesses on a divisional basis:

1. Utilities Division — natural gas transmission and distribution, and electricity distribution.
2. Propane Division — the distribution of propane, gasoline and related products.
3. Energy Products Division — manufacture and distribution of heating, refrigeration and air conditioning equipment, heat transfer equipment and related products and the fabrication of large diameter steel pipe.

Recent Developments

Effective May 5, 1989, the Corporation sold all of the shares of its wholly-owned subsidiary ICG Resources to Saskatchewan Oil and Gas Corporation ("Saskoil") in consideration of a cash payment of $103.7 million.

On December 8, 1989, the Corporation entered into an agreement to sell its 10,236,064 common shares in the capital of Ranger Oil Limited ("Ranger"), a publicly traded oil and gas company, to Westcoast Petroleum Ltd., a wholly-owned subsidiary of Westcoast, at a price of $7.25 per share, resulting in aggregate proceeds of $74.2 million. This transaction was completed on December 12, 1989. These shares represented 12.1% of the then outstanding common shares of Ranger.

Utilities Division

In Canada, the Utilities Division operates natural gas utility systems in the provinces of Alberta, British Columbia, Manitoba and Ontario and a gas transmission pipeline system in the state of Minnesota. The Utilities Division is also the franchise distributor of electricity to the city of Yellowknife, Northwest Territories. Total revenues of the Utilities Division represented 41.4%, 43.8% and 45.5% of the Corporation's consolidated revenues during the nine months to September 30, 1989, and the twelve months to December 31, 1988 and 1987, respectively. Operating profit of the Utilities Division accounted for 48.8%, 61.2% and 58.9% of the Corporation's consolidated operating profit, during the same periods as above.

Natural gas sales represented in excess of 90% of the revenues of the Utilities Division in each of these periods. Operations of this business segment are highly seasonal with the key selling period being the winter heating season of mid-October through mid-April. Operating revenues in this period account for approximately two-thirds of annual revenues of the Utilities Division.

At September 30, 1989, the Utilities Division served 441,102 natural gas customers, 5,110 electrical customers, and 1,532 piped propane customers. During the nine months to September 30, 1989, the Utilities Division sold 138.7 billion cubic feet of natural gas.

The gas and electric utilities are subject to regulation and periodic review by provincial authorities in each of the provinces where they operate with respect to various aspects of their operations, including the extension of service, the construction of new facilities and the rates charged to utilities customers. Competition is provided primarily from alternate sources of energy.

The Utilities Division does not have any natural gas customers whose annual purchases exceed 10% of consolidated revenues. There are, however, a number of large industrial customers of which the ten largest, in total, accounted for approximately 11% of consolidated revenues of the Utilities Division in fiscal 1988.

On January 3, 1989, ICG Ontario executed contracts with Ontario Hydro and Boise Cascade Canada Ltd. ("Boise Cascade") with respect to (a) the construction and operation of a cogeneration facility (the "Cogeneration Project") on the premises of Boise Cascade in Fort Frances, Ontario; and (b) the sale by ICG Ontario of the steam and power generated by the Cogeneration Project to Boise Canada and Ontario Hydro respectively. The Cogeneration Project will be fueled by natural gas. Construction of the Cogeneration Project commenced in 1989 and is expected to be completed during the last quarter of 1990. As of the end of 1989, ICG Ontario had spent approximately $60 million in respect of the Cogeneration Project. The total cost of constructing the Cogeneration Project is estimated at approximately $100 million. ICG Ontario's ownership and operation of the Cogeneration

Project is subject to the provisions of the 1988 Undertakings which limit ICG Ontario from engaging or investing, without approval of the OEB, in any activity which is not subject to regulation by the OEB. By Order-in-Council dated June 12, 1989, the Ontario Cabinet required the OEB to examine and, after holding a public hearing, to report to the Ontario Cabinet as to whether ICG Ontario should be exempted, in respect of the Cogeneration Project, from compliance with the 1988 Undertakings. The public hearing by the OEB concluded on October 31, 1989. The OEB's report dated January 22, 1990 recommends that the Ontario Cabinet exempt ICG Ontario, subject to certain conditions, from compliance with the 1988 Undertakings to allow ICG Ontario to invest in the Cogeneration Project. Among the conditions recommended by the OEB are (a) that, as soon as possible, at a date to be agreed with the Ontario Cabinet, the Cogeneration Project be transferred from ICG Ontario to a subsidiary corporation or other separate corporate entity; and (b) that ICG Ontario's regulated utility operations and ratepayers be indemnified against all direct and indirect liabilities and any additional costs arising from ICG Ontario's non-utility investments, including the Cogeneration Project. ICG Ontario intends to enter into discussions with the Ontario Ministry of Energy about the OEB recommendations and the implementation thereof.

On February 28, 1989, the Corporation purchased the Victoria Gas Division of British Columbia Hydro. The acquisition will allow the Corporation immediately to service 3,800 additional customers on Vancouver Island with piped propane gas or propane vapor, with the opportunity to expand service if natural gas becomes available on Vancouver Island.

The management of the Corporation is not aware of any independent valuation or appraisal or any material non-independent valuation or appraisal of the Corporation, its material assets or its securities, prepared within the previous two years, except as described below. In the ordinary course, the Corporation's management and its financial advisers from time to time prepare assessments of the Corporation's business, its divisions or its securities, which are based on various and varying economic assumptions. Such assessments do not constitute material valuations or appraisals of the Corporation's business divisions or securities.

On August 16, 1989, Burns Fry prepared a report on the common equity values of the Greater Winnipeg Gas Company ("GWG") and ICG Ontario solely in relation to an internal transfer of assets pursuant to an OEB request and a related tax ruling other than the Advance Tax Ruling. This report did not consider the transaction or sale value of GWG and ICG Ontario to arm's length third party purchasers. Burns Fry evaluated ICG Ontario and GWG using ratios and averages often used to evaluate a particular utility, excluding any premium for a transfer of control. Burns Fry concluded that the value of GWG's common equity on this basis fell within the range of approximately $65 million to $72 million and that a figure of approximately $285 million represented the value of ICG Ontario's common equity on this basis.

ICG Ontario distributes natural gas in the northern and central regions of Ontario and at the time of the report owned 99.8% of GWG. (ICG Canada now owns 99.9% of GWG.) GWG is the sole distributor of natural gas in the Metropolitan Winnipeg region.

On November 28, 1989, Burns Fry prepared a report on the common equity values of ICG Utilities (Manitoba) Ltd. ("ICG Manitoba") in relation to an internal, normal course reorganization of assets aimed at achieving operating economies of scale. This report did not consider the transaction or sale value of ICG Manitoba to arm's length third party purchasers. Burns Fry evaluated ICG Manitoba using ratios and averages often used to evaluate a particular utility, excluding any premium for a transfer of control. Burns Fry concluded that the value of ICG Manitoba's common equity on this basis would be in the range of approximately $14 million to $14.5 million.

ICG Manitoba is the sole distributor of natural gas in parts of Manitoba outside the Metropolitan Winnipeg region and at the time of the report was wholly-owned by ICG Canada. ICG Manitoba was subsequently wound up into GWG and GWG was subsequently renamed ICG Utilities (Manitoba) Ltd..

These reports were not prepared in connection with services provided by Burns Fry to the Corporation relating to Burns Fry's review of the auction process or the Arrangement, including the Fairness Opinion. Burns Fry has advised the Corporation that these reports were prepared using different assumptions and criteria than those used in the preparation of the Fairness Opinion, see "THE ARRANGEMENT — Opinion of Financial Adviser", and therefore are not directly comparable.

As at December 31, 1988, based on total operating revenues, ICG Ontario comprised 58% of Utilities Division, ICG Manitoba comprised 8% of Utilities Division and GWG comprised 25% of Utilities Division.

Propane Division

The Propane Division is a major marketer of propane in Canada, with an estimated national market share of approximately 30%. Total revenues of the Propane Division represented 14.9%, 15.8% and 16.0% of the Corporation's consolidated revenues during the nine months to September 30, 1989, and the twelve months to December 31, 1988 and 1987, respectively. Operating profit of the Propane Division accounted for 10.6%, 15.1% and 16.6% of the Corporation's consolidated operating profit during the same periods as above.

Sales are made through 141 owned and leased branches across all areas of Canada except Nova Scotia, Prince Edward Island and Newfoundland. Approximately 34% of propane sales are to auto-propane customers with the balance to heating, commercial and industrial customers. Propane sales accounted for approximately 79% of the revenues of the Propane Division during the nine months to September 30, 1989. The months of October through March are the peak demand months with revenues in these months comprising approximately 58% of annual revenues for the Propane Division.

Competitors within the propane industry include one other national marketer and numerous mid and small size regional distributors and marketers. Markets for propane in Canada include residential, commercial and industrial heating loads markets, agricultural heating and crop drying markets and transportation fuel markets.

With the trend toward deregulation of the energy industry, the financial incentives of the Federal Government to encourage the use of propane as an alternate fuel to crude oil based products have been eliminated. Provincial incentives through elimination or reduction in road and sales taxes remain in place in some provinces and aid the continued growth in the propane fleet fuel market.

Recent thrusts to market propane in the vehicle fuel market have been through Corporation-owned or leased fuelling centres. Propane sales through these centres are normally augmented by sales of gasoline, diesel fuel and related merchandise and services to provide a full line of products to the customer.

Energy Products Division

The Energy Products Division designs, manufactures and distributes residential and light commercial heating, refrigeration and air conditioning equipment, heat transfer equipment and related products and fabricates large diameter steel pipe and fittings. Total revenues of the Energy Products Division represented 43.7%, 40.4% and 38.5% of the Corporation's consolidated revenues during the nine months to September 30, 1989, and twelve months to December 31, 1988 and 1987, respectively. Operating profit of the Energy Products Division accounted for 44.7%, 27.4% and 28.6% of the consolidated operating profit during the same periods as above. See "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION" for a detailed description of the operations of the three principal business units of the Energy Products Division.

Selected Financial Data

The following table sets forth selected financial information with respect to the Corporation for the periods indicated. The information below should be read in conjunction with "Management's Discussion of Operating Results" and the consolidated financial statements and notes thereto included elsewhere in this Management Proxy Circular. Reference is made to Note 23 of the notes to the consolidated financial statements of the Corporation for a discussion of significant differences between Canadian GAAP and U.S. GAAP.

	Nine months ended September 30		Year ended December 31				
	1989	1988	1988	1987	1986	1985	1984
	(Unaudited)						
	(In millions of Canadian dollars, except per share amounts)						
Operating Revenues	1,388.1	1,276.9	1,761.4	1,614.9	1,362.4	1,456.7	865.3
Net income (loss)							
From continuing operations	34.7	28.8	46.5	31.2	33.1	32.9	15.5
Before unusual and extraordinary items	35.9	24.8	39.8	33.0	28.0	43.2	26.0
Before extraordinary items	35.9	24.8	39.8	46.3	28.0	43.2	26.0
After extraordinary items	35.9	24.8	39.8	87.7	29.1	44.1	(2.3)
Basic net income (loss) per Common Share							
From continuing operations	$1.13	$0.87	$1.52	$0.94	$1.07	$1.18	$0.77
Before unusual and extraordinary items	$1.19	$0.70	$1.22	$1.03	$0.80	$1.73	$1.34
Before extraordinary items	$1.19	$0.70	$1.22	$1.72	$0.80	$1.73	$1.34
After extraordinary items	$1.19	$0.70	$1.22	$3.85	$0.86	$1.77	$(0.19)
Dividends per Common Share	$0.54	$0.54	$0.72	$0.63	$0.60	$0.50	$0.40
Total assets	1,779.6	1,767.3	1,857.4	1,704.8	1,649.9	1,471.1	1,423.8
Long-term obligations	606.8	652.3	718.1	644.6	817.9	701.3	787.1

Management's Discussion of Operating Results

Nine Months Ended September 30, 1989 Compared to Nine Months Ended September 30, 1988

Net income from continuing operations in 1989 amounted to $34.7 million compared to $28.8 million in 1988. The increase of $5.9 million reflected customer growth in the Utilities Division, a significant increase in the shipment of air conditioners and higher investment income, offset to some extent by higher financial expenses due to an increase in interest rates. After deducting dividends on preference shares, net income to Common Shareholders from continuing operations was $26.4 million or $1.13 per Common Share, compared to $19.8 million or $0.87 per Common Share in 1988. The Resources Division, representing discontinued operations, contributed $1.2 million or 6 cents per Common Share in 1989 compared to a loss of $4 million or 17 cents per Common Share in 1988.

Operating revenue increased by $111.2 million over the corresponding period in 1988. An increase occurred in all divisions. In the Utilities Division, higher sales to large industrial customers, customer growth and weather, which was 6% colder than 1988, partially offset by lower prices, were the major factors for the increase in operating revenue. In the Propane Division, the increase in operating revenue was accounted for primarily by higher volumes due to colder weather and higher merchandise sales, partially offset by a decline in the selling price of propane. Higher volumes of sales of air conditioners resulted in an increase in operating revenue of the Energy Products Division.

Operating profit for the nine months to September 30, 1989 amounted to $122.1 million, an increase of $14.1 million over the similar period in 1988. Most of the increase occurred in the Energy Products Division, partially offset by a slight decline in the Propane Division. The growth in the operating profit of the Utilities Division was due to customer growth and colder weather, partially offset by higher operating expenses. In the Propane Division, higher volumes and favourable product costs were offset by higher operating expenses. The increase in the operating profit of the Energy Products Division was primarily due to a higher volume of sales of air conditioners.

The increase in investment income was primarily due to the gain on sale of common shares held in Turbo Resources Limited. The increase in financial expenses was primarily attributable to higher interest rates. The

increase in income taxes was due to higher earnings, partially offset by a decrease in the effective income tax rate resulting from legislative changes in tax rates.

1988 Compared to 1987

In 1988, income from continuing operations but before unusual and extraordinary items amounted to $46.5 million compared to $31.2 million in 1987, representing an increase of 49%. This represents $1.52 per Common Share in 1988 compared to $0.94 per Common Share in 1987. Return to more normal weather patterns and strong sales of air conditioners were the major factors for the appreciable growth in the 1988 earnings compared to 1987 earnings. Weather, which was approximately 14% colder than 1987, improved earnings by 42 cents per Common Share. The Resources Division, representing discontinued operations, reduced the earnings by $6.7 million or 30 cents per Common Share in 1988. However, in 1987 the Resources Division contributed $1.8 million or 9 cents per Common Share. The decline in the results of the Resources Division in 1988 was primarily due to lower oil prices and higher depletion, partially offset by substantially higher volumes of sales for both oil and natural gas.

In 1987, the Corporation received $13.3 million from MICCI, representing cumulative preference dividends in arrears to December 31, 1986. This item of income was classified as "unusual" and resulted in net income before extraordinary items of $46.3 million or $1.72 per Common Share in 1987. Also in 1987, the Corporation sold the warrants it held in MICCI and received full redemption of the preference shares it held in MICCI. In a prior year, the Corporation had recorded a write-down of its investment in these warrants and preference shares and these realizations in 1987 resulted in an extraordinary gain to the Corporation of $40.1 million after tax. After also including in extraordinary items the income tax benefit of $1.3 million realized from utilization of prior years' tax losses, net income after extraordinary items was $87.7 million in 1987. This represented earnings of $3.85 per Common Share. There were no unusual or extraordinary items during 1988.

Operating revenue in 1988 increased by $146.5 million or 9% over the corresponding period in 1987. All divisions recorded an improvement. In the Utilities Division, operating revenue increased due to the impact of colder weather, higher sales to industrial customers, customer growth and the rate of return on higher rate bases. The increase in the operating revenue of the Propane Division was primarily due to a 16% increase in propane volumes and increased merchandise sales, partially offset by the lower selling price of propane. The Energy Products Division recorded the most significant increase in operating revenue, primarily due to an increase in the sale of air conditioning products.

Operating profit in 1988 increased by $31 million over the operating profit in 1987 of $130.3 million. All divisions recorded an improvement. Operating profit in the Utilities Division increased primarily due to colder weather and higher demand from an expanded customer base. Higher propane volumes and merchandise sales accounted for the 13% improvement in operating profit in the Propane Division. The improvement in the operating profit of the Energy Products Division resulted from improvements at Heil-Quaker and KeepRite, primarily from increased shipments of air conditioners.

Corporate and other costs increased in 1988 as a result of a provision against notes receivable and financial advisory fees. The decline in the Corporation's investment income of $5.6 million was primarily due to the redemption by MICCI in 1987 of preference shares of MICCI and the disposition by the Corporation in the latter half of 1988 of a portion of the Corporation's investment in Noverco Inc.

The decrease in 1988 of $4.5 million in financial expenses of the Corporation primarily reflected higher foreign exchange gains due to the strengthening of the Canadian dollar vis-a-vis U.S. dollar and higher capitalization of interest.

The provision for income tax increased in 1988 as a result of higher earnings and an increase in the effective rate of income tax. The effective rate of income taxes for 1988 was 42.2% compared to 38.0% in 1987. The increase in the effective rate was primarily due to lower non-taxable dividend income in 1988 compared to 1987.

1987 Compared to 1986

In 1987, income from continuing operations, but before unusual and extraordinary items, amounted to $31.2 million compared to $33.1 million in 1986, representing a decrease of 6%. This represented $0.94 per Common Share in 1987 compared to $1.07 per Common Share in 1986. The decline in earnings was primarily in the Utilities Division as a result of warmer weather and the adoption prospectively of the pronouncements issued by the Canadian Institute of Chartered Accountants ("CICA") on accounting for pension costs and obligations. The

Resources Division, representing discontinued operations, contributed $1.8 million or 9 cents per Common Share in 1987, compared to a loss of $5.1 million or 27 cents per Common Share in 1986. In 1986, the Corporation adopted the ceiling-test provisions of the CICA Guideline on full-cost accounting in the oil and gas industry. As a result, the carrying cost of United States oil and gas properties was reduced by $9.3 million.

In 1987, an unusual item of $13.3 million resulted in net income before extraordinary items of $46.3 million or $1.72 per Common Share. Also, during 1987, net income after extraordinary items was $87.7 million or $3.85 per Common Share. The nature of unusual and extraordinary items was described earlier in this discussion.

During 1986, utility operations in Minnesota were sold for a gain of $1.8 million, net of income taxes. In addition, the Corporation reviewed its investment in a utility expansion company and recorded, as an extraordinary loss, a provision for $2 million, net of income taxes. After taking into account the income tax benefit of $1.3 million realized from utilization of prior years' tax losses, net income after extraordinary items was $29.1 million in 1986 or 86 cents per Common Share.

Operating revenue increased by $252.5 million in 1987 or 19% over 1986, reflecting the contribution by Heil-Quaker, offset by a decline in the Corporation's two other divisions. In the Utilities Division, the decline was due to the impact of lower selling prices, direct purchases by some industrial customers, warmer weather and the sale in 1986 of utility operations in Minnesota, partially offset by customer growth and rate of return increases on higher rate bases. The decrease in operating revenue in the Propane Division was mainly due to the lower selling price for propane, offset to some extent by higher propane and gasoline volumes and increased merchandise sales. The increase in the operating revenue for the Energy Products Division was accounted for by Heil-Quaker. Revenue growth at KeepRite was due to the increase in the sale of air conditioning products and furnaces.

Operating profit increased by $15.6 million in 1987 over the $114.7 million recorded in 1986. Once again, the increase could be wholly attributed to the contribution by the Energy Products Division. Operating profit in the Utilities Division decreased primarily as a result of warmer weather and the previous year's sale of the Minnesota utility operations, offset by customer growth, rate of return increases and higher sales to industrial customers. The Energy Products Division achieved an increase over 1986 due to contributions from Heil-Quaker and Thompson Pipe, offset by a decline in the operating profit recorded by KeepRite in the United States because of higher operating expenses and lower gross margins.

Corporate and other costs increased in 1987 as a result of a lower allocation to operating divisions and the adoption of the CICA accounting policy on pension costs. The decrease in investment income was due to the disposition in 1986 of a portion of the Corporation's investment in Noverco Inc.

The increase of $16.9 million in 1987 in financial expenses primarily reflected interest costs of $17.4 million relating to the acquisition of Heil-Quaker and to the operations of Heil-Quaker, and a foreign exchange gain in 1986 of $4.8 million resulting from the disposition of certain U.S. dollar denominated investments in Noverco Inc. These increased financial expenses were offset by lower interest costs due to reduced debt levels and lower average interest rates.

The provision for income tax decreased as a result of reduced earnings and a slightly lower effective rate (38.0% in 1987, compared to 38.6% in 1986). Elimination of energy taxes effective October 1, 1986 also resulted in a decrease in the overall provision for taxes.

Financial Condition, Liquidity and Capital Resources

Cash flow from continuing operations for the nine months to September 30, 1989 amounted to $70.4 million compared to $26.7 million in the corresponding period in 1988. Approximately $42 million of this improvement came from the Energy Products Division. Cash flow from operations, after payment of dividends, together with cash generated from the sale of the Resources Division and other investments, was used to meet investment in property plant and equipment. The balance of funds remaining of $69.2 million together with funds raised from new long term debt and the issue of Common Shares was used to repay other long-term debt and redeem preference shares. The resulting deficiency of $27.6 million was financed from bank lines of credit. The Corporation and its subsidiaries have operating and other short term lines of credit with Canadian and U.S. banks totalling $471.9 million of which $188 million was unutilized as at September 30, 1989. Working capital deficiency at September 30, 1989 was $23 million, compared to a deficiency of $48.8 million at December 31, 1988. As disclosed in the Pro Forma Condensed Consolidated Balance Sheet as at September 30, 1989 the Corporation would have had

a positive working capital in the amount of $115.3 million if the Arrangement had been effective on that date. It is expected that the Corporation will have a positive working capital position at the conclusion of the Arrangement. Overall borrowings of $896 million at September 30, 1989 have decreased by $53.2 million from December 31, 1988, primarily as a result of the sale of the Resources Division.

For a discussion of Inter-City Product's liquidity and capital resources assuming the Arrangement is completed see Footnote 7 to "INFORMATION CONCERNING INTER-CITY PRODUCTS — Pro Forma Capitalization".

Pending Transactions

Redemption of Second Preference Shares

Prior to the Effective Date, the Corporation will redeem the Second Preference Shares six and one-half per cent (6½%) Series A ("Series A Shares") and the Second Preference Shares seven and one-half per cent (7½%) Series B ("Series B Shares") on a date to be determined (the "Redemption Date"). The redemption of the Second Preference Shares will be financed out of the Corporation's working capital. Thirty days before the Redemption Date, the Corporation will mail to each person, who at the date of mailing is a registered holder of Series A Shares ("Series A Holder") and Series B Shares ("Series B Holder"), written notice ("Notice") of the Corporation's intention to redeem such shares. Accidental failure to give any such notice to one or more of such Series A Holders or Series B Holders will not affect the validity of such redemption. The Notice will specify the Redemption Date and a Redemption Price in an amount equal to Twenty Dollars and Sixty-Three Cents ($20.63) for each Series A Share and Twenty Dollars and Seventy-Five Cents ($20.75) for each Series B Share together with all accrued and unpaid preferential dividends up to the Redemption Date. On or after the Redemption Date, the Corporation will pay the Redemption Price to each Series A Holder and Series B Holder on presentation and surrender of the share certificate(s) ("Certificate(s)") representing such Series A Holder's Series A Shares or such Series B Holder's Series B Shares at the place designated in the Notice. From and after the Redemption Date, the Series A Shares and Series B Shares will be deemed to be redeemed and will be cancelled, and will cease to be entitled to dividends, and the Series A Holders and Series B Holders will not be entitled to exercise any of the rights of shareholders in respect thereof. If payment of the Redemption Price is not made upon surrender and presentation of the Certificate(s), the rights of the Series A Holders or Series B Holders, as the case may be, will remain unaffected. Should any Series A Holder or Series B Holder not surrender and present the Certificate(s) on the Redemption Date, the Corporation will have the right to deposit the Redemption Price for such Series A Shares or Series B Shares to a special account in the Canadian chartered bank or trust company named in the Notice, and thereafter the rights of such Series A Holder or Series B Holder will be limited to receiving without interest the proportionate share of the deposited amount, upon presentation and surrender of the Certificate(s) to the Central Guaranty Trust Company. From and after the date of the deposit of the Redemption Price, as described above, the Series A Shares and Series B Shares in respect of which the deposit has been made will be deemed to be redeemed and will be cancelled.

The Corporation has agreed to redeem the Second Preference Shares in accordance with their terms at a cost of approximately $2.6 million prior to the Effective Date. On February 12, 1990, the Corporation issued the Notice providing for the redemption of the Second Preference Shares on March 15, 1990.

Description of Share Capital

The following is a summary of the material provisions of the share capital of the Corporation and is subject to the detailed provisions of the articles of the Corporation. All shares in the authorized capital of the Corporation are entitled to one vote per share.

The authorized capital of the Corporation consists of an unlimited number of Common Shares, 600,000 first preference shares issuable in series of which 110,000 have been designated as First Preference Shares, 262,468 second preference shares issuable in series of which 125,000 have been designated as Series A and 100,000 have been designated as Series B, and 10,000,000 third preference shares issuable in series of which 3,000,000 have been designated Third Preference Shares. As at January 31, 1990, 23,770,662 Common Shares, 87,140 First Preference Shares, 63,197 Second Preference shares six and one-half per cent (6½%) Series A, 59,395 Second Preference shares seven and one-half per cent (7½%) Series B and 2,717,527 Third Preference Shares were issued and outstanding.

First Preference Shares

The first preference shares as a class may be issued in one or more series, with the directors of the Corporation fixing the number of shares, the rate of dividends, the dates of dividend payment, the price, terms and conditions of redemption, and other preferences, rights, conditions, restrictions, limitations, or prohibitions. The first preference shares as a class are the senior ranking class of shares in respect of the right to dividends and participation in any winding up. Each series of first preference shares ranks equally with all other series. The holders of the first preference shares as a class are entitled to receive notice of and to attend any meeting of the shareholders of the Corporation and to receive a copy of the financial statements of the Corporation and the auditors' report thereon.

In addition to the general rights and restrictions attaching to the first preference shares as a class, the First Preference Shares have the following special provisions: (i) the consideration for the issuance of each share is $700; (ii) the holders shall be entitled to receive fixed cumulative preferential cash dividends of $56 per annum per share, payable by quarterly installments on the first day of each of the months of January, April, July, and October; (iii) in the event of the liquidation, dissolution, or winding up of the Corporation, the holders shall be entitled to receive the amount paid up on such shares together with all accrued and unpaid preferential dividends thereon; (iv) the Corporation may purchase for cancellation or redeem any or all of the First Preference Shares; and (v) Norcen, as the sole holder of the First Preference Shares, shall, in the event that the Corporation makes an unscheduled demand for payment on account of principal in respect of the Norcen Note, have the right to require the Corporation to redeem all or any part of the said shares held by Norcen.

Second Preference Shares, Series A and B

The second preference shares may be issued in one or more series, with the directors of the Corporation fixing the number of shares, the rate of dividends, the dates of dividend payment, the price, terms and conditions of redemption, and other preferences, rights, conditions, restrictions, limitations, or prohibitions. The second preference shares rank junior to the first preference shares but senior to all other shares of the Corporation in respect of the right to dividends and participation in any winding up. Each series of second preference shares ranks equally with all other series. The holders of second preference shares are entitled to receive notice of and to attend any meeting of the shareholders of the Corporation and to receive a copy of the financial statements of the Corporation and a copy of the auditors' report thereon.

In addition to the general rights and restrictions attaching to the second preference shares, the Second Preference shares six and one-half per cent (6½%) Series A have the following special provisions: (i) the holders thereof are entitled to receive fixed cumulative preferential cash dividends of $1.30 per annum per share, payable semi-annually on the 30th day of April and October; (ii) in the event of the liquidation, dissolution, or winding of up the Corporation, the holders are entitled to receive the amount paid up on such shares together with an amount equal to all accrued and unpaid preferential dividends thereon; and (iii) the Corporation may purchase for cancellation or redeem any or all of the Second Preference shares six and one-half per cent (6½%) Series A.

In addition to the general rights and restrictions attaching to the second preference shares, the Second Preference shares seven and one-half per cent (7½%) Series B have the following special provisions: (i) the holders thereof are entitled to receive fixed cumulative preferential cash dividends of $1.50 per annum per share, payable semi-annually on the first day of June and December; (ii) in the event of the liquidation, dissolution, or winding up of the Corporation, the holders thereof are entitled to receive the amount paid up on such shares together with an amount equal to all accrued and unpaid preferential dividends thereon; and (iii) the Corporation may purchase for cancellation or redeem any or all of the Second Preference shares seven and one-half per cent (7½%) Series B.

Third Preference Shares

The third preference shares as a class may be issued in one or more series, with the directors of the Corporation fixing the number of shares, the rate of dividends, the dates of dividend payment, the consideration and terms for any repurchase or redemption of the shares, conversion rights, and other preferences, rights, conditions, restrictions, limitations and prohibitions. The third preference shares as a class rank prior to the Common Shares of the Corporation, but junior to the first preference shares and second preference shares, with respect to priority and payment of dividends and in the distribution of assets in the event of a liquidation, dissolution or winding up of the Corporation. Each series of third preference shares ranks equally with all other series. The holders of the third preference shares as a class are entitled to receive notice of and to attend any meeting of the Corporation and receive

annual financial statements of the Corporation and the auditors' report thereon. In the event of the liquidation, dissolution, or winding up of the Corporation the holders of the third preference shares as a class are entitled to receive the amount paid up on such shares together with all dividends accrued but unpaid thereon. The Corporation may purchase for cancellation or redeem any or all of the third preference shares.

In addition to the general rights of the third preference shares, the Third Preference Shares have the following special provisions: (i) consideration for the issuance of each share is $25; (ii) the holders are entitled to receive fixed cumulative preferential cash dividends of $2.125 per annum per share, payable by equal quarterly instalments on the first day of each of the months of January, April, July and October; (iii) the Corporation may not redeem the Third Preference Shares before May 2, 1990, and shall use its best efforts, after any partial redemption, to maintain the listing of its outstanding common shares on a Canadian stock exchange; (iv) the Corporation may redeem the shares, after May 2, 1990, upon certain terms, including the payment of a premium, the amount of which declines over time; and (v) the holders of the Third Preference Shares have the right, upon certain terms, to convert such shares into fully paid and non-assessable Common Shares.

The Third Preference Shares were issued on April 10, 1985 at a price of $25 per share and the aggregate net proceeds received by the Corporation were $71,963,000.

Common Shares

The holders of Common Shares are entitled to one vote for each share held on all matters voted on by shareholders and, subject to the rights of preference shareholders, are entitled to receive dividends as same may be declared by the directors. On dissolution, Common Shareholders are entitled to receive, pro rata, the remaining property of the Corporation. The holders of Common Shares have no pre-emptive, redemption or conversion rights. All Common Shares are issued as fully paid and non-assessable.

Stock Exchange Listings

The Common Shares have been listed on The Toronto Stock Exchange and the Winnipeg Stock Exchange since May and June, 1962, respectively, and on the American Stock Exchange since September, 1978 and the Third Preference Shares have been listed on The Toronto Stock Exchange since June, 1985. The following tables summarize the market price ranges and volumes of trading of the Common Shares on The Toronto Stock Exchange and the American Stock Exchange and the market price ranges and volumes of trading of the Third Preference Shares on The Toronto Stock Exchange for the periods indicated:

	The Toronto Stock Exchange			American Stock Exchange		
	High	Low	Volume (thousands)	High	Low	Volume (thousands)
Common Shares						
1990 Jan. 2 to Jan. 31	$23.38	$22.50	372	U.S. $20.13	U.S. $18.88	101
1989 Fourth Quarter.....	$24.88	$22.75	2,943	U.S. $21.13	U.S. $19.63	634
Third Quarter.....	$25.25	$23.75	4,233	U.S. $21.13	U.S. $20.38	2,445
Second Quarter	$25.50	$22.75	3,981	U.S. $21.38	U.S. $19.25	2,152
First Quarter.....	$23.88	$21.00	6,469	U.S. $19.88	U.S. $17.50	1,617
1988 Fourth Quarter.....	$23.63	$15.25	2,923	U.S. $19.63	U.S. $17.13	616
Third Quarter.....	$23.25	$17.00	9,007	U.S. $19.00	U.S. $14.00	486
Second Quarter	$17.38	$15.25	1,767	U.S. $14.50	U.S. $12.38	96
First Quarter.....	$17.13	$15.38	1,731	U.S. $13.25	U.S. $11.75	154

	The Toronto Stock Exchange		
	High	Low	Volume (thousands)
Third Preference Shares			
1990 Jan. 2 to Jan. 31	$38.50	$37.13	17.4
1989 Fourth Quarter.....	$40.75	$37.75	510.9
Third Quarter.....	$41.25	$35.00	248.5
Second Quarter	$41.75	$37.50	526.8
First Quarter.....	$38.75	$35.00	365.0
1988 Fourth Quarter.....	$38.88	$33.75	462.0
Third Quarter.....	$38.25	$30.25	1,604.7
Second Quarter	$31.00	$27.50	273.8
First Quarter.....	$30.25	$28.00	217.5

On September 2, 1988, the Corporation announced that it had received unsolicited enquiries relating to the purchase of certain of the Corporation's business divisions and that the Corporation had been advised by Central Capital that Central Capital had received unsolicited enquiries relating to, in one instance, the availability for sale of the Common Shares controlled by Central Capital and, in two other instances, the availability for sale of certain business units of the Corporation. On September 1, 1988, the closing prices of the Common Shares and the Third Preference Shares on The Toronto Stock Exchange were $20.63 and $34.25, respectively, and the closing price of the Common Shares on The American Stock Exchange was U.S.$16.50.

On July 4, 1989, the Corporation announced that it had entered into the Letter of Understanding. On July 3, 1989, the closing prices of the Common Shares and Third Preference Shares on The Toronto Stock Exchange were $25.13 and $41.00, respectively, and the closing price of the Common Shares on the American Stock Exchange was U.S.$21.00.

On December 12, 1989 the Corporation announced that it had entered into the Arrangement Agreement. On December 11, 1989, the closing prices of the Common Shares and Third Preference Shares on The Toronto Stock Exchange were $23.38 and $38.13, respectively and the closing price of the Common Shares on the American Stock Exchange was U.S.$20.00.

Dividend History

The Corporation has paid a dividend continually on at least a semi-annual basis for the past 25 years. Since the last quarter of 1987, the Corporation has paid a quarterly dividend of 18 cents per Common Share.

There are no restrictions on the Corporation's ability to continue to pay regular quarterly dividends, except that the provisions of the credit agreement governing its $295 million syndicated credit facility and other long term financing agreements require the Company to maintain consolidated net worth, as defined therein, at an amount not less than $475 million. In connection with the Arrangement, amounts outstanding in respect of the syndicated credit facility will be repaid. As at September 30, 1989, consolidated net worth, as defined, was $504 million.

When paying dividends to security holders not resident in Canada, the Corporation is required under Canadian tax law to withhold and remit to the Federal Government a 25% non-resident withholding tax. A reciprocal tax treaty between Canada and the United States (the "U.S. Treaty") reduce the rate to 10% if the holder is a company that owns 10% or more of the voting stock, and 15% in all other cases. Under certain circumstances, the U.S. Treaty allows U.S. residents to claim the tax withheld as a credit against their U.S. federal taxes payable.

For information with respect to the dividend policy of Inter-City Products, see "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION — Dividend Policy".

Management

Directors

The directors of the Corporation, their municipalities of residence, ages, principal occupation, terms of directorship and number of Common Shares beneficially owned as at January 31, 1990 are as follows:

Name and Municipality of Residence	Age	Principal Occupation	Director of the Corporation since	Number of Common Shares (1)	Percentage of Class
MICHEL BELANGER ..... Montreal, Quebec	60	Chairman of the Board of the National Bank of Canada	1987	— (2)	—
H. REUBEN COHEN, Q.C..... Moncton, New Brunswick	68	Barrister and Solicitor	1982	88,100(3)(4)	0.371
CLARENCE W. COLE ..... Toronto, Ontario	52	President and Chief Executive Officer of Central Capital Corporation	1987	— (5)	—
JOHN H. COLEMAN ..... Toronto, Ontario	77	President of J.H.C. Associates Limited	1982	1,000(6)	0.004
WILLIAM G. DAVIS ..... P.C., C.C., Q.C. Brampton, Ontario	60	Counsel to Tory, Tory, DesLauriers & Binnington	1985	—	—
STANLEY DAVISON ..... Vancouver, British Columbia	61	Vice-Chairman of the Bank of Montreal	1982	—	—
LEONARD ELLEN ..... Montreal, Quebec	64	Chairman of Leonard Ellen Canada Inc.	1982	88,100(3)(4)	0.371
JOHN F. FRASER ..... Winnipeg, Manitoba	59	President and Chief Executive Officer of Federal Industries Ltd.	1985	1,000	0.004
ROBERT G. GRAHAM..... Toronto, Ontario	58	Chairman of the Board, President and Chief Executive Officer of Inter-City Gas Corporation	1954	270,432(7)	1.138
J. DEREK RILEY..... Winnipeg, Manitoba	67	President of Dominion Bronze and Iron Limited	1978	10,000(4)	0.042
ALAN SWEATMAN, Q.C..... Winnipeg, Manitoba	69	Partner in Thompson, Dorfman, Sweatman	1956	3,010	0.013
All Directors as a Group	—	—	—	461,642	1.943

(1) All such shares are owned with sole investment and voting power. Information herein as to the ownership of shares in the Corporation and Central Capital is based on statements furnished to the Corporation by the directors of the Corporation.

(2) Mr. Belanger beneficially owns 1,878 Class A Subordinate Voting Shares of Central Capital.

(3) Messrs. Cohen and Ellen are directors of and through entities controlled by or associated with them each own beneficially, directly or indirectly, more than 5% of the outstanding voting securities of Central Capital. Mr. Cohen beneficially owns, directly or indirectly, or exercises control or direction over 8,725,915 (approximately 33.3%) of the outstanding common shares and 2,330,361 (approximately 5.9%) of the outstanding Class A Subordinate Voting Shares of Central Capital and 3,335 common shares of MICCI. Mr. Ellen beneficially owns, directly or indirectly, or exercises control or direction over 8,533,250 (approximately 32.6%) of the outstanding common shares and 2,334,636 (approximately 5.9%) of the Class A Subordinate Voting Shares of Central Capital and 3,335 common shares of MICCI.

(4) In addition to the common shareholdings listed in the foregoing table, Messrs. Cohen, Davison, Ellen and Riley beneficially own 17,800 Third Preference Shares directly and 300 Third Preference Shares indirectly representing in the aggregate less than 0.1% of the class.

(5) Mr. Cole is a director, President and Chief Executive Officer of Central Capital and is the Chairman and Chief Executive Officer of Central Capital Management Inc. and a director of MICC and MICCI. Mr. Cole owns 450 common shares and 535,965 Class A Subordinate Voting Shares of Central Capital.

(6) Mr. Coleman beneficially owns 250 common shares of Central Capital.

(7) Mr. Graham beneficially owns 180,000 Options of the Corporation and 1,001,653 Class A Subordinate Voting Shares of Central Capital.

All of the directors listed above have been engaged for more than five years in their present occupations or in other executive capacities with the corporations or firms with which they currently hold positions, with the exception of Mr. Clarence W. Cole, who prior to May 16, 1986 was a Senior Executive Vice-President of The Canadian Imperial Bank of Commerce; and Mr. William G. Davis, who, prior to February 17, 1986 acted as Canada's Special Envoy on Acid Rain in negotiations with the United States (March 18, 1985 to March 19, 1986) and who from March 1, 1971 to May 2, 1985 was the Premier of the Province of Ontario.

Certain of the directors listed above are also directors of other public companies. They are as follows:

MICHEL BELANGER	National Bank of Canada, Canadian Pacific Limited, Canadian Pacific Forests Products Ltd., Sears Canada Inc., Du Pont of Canada and Inco Limited;
H. REUBEN COHEN, Q.C.	Central Capital Corporation, Central Guaranty Trustco Limited, MICC Investments Limited, The Maritime Life Assurance Company and Petro-Canada Inc.;
CLARENCE W. COLE	Central Capital Corporation, MICC Investments Limited, Great Lakes Group, Traders Group Limited and Central Guaranty Trustco Limited;
JOHN H. COLEMAN	Colgate Palmolive Limited, Standard Products (Canada) Ltd., Roman Corporation Limited, The Thompson Corporation, International Minerals and Chemical Corporation (Canada) Limited, Lehndorff Corporation and United Group of Mutual Funds;
WILLIAM G. DAVIS, P.C., C.C., Q.C.	The Seagram Company Ltd., Ford Motor Company of Canada, Limited, Power Corporation of Canada, Limited, Magna International Inc., Canadian Imperial Bank of Commerce, Lawson Mardon Group Limited, Honeywell Limited, Bramalea Limited, St. Lawrence Cement Inc., Hemlo Gold Mines Inc. and Fleet Aerospace Corporation;
STANLEY DAVISON	Bank of Montreal and MICC Investments Limited;
LEONARD ELLEN	Central Capital Corporation, Central Guaranty Trustco Limited, MICC Investments Limited and Central Guaranty Trust Company;
JOHN F. FRASER	Investors Group Inc., Bank of Montreal, Canada Development Investment Corp., Air Canada and The Thompson Corporation;
ROBERT G. GRAHAM	Central Capital Corporation, Central Guaranty Trustco Limited, Federal Industries Ltd., The Great West Life Assurance Company, Greater Winnipeg Gas Company, ICG Utilities (Ontario) Ltd., MICC Investments Limited, Moffat Communications Limited and Traders Group Ltd;
J. DEREK RILEY	Federal Industries Ltd., United Canadian Shares Limited, North Portage Development Corporation and Northern Stores Inc.;
ALAN SWEATMAN, Q.C.	The Toronto-Dominion Bank and Inspiration Resources Corporation.

Committees of the Board

There are three committees of the Board of Directors of the Corporation, the audit committee (the "Audit Committee"), the compensation committee (the "Compensation Committee") and the pension committee (the "Pension Committee").

The members of the Audit Committee are Leonard Ellen, J. Derek Riley, Michel Belanger, Clarence W. Cole, John F. Fraser and Robert G. Graham. The responsibilities of the Audit Committee are: to assist the Board in fulfilling its fiduciary responsibility regarding the accounting and reporting practices of the Corporation; to ensure that the financial reporting to shareholders and others of the performance of the Corporation is open and

informative; and to provide the external and internal auditors of the Corporation with full and direct access to the Board in order to preserve the auditors' independence in their relationship with management. The Audit Committee reviews the scope of the external audit, any change in accounting principles and practices, recommends acceptance of the financial statements by the Board and reviews the Corporation's internal audit procedures and programs. The Audit Committee held two meetings in 1989.

The members of the Compensation Committee are Alan Sweatman, Q.C., H. Reuben Cohen, Q.C., John H. Coleman, William G. Davis, P.C., C.C., Q.C. and Robert G. Graham. The responsibilities of the Compensation Committee are to assist the Board in determining the compensation to be paid to the senior officers of the Corporation and to review the Corporation's practices with regard to stock options, pension plans and other employee benefits. The Compensation Committee held one meeting in 1989.

The members of the Pension Committee are Stanley Davison and John F. Fraser. The responsibilities of the Pension Committee are to review, examine, evaluate and make recommendations with respect to pension arrangements for the officers and employees of the Corporation and the manner in which the pension funds are to be invested. The Pension Committee held one meeting in 1989.

There were seven meetings of the Special Committee and seven meetings of the Board of Directors during 1989. With the exception of Mr. Davis (73%) and Mr. Davison (62%), all members of the Board of Directors attended at least 75% of the meetings of the Board of Directors and any Board committee on which they served during 1989.

Executive Officers

The following table sets forth information with respect to the executive officers of the Corporation as at January 31, 1990. Executive officers are appointed by and hold office at the pleasure of the Board of Directors.

Name and Municipality of Residence	Principal Occupation (all with the Corporation)	Common Shares (1)	Options
ROBERT G. GRAHAM North York, Ontario	Chairman of the Board, President and Chief Executive Officer	270,432(2)	180,000
PETER MARRIOTT Thornhill, Ontario	Senior Vice-President, Finance and Chief Financial Officer	7,500(3)	63,500
C. ROY BEENHAM Toronto, Ontario	Senior Vice-President, Administration	663	41,000
NORMAN J. DIDUR Toronto, Ontario	Group Vice-President, Utilities Division	7,785	48,500
HENRY J. FORREST Brentwood, Tennessee	Group Vice-President, Energy Products Division	—	63,500
IAN G. WRIGHT Winnipeg, Manitoba	Group Vice-President, Propane Division	2,700	9,050
JOHN E. CARSTAIRS Winnipeg, Manitoba	Vice-President and Secretary	1,853	21,000

1. All such shares are owned with sole investment and voting power. Information herein as to the ownership of shares in the Corporation and Central Capital is based on statements furnished to the Corporation by the executive officers of the Corporation.
2. Mr. Graham beneficially owns 1,001,653 Class A Subordinate Voting Shares of Central Capital.
3. Mr. Marriott's spouse is the beneficial owner of 200 Third Preference Shares.

The principal occupation of Mr. Graham is set forth above under the caption "Directors". Mr. Marriott was appointed Senior Vice-President, Finance and Chief Financial Officer of the Corporation in 1984. Mr. Beenham was appointed Senior Vice-President, Administration in 1984. Mr. Didur was appointed Group Vice-President, Utilities Division of the Corporation in 1978. Mr. Forrest was appointed Group Vice-President, Energy Products Division of the Corporation in 1984. Mr. Wright was appointed Group Vice-President, Propane Division of the Corporation in 1989. Mr. Carstairs was appointed Vice-President and Secretary of the Corporation in 1979.

Executive Compensation

The following table sets forth the cash and other compensation paid by the Corporation directly or indirectly during the year ended December 31, 1989 to each of the five most highly compensated executive officers and directors of the Corporation and the other executive officers and directors as a group for services rendered to the Corporation and its subsidiaries in all capacities during 1989:

(A) Name of Individual or Number of Persons in Group	(B) Capacities in Which Served	(C1) Cash Compensation	(C2) Other (1)(2)(3) Compensation
R. G. GRAHAM	Chairman of the Board, President and Chief Executive Officer and Director	$ 660,000	$ 212,866
H. J. FORREST	Group Vice-President, Energy Products Division	$ 317,160	$ 18,003
P. MARRIOTT	Senior Vice-President, Finance and Chief Financial Officer	$ 266,000	$ 61,313
N. J. DIDUR	Group Vice-President, Utilities Division	$ 265,289	$ 72,363
I. WRIGHT	Group Vice-President, Propane Division	$ 219,779	$ 23,947
Total Remuneration of All Executive Officers and Directors as a Group (20 persons)	—	$2,525,616	$1,602,726

(1) Other compensation includes the deemed benefits: arising as a result of interest-free loans granted to executive officers to enable them to participate in the Employee Stock Purchase Plan (see "INFORMATION CONCERNING THE CORPORATION — Indebtedness of Management"), for personal use of company-owned or leased automobiles, on interest-free house purchase assistance loans and relocation assistance, if applicable, and on the exercise of stock options under the Employee Stock Option Plan, if applicable (see "INFORMATION CONCERNING THE CORPORATION — Executive Compensation — Employee Stock Option Plan"). All amounts in Column C2 have been computed on the basis of the incremental cost to the Corporation of providing the benefit.

(2) Amounts included in "Other Compensation" in respect of imputed interest on the Employee Stock Purchase Plan loans, if applicable, are as follows:

R. G. Graham	$160,650
P. Marriott	$ 14,264
N. J. Didur	$ 7,895

(3) In addition to the amounts listed in the above table, the individuals specified and other executive officers as a group are eligible to participate in the Employee Share Ownership Plan of the Corporation. This plan is a payroll deduction plan currently available to employees of the Corporation who are not members of a collective bargaining unit. The plan provides that participants can contribute up to a maximum of 6% of their salary and the Corporation contributes $1.00 for each $2.00 contributed by the participant. All contributions are used to purchase Common Shares. No amount in respect of this plan is included in the above table. The Employee Share Ownership Plan was suspended as of October 31, 1989. No further contributions to or awards pursuant to this plan will be made until such plan is reinstated.

(4) In 1989, directors of the Corporation who were neither executive officers nor employees were each entitled to a retainer in the amount of $7,500 per annum plus $500 for each Board meeting or Board committee meeting attended. These amounts are included in the above table. The aggregate cash compensation and other compensation paid to the 9 executive officers by the Corporation during the year ended December 31, 1989 was $2,395,616 and $1,602,726 respectively.

Pension Plans

Contributions to the pension plans of the Corporation and its subsidiaries are based on actuarial calculations. Such plans are generally available to all employees. Benefits under the Registered Pension Plan are calculated based on the length of credit service, age at retirement and salary during a specified period prior to retirement. For employees whose remuneration exceeds $100,000, annual pension benefits are limited to the maximum amount allowed by the Department of National Revenue. The amount is determined by multiplying the number of years of service by $1,715 as shown in the table below. The pensions are based on an average of the highest five years remuneration preceding the date of retirement. No contributions were made by the Corporation or its subsidiaries during 1988 to the pension plan.

Years of Service	Annual Pension Benefits
15	$25,725
20	$34,300
25	$42,875
30	$51,450
35	$60,025

Seven current executive officers and one retired executive officer of the Corporation have a supplemental pension and consulting arrangement designed to provide a maximum pension on retirement not to exceed 70% of the last three years' average earnings, depending on length of service, less the amount payable under the regular pension plan. In 1989, one retired executive officer received the sum of $41,000 pursuant to the above arrangements. In 1989, the entitlements of the other two officers who are no longer employed by the Corporation were satisfied through lump sum payments of $1,843,050 and U.S.$2,822,498 in satisfaction of severance, retirement allowance, medical, automobile, and other benefit entitlements.

Bonus Agreements

In 1989, the Corporation entered into bonus agreements with 20 members of senior management, of whom three are also officers, which provide for the payment of cash bonuses ranging from three to six months salary to such employees or officers in the event they remained employees or officers, as the case may be, of the Corporation until December 31, 1989. The total amount payable pursuant to these agreements is $490,000 of which $140,750 is payable to the three officers.

Life Insurance

Mr. Robert G. Graham is a director of The Great-West Life Assurance Company, which is the corporate life policy insurer. The Corporation has purchased insurance on the life of Mr. Graham. Under terms of an agreement between the Corporation and Mr. Graham, Mr. Graham may incur loans against the cash surrender value of the life insurance policies on him. Mr. Graham is solely responsible for such loans and interest or other charges thereon. As at January 31, 1990, Mr. Graham had borrowed against the policies in the amount of $510,000, at the same rate of interest as is normally charged to policyholders on such loans. Repayment of the outstanding loan debt is required on Mr. Graham's death or retirement or termination of service, unless otherwise agreed between Mr. Graham and the Corporation. If payout of the policy occurs while the loans remain outstanding or should default occur, the amount of the policy payable to the Corporation would decrease by the outstanding principal and interest.

Employee Stock Option Plan

Under the Employee Stock Option Plan (the "Option Plan") options may be granted at the discretion of the Compensation Committee to full time employees of the Corporation for the purchase of Common Shares not to exceed 10% of the outstanding Common Shares (on a non-diluted basis) provided that the total number of shares to be optioned to any employee shall not exceed 5% of the outstanding Common Shares (on a non-diluted basis). The total number of Common Shares to be issued, all of which must be issued in accordance with the terms of the Option Plan, shall not exceed 4,000,000 Common Shares. The option exercise price is fixed by the Compensation Committee at the time each option is authorized but the exercise price cannot be less than 90% of the weighted average sale price per share on The Toronto Stock Exchange on the business day preceding the day of authorization. The period during which an option is exercisable is determined by the Compensation Committee at the time at which the option is authorized, but options may not be exercisable within the first six months of the date the option is granted and the exercise period may not exceed ten years from the date the option is granted. The Option Plan was suspended by the Board of Directors effective as at October 31, 1989.

The following table provides information with respect to the designation of options in each of the last four completed financial years during the period January 1 to December 31 in each year to the five most highly compensated executive officers during 1989, and to all executive officers as a group. The table also shows the net value realized in shares (market value less exercise price) or cash during the same period.

Granted To	R. G. Graham	P. Marriott	N. J. Didur	I. Wright	H. J. Forrest	All Executive Officers As a Group
Granted —						
January 1, 1989 to December 31, 1989	—	—	—	1,500	—	1,500
Average Per Share Exercise Price $	—	—	—	22.75	—	22.75
Exercised —						
January 1, 1989 to December 31, 1989	—	—	—	—	—	179,700
Net Value Realized In Shares (market value less any exercise price) or cash $	—	—	—	—	—	1,821,038
Cancelled —	—	—	—	—	—	11,400(2)
Outstanding Options as at December 31, 1989	180,000	63,500	48,500	9,050	63,500	441,950
Granted —						
January 1, 1988 to December 31, 1988	30,000	10,000	10,000	2,300	10,000	102,000(1)
Average Per Share Exercise Price $	16.37	16.37	16.37	16.37	16.37	16.37
Exercised —						
January 1, 1988 to December 31, 1988	—	—	10,000	—	—	10,000
Net Value Realized In Shares (market value less any exercise price) or cash $	—	—	56,250	—	—	56,250
Outstanding Options as at December 31, 1988	180,000	63,500	48,500	7,550	63,500	624,000(1)
Granted —						
January 1, 1987 to December 31, 1987	30,000	8,500	8,500	2,250	8,500	93,000(1)
Average Per Share Exercise Price $	17.87	17.87	17.87	17.87	17.87	17.87
Exercised —						
January 1, 1987 to December 31, 1987	40,000	10,000	—	—	—	92,000
Net Value Realized In Shares (market value less any exercise price) or cash $	360,000	91,250	—	—	—	767,750
Outstanding Options as at December 31, 1987	150,000	53,500	48,500	5,250	53,500	532,000(1)
Granted —						
January 1, 1986 to December 31, 1986	30,000	10,000	10,000	3,000	10,000	125,000(1)
Average Per Share Exercise Price $	14.62	14.62	14.62	14.62	14.62	14.62
Exercised —						
January 1, 1986 to December 31, 1986	—	—	10,000	—	—	46,400
Net Value Realized In Shares (market value less any exercise price) or cash $	—	—	65,000	—	—	246,475
Outstanding Options as at December 31, 1986	160,000	55,000	40,000	3,000	45,000	531,000(1)

(1) These figures do not include the options of Mr. Wright as he was not an executive officer at the time.

(2) These options were held by Mr. Stollery and were cancelled on his ceasing to be an employee of the Corporation.

The term of all options granted under the Option Plan to date is seven years, but for the first five years no more than 20% of the total options granted to any individual may be taken up and paid for in any one year on a cumulative basis, provided that in the event a change of control takes place in the Corporation all options will be exercisable. If the Arrangement Resolution is approved, all options issued under the Option Plan will become vested. Option Holders who exercise their Options prior to the Effective Date will participate in the Arrangement as Common Shareholders. For more information concerning the treatment of Option Holders under the Arrangement, see "THE ARRANGEMENT — Treatment of Option Holders". The exercise prices of all options granted under the Option Plan are the market values on the dates the options were granted.

Management Contracts in the Event of Change of Control

In 1988, Mr. Graham and the Corporation entered into a severance allowance agreement under which, if a change of control of the Corporation (as defined in that agreement) takes place and the services of Mr. Graham are terminated (as defined in that agreement) by the Corporation within two years of the change of control, or Mr. Graham within 90 days of the change in control gives notice terminating his services to the Corporation,

Mr. Graham will be entitled to receive his annual salary and other company benefits he was receiving for a period of 48 months, or at Mr. Graham's option, a lump sum payment equal to the aggregate face value of these amounts, together with full vesting eligibility for unreduced early retirement and the funding of the retiring allowance.

In 1988, the Corporation entered into severance allowance agreements with Messrs. Marriott, Didur, Forrest, and five other officers of the Corporation (three of whom are still officers of the Corporation), under which, if a change of control of the Corporation (as defined in such agreements) takes place and the services of such person is terminated (as defined in such agreement) by the Corporation at any time within two years following a change of control, the Corporation has agreed to pay their annual salaries and other company benefits they were receiving for a period of 36 months, or at the option of the executive, a lump sum payment equal to the aggregate face value of these amounts. In addition, Messrs. Marriott, Didur, Forrest and three other officers of the Corporation are entitled to receive full vesting eligibility for unreduced early retirement and the funding of the retiring allowance.

In 1988, the Corporation also entered into severance allowance agreements with 18 other head office employees of the Corporation ("Head Office Employees"), 16 other officers of Utilities Company, 9 officers of the Corporation employed in connection with the Propane Division ("Propane Officers") (seven of whom are still employees of the Corporation) and 17 other officers of the Energy Products Division ("EPD Officers") under which, if a change of control of the Corporation (as defined in such agreements) takes place and the services of such person is terminated (as defined in such agreements) by the Corporation at any time within two years following a change of control, the Corporation has agreed to make a lump sum severance payment equivalent to the individual's salary (i) in the case of two Head Office Employees, four officers of Utilities Company, four Propane officers and seven EPD Officers, for a period of 24 months; (ii) in the case of one Head Office Employee and one officer of Utilities Company, for a period of 21 months; (iii) in the case of one EPD Officer, for a period of 20 months; (iv) in the case of four Head Office Employees, six officers of Utilities Company, two Propane Officers (one of whom is still an employee) and two EPD Officers, for a period of 18 months; (v) in the case of two Head Office Employees, one officer of Utilities Company, three Propane Officers (two of whom are still employees) and five EPD Officers, for a period of 15 months; (vi) in the case of five Head Office Employees, four officers of Utilities Company and one EPD Officer, for a period of twelve months; (vii) in the case of four Head Office Employees, for a period of nine months. In addition, these individuals are entitled to receive certain company paid benefits for the same respective periods or until the individual has secured new employment within the respective periods.

Shareholder approval of the Arrangement Resolution will constitute a change of control of the Corporation for the purposes of each of the aforementioned severance allowance agreements.

The obligations of the Corporation in respect of severance allowance agreements held by officers of Utilities Company and the Propane Officers will be assumed by Utilities Holdings and Propane Company, respectively, if the Arrangement is completed.

Indebtedness of Management

Information with respect to indebtedness of certain directors and executive officers of the Corporation as at January 31, 1990 is set out below. Except as indicated in the notes, all indebtedness arises as a result of loans granted to allow the purchase of Common Shares pursuant to the Employee Stock Purchase Plan (1). All loans are interest free and are repayable if the Arrangement is completed.

Name	Position	Largest Aggregate Amount Outstanding Between January 1, 1989 and January 31, 1990	Balance Outstanding As At January 31, 1990
R. G. GRAHAM ..... North York, Ontario	Chairman of the Board, President and Chief Executive Officer	$1,260,000	$1,260,000
P. MARRIOTT(2) ..... Thornhill, Ontario	Senior Vice-President, Finance and Chief Financial Officer	$ 136,875	$ 136,875

Name	Position	Largest Aggregate Amount Outstanding Between January 1, 1989 and January 31, 1990	Balance Outstanding As At January 31, 1990
N. J. DIDUR (2) ..... Toronto, Ontario	Group Vice-President, Utilities Division	$ 136,875	$ 25,000
R. C. SIEGFRIED(3) ..... Calgary, Alberta	Former Group Vice-President, Resources Division	$ 50,000	$ —
H. J. STOLLERY(3) ..... Mississauga, Ontario	Former Group Vice-President, Propane Division	$ 77,083	$ —
H. J. FORREST (2) ..... Brentwood, Tenessee	Group Vice-President, Energy Products Division	$ 32,400	$ 32,400
W. R. HARDING (3) ..... Treasure Island, Florida	Former Vice-President	$ 73,750	$ 73,750
I. G. WRIGHT (2) ..... Winnipeg, Manitoba	Group Vice-President, Propane Division	$ 40,000	$ 37,300

(1) The following table provides information with respect to the allocation and purchase of Common Shares with the proceeds of loans granted by the Corporation to the five most highly compensated executive officers, to all directors and executive officers as a group, and to all other employees participating in the Employee Stock Purchase Plan and for which those directors, executive officers or employees are currently indebted to the Corporation. Such loans are interest-free, due seven years from the date of purchase of the shares certain of which terms have been extended for a further period of three years and secured by the shares which were purchased through the Employee Stock Purchase Plan. All allocations of shares under the Employee Stock Purchase Plan were at market value at the date of allocation.

Name	Number of Shares
R. G. Graham	115,000
P. Marriott	7,500
All directors and executive officers as a group	127,500

(2) Included in the balance outstanding at January 31, 1990 are interest-free house purchase assistance loans for Messrs. Marriott, Didur, Forrest and Wright in the amount of $25,000, $25,000, $32,400 and $37,300, respectively.

(3) Mr. Siegfried's employment with the Corporation ceased as at June 22, 1989, Mr. Stollery's as at April 30, 1989 and Mr. Harding's as at October 13, 1989.

Indemnification, Directors' and Officers' Insurance

The directors and officers of the Corporation and its subsidiaries are insured against certain liabilities incurred by them in their capacity as directors and officers. The annual premium of U.S. $300,000 is paid by the Corporation. The policy limit is an aggregate of U.S. $25,000,000 in any one year, whether there are one or more claims. The policy indemnifies the directors and officers for 100% of all claims and losses in any year up to the policy limit. The policy also insures the Corporation against any legal obligations it may have to indemnify its directors and officers for losses or claims, subject to a deductible of U.S. $500,000 for each claim or occurrence.

Voting Securities and Principal Shareholders

The Board of Directors has determined that this Management Proxy Circular with the accompanying Notice of Special Meeting will be mailed on February 19, 1990 to all Shareholders. Pursuant to the Interim Order, the record date for the determination of shareholders entitled to notice of the Special Meeting will be February 16, 1990. For details of the persons entitled to vote at the Special Meeting, see "THE ARRANGEMENT — Conditions to the Arrangement becoming Effective — Shareholder and Option Holder Approval", "BOARD SIZE RESOLUTION — Shareholder Approval" and "GENERAL PROXY INFORMATION". As at January 31, 1990 there were 23,770,662 outstanding Common Shares, 87,140 outstanding First Preference Shares, 2,717,527 outstanding Third Preference Shares and Options to acquire 699,170 Common Shares.

The following table shows each person who is known as of January 31, 1990 to the management of the Corporation to be the beneficial owner of more than five percent of any class of securities of the Corporation:

Title of Class	Name And Address Of Beneficial Owner	Amount And Nature Of Beneficial Ownership (1)	Percent Of Class
Common Shares	(2) Central Capital, through Utilities Holdings First Canadian Place, P.O. Box 38, Toronto, Ontario	4,675,000 — Indirect	19.7%
Common Shares	(2) Central Capital, through Propane Holdings First Canadian Place, P.O. Box 38, Toronto, Ontario	3,495,700 — Indirect	14.7%
Common Shares	(2) Central Capital, through 2451409 Manitoba Ltd. First Canadian Place, P.O. Box 38, Toronto, Ontario	2,399,700 — Indirect	10.1%
Common Shares	(2) Central Capital and affiliates as a Group	10,570,400	44.5%
Common Shares	(3) Bel-Fran Investments Ltd. Suite 1800 777 Hornby Street, Vancouver, B.C.	227,000 — Direct	1.0%
Common Shares	(3) Hornby Trading Inc. P.O. Box 1322, Central Bank Building Bridgetown, Barbados, West Indies	101,200 — Direct	0.4%
Common Shares	(3) First City Securities Ltd. Suite 1800, 777 Hornby Street, Vancouver, B.C.	1,000,000 — Direct	4.2%
Common Shares	(3) As a Group	1,328,200	5.6%
Common Shares	(4) Wertheim Schroder & Co. Incorporated 787 Seventh Avenue, New York, New York, 10019	2,119,400	8.9%
First Preference Shares	Central Capital, through MICC Investments Limited First Canadian Place, P.O. Box 38, Toronto, Ontario	87,140 — Indirect	100%
Third Preference Shares	(2) Central Guaranty Trust Company 88 University Avenue, Toronto, Ontario	223,800 — Direct	8.2%

(1) To the best knowledge of the management of the Corporation, all such Shares are owned with sole investment and voting power, except as set out in footnotes 2, 3 and 4.

(2) Central Capital Corporation directly or indirectly owns 100% of the outstanding voting securities of 2451409 Manitoba Ltd., approximately 87% of the voting securities of Central Guaranty Trust Company and 99% of the outstanding voting securities of MICCI which in turn owns 100% of the outstanding voting securities of Utilities Holdings and indirectly holds 100% of the outstanding Preference Shares of Propane Holdings.

(3) Bel-Fran Investments Ltd., First City Trust Company, Hornby Trading Inc., and First City Securities Ltd., corporations controlled directly or indirectly by Messrs. Samuel, William and Hyman Belzberg and their affiliates (as defined for the purpose of Schedule 13D), filed with the SEC a statement on Schedule 13D, dated March 3, 1989, disclosing that they then owned, as a group, approximately 6.4% of the Common Shares in the Corporation. On November 1, 1989, Amendment No. 1 to that Schedule 13D was filed, disclosing that, as a group, these companies then owned approximately 5.7% of the Common Shares. Their Schedule 13D discloses that they have purchased the Common Shares for investment purposes only.

(4) Wertheim Schroder & Co. Incorporated ("Wertheim Schroder"), a registered broker-dealer and investment adviser, filed with the SEC a statement on Schedule 13D, dated March 16, 1989, disclosing that it then owned approximately 7.8% of the Common Shares in the Corporation. Such Shares are held in the accounts of its customers managed by Wertheim Schroder and with respect to which accounts Wertheim Schroder has sole investment and voting discretion, as well as in its own accounts. One of the customers, holding an account with Wertheim Schroder, is an investment partnership in which Wertheim Schroder serves as general partner and in which Wertheim Schroder has a pecuniary interest. Wertheim Schroder disclaims beneficial interest of any of the Common Shares held in its customers' accounts, except to the extent that it has a pecuniary interest in the investment partnership for which Wertheim Schroder serves as general partner and investment adviser. Wertheim Schroder's statement on Schedule 13D discloses that it has acquired the Common Shares solely for

investment purposes. Wertheim Schroder filed with the SEC a statement on Schedule 13D, dated April 28, 1989, disclosing that it then owned approximately 9.2% of the Common Shares in the Corporation.

The only persons which to the knowledge of Central Capital own 5% or more of the outstanding voting securities of Central Capital are Mr. H. Reuben Cohen, Q.C. and Mr. Leonard Ellen. Messrs. Cohen and Ellen are directors of and through entities controlled by or associated with them each own beneficially, directly or indirectly, more than 5% of the outstanding voting securities of Central Capital. Mr. Cohen beneficially owns, directly or indirectly, or exercises control or direction over 8,725,915 (approximately 33.3%) of the outstanding common shares and 2,330,361 (approximately 5.9%) of the outstanding Class A Subordinate Voting Shares of Central Capital and 3,335 shares of MICCI. Mr. Ellen benefically owns, directly or indirectly, or exercises control or direction over 8,533,250 (approximately 32.6%) of the outstanding common shares and 2,334,636 (approximately 5.9%) of the Class A Subordinate Voting Shares of Central Capital and 3,335 common shares of MICCI.

Auditors, Transfer Agent and Registrar

The auditors of the Corporation are Coopers & Lybrand, Chartered Accountants, Toronto, Ontario. The transfer agent and registrar for the Common Shares is Central Guaranty Trust Company, at its principal offices in Vancouver, Calgary, Regina, Winnipeg, Toronto and Montreal in Canada.

INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION

Business of Inter-City Products Corporation

The operating business of Inter-City Products will, after the Effective Date, be comprised of the three main business units which currently represent the Energy Products Division of the Corporation: Heil-Quaker, KeepRite and Thompson Pipe. Collectively, these business units are engaged in the design, manufacture and marketing of residential and light commercial heating, refrigeration and air conditioning equipment, heat transfer equipment and related products and the fabrication of large diameter steel pipe.

Heil-Quaker is a leading United States manufacturer and distributor of heating and air conditioning products for the residential and light commercial markets and sells its products under the "Heil", "Tempstar", "Kenmore" and "ZoneAire" brand names. KeepRite is Canada's largest manufacturer of room and residential air conditioners and also one of the leading Canadian producers of residential gas, oil and electric furnaces, light commercial heating and air conditioning products, commercial refrigeration and heat transfer apparatus, primarily under the "KeepRite", "ICG", "Electrohome" and "Unifin" brand names. Thompson Pipe fabricates large diameter steel pipe and fittings.

KeepRite will retain the right to use the "ICG" trademark and certain related trademarks until September 30, 1992. Before that date, KeepRite intends to develop a new brand name to replace the ICG brand name.

The following table shows the revenue and operating profits (in millions of dollars), respectively, contributed by each of the main business units to the Energy Products Division for the nine months ended September 30, 1989.

	Financial Data by Business Segment (to September 30, 1989)			
	Revenue		Operating Profits	
	$	%	$	%
	(unaudited)			
Heil-Quaker	392.1	64.5	33.6	61.5
KeepRite	182.1	30.0	17.8	32.6
Thompson Pipe	33.2	5.5	3.2	5.9
	607.4	100.0	54.6	100.0

Inter-City Products will continue to operate in a number of markets in the United States, Canada and offshore. The Corporation believes it is now the fourth largest producer of unitary heating and air conditioning equipment in North America with a market share of approximately 12%. Heil-Quaker and KeepRite each distribute heating and central air conditioning products, under various brand names, for their respective residential markets in the United States and Canada as well as for light commercial applications. KeepRite also produces room air conditioners and commercial refrigeration products for markets primarily in Canada but also in the United States and offshore.

Unifin International, a division of KeepRite in Canada, produces industrial heat transfer apparatus under the "Unifin" and "Universal" brand names and markets "Cardinal" brand transformer oil pumps produced by Cardinal Pumps & Exchangers Inc. The most important markets for Unifin's products are manufacturers of electrical apparatus, electric utilities, and the pulp and paper industry. Thompson Pipe fabricates large diameter steel pipe and fittings for water transmission, water and sewage treatment, circulating water systems and penstocks for hydro-electric power plants. Thompson Pipe's markets are largely regional.

The following table shows the revenue (in millions of dollars) and unit sales, respectively, contributed by each of the major product lines to the Energy Products Division for the nine months ended September 30, 1989.

	Sales Data by Product Line (to September 30, 1989)		
	Revenue		Unit Sales
	$	%	(in thousands)
	(unaudited)		
Air conditioners	398.6	65.6	577
Furnaces	114.7	18.9	212
Other (including service parts, commercial refrigeration, heat transfer products and steel pipe)	94.1	15.5	
	607.4	100.0	

The executive office of Inter-City Products will be located at Suite 3500, 20 Queen Street West, Toronto, Ontario, M5H 3R3. Corporate services provided from this office will include overall corporate planning and strategic direction, as well as certain financial and corporate secretarial services. After the Effective Date, the registered and head office of Inter-City Products may be relocated to a different location in Winnipeg, Manitoba.

Business Strategy

Inter-City Products' principal business strategy will be to continue with the effective design, manufacture and distribution of high quality and reliable residential and light commercial heating, refrigeration and air conditioning equipment and related products and the improvement of market share for each of its products. To implement this strategy, it is expected that Inter-City Products will concentrate on completing the integration of the operations of Heil-Quaker and KeepRite to further capitalize on the strengths of the operations of each business unit and thereby realize lower operating costs, increased sourcing flexibility and improved profitability.

Management expects to place particular emphasis on the United States market for residential and light commercial heating and air conditioning products. In addition, management intends to aggressively target the add-on and replacement markets for each of Inter-City Products' products to reduce its reliance on the more cyclical new housing markets.

In the large diameter steel pipe and fittings business, Inter-City Products' business strategy will be to continue to gain contracts through the cost-effective design and production of high quality and easily installable products and through excellent service. The Corporation is proceeding with the purchase of a plant in Princeton, Kentucky which will be equipped and operated to complement the existing facilities of the Corporation in Denver, Colorado. Target markets will include Colorado and the contiguous states east of the Rocky Mountains and the eastern United States.

Anticipated Effects of Free Trade

Over the next 5 to 10 years, the Canada-United States Free Trade Agreement (the "FTA") will reduce and gradually eliminate customs duties and tariffs relating to the import and export of Inter-City Products' products. This gradual elimination of tariffs should allow Inter-City Products to more effectively utilize its manufacturing capabilities in the United States and Canada. For example, the Corporation's factory in Lewisburg, Tennessee is highly automated with state-of-the-art manufacturing equipment and technology designed to achieve lower production costs with longer production runs and the Brantford, Ontario plant is equipped with flexible manufacturing systems designed for efficient short production runs. Factors other than operating costs that influence the choice of manufacturing location of any specific product include the relationship between the United States and Canadian dollars, relative interest rates in the two countries and the effect of any tariffs that remain in effect prior to their elimination under the FTA.

Investment Considerations

An investment in Inter-City Products Ordinary Shares or Class C 8% Convertible Preference Shares would be subject to certain risks.

Seasonality and Cyclicality

An investment in Inter-City Products would expose investors to risks inherent in industries which are subject to seasonal and cyclical factors. Sales of air conditioners and furnaces are subject to both seasonal and cyclical factors. Air conditioner sales are concentrated in the first half of the year but are balanced in part by furnace sales in the latter half of the year. Incentives to distributors to purchase products early in the selling season (for example, extended financing terms) combined with production scheduling are used to reduce the impact of seasonality on the business. Cyclical factors, including new housing starts and weather patterns, have an impact on total industry shipments of air conditioners and furnaces. However, the high percentage of shipments to the add-on and replacement markets has tended to reduce the impact of cyclical factors.

Financial Information

As at September 30, 1989, Inter-City Products would have consolidated pro forma debt of $207.3 million and consolidated pro forma shareholders' equity of $158.0 million. Pro forma book value per Inter-City Products Ordinary Share prior to conversion of Class C 8% Convertible Preference Shares would be $13.40.

Approximately 70% of Inter-City Products' consolidated sales are in U.S. dollars. Accordingly, the maintenance by Inter-City Products of the Corporation's current practice of reporting financial results in Canadian dollars could expose its financial results to exchange rate fluctuations. For information regarding historical Canada/United States exchange rates see "EXCHANGE RATE OF THE CANADIAN DOLLAR".

Environmental Matters

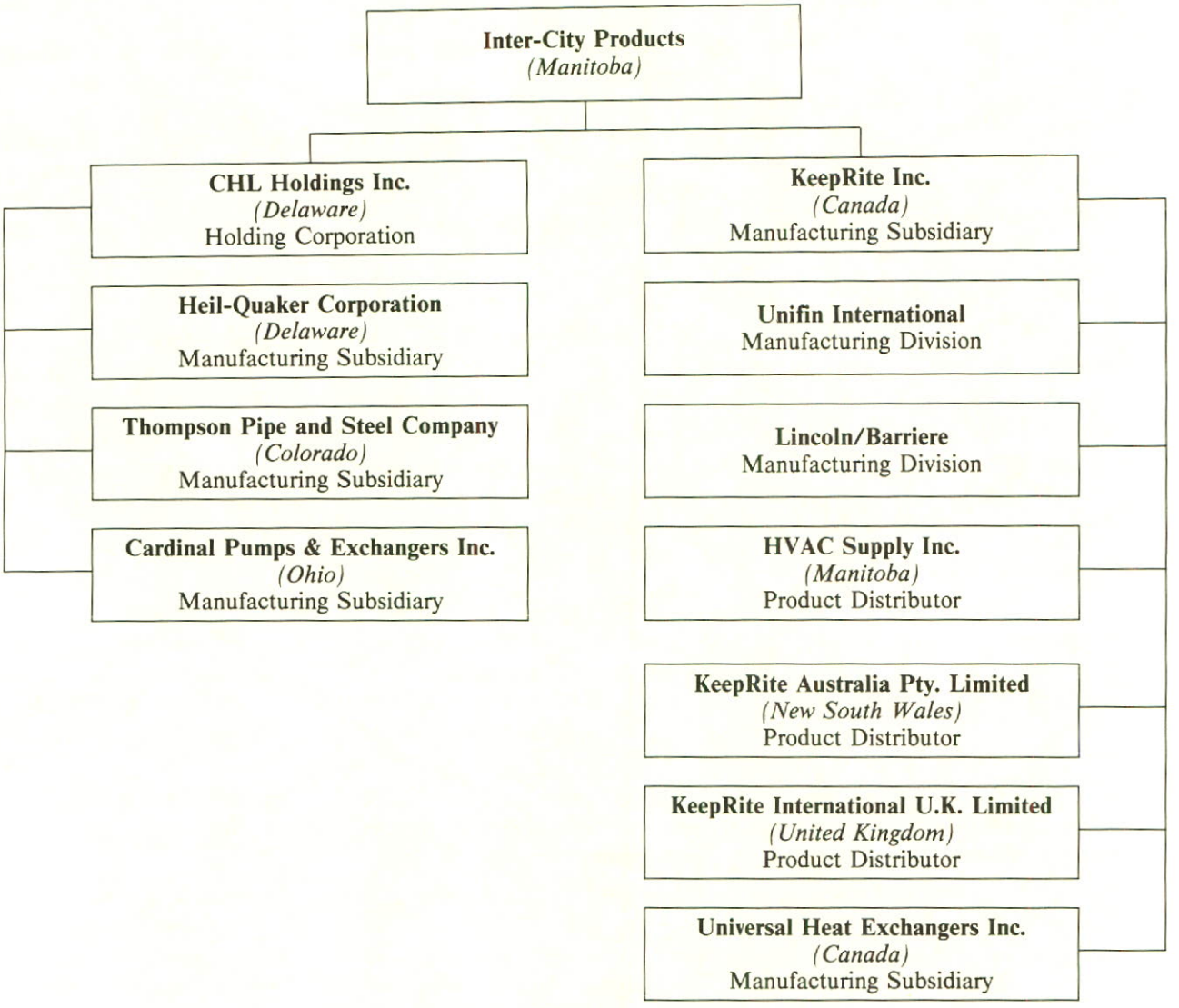
Growing concern over potential ozone depletion has led to increased regulation of high ozone depletion refrigerants, including an international protocol (the "Montreal Protocol") signed on January 1, 1989 by more than 46 nations which limits emissions of fully-halogenated refrigerants such as CFC-11, 12, 113, 114, and 115. In addition, several governments have indicated that they are considering supplemental regulation or phased-in prohibitions of CFC refrigerants because recent scientific research indicates that where there is leakage of refrigerants such leakage can create the potential for depletion of the ozone layer.

All air conditioning units manufactured by Inter-City Products contain HCFC-22, a form of refrigerant fluid. This refrigerant is sealed inside the air conditioner and is expected to remain within the unit throughout the operating life of the system without leakage to the atmosphere.

Further, because HCFC-22 is a partially halogenated fluorocarbon refrigerant, it has a 95% lower ozone depletion potential than fully halogenated refrigerants such as CFC-11 or 12. HCFC-22 is not covered by the Montreal Protocol. Management believes that the Corporation's operations comply with all current legislation and regulations relating to refrigerants. Inter-City Products intends to maintain close relationships with leading refrigerant producers in connection with the development and industrial applications of substitute refrigerants that have even lower ozone depletion potential than HCFC-22.

Subsidiaries

The following chart shows what the operating corporations and divisions of Inter-City Products will be, together with the jurisdiction of incorporation (if applicable) and nature of operations of each.



Facilities

The major operating facilities which will be owned or leased by Inter-City Products are shown in the following table:

Location	Owned/ Leased	Area (sq. ft.)	Products/Activities	No. of Employees as of January 31, 1990	Union and Expiry Date of Collective Agreement
Heil-Quaker					
Lewisburg, TN	O	866,000	Manufacture of residential heating products	1776	Stove, Furnace and Allied Appliance Workers International Union of North America, AFL-CIO; International Association of Machinists and Aerospace Workers (September 30, 1994)
	L	95,000	Warehouse		
	L	40,000	Manufacture of packaged terminal air conditioners		

Location	Owned/ Leased	Area (sq. ft.)	Products/Activities	No. of Employees as of January 31, 1990	Union and Expiry Date of Collective Agreement
LaVergne, TN.....	O	247,000	Administration, Research and Development	407	Non-union
Nashville, TN	O	522,000	Distribution	94	Stove, Furnace and Allied Appliance Workers International Union of North America, AFL-CIO (September 30, 1994)
KeepRite					
Brantford, ON.....	O	400,000 (1)	Manufacture of residential and light commercial heating and air conditioning products, room air conditioners, commercial refrigeration products	571	KeepRite Workers Independent Association (September 30, 1991)
London, ON	O	105,000	Manufacture of industrial heat transfer apparatus	148	Canadian Auto Workers (May 5, 1991)
Laval, PQ	O	58,000	Manufacture of residential heating products, steel tanks	124	United Steelworkers of America (October 31, 1991)
	L	30,000	Distribution		
Verdun, PQ.....	O	30,000	Manufacture of industrial heat transfer apparatus	24	Teamsters (January 31, 1992)
Salem, OH	L	18,000	Manufacture of transformer oil pumps	17	United Steelworkers of America (February 5, 1994)
Richmond Hill, ON	L	150,000	Distribution	85 (2)	Non-union
Winnipeg, MB.....	L	23,200	Distribution	17	Non-union
Montreal, PQ	L	13,800	Distribution	9	Non-union
Winnipeg, MB.....	L	10,100	Distribution	10	Non-union
Thompson Pipe					
Denver, CO.....	O	168,000	Manufacture of steel pipe and fittings	169	Brotherhood of Boilermakers (December 31, 1990)
Princeton, KY (3)	O	329,000	Manufacture of steel pipe and fittings	—	—

(1) Comprised of one facility for storage of raw materials and one manufacturing facility.

(2) Includes employees reporting to, but not situated at, this facility.

(3) The Corporation has agreed to purchase this facility and the transaction is scheduled to be completed in early 1990.

Heil-Quaker Corporation

The United States Air Conditioning and Heating Products Industry

The United States air conditioning and heating products markets have undergone significant growth during the past decade. Sales of both central air conditioning units and warm air furnaces have increased due to rising demand for these products.

The use of central air conditioning systems has increased dramatically since the early 1970's. Yearly unit shipments have expanded from 1.6 million units in 1970 to an estimated 4.2 million units in 1989. Growth of the air conditioning market has occurred through increased penetration of the new construction segment of the market and the growth of the replacement segment of the market. The replacement segment of the market is expected to continue to increase as a large number of air conditioning units installed in the past decade become outdated and reach the end of their useful life. Much of the increase in demand for air conditioning has occurred in the "sunbelt" area in the southern United States.

The furnace market has grown at approximately the same rate as the air conditioning market, although fewer total shipments have been reported since heat pumps and combination gas-electric units which heat and cool are regarded as air conditioning rather than heating products. This growth in the furnace market is due, in part, to an emerging tendency among consumers to replace older furnaces with higher efficiency units, prior to the end of the older unit's useful life. This trend towards premature replacement of less efficient units has resulted in a higher growth rate for the high efficiency market segment than for the general furnace market. In addition, residential installations of forced air heating systems have increased in recent years, due to the fact that ducted heating systems allow for low cost retrofitting for central air conditioning.

In 1986, the U.S. Congress passed the 1987 National Appliance Energy Conservation Act which, beginning January 1, 1992, will create federal standards for unitary air conditioning and heating products, replacing all existing state and local housing board standards. The majority of Heil-Quaker's products currently meet these proposed standards.

Description of Business

Heil-Quaker was formed by Sears, Roebuck & Co. ("Sears") in 1957 and became a wholly-owned subsidiary of Whirlpool Corporation ("Whirlpool") in 1978. Heil-Quaker was acquired by the Corporation from Whirlpool, effective October 31, 1986.

Heil-Quaker designs, manufactures and markets an integrated line of unitary air conditioning, heating and heat pump systems for residential use primarily in the United States. Heil-Quaker's product line includes gas and oil furnaces, split system and packaged air conditioners and heat pumps, and packaged terminal air conditioners ("PTACs"). Heil-Quaker markets its products through three channels:

1) "Heil" brand products are sold through independent air conditioning and refrigeration wholesalers ("ARW wholesalers") and heating, ventilating and air conditioning ("HVAC") distributors serving all fifty states;

2) "Tempstar" brand products are sold through a separate network of independent ARW wholesalers and HVAC distributors; and

3) "ZoneAire" brand PTACs are sold through independent representatives.

In addition, in 1989, Heil-Quaker introduced a newly designed line of split system air conditioners to be marketed under the "Airquest" and "Maratherm" brand names as popular priced companion lines to "Heil" and "Tempstar" brand products; "Airquest" and "Maratherm" brand products are sold through independent ARW wholesalers and HVAC distributors, including certain dealers who also sell "Heil" and "Tempstar" brand products. Heil-Quaker also manufactures substantially all of its products for sale to private label customers, including Sears which sells furnaces and residential split air conditioning units manufactured by Heil-Quaker under the "Kenmore" label throughout the United States. Management believes that the sale of products under different brand names creates expanded distribution opportunities.

Heil-Quaker generated approximately 64.5% and 61.5% of revenue and operating profits, respectively, of the Energy Products Division during the nine months to September 30, 1989. Heil-Quaker's business is seasonal with approximately 58% of its air conditioner sales made during the first half of the year balanced to some extent by approximately 74% of its furnace sales which occur in the second half of the year.

Heil-Quaker has substantially improved its competitive position in the industry over the last three years. This improvement is the result of product redesign and improved manufacturing efficiencies and continued emphasis on quality, reliability, and service. Consequently, Heil-Quaker's share of the United States unitary air conditioning market has increased (see the chart entitled "United States Market" below). Heil-Quaker recently introduced a new line of high efficiency central residential air conditioners which use advanced design features.

Approximately 97% of Heil-Quaker's sales are made within the United States; approximately 83% of these sales are made to independent wholesalers and distributors, as described above, with the balance being made to private label customers. Heil-Quaker's 10 largest customers accounted for approximately 35% of its 1988 revenue.

Residential air conditioners, which accounted for 57% of 1988 revenue, range in capacity from 1 to 5 tons. Furnaces, which represented 32% of 1988 revenue, range in capacity from 50,000 to 150,000 British Thermal Units Per Hour ("BTU/hr.").

Heil-Quaker offers warranty protection which it believes to be equal or superior to that of its major competitors.

Market and Competition

Heil-Quaker estimates that its share of unit sales in the United States has increased over the past four years from less than 7% to more than 10% for residential unitary air conditioners and from less than 9% to approximately 11% for furnaces.

United States Market
Shipments and Share of Unit Sales
(Units in Millions)

	Unitary Air Conditioners		Furnaces	
Year	Industry Shipments (a)	Share Residential	Industry Shipments (b)	Share
1988	4.0	10.2%	2.6	10.7%
1987	4.0	8.0%	2.7	10.2%
1986	3.6	7.4%	2.7	9.9%
1985	3.3	6.6%	2.3	8.9%
1984	3.3	7.3%	2.4	7.5%
1983	2.7	6.2%	2.1	6.2%

(a) Source: Air Conditioning and Refrigeration Institute.

(b) Source: Gas Appliance Manufacturing Association.

Carrier Corporation, Rheem Manufacturing, Trane Company and Lennox Industries, Heil-Quaker's four largest competitors, together account for approximately 63% of the unitary heating and air conditioning equipment market, with no single competitor accounting for more than approximately 24% of either market. Management believes that distribution, quality, and price of product are the primary bases for competition in these markets.

The unitary air conditioning and heating industry has maintained relatively high levels of shipments particularly over the four years up to and including 1989. One reason is that an estimated 70% of the single family homes built in 1988 installed central air conditioning, up from 49% in 1973, and approximately 89% of multi-family units built in 1988 installed central air conditioning as compared to 85% in 1973. Another reason is the growth of the replacement market to almost two-thirds of total air conditioning shipments in 1988.

Marketing and Distribution

Heil-Quaker markets its products to local installers through independent distributors throughout the United States. The "Heil" and "Tempstar" brand products distribution networks are equivalent in size, and both primarily use exclusive independent distributors who do not carry competing product lines. "ZoneAire" brand PTACs are sold through independent representatives. Heil-Quaker does not have any factory branches.

Heil-Quaker's advertising and marketing programs generally target the dealers and installers which influence sales of heating and air conditioning products. In 1988, however, Heil-Quaker launched an extensive national advertising campaign to introduce the "Tempstar" brand and to position the "Heil" and "Tempstar" brands as premier residential heating and cooling products. New distributor and dealer development programs were also introduced in an attempt to develop a higher quality image and demonstrate improved product performance at the consumer level. These programs tie directly to various cooperative advertising programs which are funded jointly by local dealers and installers, distributors and Heil-Quaker.

Production; Assets and Facilities

Most of Heil-Quaker's products are manufactured in a modern facility in Lewisburg, Tennessee using just-in-time manufacturing techniques. Heil-Quaker also leases a second manufacturing facility in Lewisburg, which is devoted to the production of PTACs and accessories. In addition, Inter-City Products will continue to have product sourcing options available in Brantford, Ontario. All finished goods are stored in a central custom-designed distribution centre in Nashville, Tennessee, located approximately 50 miles from the Lewisburg plant at the junction of several major highways and supplemented by a rented warehouse in Lewisberg. Heil-Quaker has invested nearly

U.S.$60 million in strategic and sustaining capital over the past three years to redesign its residential product line, develop new popularly priced residential and branded commercial lines, increase plant capacity, increase manufacturing efficiencies and flexibility, and reduce work-in-process inventory. Heil-Quaker's sales, marketing, engineering, finance, human resource, and administrative functions are all conducted from Heil-Quaker's headquarters in LaVergne, Tennessee. See "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION — Facilities".

Recently, Heil-Quaker commenced a program to redesign certain products in order to lower the number of different components that must be purchased and held in inventory. Management believes that this redesign of Heil-Quaker's new split system air conditioners and heat pumps will result in substantial annual cost savings. Management also believes that the retooling of the Lewisburg facility to improve manufacturing efficiencies is providing additional cost savings.

Heil-Quaker purchases most of the components for its products from outside suppliers; these components include compressors, motors, capacitors, fasteners, switches, relays, and insulating materials. In addition, Heil-Quaker purchases certain raw materials from outside suppliers; these raw materials include copper, aluminum, galvanized steel, wire, and paint. When practical, Heil-Quaker attempts to establish multiple sources for the purchase of raw materials and components. This practice provides for competitive pricing, supply flexibility and protection from supply disruption. Heil-Quaker also works closely with major suppliers to ensure that all major components meet performance standards. Typically, outside suppliers provide Heil-Quaker with warranties on all major purchased components.

All units are operationally tested and vital statistics are recorded prior to shipment. In addition to these operational tests, several units are randomly selected at various stages of production each day for a complete quality audit of construction and performance.

Product Development

Heil-Quaker maintains a product engineering staff which directs its efforts towards improving product safety, reliability and performance, and reducing manufacturing costs. Performance requirements are influenced by market needs, industry standards and government regulations. Reductions in manufacturing costs are achieved by cost control programs, standardization, size and weight reduction, the application of new technology, and improvement in production techniques.

Close contact is maintained with marketing personnel to ensure that the final product will meet customer needs and with manufacturing personnel to ensure that a design can be produced using highly flexible just-in-time inventory techniques. Heil-Quaker engineers also work closely with major components suppliers to improve manufacturing efficiencies and keep abreast of new technological advances.

Labour Relations

Heil-Quaker believes that it has satisfactory labour relations with its two labour unions, the Stove, Furnace and Allied Appliance Workers International Union of North America, AFL-CIO and the International Association of Machinists & Aerospace Workers.

KeepRite Inc.

The Canadian Air Conditioning and Heating Products Industry

As in the United States, the Canadian heating and air conditioning products market has experienced growth over the past decade. In Canada, the heating market is the larger of the two markets.

Growth of the air conditioning market has occurred through an increase in add-on sales (i.e. existing homeowners making a first-time investment in central heating and air conditioning), growth of the replacement market segment, and increased penetration of the new construction segment. New construction is, however, less of a factor in Canada than add-on sales; in addition, the replacement market in Canada is not as fully developed as it is in the United States.

As in the United States, the Canadian heating market has grown in recent years due to general economic conditions and the tendency to replace older furnaces with higher efficiency units before the end of their useful life.

Unlike the United States, Canada has not enacted legislation that requires minimum standard energy efficiencies in household appliances.

Description of Business

KeepRite was formed in 1945 to design and manufacture commercial refrigeration products. In 1965, KeepRite purchased Unifin, a designer and manufacturer of heat transfer apparatus. In 1977, KeepRite purchased Cardinal Pumps and Exchangers, Inc., a manufacturer of transformer oil pumps. In 1981, the Corporation acquired a majority interest in KeepRite. In 1981, KeepRite purchased ZoneAire Corporation located in Johnson City, Tennessee and the heating and air conditioning business of Westinghouse Canada Inc. In 1983, KeepRite purchased the heating and air conditioning businesses carried on by two subsidiaries of the Corporation, ICG Manufacturing Ltd. and ICG Energy Products Ltd. The Johnson City facility was integrated with Heil-Quaker's Lewisburg plant during 1988. In January, 1987, KeepRite became a wholly owned subsidiary of the Corporation pursuant to a Plan of Arrangement whereby the shareholders of KeepRite, other than the Corporation, surrendered their KeepRite shares in exchange for Common Shares or cash.

KeepRite designs, manufactures and markets an integrated line of unitary heating, air conditioning and heat pump products for use primarily in Canada. "KeepRite" brand products include split system residential air conditioning units and heat pumps, rooftop air conditioners, PTACs, and gas, oil and electric furnaces. The high and mid-efficiency furnaces sold by KeepRite in Canada are manufactured by Heil-Quaker and are imported under the "KeepRite" brand name into Canada. Standard efficiency furnaces are manufactured at the Brantford, Ontario plant. KeepRite markets its products through three primary channels:

1) "KeepRite" brand products are sold through independent ARW wholesalers and HVAC distributors;

2) "ICG" brand products are sold through a separate network also comprised of independent ARW and HVAC wholesalers and distributors; and

3) "Tempstar" brand products, which were only recently introduced into the Canadian market, are sold through plumbing and electrical outlets on an exclusive basis.

Under the terms of a license agreement with Electrohome Limited, KeepRite may use the "Electrohome" brand name for room air conditioners, for which it pays a royalty. The Electrohome license is currently in effect until December 31, 1991 at which time it will be renewed automatically for successive three year terms unless a one year written notice of termination is given or received prior to its expiration.

KeepRite also has three lines of business that are not fully integrated with its core operations. KeepRite sells "KeepRite" brand commercial refrigeration products, such as cooling equipment for refrigerated cold storage rooms, from its sales headquarters in Richmond Hill, Ontario. Sales are made through ARW wholesalers and directly to larger contractors, installers and end users across Canada. "Lincoln" brand oil and electric furnaces and oil storage tanks are marketed in the province of Quebec by KeepRite's Lincoln/Barriere business unit. KeepRite's Unifin International business unit designs and manufactures "Unifin" brand industrial heat exchangers which are sold worldwide. Other non-core operations include Universal Heat Exchangers Inc., in Verdun, Quebec, which produces "Universal" brand heat exchangers and Cardinal Pumps & Exchangers Inc., in Salem, Ohio, which designs and manufactures "Cardinal" brand transformer oil pumps.

KeepRite generated approximately 30.0% and 32.6% of revenue and operating profits, respectively, of the Energy Products Division during the nine months to September 30, 1989. KeepRite's business is seasonal with approximately 58% of its air conditioner sales made during the first half of the year balanced to some extent by about 69% of its furnace sales which occur in the second half of the year.

Residential central air conditioners, which accounted for approximately 27% of 1988 revenue, range in capacity from 1½ to 5 tons. Room air conditioners, which accounted for approximately 12% of 1988 revenue, range in capacity from 5,000 to 33,000 BTU/hr. Commercial air conditioners, which accounted for approximately 21% of 1988 revenue, range in capacity from 2 to 20 tons. Furnaces, which accounted for approximately 12% of 1988 revenue, range in capacity from 45,000 to 150,000 BTU/hr.

KeepRite's 10 largest customers accounted for less than 25% of its 1988 revenue, and no single customer accounted for more than 10% of such revenue.

As mentioned above, Canada has not yet enacted legislation that requires minimum standard energy efficiencies in household appliances, but may do so in the future. In the event such legislation is introduced in Canada, it is anticipated that Inter-City Products will be able to source products from the United States which are not available from Canadian production.

KeepRite offers warranty protection which it believes to be equal or superior to that of its major competitors.

Market and Competition

KeepRite estimates its Canadian market share of unit sales is in excess of 30% for residential central air conditioners, approximately 45% for room air conditioners, approximately 20% for furnaces, and 15-20% for commercial air conditioning products. KeepRite's market share of commercial refrigeration and industrial heat exchangers is less certain since the market is highly fragmented, but management believes that KeepRite's market share in each of the key markets for these products is substantial.

Canadian Market
Shipments and Share of Unit Sales
(Units in Thousands)

	Central Air Conditioners		Furnaces	
Year	Industry Shipments (a)	Share Residential	Industry Shipments (b)	Share
1988	166	31%	204	21%
1987	92	34%	194	20%
1986	51	35%	174	18%
1985	59	40%	187	16%
1984	58	45%	168	17%
1983	27	42%	162	18%

(a) Source: Heating, Refrigeration and Air Conditioning Institute of Canada.

(b) Source: Canadian Gas Association.

KeepRite believes it is Canada's largest producer of residential air conditioners and the second largest manufacturer and supplier of gas, oil and electric furnaces and light commercial rooftop systems. Lennox Industries (Canada) Ltd., Carrier Canada Ltd. and York Air Conditioning Limited, the three largest competitors, together are believed to account for approximately 35% of the residential air conditioning and heating market and approximately 60% of the commercial air conditioning and heating products market.

The unitary heating and air conditioning industry in Canada has maintained excellent levels of shipments particularly over the four years up to and including 1989. Residential air conditioning has not, however, attained the level of penetration in Canada that has been reached in the United States and the market did not develop as early. While an estimated 70% of the single family homes built in 1987 installed central air conditioning in the United States, only 40% of the homes built in Canada installed central air conditioning. The level of penetration with respect to furnaces, however, is believed to be relatively higher in Canada than in the United States. Strong shipment rates have continued in 1989 and KeepRite's advertising and marketing expenditure requirements have been minimal.

Marketing and Distribution

KeepRite believes it has the industry's most extensive distribution network in Canada. KeepRite's greatest penetration is in the province of Ontario. "KeepRite" brand residential central heating and air conditioning products are marketed to local installers through independent distributors serving all provinces. In the province of Ontario, "ICG" brand residential products are sold directly to installing dealers through wholly-owned distribution centres; outside the province of Ontario, "ICG" brand products are marketed through the ICG independent distributor network. Prior to September 30, 1992, when the license agreement granted by Propane Company to KeepRite in connection with the Arrangement with respect to the use of the "ICG" trademark expires, KeepRite intends to implement the use of a new brand name for its ICG brand products.

"Tempstar" brand units are sold on an exclusive basis through plumbing and electrical wholesaler outlets owned by Westburne Industrial Enterprises Limited ("Westburne"). "Electrohome" brand room air conditioners are sold through ARW, HVAC, plumbing, electrical and electronics wholesalers as well as hardware chains, all of which in turn sell "Electrohome" brand products either through retail outlets or to contractors and industrial users across Canada. Other products are sold directly to contractors and end-users.

KeepRite sells products to independent distributors and directly to end-users. In addition, KeepRite owns and operates branches which sell "ICG" brand products in Ontario, and KeepRite sales personnel service its Westburne, Sears, and other national accounts and all "Electrohome" brand products sales. KeepRite markets both "KeepRite" and "ICG" brand light commercial products and "KeepRite" brand commercial refrigeration products. KeepRite's Lincoln Barriere and Unifin divisions market their products through their respective sales and marketing operations.

The KeepRite International division generated approximately $17 million in export revenue in 1988. KeepRite International's principal markets are in Australia, Africa, the Middle East, the Caribbean, and Latin America. KeepRite believes the export market offers significant growth opportunities.

KeepRite's advertising and marketing programs target the dealers and installers and, accordingly, KeepRite has developed broad programs for use at that level. These programs tie directly to cooperative advertising programs which are funded jointly by local dealers and installers, distributors and KeepRite.

Production; Assets and Facilities

KeepRite's primary manufacturing facility is in Brantford, Ontario, although certain products offered in Canada are manufactured at Heil-Quaker's Lewisburg plant. Since 1983, KeepRite has substantially improved and updated the manufacturing processes and techniques employed at its Brantford plant, and recently introduced new labour standards to reduce costs. Management believes that a manufacturing floor reorganization program, which is now substantially completed, will further streamline manufacturing costs.

As with Heil-Quaker, KeepRite purchases many of its component parts and raw materials from outside suppliers, and, when practical, attempts to establish multiple sourcing options. As does Heil-Quaker, KeepRite works closely with major suppliers to ensure all major components meet performance standards.

All units are operationally tested and vital statistics are recorded prior to shipment. In addition to these operational tests, several units are randomly selected at various stages of production each day for a complete quality audit of construction and performance.

KeepRite owns four facilities and leases five others in Canada and one in the United States, as shown in the table under "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION — Facilities". In addition, KeepRite maintains nine sales offices situated in major Canadian cities, as well as two sales offices in the United States. KeepRite's principal manufacturing facility is located in Brantford, Ontario and distribution centres are located in Richmond Hill, Ontario, Winnipeg, Manitoba and Laval, Quebec. As discussed above, most of KeepRite's products are manufactured at its Brantford facility, with product sourcing options available through Heil-Quaker. "Lincoln" brand furnaces are manufactured in Laval, Quebec; "Unifin" and "Universal" brand heat transfer apparatuses are manufactured in London, Ontario and Verdun, Quebec and "Cardinal" brand pumps are manufactured in Salem, Ohio.

Product Development

All of KeepRite's residential and light commercial product engineering is conducted at Heil-Quaker's administrative headquarters in LaVergne, Tennessee. Product development for KeepRite's commercial refrigeration, pumps, and heat transfer products is conducted by the respective business unit responsible for that product.

Labour Relations

KeepRite believes it has satisfactory labour relations with its four labour unions, the KeepRite Workers Independent Association, Canadian Auto Workers, United Steelworkers of America and the Teamsters.

Thompson Pipe and Steel Company

The United States Steel Pipe Industry

The steel pipe industry is fragmented and diversified as a result of the high costs associated with transporting large diameter pipe which limit potential markets to local areas and the relatively limited number of end-users. In addition, the steel pipe market faces competition from substitute products such as pre-stressed concrete and ductile iron pipe.

Description of Business

Thompson Pipe, founded in 1878, specializes in the manufacture of large diameter steel pipe and fittings. The Corporation acquired an interest in Thompson Pipe in 1976, and became the sole shareholder of the company in 1978. Thompson Pipe owns a facility in Denver, Colorado, where it makes three product lines. Large diameter spiral welded steel pipe is used primarily by municipalities and other government bodies for water transmission. Fabricated steel fittings are used by municipalities in water and sewage treatment facilities, electrical generating plants and circulating water systems. Non-pressure corrugated steel pipe is used for drainage in residential and commercial real estate developments and highway construction projects. Thompson Pipe's principal market area for its large steel pipe and fabricated fittings is currently Colorado and the contiguous states east of the Rocky Mountains.

Pressurized pipe and fabricated products are designed and produced to meet customer specifications and contracts are usually awarded on the basis of competitive bidding.

Thompson Pipe generated approximately 5.5% and 5.9% of revenue and operating profits, respectively, of the Energy Products Division during the nine months to September 30, 1989.

Thompson Pipe believes that the steel pipe industry will benefit from the continued enforcement of the Environmental Protection Act regulations concerning surface water treatment and transmission, and the recent recommendations put forth by the National Council on Public Works Improvement. Federal funding under the Highway Enabling Act and Omnibus Water Bill should also promote new infrastructure construction.

Market and Competition

Thompson Pipe competes with not only other steel pipe manufacturers, but also against manufacturers of pre-stressed concrete pipe and ductile iron pipe. The advantages of steel pipe over these alternative materials include efficient and cost-effective design capabilities, longer installation lengths that minimize installation costs and speed project completion, and easy-to-install watertight joints.

Thompson Pipe's primary market area is Colorado and the contiguous states east of the Rocky Mountains. High freight costs limit shipments of drainage pipe to a 100 to 200 mile radius around Denver. In comparison, pressurized pipe can be shipped competitively up to 750 miles from Thompson Pipe's manufacturing facility, and fabricated products, given their smaller part size, can be shipped competitively as far east as the Mississippi River. Management anticipates that the establishment of a new facility in Kentucky will enable it to develop its market and serve customers in the eastern United States.

Marketing and Distribution

Thompson Pipe markets its products principally through consulting engineers who design municipal and industrial projects for the principal users. Thompson Pipe is a member of the American Water Works Association ("AWWA") and the AWWA's Steel Pipe Committee, which sets standards for the industry. Consequently, Thompson Pipe is well known in the pipe industry and management believes it is aware of most major contracts up for bid. Thompson Pipe also exhibits its products at industry trade shows and conventions.

Most pressurized pipe and fabricated products are manufactured to order. Thompson Pipe keeps a minimal level of drainage pipe inventory at its Denver facility.

Production; Assets and Facilities

Spiral pipe is produced by the submerged arc fusion weld process, which results in a rounder and straighter pipe. A new helical pipe machine and support equipment installed in the second quarter of 1988 allowed Thompson Pipe to meet its 1988 target of a 40% increase in shipments. The majority of pipe product is lined with cement mortar and wrapped with high density polyethylene tape to prevent corrosion.

Thompson Pipe's quality control department is responsible for assuring compliance with specifications at each step in the manufacturing process, including fabrication, lining, coating and shipping. Steel coil used to manufacture pipe undergoes yield and tensile strength testing; finished pipe undergoes weld testing and hydrostatic testing.

Thompson Pipe purchases steel from a number of steel mills. Although it has no long-term contracts for the purchase of any of its raw materials, Thompson Pipe has not experienced any shortages.

Thompson Pipe owns a facility in Denver, Colorado, as shown in the table under "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION — Facilities". Thompson Pipe's manufacturing and administrative functions are conducted from this facility. In addition, as mentioned above, Thompson Pipe has agreed to purchase an additional facility in Princeton, Kentucky and expects the transaction to be completed in early 1990.

Labour Relations

Thompson Pipe believes that it has satisfactory labour relations with its labour union, the Brotherhood of Boilermakers.

Pro Forma Capitalization

Inter-City Products Corporation
Pro Forma Capitalization
September 30, 1989
(In Millions of Canadian Dollars)

The following table should be read in conjunction with the unaudited pro forma condensed consolidated financial statements of Inter-City Products Corporation and the unaudited consolidated financial statements of Inter-City Gas Corporation, both as at September 30, 1989, included elsewhere in this Management Proxy Circular.

	Inter-City Gas Corporation before Arrangement		Inter-City Products Pro forma	
	$	%	$	%
Bank advances	$ 284.0		$ 75.1	
Current portion of long-term debt	73.8		14.0	
	357.8	25.5	89.1	24.4
Long-term debt				
Term bank loans	145.3		48.6	
Debentures	252.5		—	
Promissory notes	126.8		82.5	
First mortgage bonds	62.2		—	
Capitalized lease obligations	27.2		0.5	
Sundry notes and mortgages	3.1		0.6	
	617.1		132.2	
Less: current portion of long-term debt	73.8		14.0	
	543.3	38.7	118.2	32.4
Redeemable preference shares	63.5	4.5	—	—
Shareholders' equity				
Common shares	208.6		110.0	
Convertible preference shares	71.0		61.0	
Contributed surplus	24.2		—	
Foreign currency translation adjustment	(13.0)		(13.0)	
Retained earnings	149.7		—	
	440.5	31.3	158.0	43.2
TOTAL CAPITALIZATION	$1,405.1	100.0	$365.3	100.0

Notes:

1. Inter-City Gas Corporation

   Prior to Arrangement

   Authorized

   600,000 First Preference shares eight per cent (8%) Series A
   125,000 Second Preference shares six and one-half per cent (6½%) Series A
   100,000 Second Preference shares seven and one-half per cent (7½%) Series B
   10,000,000 $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series
   Unlimited Common Shares

   Issued and Fully Paid

   87,140 First Preference shares eight per cent (8%) Series A
   63,197 Second Preference shares six and one-half per cent (6½%) Series A
   59,395 Second Preference shares seven and one-half per cent (7½%) Series B
   2,855,905 $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series
   23,455,872 Common Shares
   Reference is made to "INFORMATION CONCERNING THE CORPORATION — Description of Share Capital".

   Inter City Products Corporation Pro Forma

   After the Arrangement

   Authorized

   Unlimited Class A Preference Shares
   Unlimited Class B Preference Shares
   2,439,920 Class C 8% Convertible Preference Shares
   Unlimited Ordinary Shares

   Issued and Fully Paid

   2,439,920 Class C 8% Convertible Preference Shares
   7,244,024 Ordinary Shares
   Reference is made to "INFORMATION CONCERNING INTER-CITY PRODUCTS CORPORATION — Description of Share Capital".

2. As at September 30, 1989, there were Options outstanding to purchase 773,710 Common Shares pursuant to the Corporation's Employee Stock Option Plan. Under the Arrangement, the Corporation's outstanding First Preference Shares will be changed into Class C 8% Convertible Preference Shares, reflecting the recapitalization of the Corporation. For a description of the method of determining such adjustment, see "THE ARRANGEMENT — Creation of the Class C 8% Convertible Preference Shares and Warrant Offering — Change of First Preference Shares" and "Inter-City Products Corporation — Notes to Pro Forma Condensed Consolidated Financial Information".

3. Reference is made to note 5 to "Inter-City Gas Corporation — Notes to Consolidated Financial Statements — December 31, 1988" regarding details of bank advances.

4. Reference is made to note 9 to "Inter-City Gas Corporation — Notes to Consolidated Financial Statements — December 31, 1988" regarding details of long-term debt.

5. Inter-City Products' pro forma long-term debt (excluding current portion) relates to the following subsidiaries:

Heil-Quaker Corporation	$ 94.4
KeepRite Inc.	23.6
Thompson Pipe and Steel Company	0.2
	$118.2

6. Inter-City Products' pro forma Ordinary Shares were calculated as follows:

	No. of shares
Common Shares outstanding as at September 30, 1989	23,455,872
Conversion of Third Preference Shares	4,746,514
Exercise of Options	773,710
	28,976,096
Ordinary Shares outstanding after subdivision	7,244,024

7. The Corporation has arranged with a Canadian chartered bank to refinance a portion of the Corporation's bank advances to the maximum extent of $52.0 to pay for the Arrangement costs and other corporate requirements. This amount has to be refinanced prior to March 31, 1991. As at September 30, 1989, bank advances which will be replaced by the above facility amounted to $14.6.

   The Corporation and its subsidiaries have operating and other short-term lines of credit with Canadian and United States banks totalling $223.9 of which $75.1 was utilized at September 30, 1989 on a pro forma basis. The Corporation's management believes that the refinancing arrangement with the Canadian chartered bank together with its existing credit facilities and its internally generated funds will be adequate to meet its requirements during 1990.

Description of Share Capital

The following is a summary of the material provisions of the share capital of Inter-City Products assuming the Arrangement is approved and has been completed. This summary is subject to the detailed provisions of the Articles of Arrangement of Inter-City Products and the detailed share conditions of the Class A Preference Shares, Class B Preference Shares and the Class C 8% Convertible Preference Shares annexed as Appendix II and Appendix I, respectively, to the Arrangement annexed as Exhibit I to the Arrangement Agreement.

For information with respect to the stock exchanges upon which the Inter-City Products Ordinary Shares and Class C 8% Convertible Preference Shares will be listed, see "THE ARRANGEMENT — Stock Exchange Listings".

Class A Preference Shares and Class B Preference Shares

The Class A Preference Shares will be issuable in series and shall rank senior to the Class B Preference Shares, Class C 8% Convertible Preference Shares and Inter-City Products Ordinary Shares as to dividends and participation in certain distributions of assets on liquidation. The Class B Preference Shares shall also be issuable in series and shall rank senior to the Class C 8% Convertible Preference Shares and Inter-City Products Ordinary Shares and junior to the Class A Preference Shares as to dividends and participation in certain distributions of assets on liquidation.

The Board of Directors of Inter-City Products will have the ability, from time to time, to determine the number of shares in any particular series of the Class A Preference Shares or Class B Preference Shares and to fix the terms of any series prior to issue thereof.

The Board of Directors has no present plans to issue any Class A Preference Shares or Class B Preference Shares. The directors believe, however, that it is in the best interests of Inter-City Products to have a capital structure which permits the maximum possible flexibility to accomodate any requirements of Inter-City Products for financing or other issues of shares. See "THE ARRANGEMENT — Creation of Class A Preference Shares and Class B Preference Shares".

Class C 8% Convertible Preference Shares

The First Preference Shares will be changed, pursuant to the Arrangement, into Class C 8% Convertible Preference Shares. For information with respect to this change, see "THE ARRANGEMENT — Creation of the Class C 8% Convertible Preference Shares and Warrant Offering — Change of First Preference Shares".

Inter-City Products Ordinary Shares

The terms and conditions of the Inter-City Products Ordinary Shares will be, upon the completion of the Arrangement, the same as the current terms and conditions of the Common Shares. See "INFORMATION CONCERNING THE CORPORATION — Description of Share Capital".

Voting Securities and Principal Shareholders

Assuming the Arrangement becomes effective and the principal shareholders of the Corporation participate fully in the Arrangement, the table under "INFORMATION CONCERNING THE CORPORATION — Voting Securities and Principal Shareholders" shows each person who is known as of January 31, 1990 to the management of the Corporation who will, on the Effective Date, be the beneficial owner of more than five percent of any class of securities of Inter-City Products.

Dividend Policy

It is anticipated that the future cash flow of Inter-City Products will be reinvested in the business and used to reduce bank indebtedness. There are no current plans to resume the payment of regular dividends on Inter-City Products Ordinary Shares after the Arrangement.

Management

Directors

The directors of Inter-City Products following the Effective Date and assuming the Board Size Resolution becomes effective, their municipalities of residence, ages, principal occupation and ownership of Inter-City Products Ordinary Shares will be as follows:

Name and Municipality of Residence	Age	Principal Occupation	Number of Inter-City Products Ordinary Shares
H. REUBEN COHEN, Q.C. ..... Moncton, New Brunswick	68	Barrister and Solicitor	22,025
CLARENCE W. COLE ..... Toronto, Ontario	52	President and Chief Executive Officer of Central Capital Corporation	—
LEONARD ELLEN ..... Montreal, Quebec	64	Chairman, Leonard Ellen Canada Inc.	22,025
HENRY J. FORREST ..... Brentwood, Tenessee	56	President and Chief Operating Officer of Inter-City Products	15,875 (1)
ROBERT G. GRAHAM ..... North York, Ontario	58	Chairman of the Board and Chief Executive Officer of Inter-City Products	112,608 (1)

(1) Assuming all Options are exercised prior to the Effective Date.

All of the directors listed above have been engaged for more than five years in their present occupations or in other executive capacities with the corporations or firms with which they currently hold positions, with the exception of Mr. Cole, who prior to May 16, 1986 was a Senior Executive Vice-President of the Canadian Imperial Bank of Commerce.

All of the directors listed above (with the exception of Mr. Forrest) are also directors of other public companies, as described under "INFORMATION CONCERNING THE CORPORATION — Management".

Committees of the Board

Inter-City Products will comply with its statutory obligation to establish an audit committee of at least three members, a majority of whom will not be officers or employees of the Company or any of its affiliates.

No other committees of the board of directors of Inter-City Products are presently contemplated.

Executive Officers

The following table sets for the information with respect to the proposed executive officers of Inter-City Products. Executive officers will be appointed by and will hold office at the pleasure of the Board of Directors.

Name and Municipality of Residence	Principal Occupation (all with the Corporation)
ROBERT G. GRAHAM ..... North York, Ontario	Chairman of the Board and Chief Executive Officer
HENRY J. FORREST..... Bentwood, Tennessee	President and Chief Operating Officer
CAMERON J. TURNER..... Toronto, Ontario	Vice-President, Corporate Development
ARINDRA SINGH ..... Etobicoke, Ontario	Vice-President, Controller and Secretary

The principal occupation of Messrs. Graham and Forrest for the past five years are set forth under the section "Directors". Mr. Turner was appointed the Corporate Development Officer of the Corporation in 1988; between 1986 and 1988 he was Financial Analyst, Acquisitions of the Corporation; between 1985 and 1986 he was a corporate banking officer with the National Bank of Canada and prior to 1985 was a Corporate Planner with Norcen Energy Resources Limited. Mr. Singh was appointed the Corporate Controller and Principal Accounting Officer of

the Corporation in 1985; prior to 1985 he was Senior Audit Manager with Coopers & Lybrand, Chartered Accountants.

Compensation Plans

Inter-City Products will establish compensation plans consistent with industry standards and competitive practices.

Legal Proceedings

On June 29, 1983 the articles of KeepRite were amended by Certificate of Amendment which, among other things, removed the limit on the authorized number of common shares of KeepRite. The holders of 371,845 common shares of KeepRite dissented with respect to the special resolution which authorized such amendment. In accordance with the provisions of the CBCA, the dissenting shareholders ceased to have any rights as shareholders and were entitled to be paid the fair value for their shares. On June 11, 1987 the Supreme Court of Ontario determined the fair value of the common shares of KeepRite as of April 24, 1983 to be $13.00 each and ordered KeepRite to pay interest on the amount determined to be the fair value of such shares. The Supreme Court of Ontario also dismissed a claim by the dissenting shareholders for damages. The shareholders have appealed the order of the Supreme Court of Ontario to the Ontario Court of Appeal. KeepRite believes that the appeal will be dismissed and the judgment of the Supreme Court of Ontario upheld.

On December 30, 1988, a complaint was filed against the Corporation in the U.S. District Court for the District of Utah by Flying J, Inc. ("Flying J") concerning a 1980 transaction in which certain stock and assets of the Corporation's subsidiaries were sold to Flying J. The complaint alleges that the Corporation is liable for environmental contamination at three refinery sites purchased in the transaction and the loss of certain oil leasing rights. Flying J seeks to recover under a variety of theories including cost recovery and contribution under the Comprehensive Environmental Response, Compensation and Liability Act, fraudulent conveyance and securities fraud, breach of indemnity and warranty under the transaction contract, state and common law indemnity and contribution, strict liability and declaratory judgment. The damages sought include actual, consequential and punitive damages generally to be proven at trial and in excess of $7.5 million under the contractual breach of indemnity and warranty theories.

INFORMATION CONCERNING CENTRAL CAPITAL

Central Capital was continued by articles of amalgamation effective May 2, 1986 pursuant to the Canada Business Corporations Act. Central Capital's head office is at 1801 Hollis Street, P.O. Box 2343, Halifax, Nova Scotia B3J 3C8 and its executive offices are at First Canadian Place, P.O. Box 38, Toronto, Ontario M5X 1G4.

Central Capital is the management company that directs the Central Capital Group, a broadly-based group of companies which provides a co-ordinated range of financial services and products designed to respond to opportunities in and to meet the needs of the Canadian and international financial markets. The operations of the Central Capital Group include corporate and merchant financing activities; financial intermediary activities; retail financial services; personal and corporate services; retail, wholesale and institutional funds management; investing and trading (both as principal and agent); the provision of life, property, casualty and real estate related insurance and financial guarantees; and leasing.

INFORMATION CONCERNING PROPANE HOLDINGS

Propane Holdings is wholly-owned by Central Capital and MICC. Central Capital has represented in the Arrangement Agreement that Propane Holdings does not have any liabilities or any assets other than cash or other liquid investments in an aggregate amount not exceeding $1,000 and 3,495,700 Common Shares. Upon completion of the Arrangement, Propane Holdings will own all of the shares of Propane Company and all of the shares in the capital of Propane Holdings will be sold for cash to WestCoast Gas or, if Westcoast so assigns its right to purchase the Propane Holdings Shares, to Petro-Canada.

INFORMATION CONCERNING UTILITIES HOLDINGS

Utilities Holdings is wholly-owned by MICCI. Central Capital has represented in the Arrangement Agreement that Utilities Holdings does not have any liabilities or any assets other than cash or other liquid investments in an aggregate amount not exceeding $1,000 and 4,675,000 Common Shares and one common share in the capital of Newco. Upon completion of the Arrangement, Utilities Holdings will own all of the shares of Utilities Company and all of the shares in the capital of Utilities Holdings will be sold to WestCoast Gas for cash.

INFORMATION CONCERNING WESTCOAST

Westcoast was incorporated by Special Act of the Parliament of Canada in 1949 and was continued under the Canada Business Corporations Act in 1976. The head and executive offices of the Company are located at 1333 West Georgia Street, Vancouver, British Columbia V6E 3K9.

Westcoast is primarily engaged in purchasing, gathering, processing, transporting and selling natural gas through its pipeline system extending from points in the Yukon and Northwest Territories and the Province of Alberta through the Province of British Columbia to a point on the United States border near Huntingdon, British Columbia. Westcoast is also engaged, through subsidiaries, in the exploration for and the development and production of natural gas and oil, primarily in western Canada, and in direct distribution of natural gas to consumers in west-central British Columbia. In addition, Westcoast owns 50% of the outstanding common shares of Foothills Pipe Lines (Yukon) Ltd., which, through partially owned subsidiaries, operates a pipeline system delivering Alberta natural gas to the United States. Westcoast also owns and operates a sulphur dioxide plant at Prince George, British Columbia, and is the operator and joint owner of a natural gas liquids recovery plant at Taylor, British Columbia.

Westcoast intends to finance approximately $100 million of the net acquisition price for the Utilities Division from the proceeds of a public equity issue and the sale of certain non-energy assets. The balance will be satisfied by the combination of the Utilities Division assuming an existing debt obligation and the proceeds from a bank facility made available for purposes of the acquisition on a non-recourse basis to Westcoast.

INFORMATION CONCERNING PETRO-CANADA INC.

Petro-Canada Inc. was continued under the Canada Business Corporations Act in 1976. Its registered and principal executive office is located at 150 - 6th Avenue S.W., Calgary, Alberta, Canada, T2P 3E3.

Petro-Canada Inc. is a wholly-owned subsidiary of Petro-Canada, the corporation incorporated by Special Act of the Parliament of Canada (the "Petro-Canada Act") on July 30, 1975. The purpose of the Petro-Canada Act was to establish a corporation owned by the Government of Canada with authority to explore for and develop deposits of hydrocarbons in Canada and elsewhere; to produce, transport, refine and distribute hydrocarbons and other fuels; to carry out research and development projects relating to hydrocarbons and other fuels; and to negotiate for and acquire petroleum and petroleum products from abroad to assure a continuity of supply for the needs of Canada. Petro-Canada conducts its operations primarily through Petro-Canada Inc. Petro-Canada Inc. is one of the largest integrated oil corporations in Canada and is the largest Canadian owned corporation operating principally in the petroleum industry.

Petro-Canada Inc. intends to finance the net acquisition price for the Propane Division through working capital and existing credit facilities.

GENERAL PROXY INFORMATION

Voting Rights and Proxy Information

To be used at the Special Meeting, a proxy must be deposited with Central Guaranty Trust Company at one of its principal offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal or Halifax in Canada at any time up to 3:00 p.m. (local time) on the last business day preceding the day of the Special Meeting (or any adjournment of the Special Meeting), or with the Chairman of the Special Meeting prior to the commencement of the Special Meeting on the day of the Special Meeting or the day of any adjournment of the Special Meeting.

Proxies

Shareholders or Option Holders who are unable to be present at the Special Meeting may still vote through the use of proxies. If you are a Common Shareholder you should complete and return the blue proxy form. If you are a Third Preference Shareholder you should complete and return the yellow proxy form. If you are an Option Holder you should complete and return the green proxy form. By completing and returning the relevant enclosed proxy form(s), you can participate in the Special Meeting through the person or persons named on the form(s). **Please indicate the way you wish to vote on each item of business and your vote will be cast accordingly. If you do not indicate a preference, the shares or Options represented by the enclosed proxy form(s), if the same is executed in favour of the management appointees named in the proxy form and deposited as provided in the Notice of Special Meeting, will be voted in favour of all matters identified in such Notice of Special Meeting.**

Discretionary Authority of Proxies

The proxy form confers discretionary authority upon the management appointees named therein with respect to any amendments to the matters set forth in the Notice of Special Meeting and with respect to any other matters that may properly come before the Special Meeting, and will be voted on such amendments and other matters in accordance with the best judgment of the management appointees named in the enclosed proxy form(s). The Board of Directors does not know of any other business which may be presented for consideration at the Special Meeting.

On any ballot that may be called for at the Special Meeting, all shares or Options in respect of which the management appointees named in the accompanying proxy form have been appointed to act will be voted or withheld from voting in accordance with the specification of the Shareholder or Option Holder signing the proxy form. If no such specification is made, then the shares or Options will be voted in favour of all matters identified in the Notice of Special Meeting.

Alternate Proxy

A Shareholder or Option Holder has the right to nominate a person other than the management appointees designated on the accompanying proxy form(s) by crossing out the printed names and inserting the name of the person he wishes to act as proxy in the blank space provided, or by completing another proxy form. Proxy forms which appoint persons other than the management appointees whose names are printed on the form should be submitted to the Corporation and the person appointed should be notified. A person acting as proxy need not be a Shareholder or Option Holder of the Corporation.

On any ballot that may be called for at the Special Meeting, all shares or Options in respect of which the person named in a proxy form has been appointed to act must be voted or withheld from voting in accordance with the specification of the Shareholder or Option Holder signing such proxy form. If no such specification is made then the shares or Options may be voted in accordance with the best judgement of the person named in the proxy form. Furthermore, the person named in the proxy form will have discretionary authority with respect to any amendments to the matters set forth in the Notice of Special Meeting and with respect to any other matters that may properly come before the Special Meeting, and will be voted on such amendments and other matters in accordance with the best judgment of the person named in such proxy form.

Revocation of Proxies

If the accompanying form(s) of proxy is executed and returned, such proxy may nevertheless be revoked pursuant to subsection 142(4) of the MCA by an instrument in writing executed by the Shareholder or Option Holder or his attorney authorized in writing, as well as in any other manner permitted by law. Any such instrument revoking a proxy must either be deposited at the registered office of the Corporation, Inter-City Gas Building,

444 St. Mary Avenue, Winnipeg, Manitoba, Canada, R3C 3T7 at any time up to the close of business on the last business day preceding the date of the Special Meeting or any adjournment thereof, or be deposited with the Chairman of the Special Meeting on the date of the Special Meeting or any adjournment thereof. If the instrument of revocation is deposited with the Chairman on the date of the Special Meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to such proxy.

Only holders of record at the close of business on February 16, 1990 of Common Shares, First Preference Shares, Third Preference Shares and Options will be entitled to vote, each as a separate class in respect of the Arrangement Resolution and as a single class in respect of the Board Size Resolution, at the Special Meeting or adjournments thereof, except that a person who has acquired shares subsequent to February 16, 1990 will be entitled to vote such shares upon making a written request to that effect by March 6, 1990 to the Secretary of the Corporation at the registered office of the Corporation, Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba, Canada, R3C 3T7 and establishing that such person owns such shares. As of January 31, 1990, 23,770,662 Common Shares, 87,140 First Preference Shares, 2,717,527 Third Preference Shares and 699,170 Options were outstanding, each of which carries one vote. Such numbers of shares and Options do not include fractional share interests (aggregating 7 Common Shares) which cannot be voted.

Solicitation of Proxies

The cost of this solicitation of proxies will be borne by the Corporation. The Corporation will reimburse brokers, custodians, nominees and other fiduciaries for reasonable charges and expenses incurred in forwarding proxy material to beneficial owners of the Common Shares, First Preference Shares, Third Preference Shares or Options. In addition to solicitation by mail, officers, directors and regular employees of the Corporation may, without additional compensation, solicit proxies personally or by telephone. The Corporation will retain The Proxy Solicitation Company Ltd., 80 Richmond St. West, Toronto, Ontario M5H 2A4 to aid in the solicitation of proxies from Canadian individuals and institutions at a fee of approximately $15,000, plus out-of-pocket expenses. The Proxy Solicitation Company Ltd. will retain an agent in the United States to aid in the solicitation of proxies from Shareholders in the United States. The total amount to be paid to The Proxy Solicitation Company Ltd. is not expected to exceed $30,000.

SHAREHOLDER PROPOSALS FOR NEXT MEETING

Pursuant to the MCA, prior to the 1990 annual meeting of shareholders, shareholder proposals must be received by February 17, 1990 to be considered for inclusion in the management information circular and proxy statement for the 1990 annual meeting of Shareholders. For purposes of compliance with regulations under the United States Securities Exchange Act of 1934, such shareholder proposals must have been received by January 17, 1990.

DISCLOSURE DOCUMENTS AVAILABLE

The following documents regarding Inter-City Gas Corporation filed with securities commissions or similar authorities in Canada are available (without charge to Shareholders) upon request to the Secretary of Inter-City Gas Corporation, Inter-City Gas Building, 444 St. Mary Avenue, Winnipeg, Manitoba, Canada, R3C 3T7, telephone number (204) 944-9920:

(a) the Annual Information Form dated May 18, 1989 of the Corporation including the comparative financial statements of the Corporation for the year ended December 31, 1988, together with the report of the auditor thereon, and documents incorporated therein by reference; and

(b) the Management Information Circular dated April 13, 1989 of the Corporation for the Annual Meeting held on May 18, 1989.

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INTER-CITY GAS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

INTER-CITY GAS CORPORATION

AUDITORS' REPORT

To the Directors of
INTER-CITY GAS CORPORATION

We have examined the consolidated balance sheets of Inter-City Gas Corporation as at December 31, 1988 and 1987 and the related consolidated statements of income, retained earnings and changes in financial position for the years ended December 31, 1988, 1987 and 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Inter-City Gas Corporation as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for the years ended December 31, 1988, 1987 and 1986 in accordance with generally accepted accounting principles applied, except for the changes, with which we concur, made as of January 1, 1987, in the method of accounting for pension costs and in the method of accounting for oil and gas properties, as described in Note 3 to the consolidated financial statements, on a consistent basis.

Toronto, Canada
February 20, 1989
(except for note 21(a) which is dated
May 5, 1989, note 21(b) which is dated December 12,
1989, note 21(c) which is dated December 11, 1989 and
note 21(d) which is dated August 22, 1989)

(Signed) COOPERS & LYBRAND
Chartered Accountants

REPORT OF THE CHIEF FINANCIAL OFFICER

The undersigned, being the Chief Financial Officer of Inter-City Gas Corporation, states that the consolidated balance sheet as at September 30, 1989, and the related consolidated statements of income, retained earnings and changes in financial position for the nine months ended September 30, 1989 and 1988 which accompany this report have been prepared by management and have not been audited, but have been prepared in accordance with generally accepted accounting principles in Canada. The differences between generally accepted accounting principles in Canada and the United States are disclosed in Note 23 to the consolidated financial statements.

Toronto, Canada
December 15, 1989

(Signed) P. MARRIOTT
Senior Vice President, Finance
and Chief Financial Officer
INTER-CITY GAS CORPORATION

INTER-CITY GAS CORPORATION

CONSOLIDATED BALANCE SHEET
(In Millions of Canadian Dollars)

	September 30	December 31	
	1989	1988	1987
	(unaudited)		
ASSETS			
CURRENT ASSETS			
Cash and short-term deposits	$ 5.1	$ 4.3	$ 3.8
Accounts and notes receivable (less allowance for doubtful accounts; 1988 — $7.9; 1987 — $6.4)	255.0	295.5	238.7
Short-term investments	78.4	4.1	56.7
Income taxes recoverable	3.9	1.0	2.9
Inventories	199.5	198.3	187.2
Prepaid expenses	12.9	10.9	8.4
	554.8	514.1	497.7
INVESTMENTS			
Long-term investments	61.6	149.6	59.1
Notes and mortgages	17.2	19.6	21.4
Employee share purchase plan loans	1.7	1.9	3.1
	80.5	171.1	83.6
DISCONTINUED OIL AND GAS PROPERTIES — at equity	3.7	99.0	97.4
FIXED ASSETS			
Property, plant and equipment — at cost	1,540.9	1,419.8	1,328.2
Accumulated depreciation	412.6	365.6	318.3
	1,128.3	1,054.2	1,009.9
DEFERRED COSTS — at cost, less amortization	12.3	19.0	16.2
	$1,779.6	$1,857.4	$1,704.8
LIABILITIES			
CURRENT LIABILITIES			
Bank advances	$ 284.0	$ 255.6	$ 157.1
Accounts payable and accrued liabilities	210.9	238.5	219.8
Income taxes payable	9.1	17.5	5.6
Current portion of long-term debt	73.8	51.3	109.4
	577.8	562.9	491.9
LONG-TERM DEBT	543.3	646.6	565.0
CONTRIBUTIONS AND GRANTS IN AID OF CONSTRUCTION	113.3	112.7	110.0
MINORITY INTERESTS IN SUBSIDIARIES	28.2	29.6	32.4
DEFERRED INCOME TAXES	13.0	14.0	14.3
	1,275.6	1,365.8	1,213.6
REDEEMABLE PREFERENCE SHARES	63.5	71.5	79.6
SHAREHOLDERS' EQUITY			
CONVERTIBLE PREFERENCE SHARES	71.0	72.1	74.9
COMMON SHARES	208.6	200.7	234.7
CONTRIBUTED SURPLUS	24.2	24.2	—
RETAINED EARNINGS	149.7	134.7	123.2
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(13.0)	(11.6)	(2.6)
	440.5	420.1	430.2
COMMON SHARES OF THE COMPANY HELD BY SUBSIDIARIES	—	—	18.6
	440.5	420.1	411.6
	$1,779.6	$1,857.4	$1,704.8

See accompanying notes

INTER-CITY GAS CORPORATION

CONSOLIDATED STATEMENT OF INCOME

(In Millions of Canadian Dollars)

	Nine months ended September 30		Year ended December 31		
	1989	1988	1988	1987	1986
	(unaudited)				
OPERATING REVENUE	$1,388.1	$1,276.9	$1,761.4	$1,614.9	$1,362.4
OPERATING COSTS					
Costs of sales	968.0	891.9	1,223.3	1,146.4	985.2
Operating, selling and administrative	247.3	229.7	315.2	282.9	221.4
Depreciation	50.7	47.3	61.6	55.3	41.1
	1,266.0	1,168.9	1,600.1	1,484.6	1,247.7
OPERATING PROFIT	122.1	108.0	161.3	130.3	114.7
INVESTMENT INCOME	11.6	10.1	12.7	18.3	21.5
	133.7	118.1	174.0	148.6	136.2
FINANCIAL EXPENSES					
Interest on long-term debt	50.8	52.1	69.4	78.9	71.0
Other interest	23.5	13.2	19.4	12.0	7.7
Interest capitalized	(2.0)	(.6)	(.8)	(.5)	(.4)
(Gain) loss on foreign exchange	(.1)	.4	(.4)	2.4	(2.4)
Amortization of deferred costs	.5	1.2	2.0	1.3	1.3
	72.7	66.3	89.6	94.1	77.2
INCOME BEFORE TAXES	61.0	51.8	84.4	54.5	59.0
PROVISION FOR TAXES					
Income taxes	24.8	21.3	35.6	20.7	22.8
Alberta royalty tax credit	(.1)	(.1)	(.1)	(.1)	(.1)
	24.7	21.2	35.5	20.6	22.7
INCOME AFTER TAXES	36.3	30.6	48.9	33.9	36.3
MINORITY INTERESTS IN SUBSIDIARIES	(1.6)	(1.8)	(2.4)	(2.7)	(3.2)
INCOME FROM CONTINUING OPERATIONS	34.7	28.8	46.5	31.2	33.1
DISCONTINUED OPERATIONS					
Income (loss) from operations, net of taxes	(4.8)	(4.0)	(6.7)	1.8	4.2
Gain on sale of discontinued operations	9.7	—	—	—	—
Write-down of investment in Ranger Oil Limited	(3.7)	—	—	—	—
Write-down of oil and gas properties, net of income taxes of $6.8	—	—	—	—	(9.3)
	1.2	(4.0)	(6.7)	1.8	(5.1)
INCOME BEFORE UNUSUAL AND EXTRAORDINARY ITEMS	35.9	24.8	39.8	33.0	28.0
Receipt of MICC dividends in arrears	—	—	—	13.3	—
INCOME BEFORE EXTRAORDINARY ITEMS	35.9	24.8	39.8	46.3	28.0
EXTRAORDINARY ITEMS					
Reduction of current income taxes on application of prior years' losses	—	—	—	1.3	1.3
Net gain on sale of MICC warrants, net of income taxes of $4.0	—	—	—	15.9	
Gain on redemption of MICC preference shares	—	—	—	24.2	
Net gain on sale of business units, net of income taxes of $5.3	—	—	—	—	1.8
Provision for investment in utility expansion company, net of income taxes of $2.0	—	—	—	—	(2.0)
	—	—	—	41.4	1.1
NET INCOME	$ 35.9	$ 24.8	$ 39.8	$ 87.7	$ 29.1
BASIC NET INCOME PER COMMON SHARE					
From continuing operations	$1.13	$0.87	$1.52	$0.94	$1.07
Before unusual and extraordinary items	$1.19	$0.70	$1.22	$1.03	$0.80
Before extraordinary items	$1.19	$0.70	$1.22	$1.72	$0.80
After extraordinary items	$1.19	$0.70	$1.22	$3.85	$0.86
FULLY DILUTED NET INCOME PER COMMON SHARE					
From continuing operations	$1.10	*	$1.47	$0.94	$1.07
Before unusual and extraordinary items	$1.15	*	$1.22	$1.03	$0.80
Before extraordinary items	$1.15	*	$1.22	$1.60	$0.80
After extraordinary items	$1.15	*	$1.22	$3.21	$0.86

*Anti-Dilutive

See accompanying notes

INTER-CITY GAS CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(In Millions of Canadian Dollars)

	Nine months ended September 30		Year ended December 31		
	1989	1988	1988	1987	1986
	(unaudited)				
BALANCE — Beginning of the period	$134.7	$123.2	$123.2	$ 61.7	$ 56.8
Excess of cost over assigned value of shares cancelled	—	—	—	(.5)	—
Net income	35.9	24.8	39.8	87.7	29.1
	170.6	148.0	163.0	148.9	85.9
DIVIDENDS —					
Preference shares	8.3	9.0	11.9	12.9	13.0
Common shares	12.6	12.2	16.4	12.8	11.2
	20.9	21.2	28.3	25.7	24.2
BALANCE — End of the period	$149.7	$126.8	$134.7	$123.2	$ 61.7

See accompanying notes

INTER-CITY GAS CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In Millions of Canadian Dollars)

	Nine months ended September 30		Year ended December 31		
	1989	1988	1988	1987	1986
	(unaudited)				
OPERATIONS					
Cash Receipts					
Receipts from sales	$1,400.6	$1,236.8	$1,671.9	$1,598.0	$1,449.3
Investment and other income	33.5	31.5	41.7	62.7	34.0
	1,434.1	1,268.3	1,713.6	1,660.7	1,483.3
Cash Disbursements					
Purchases and expenses	1,247.0	1,158.4	1,527.4	1,463.4	1,281.8
Interest	78.7	68.9	95.0	88.2	74.3
Income tax installments	38.0	14.3	18.8	31.8	27.0
	1,363.7	1,241.6	1,641.2	1,583.4	1,383.1
CASH PROVIDED FROM CONTINUING OPERATIONS	70.4	26.7	72.4	77.3	100.2
CASH PROVIDED FROM DISCONTINUED OPERATIONS	11.9	16.9	10.8	23.4	39.8
	82.3	43.6	83.2	100.7	140.0
CASH WAS USED FOR					
Dividends paid					
By the Company to shareholders	20.9	21.4	28.5	25.6	24.2
By subsidiaries to minority interests	1.6	1.8	2.3	2.8	3.1
	22.5	23.2	30.8	28.4	27.3
CASH (DEFICIENCY) REMAINING FOR INVESTMENT	59.8	20.4	52.4	72.3	112.7
INVESTMENT					
Property, plant and equipment	104.1	62.3	115.1	117.8	114.6
Investments and notes receivables	(.3)	102.1	37.0	13.0	208.5
Customer contributions, grants and other	1.2	(3.1)	1.1	(7.0)	(11.7)
Proceeds on sale of business unit and investments	(114.9)	(80.2)	(81.1)	(56.2)	(102.1)
Discontinued operations	.5	32.1	113.1	19.4	54.4
CASH (GENERATED FROM) USED IN INVESTMENT ACTIVITIES	(9.4)	113.2	185.2	87.0	263.7
CASH AVAILABLE (DEFICIENCY) BEFORE FINANCING	69.2	(92.8)	(132.8)	(14.7)	(151.0)
FINANCING					
Long-term debt issued	84.7	59.4	169.8	49.3	326.1
Common shares issued	7.2	6.2	6.1	46.0	1.5
Redemption of preference shares and other	(9.3)	(5.5)	(5.3)	(9.9)	(3.7)
Repayment of long-term debt	(179.4)	(104.9)	(135.8)	(131.4)	(206.4)
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES	(96.8)	(44.8)	34.8	(46.0)	117.5
INCREASE IN CASH DEFICIENCY	27.6	137.6	98.0	60.7	33.5
CASH DEFICIENCY — Beginning of period	251.3	153.3	153.3	92.6	59.1
CASH DEFICIENCY — End of period	278.9	290.9	251.3	153.3	92.6
REPRESENTED BY					
Bank advances	284.0	292.6	255.6	157.1	103.5
Less: Cash and short-term deposits	5.1	1.7	4.3	3.8	10.9
	$ 278.9	$ 290.9	$ 251.3	$ 153.3	$ 92.6

See accompanying notes

INTER-CITY GAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 1988, 1987 and 1986
(In Millions of Canadian Dollars unless otherwise stated)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements 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 in Note 23.

Consolidation

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies from the dates of acquisition, on the basis of purchase accounting. The excess of purchase price of subsidiary companies over the fair value of the assets acquired is treated as goodwill, and amortized on a straight line basis. All such amounts incurred to date have been fully amortized or otherwise written off.

Inventories

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

Fixed Assets

Fixed assets are recorded at cost, which includes interest and overhead capitalized while construction is in progress, less accumulated depreciation.

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

Buildings	2% — 10%
Customer installations	2% — 25%
Transportation equipment	5% — 33%
Machinery, equipment and furniture	3% — 33%

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 a composite rate of approximately 3.44% (1987 — 3.33%).

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

Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas properties, whereby all costs, including interest and overhead costs, relating to the exploration for and development of oil and gas and related products are capitalized. Government assistance for exploration and development activities is applied as a reduction of the related capital expenditures.

Depletion of oil and gas properties and depreciation of production and related equipment is provided on a unit of production method based on proved reserves on a country-by-country cost centre basis. Costs associated with unproved properties less provisions for impairment are excluded from the calculations.

The carrying value of the Company's oil and gas properties within each cost centre is limited to the aggregate of future net revenues from estimated production of proved oil and gas reserves using average prices during the last twelve months of the fiscal year, and the cost of unproved properties, net of provisions for impairment. The carrying value of oil and gas properties on a consolidated basis is limited to the aggregate of the carrying value of each cost centre less future general and administrative costs, financing costs and income taxes.

Investments

Short-term investments are recorded at the lower of cost and market value. Long-term investments are recorded at cost less write-down for any impairment in value, which is other than temporary.

Deferred Costs

Amortization of deferred costs is provided on a straight-line basis over various periods, not exceeding 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 include 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.

Pension Costs

Pension costs and obligations are determined annually by independent actuaries using management's best estimate assumptions and the projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions, experience gains or losses, and the initial actuarial surplus as at January 1, 1987, are amortized on a straight-line basis over the expected average remaining service life of the employee group.

2. ACQUISITION OF HEIL-QUAKER CORPORATION

Effective October 31, 1986, the Company acquired all of the issued and outstanding common shares of Heil-Quaker Corporation ("Heil-Quaker"), formerly Heil-Quaker Home Systems Inc. The consolidated statements of income and changes in financial position include the results of Heil-Quaker's operations from that date. The contribution by Heil-Quaker to net income to common shareholders amounted to 29 cents per share in 1988, 23 cents per share in 1987 and less than 1 cent per share in 1986, after deducting interest costs pertaining to the acquisition of Heil-Quaker.

3. CHANGES IN ACCOUNTING POLICIES

(a) Effective January 1, 1987, to comply with the recommendations issued by the Canadian Institute of Chartered Accountants ("CICA"), the Company prospectively changed its method of accounting for pension costs and obligations to that described in Note 1 of these financial statements. Previously, it was the Company's policy to expense an amount equal to the actuarially determined funding requirement. The effect of this change has been to reduce net income for the year ended December 31, 1987 and 1988 by approximately $.9 (4 cents per common share), and $1.2 (5 cents per common share) respectively.

(b) Effective January 1, 1987, the Company prospectively adopted all aspects of the Guideline issued by the CICA, for oil and gas companies using the full-cost method of accounting. As a result, the Company is required to use a separate cost centre for each of its Canadian and United States operations, instead of the North American cost centre previously employed. In addition, the Company no longer capitalizes interest on non-producing properties where proved reserves have been established. The effect of these changes has been to reduce net income for the year ended December 31, 1987 and 1988 by approximately $1.8 (9 cents per common share), and $2.4 (10 cents per common share) respectively.

4. FOREIGN CURRENCY TRANSLATION ADJUSTMENT

This adjustment which is included as a component of shareholders' equity represents the unrealized loss or gain on translation of financial statements of self-sustaining foreign operations in the United States. Changes during the year are as follows:

	1988	1987
Cumulative unrealized (loss) gain at January 1	$ (2.6)	$ 1.7
Unrealized loss on translation of net assets	(9.0)	(4.3)
Cumulative unrealized (loss) at December 31	(11.6)	(2.6)

The rate of exchange as at December 31, 1988 was Cdn. $1.1927 = U.S. $1.00 (1987 — Cdn$1.2998 = U.S. $1.00), and the average exchange rate for the year was Cdn. $1.2307 = U.S. $1.00 (1987 — Cdn. $1.3259 = U.S.$1.00; 1986 — Cdn. $1.3892 = U.S. $1.00).

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

Current bank advances of $21.3 for U.S. based operations are secured by accounts receivable and inventories. Current bank advances of $164.3 for Canadian based operations are not secured, however the Company has provided a negative pledge to the lenders with respect to accounts receivable and inventories of these operations. In addition, other short-term borrowings of $70.0, incurred for investment purposes only, are secured by investment in shares of Ranger Oil Limited. Shares of certain subsidiary companies, property, plant and equipment, interests in petroleum and natural gas properties and the note receivable from Norcen Energy Resources Limited ("Norcen") referred to in Note 7 (iv) are in most cases pledged as security against term bank loans and other long-term indebtedness.

The Company and its subsidiaries have operating and other short-term lines of credit with Canadian and United States banks totalling $440.9 (1987 — $355.1) of which $255.6 was utilized at December 31, 1988 (1987 — $157.1). In certain instances, the actual amount of credit available is limited by the amount of accounts receivable and inventory. The weighted average interest rate on the outstanding bank advances at December 31, 1988 was 11.1% (1987 — 9.4%). 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, 1988 was $332.2 (1987 — $168.3). The average bank advances outstanding, calculated by averaging month-end balances, during the year ended December 31, 1988

was $245.6 (1987 — $137.3). 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 and LIBOR loans. Bank prime rates averaged 10.7% during 1988 (1987 — 9.6%; 1986 — 10.6%) and at December 31, 1988 were 12.25% (1987 — 9.75%).

6. INVENTORIES

Inventories are classified as follows:

	1988	1987
Natural gas in storage	$ 13.2	$ 12.6
Propane and petroleum products	8.6	10.0
Raw materials	45.4	34.7
Work-in-progress	12.5	10.3
Finished goods	100.1	101.8
Merchandise, materials and supplies	18.5	17.8
	$198.3	$187.2

7. LONG-TERM INVESTMENTS

Long-term investments are classified as follows:

	1988	1987
Ranger Oil Limited ("Ranger"), at cost (i) (quoted market value — $61.4)	$ 77.9	$ —
Turbo Resources Limited ("Turbo"), at cost (ii) (quoted market value — $11.0)	10.0	—
Noverco Inc. ("Noverco") (iii) Common shares	—	55.0
Gaz Metropolitain, inc. Preference shares (no quoted market value)	12.7	13.5
Note receivable from Norcen (iv)	45.6	47.3
Other investments (no quoted market value)	7.5	—
	153.7	115.8
Current portion included in current assets	4.1	56.7
	$149.6	$ 59.1

(i) During the year, the Company acquired 10,236,064 common shares of Ranger, representing approximately 13.7% of the total common shares outstanding for cash consideration of $77.9.

(ii) During the year, the Company acquired 18,200,000 common shares of Turbo, representing approximately 9.6% of the total common shares outstanding, and 9,100,000 common share purchase warrants which enable the Company to purchase an additional 9,100,000 common shares at a price of $0.75 per share. These warrants expire on September 28, 1990.

(iii) In a prior year, a subsidiary issued $55.0 principal amount of exchangeable subordinated debentures exchangeable at any time into 6,877,049 Noverco common shares. Effective August 31, 1988, the $55.0 exchangeable subordinated debentures were exchanged. The holders exercised their right to exchange the debentures for the remaining 6,877,049 common shares of Noverco.

(iv) The note receivable from Norcen is a subordinated demand note bearing interest at 7.6% and is subject to minimum annual principal repayments of $4.1 to 1999. 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 referred to in Note 11(c), and the note, respectively, in the event that either party defaults in its obligations thereunder.

(v) Because of the number of shares involved, the quoted market values are not necessarily indicative of the value of the investments, which may be more or less than indicated by market quotations.

8. FIXED ASSETS

Property, plant and equipment are classified as follows:

	1988			1987
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Production and other equipment	$ 20.4	$ 7.1	$ 13.3	$ 11.4
Transmission lines and distribution systems	826.7	148.7	678.0	657.2
Customer installations	156.9	75.9	81.0	71.5
Machinery, equipment and furniture	235.8	81.7	154.1	147.0
Transportation equipment	58.0	30.3	27.7	22.3
Buildings	109.8	21.9	87.9	89.0
Land	12.2	—	12.2	11.5
	$1,419.8	$365.6	$1,054.2	$1,009.9

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

	1988			1987
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Customer installations	$ 11.8	$ 7.0	$ 4.8	$ 8.4
Transportation equipment	33.6	14.6	19.0	14.5
Machinery and equipment	3.5	1.4	2.1	2.8
	$ 48.9	$ 23.0	$ 25.9	$ 25.7

9. LONG-TERM DEBT

The details of long-term debt are as follows:

	1988	1987
Term bank loans, repayable during the period 1989 to 1998		
— at fixed interest rates with a weighted average interest rate of 13.0%	$ —	$ 15.4
— at variable interest rates (see below)	295.0	241.0
	295.0	256.4
Debentures at a weighted average fixed interest rate of 11.7% (1987 — 11.9%) repayable during the period 1989 to 2008	168.1	248.9
Promissory notes at a weighted average fixed interest rate of 11.0% (1987 — 13.0%) repayable during the period 1989 to 1996	132.5	53.5
First mortgage bonds at a weighted average fixed interest rate of 9.9% (1987 — 9.7%) repayable during the period 1989 to 1998	70.3	84.7
Capitalized lease obligations at a weighted average fixed interest rate of 12.0% (1987 — 11.4%) repayable during the period 1989 to 1998	28.5	27.4
Sundry notes and mortgages	3.5	3.5
	697.9	674.4
Current portion included in current liabilities	51.3	109.4
	$646.6	565.0

Of the total amount outstanding at December 31, 1988, debt denominated in U.S. dollars amounted to U.S. $128.9 (1987 — $127.7).

The weighted average interest rate on all fixed rate debt instruments is 11.2% at December 31, 1988 (1987 — 11.6%).

With respect to variable interest rate debt, the Company utilizes short-term money market instruments, primarily Bankers' Acceptances and LIBOR loans to fix interest rates for periods of 30 to 365 days. At December 31, 1988 the weighted average interest rate was 11.3% on $260.7 of the $295.0 variable interest rate term bank loans.

Effective January 6, 1989, the Company entered into interest rate swap contracts, on principal amounts totalling $150.0, whereby the Company will pay fixed rates of interest of 11.08% and 11.29% plus applicable Bankers' Acceptance stamping fees for periods of five and three years respectively.

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

Year	
1989	$ 45.3
1990	172.8
1991	175.5
1992	42.5
1993	46.8

Minimum lease payments required under capital leases are as follows:

Year	
1989	$ 8.6
1990	8.3
1991	6.9
1992	4.8
1993	3.7
Subsequent years	4.8
Total minimum lease payments	37.1
Less — amount representing interest	8.6
Balance of capitalized lease obligations	$28.5

10. MINORITY INTERESTS IN SUBSIDIARIES

The minority interests in subsidiaries are comprised of the following:

	1988	1987
Preference shares in — ICG Utilities (Ontario) Ltd	$29.5	$32.3
Equity interest in — Greater Winnipeg Gas Company and Bonnyville Gas Company Limited	.1	.1
	$29.6	$32.4

11. 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 annual dividend entitlement of $56.00 per share and redeemable at $700.00 per share.

262,468 second preference shares issuable in series of which 125,000 have been designated as Series A shares carrying a cumulative annual dividend entitlement of $1.30 per share and redeemable at a price not to exceed $20.63 per share; and 100,000 have been designated as Series B shares carrying a cumulative annual dividend entitlement of $1.50 per share and redeemable at $20.75 per share.

10,000,000 third preference shares issuable in series of which 3,000,000 have been designated as convertible third preference shares, 1985 Series, carrying a cumulative annual dividend entitlement of $2.125 per share. They are convertible into common shares of the Company at the option of the holder prior to the close of business on May 2, 1990 at a conversion price of $15.25 per common share. These shares are redeemable on or after May 2, 1990 at $26.00 per share declining by $0.25 per share at the end of each 12 month period until May 2, 1994, thereafter at $25.00 per share.

The Company has the option to call for earlier redemption of all preference shares. 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

	1988		1987	
	Number	Amount	Number	Amount
Redeemable				
First preference shares —				
Series A	98,570	$69.0	110,000	77.0
Second preference shares —				
Series A	64,297	1.3	66,347	1.3
Series B	61,395	1.2	62,895	1.3
		$71.5		$79.6
Convertible				
Third preference shares, 1985 Series	2,883,340	$72.1	2,995,800	$74.9

During the year, a total of 112,460 third preference shares, 1985 Series were converted into 192,389 common shares of the Company.

(c) Purchase Fund Requirements

First preference shares Series A

To offer to purchase an amount of $8.0 in each of the years 1989 and 1990; $10.0 in each of the years 1991 to 1993; $12.0 in 1994; and the balance of $11.0 in 1995. These shares were issued to Norcen in 1984. [see Note 7(iv)].

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 1988, 2,050 Series A shares and 1,500 Series B shares were purchased and cancelled (1987 — 1,400 and 3,315).

Third preference shares, 1985 Series

Commencing July 1, 1990, the Company will make reasonable efforts to purchase for cancellation in the open market, 4% of the original issue amount outstanding at the end of the preceding year.

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

Year	
1989	$ 8.1
1990	9.5
1991	12.9
1992	12.8
1993	12.7

12. COMMON SHARES

(a) Authorized and Outstanding

The Company is authorized to issue an unlimited number of common shares. Changes in the issued and outstanding common shares for the years 1988, 1987 and 1986 are as follows:

	1988		1987		1986	
	Number	Amount	Number	Amount	Number	Amount
Issued and fully paid — beginning of the year	27,428,125	$234.7	23,752,377	$180.3	23,618,563	$178.8
Issued under the Dividend Reinvestment Plans	61,625	1.0	64,301	1.1	45,214	.6
Issued under Employee Stock Option Plan	104,380	1.5	179,700	1.7	88,600	.9
Issued under the Employee Share Ownership Plan	191,699	3.5	171,026	2.9	—	—
Issued under the terms of the convertible third preference shares, 1985 series	192,389	2.8	7,304	.1	—	—
Cancellation of shares held by subsidiaries	(4,953,735)	(42.8)	—	—	—	—
Issued in exchange for shares of KeepRite Inc.	—	—	337,717	5.0	—	—
Issued on exercise of warrants	—	—	3,000,000	44.3	—	—
Purchased for cancellation	—	—	(84,300)	(.7)	—	—
Issued and fully paid — end of the year	23,024,483	$200.7	27,428,125	$234.7	23,752,377	$180.3
Less — shares held by subsidiaries	—		4,953,735		4,953,735	
	23,024,483		22,474,390		18,798,642	

(b) 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, except in certain circumstances where the exercise of the option may be accelerated. 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 January 1, 1986 to December 31, 1988 are as follows:

	1988	1987	1986
Balance — beginning of the year	848,700	805,500	637,500
Issued	220,500	230,000	260,000
Exercised	(104,380)	(179,700)	(88,600)
Cancelled	(13,600)	(7,100)	(3,400)
Balance — end of the year	951,220	848,700	805,500

The option exercise prices and the number of options outstanding at December 31, 1988 at each price are as follows:

Price	Number
$	
9.25	5,000
10.125	55,000
11.25	25,000
12.50	241,700
14.625	210,300
16.375	210,220
17.875	204,000
	951,220

(c) Dividend Reinvestment and Share Purchase Plan

A total of 1,000,000 common shares have been set aside for issuance under the Dividend Reinvestment and Share Purchase Plan ("the Plan") and the Stock Dividend and Share Purchase plan as approved by the Board of Directors on December 13, 1984. The Plan took effect in the first quarter of 1985 and was subsequently amended effective July 1, 1988. The Stock Dividend and Share Purchase Plan was discontinued effective June 30, 1988 with all shareholders being treated as members of the Plan.

Generally, the Plan allows shareholders to elect to reinvest cash dividends on common shares in additional common shares 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 optional cash payments are issued 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 a dividend payment date. Prior to July 1, 1988, the price of common shares issued under the Plan was 95% of the Average Market Price.

(d) Cancellation of Common Shares of the Company Held by Subsidiaries

On August 31, 1988, the Company amalgamated with certain subsidiaries and cancelled all of the common shares of the Company held by subsidiaries. Of the total cost of the common shares held by subsidiaries, $42.8 has been deducted from common share capital, and $24.2 has been credited to contributed surplus.

13. INCOME TAXES

A reconciliation between the statutory and the effective rates of income taxes is provided below:

	1988	1987	1986
Income before taxes	$84.4	$54.5	$59.0
Statutory tax rate	42.5%	46.6%	47.8%
Computed income taxes	$35.9	$25.4	$28.2
Increase (decrease) in income taxes resulting from —			
Non-deductible expenses and losses in excess of non-taxable gains	2.8	4.3	2.3
Regulated natural gas operations	(3.9)	(5.0)	(6.8)
Non-taxable dividend income	(1.6)	(4.9)	(2.9)
Other	2.4	.9	2.0
Actual income taxes	$35.6	$20.7	$22.8
Effective rate of income taxes	42.2%	38.0%	38.6%

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

	1988	1987	1986
Income before taxes			
Canada	$74.2	$45.0	$53.9
United States	10.2	9.5	5.1
	$84.4	$54.5	$59.0
Current income tax expense			
Canada	$31.0	$11.0	$22.8
United States	3.9	5.8	7.2
	$34.9	$16.8	$30.0
Deferred income tax expense (recovery)			
Canada	$(1.0)	$ 2.5	$(3.6)
United States	1.7	1.4	(3.6)
	$ .7	$ 3.9	$(7.2)
	$35.6	$20.7	$22.8

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

	1988	1987	1986
Excess of tax depreciation over book depreciation	$ 1.2	$ 4.3	$(3.9)
Excess of items capitalized for book purposes and expensed for tax purposes	1.8	(.3)	(1.7)
Other	(2.3)	(.1)	(1.6)
Deferred income tax expense (recovery)	$ .7	$ 3.9	$(7.2)

If deferred income taxes had been recorded 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 $3.9 (1987 — $5.0; 1986 — $6.8). At December 31, 1988 the accumulated unrecorded deferred income taxes on regulated income, that would be reflected as a liability, amounted to approximately $99.7 (1987 — $95.8).

Various consolidated subsidiaries of the Company have accumulated losses for income tax purposes totalling approximately $1.3 which are available to reduce future taxable incomes. The potential future income tax benefits arising from these losses have not been recognized in the financial statements. The expiry dates of these tax losses are as follows:

Year	
1991	$ .3
1992	.4
1993	.2
1994	.3
1995	.1
	$1.3

14. NET INCOME PER COMMON SHARE

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

	1988	1987	1986
Income from continuing operations	$46.5	$31.2	$33.1
Less — dividends on preference shares	11.9	12.9	13.0
	34.6	18.3	20.1
Discontinued operations	(6.7)	1.8	(5.1)
Income before unusual and extraordinary items	27.9	20.1	15.0
Receipt of MICC Investments Ltd. dividends in arrears	—	13.3	—
Income to common shareholders before extraordinary items	27.9	33.4	15.0
Extraordinary items	—	41.4	1.1
Net income to common shareholders	$27.9	$74.8	$16.1
Weighted average number of common shares outstanding during the year (in millions)	22.7	24.4	23.7
Less — weighted average number of common shares held by subsidiaries (in millions)	—	5.0	5.0
	22.7	19.4	18.7
Net income per common share			
From continuing operations	$1.52	$0.94	$1.07
Before unusual and extraordinary items	$1.22	$1.03	$0.80
Before extraordinary items	$1.22	$1.72	$0.80
After extraordinary items	$1.22	$3.85	$0.86

The calculation of net income per common share on a fully diluted basis assumes conversion of the convertible third preference shares and exercise of outstanding stock options if such action would result in dilution of earnings per share.

15. PENSION PLANS

The Company and its subsidiaries have various defined benefit pension plans available to substantially all permanent full-time employees. The total pension expenses for 1988 amounted to $5.5 (1987 — $4.6; 1986 — $3.6). The pension expense for 1988 consisted of the following:

Current service cost	$5.0
Cost of negotiated improvements	1.1
Interest costs on projected benefit obligation	7.1
Return on assets held in the plans	(6.7)
Net amortization and deferral	(1.0)
	$5.5

A summary of pension fund assets and accrued pension benefits at December 31, 1988 is as follows:

	Canada	United States
Market value of pension fund assets	$67.1	$21.1
Actuarial present value of accrued pension benefits	$59.0	$31.9

The actuarial present value of accrued pension benefits represents the discounted value of benefits expected to be paid to plan members, based on projected salaries prorated on service. No escalation of salaries is used to determine the actuarial present value of accrued pension benefits where the pension benefit is fixed and subject to renegotiation.

Certain key assumptions used in determining both the pension expense for 1988, and the actuarial present value of accrued pension benefits as at December 31, 1988, are as follows:

	Canada	United States
Discount rate	9.0%	8.0%
Rate of increase of compensation levels	6.5%	5.0%
Expected long-term rates of return on plan assets	9.0%	8.0%

The status of pension plans at December 31, 1988, is as follows:

	Canada	United States
Actuarial present value of —		
Vested benefit obligations	$40.0	$19.3
Nonvested benefit obligations	3.8	3.3
Accumulated benefit obligations	43.8	22.6
Additional amounts related to projected salary and wage increases	15.2	9.3
Total projected benefit obligations	59.0	31.9
Plan assets at fair value	67.1	21.1
Plan assets in excess of (or less than) projected benefit obligations	8.1	(10.8)
Unrecognized net loss	.5	3.7
Unrecognized prior service cost	6.3	.8
Unrecognized net (asset) obligation	(17.2)	4.5
Accrued pension cost included in current liabilities	$(2.3)	$(1.8)

16. LEASE COMMITMENTS

Lease rental expense during the current year amounted to $11.5 (1987 — $10.0; 1986 — $7.2). The approximate aggregate minimum annual rentals under long-term leases, excluding capital leases, at December 31, 1988, are as follows:

Year	
1989	$8.0
1990	6.6
1991	5.6
1992	4.8
1993	2.6
Subsequent years	2.4

17. BUSINESS SEGMENTS

The following is an analysis of certain financial information by business lines and geographical areas for the three years ended December 31, 1988, 1987 and 1986 as it relates to operating revenue, operating profit, identifiable assets, capital expenditures and depreciation and depletion.

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 long-term investments.

	Operating Revenue			Operating Profit		
	1988	1987	1986	1988	1987	1986
Utilities						
Canada	$ 758.7	$ 723.9	$ 823.6	$ 98.4	$ 76.3	$ 78.2
U.S.	12.0	11.2	38.0	.4	.5	5.0
	770.7	735.1	861.6	98.8	76.8	83.2
Propane						
Canada	277.6	257.6	280.6	24.4	21.6	22.0
Energy Products						
Canada	191.7	141.2	121.7	12.1	8.3	7.0
U.S.	519.9	480.9	97.8	32.1	29.0	3.6
	711.6	622.1	219.5	44.2	37.3	10.6
Corporate and other	1.5	.1	.7	(6.1)	(5.4)	(1.1)
	$1,761.4	$1,614.9	$1,362.4	$161.3	$130.3	$114.7

	Identifiable Assets		Capital Expenditure			Depreciation Expense		
	1988	1987	1988	1987	1986	1988	1987	1986
Utilities								
Canada	$ 994.9	$ 964.4	$ 77.0	$ 67.0	$ 70.7	$25.7	$22.2	$20.3
U.S.	3.9	4.4	—	.2	.9	.2	.2	.8
	998.8	968.8	77.0	67.2	71.6	25.9	22.4	21.1
Propane Canada	166.8	160.2	29.5	24.6	37.5	17.0	14.3	11.6
Energy Products								
Canada	123.2	102.3	3.1	2.8	3.2	3.2	2.3	1.1
U.S.	305.2	302.4	13.2	30.3	6.9	15.0	13.7	3.1
	428.4	404.7	16.3	33.1	10.1	18.2	16.0	4.2
Corporate and other	263.4	171.1	1.3	1.4	2.6	0.5	2.6	4.2
	$1,857.4	$1,704.8	$124.1	$126.3	$121.8	$61.6	$55.3	$41.1

18. COMMITMENTS

ICG Utilities (Ontario) Ltd, a wholly-owned subsidiary of the Company has signed contracts to supply electrical and steam energy from a natural gas co-generation facility to be constructed in Fort Frances, Ontario at a cost of approximately $100.0. Certain project development costs have been incurred to-date, and construction has commenced in 1989 with a projected start-up date of November 1990. ICG Utilities (Ontario) Ltd is seeking permission from the Ontario Energy Board to carry out the project as part of its regulated utility business. In addition, the Company has commitments for the acquisition and construction of properties and the purchase of services in the ordinary course of business which are not material in relation to net assets of the Company.

19. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1984 to 1988 are as follows. Amounts are in millions of dollars except per share amounts.

	1988	1987	1986	1985	1984
Operating revenues	1,761.4	1,614.9	1,362.4	1,456.7	865.3
Net income (loss)					
From continuing operations	46.5	31.2	33.1	32.9	15.5
Before unusual and extraordinary items	39.8	33.0	28.0	43.2	26.0
Before extraordinary items	39.8	46.3	28.0	43.2	26.0
After extraordinary items	39.8	87.7	29.1	44.1	(2.3)
Basic net income (loss) per common share					
From continuing operations	$ 1.52	$ 0.94	$ 1.07	$ 1.18	$ 0.77
Before unusual and extraordinary items	$ 1.22	$ 1.03	$ 0.80	$ 1.73	$ 1.34
Before extraordinary items	$ 1.22	$ 1.72	$ 0.80	$ 1.73	$ 1.34
After extraordinary items	$ 1.22	$ 3.85	$ 0.86	$ 1.77	$ (0.19)
Dividends per common share	$ 0.72	$ 0.63	$ 0.60	$ 0.50	$ 0.40
Total assets	1,857.4	1,704.8	1,649.9	1,471.1	1,423.8
Long-term obligations	718.1	644.6	817.9	701.3	787.1

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

20. COMPARATIVES

Certain of the comparative figures in the statement of changes in financial position have been reclassified to conform to the 1988 presentation.

21. SUBSEQUENT EVENTS

a) Resources Division

Effective May 5, 1989, the Company and its subsidiary CHL Holdings Inc. sold their shares in ICG Resources Ltd. for cash proceeds of $103.7 resulting in a gain of $9.7.

The operating results of the discontinued operations for 1988 to 1986 were as follows:

	1988	1987	1986
Operating revenue	$54.1	$57.0	$66.1
Income (loss) before provision for taxes	(15.3)	1.1	10.0
(Provision for) recovery of taxes	8.6	0.7	(5.8)
Income (loss) from discontinued operations	$(6.7)	$ 1.8	$ 4.2

Accordingly, the previously reported financial statements have been reclassified to account for the investment in ICG Resources Ltd on the equity basis in order to provide comparative financial statements which relate to continuing operations.

b) Investment in Ranger Oil Limited

The Company entered into an agreement on December 8, 1989 to sell its holding of 10,236,064 common shares in Ranger Oil Limited at a price equal to the Company's carrying value of $7.25 per share. This transaction was completed on December 12, 1989. This investment was included in short-term investments on the balance sheet as at September 30, 1989. The interest on the loan to acquire the common shares in Ranger Oil Limited has been reclassified to Discontinued Operations in the Statement of Income.

c) Plan of Arrangement

On December 11, 1989, the Company signed an Arrangement Agreement providing for a corporate reorganization of the Company pursuant to which the Utilities and Propane businesses of the Company will be transferred to a wholly-owned subsidiary of Westcoast Energy Inc. for an aggregate price of approximately $718.7 subject to adjustments. The price includes $487.7 and $231.0 for the Utilities and Propane businesses, respectively. The Company will continue operating its energy products business as a publicly traded company. The reorganization contemplated in the Arrangement Agreement is to be implemented by way of an Arrangement under the laws of Manitoba and, as such, will be subject to appropriate shareholder and court approvals, and the receipt of a favourable advance income tax ruling.

d) Long-Term Debt Issue

On August 22, 1989, ICG Utilities (Ontario) Ltd issued $75.0 senior debentures bearing interest at 10.75% per annum, maturing July 31, 2009. The proceeds from this issue will be applied to reduce bank advances and will be used for general business purposes.

22. INTERIM FINANCIAL STATEMENTS

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted with respect to the financial statements covering interim periods. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto. While the interim financial statements are unaudited, in the opinion of the company, all adjustments (consisting only of normal recurring adjustments) necessary for fair presentation have been included.

23. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN ACCOUNTING PRACTICES (UNAUDITED)

Accounting policies adopted by the Company as reflected in these consolidated financial statements are generally consistent with accounting principles accepted in the United States ("U.S. GAAP") with the following exceptions:

a) As required by Canadian GAAP, the company is deferring and amortizing the exchange translation gains and losses on long-term foreign currency denominated monetary items over the term of the related item. Under U.S. GAAP, these gains and losses would be credited or charged, as appropriate, to income in the year in which they arose.

b) Canadian GAAP, as it relates to the oil and gas producing activities of the Company, differs from U.S. GAAP in the following areas:

i) Prior to January 1, 1987, the Company capitalized interest on costs of proved properties where production had not commenced, and included these costs in the investment base for the purpose of computing depletion and depreciation. U.S. GAAP for capitalization of interest defines assets that are being depleted and depreciated as assets in use in earning activities, and therefore do not qualify for capitalization of interest costs.

ii) Prior to January 1, 1987, the Company had established one cost centre for North America, excluding costs and reserves (unproved) relating to the Arctic Islands. U.S. GAAP requires that cost centres be on a country-by-country basis.

iii) On January 1, 1987, the Company adopted, on a prospective basis, the Accounting Guideline on full-cost accounting in the oil and gas industry issued by the CICA. As a result, the Company's practices for accounting for oil and gas properties are now substantially the same as U.S. GAAP with the exception of the computation of the limitation of the carrying value of oil and gas properties (cost centre ceiling). U.S. GAAP limits the value of proved reserves in the cost centre ceiling to the future net revenue (based on current prices) after tax discounted at 10%. Under Canadian GAAP, the value of such reserves is computed in the same manner with the exception that the future net revenues are not discounted and future administrative and financial expenses are deducted in the calculations.

c) There are differences between Canadian and U.S. GAAP relating to the presentation of items of income or expense. Certain items that are classified as unusual and extraordinary in Canada are specifically excluded from similar treatment in the U.S. Therefore, items such as gains on sale of warrants and business units, redemption of preference shares, receipt of dividends in arrears, and provision for utility expansion company which are treated as unusual and extraordinary items in the Canadian GAAP financial statements, are excluded from such treatment in the U.S. GAAP financial statements.

d) There are differences between Canadian and U.S. GAAP in the presentation of the Statement of Changes in Financial Position. Under U.S. GAAP, a reconciliation of net income to net cash flow from operating activities is required where the direct method of reporting net cash flow from operations is used. As well, U.S. GAAP defines cash and cash equivalents to include cash and short-term, highly liquid investments, whereas Canadian GAAP defines cash to include cash, net of short-term borrowings.

e) Under Canadian GAAP, long-term investments are carried at cost if the impairment in value of an investment is considered to be temporary. Under U.S. GAAP, a temporary impairment based on the difference between aggregate cost and aggregate market value of the portfolio is shown separately within shareholders' equity as a valuation allowance.

f) There are differences between Canadian and U.S. GAAP in the calculation of earnings per common share. Under U.S. GAAP, the treasury stock method is applied for outstanding options and warrants.

g) In December 1987, the Financial Accounting Standards Board issued a Statement of Financial Accounting Standard ("SFAS") 96, Accounting for Income Taxes, which established new accounting rules that will change the manner in which income tax expense is determined for accounting purposes. Prior U.S. GAAP utilized a deferred method while SFAS 96 utilizes a liability method under which deferred tax liabilities are recorded and adjusted for the effect of a change in tax law or rates. The Company has until its fiscal year beginning January 1, 1990 to adopt the statement. The Company has not yet estimated the effect of the new statement.

The effect of these differences is set out below:

h) ***Consolidated Statement of Income***

	Nine months ended September 30		Year ended December 31		
	1989	**1988**	**1988**	**1987**	**1986**
	(unaudited)				
Income from continuing operations under Canadian GAAP	$34.7	$28.8	$46.5	$31.2	$33.1
U.S GAAP adjustments, net of taxes:					
i) Foreign exchange	0.2	4.0	4.1	5.6	(1.5)
ii) Unusual and extraordinary items	—	—	—	53.4	(0.2)
Income from continuing operations under U.S. GAAP	34.9	32.8	50.6	90.2	31.4
Income (loss) from discontinued operations	1.2	(4.0)	(6.7)	1.8	(5.1)
U.S. GAAP adjustment, net of taxes:					
i) Foreign exchange	(1.4)	2.0	2.4	1.8	0.4
ii) Capitalized administration and depreciation and depletion	1.0	2.2	3.1	2.0	2.0
Interest capitalized	—	—	—	—	(1.5)
Cost centre ceiling test write-down	—	—	(21.0)	—	—
Gain on sale of discontinued operations (see note A below)	42.7	—	—	—	—
Income (loss) from discontinued operations under U.S. GAAP	43.5	0.2	(22.2)	5.6	(4.2)
Income from operations before extraordinary items under U.S. GAAP	78.4	33.0	28.4	95.8	27.2
Extraordinary items under U.S. GAAP:					
Reduction of current income taxes on application of prior years losses	—	—	—	1.3	1.3
Net income under U.S. GAAP	$78.4	$33.0	$28.4	$97.1	$28.5
Net income per common share under U.S. GAAP (in dollars)					
Primary	$2.98	$1.05	$0.72	$4.32	$0.81
Fully diluted	$2.65	$1.04	$0.72	$3.67	$0.81

NOTE A:

Under U.S. GAAP, the carrying value of the Company's investment in discontinued operations would have been reduced by $42.7, this being the difference in accumulated earnings under U.S. and Canadian GAAP in respect of these operations.

i) *Selected Financial Data*

	Nine months ended September 30		Year ended December 31				
	1989	1988	1988	1987	1986	1985	1984
	(unaudited)						
Net income (loss) under U.S. GAAP							
From continuing operations	$ 34.9	$ 32.8	$ 50.6	$ 90.2	$ 31.4	$ 27.9	$ (13.2)
Before extraordinary items	78.4	33.0	28.4	95.8	27.2	32.9	(9.5)
After extraordinary items	78.4	33.0	28.4	97.1	28.5	38.9	(9.2)
Primary income (loss) per common share under U.S. GAAP (in dollars)							
From continuing operations	$ 1.13	$ 1.04	$ 1.68	$ 3.97	$ 0.96	$ 0.87	$ (0.77)
Before extraordinary items	$ 2.98	$ 1.05	$ 0.72	$ 4.25	$ 0.74	$ 1.13	$ (0.57)
After extraordinary items	$ 2.98	$ 1.05	$ 0.72	$ 4.32	$ 0.81	$ 1.44	$ (0.56)
Fully diluted income (loss) per common share under U.S. GAAP (in dollars):							
From continuing operations	$ 1.11	$ 1.03	$ 1.61	$ 3.39	$ 0.96	$ 0.87	$ (0.77)
Before extraordinary items	$ 2.65	$ 1.04	$ 0.72	$ 3.61	$ 0.74	$ 1.13	$ (0.57)
After extraordinary items	$ 2.65	$ 1.04	$ 0.72	$ 3.67	$ 0.81	$ 1.41	$ (0.56)
Total assets	$1,779.0	$1,724.5	$1,797.7	$1,673.0	$1,608.6	$1,430.4	$1,388.2

j) *Consolidated Balance Sheet*

Consolidated balance sheet items under accounting principles generally accepted in the United States, would be as follows:

	September 30, 1989	December 31, 1988	1987
	(unaudited)		
Investments	$ 80.5	$154.8	$ 83.9
Discontinued oil and gas properties	3.7	56.7	70.5
Deferred costs	11.6	18.2	11.3
Retained earnings	149.0	91.5	91.4
Shareholders' equity	439.9	360.4	379.8

k) *Consolidated Statement Of Changes In Financial Position*

	Nine months ended September 30		Year ended December 31		
	1989	1988	1988	1987	1986
	(unaudited)				
NET INCOME EXCLUDING INCOME FROM DISCONTINUED OPERATIONS	$ 34.7	$ 28.8	$ 46.5	$ 85.9	$ 34.4
ADD (DEDUCT) ITEMS NOT INVOLVING CASH:					
Depreciation, depletion and amortization	51.2	48.4	63.5	56.5	42.5
Deferred income taxes	(6.1)	2.1	0.7	3.9	(7.2)
Loss (gain) on sale of investments and fixed assets	(0.6)	(0.2)	(0.1)	(1.6)	(0.8)
Unusual and extraordinary items	—	—	—	(41.4)	(1.2)
Loss (gain) on foreign exchange	(0.1)	0.4	(0.4)	2.4	(2.4)
Minority interest expense	1.6	1.8	2.4	2.8	3.2
CASH GENERATED FROM (USED IN) OPERATING WORKING CAPITAL:					
Accounts receivable	40.1	(15.8)	(64.1)	(4.7)	18.4
Inventories	(1.2)	1.1	(11.2)	(28.9)	(58.4)
Prepaid expenses	(2.0)	(1.8)	(2.6)	(0.4)	(5.4)
Accounts payable and accrued liabilities	(27.6)	(37.7)	18.7	0.3	5.6
Income taxes payable	(11.4)	4.7	14.1	(10.7)	(6.3)
Acquisition of subsidiary	—	—	—	—	90.6
Foreign exchange on operating working capital and other items	(8.2)	(5.1)	4.9	13.2	(12.8)
CASH PROVIDED FROM CONTINUING OPERATIONS	70.4	26.7	72.4	77.3	100.2
CASH PROVIDED FROM DISCONTINUED OPERATIONS	11.9	16.9	10.8	23.4	39.8
CASH PROVIDED FROM OPERATIONS	$ 82.3	$ 43.6	$ 83.2	$100.7	$140.0

Certain items in the consolidated statement of changes in financial position under accounting principles generally accepted in the United States, would be as follows:

	Nine months ended September 30		Year ended December 31		
	1989	1988	1988	1987	1986
	(unaudited)				
Bank advances	$ 28.4	$135.6	$ 98.5	$53.6	$ 42.9
Cash generated from (used in) financing activities	(68.4)	90.8	133.3	7.6	160.8
Increase (decrease) in cash and short-term deposits	0.8	(2.1)	.5	(7.1)	(9.4)
Cash and short-term deposits — Beginning of the period	4.3	3.8	3.8	10.9	1.5
Cash and short-term deposits — End of the period	5.1	1.7	4.3	3.8	10.9

UTILITIES COMPANY

COMBINED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Directors of Inter-City Gas Corporation

We have examined the combined balance sheets of the Utilities Company as at December 31, 1988 and 1987 and the related combined statements of income and changes in financial position for the years ended December 31, 1988, 1987 and 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these combined financial statements present fairly the financial position of the Utilities Company as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for the years ended December 31, 1988, 1987 and 1986, in accordance with generally accepted accounting principles applied, except for the change with which we concur, made as of January 1, 1987, in the method of accounting for pension costs as described in Note 3 to the combined financial statements, on a consistent basis.

Toronto, Canada
February 20, 1989
(except for note 18(a)
which is dated March 1, 1989,
note 18(b) which is dated December 11, 1989,
and note 18(c) which is dated August 22, 1989)

(Signed) COOPERS & LYBRAND
Chartered Accountants

REPORT OF THE CHIEF FINANCIAL OFFICER

The undersigned, being the Chief Financial Officer of Inter-City Gas Corporation, states that the combined balance sheet as at September 30, 1989, and the related combined statements of income and changes in financial position for the nine months ended September 30, 1989 and 1988 which accompany this report have been prepared by management and have not been audited, but have been prepared in accordance with generally accepted accounting principles in Canada. The differences between generally accepted accounting principles in Canada and the United States are disclosed in Note 20 to the combined financial statements.

Toronto, Canada
December 15, 1989

(Signed) P. MARRIOTT
Senior Vice President, Finance
and Chief Financial Officer
INTER-CITY GAS CORPORATION

UTILITIES COMPANY

COMBINED BALANCE SHEET
(In Millions of Canadian Dollars)

	September 30, 1989 (unaudited)	December 31, 1988	December 31, 1987
ASSETS			
CURRENT ASSETS			
Accounts receivable —			
Trade (less allowance for doubtful accounts; 1988 — $3.3; 1987 — $2.3)	$ 64.1	$ 134.1	$ 105.0
Parent and affiliated companies	6.1	7.6	4.8
Inventories (note 4)	32.9	24.4	24.2
Prepaid expenses	7.1	1.6	2.2
Short-term investments (note 6)	—	—	55.0
	110.2	167.7	191.2
ADVANCES TO PARENT AND AFFILIATED COMPANIES (note 5)	43.6	43.7	49.6
LONG-TERM INVESTMENTS (note 6)	33.6	36.3	38.6
FIXED ASSETS (note 7)			
Property, plant and equipment — at cost	972.2	871.0	804.6
Accumulated depreciation	(232.8)	(208.6)	(187.0)
	739.4	662.4	617.6
OTHER ASSETS (note 8)	6.6	12.3	4.3
	$ 933.4	$ 922.4	$ 901.3
LIABILITIES			
CURRENT LIABILITIES			
Bank indebtedness	$ 47.4	$ 69.9	$ 70.0
Accounts payable and accrued liabilities —			
Trade	78.5	107.3	89.2
Parent and affiliated companies	41.4	12.4	3.3
Current portion of long-term debt (note 9)	50.4	32.4	85.8
Income taxes payable	4.0	21.6	10.2
	221.7	243.6	258.5
MINORITY INTERESTS IN SUBSIDIARY COMPANIES	0.1	0.1	0.1
LONG-TERM DEBT (note 9)	326.3	276.0	264.6
ADVANCES FROM PARENT AND AFFILIATED COMPANIES (note 5)	1.0	39.2	36.4
DEFERRED INCOME TAXES	6.1	2.3	0.3
	555.2	561.2	559.9
REDEEMABLE PREFERENCE SHARES (note 11)	28.2	29.6	32.3
SHAREHOLDER'S EQUITY (note 12)	350.0	331.6	309.1
	$ 933.4	$ 922.4	$ 901.3

UTILITIES COMPANY

COMBINED STATEMENT OF INCOME
(In Millions of Canadian Dollars)

	Nine months ended September 30,		Year ended December 31,		
	1989	1988	1988	1987	1986
	(unaudited)				
OPERATING REVENUE					
Gas sales	$559.9	$509.3	$751.2	$717.5	$845.6
Other income	14.1	14.3	19.5	17.6	16.0
	574.0	523.6	770.7	735.1	861.6
OPERATING COSTS					
Cost of sales	409.1	367.1	536.3	536.0	657.6
Operating, selling and administrative	82.8	77.6	108.4	98.3	99.7
Depreciation	21.7	19.5	25.9	22.4	21.1
Amortization of deferred charges	0.8	0.8	1.3	1.6	—
	514.4	465.0	671.9	658.3	778.4
OPERATING PROFIT	59.6	58.6	98.8	76.8	83.2
INVESTMENT INCOME	3.2	5.6	6.6	9.3	16.1
	62.8	64.2	105.4	86.1	99.3
FINANCIAL EXPENSES					
Interest on long-term debt	24.4	26.5	33.4	40.8	43.5
Other interest	7.0	2.2	4.7	2.1	1.9
Interest capitalized	(2.0)	(0.6)	(0.8)	(0.5)	(0.4)
Interest on advances with parent and affiliated companies (net)	0.5	0.2	0.9	0.8	2.2
(Gain) loss on foreign exchange	—	(0.1)	(0.7)	1.4	(2.4)
Amortization of financing expenses	0.1	0.3	0.4	0.4	0.4
	30.0	28.5	37.9	45.0	45.2
INCOME BEFORE INCOME TAXES	32.8	35.7	67.5	41.1	54.1
PROVISION FOR INCOME TAXES (note 13)	11.7	15.1	26.3	12.1	19.2
INCOME BEFORE EXTRAORDINARY ITEMS	21.1	20.6	41.2	29.0	34.9
EXTRAORDINARY ITEMS					
Gain on sale of business unit, net of income taxes of $2.1	—	—	—	—	1.2
Provision for investment in utility expansion company, net of income taxes of $2.0	—	—	—	—	(2.0)
Gain on sale of investment in ICG Resources Ltd.	—	2.0	2.0	—	—
	—	2.0	2.0	—	(0.8)
NET INCOME	$ 21.1	$ 22.6	$ 43.2	$ 29.0	$ 34.1

UTILITIES COMPANY

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
(In Millions of Canadian Dollars)

	Nine months ended September 30,		Year ended December 31,		
	1989	1988	1988	1987	1986
	(unaudited)				
OPERATIONS					
Cash receipts —					
Receipts from sales and other income	$652.9	$572.7	$751.9	$759.8	$934.4
Cash disbursements —					
Purchases and expenses	534.6	477.6	621.9	651.7	809.9
Interest and bank charges	30.5	32.4	46.6	42.8	42.5
Income taxes	29.9	10.9	14.0	15.8	23.7
	595.0	520.9	682.5	710.3	876.1
CASH PROVIDED FROM OPERATIONS	57.9	51.8	69.4	49.5	58.3
CASH WAS USED FOR DIVIDENDS PAID TO SHAREHOLDERS					
Common	—	12.6	16.7	18.3	22.9
Preference	1.6	1.8	2.4	2.6	2.9
	1.6	14.4	19.1	20.9	25.8
CASH AVAILABLE FOR INVESTMENT	56.3	37.4	50.3	28.6	32.5
INVESTMENT					
Sale of Noverco shares	—	(55.0)	(55.0)	—	—
GMi advances and preferred share redemption	(0.6)	—	—	—	(74.7)
Additions to fixed assets — net	66.7	31.1	63.2	58.0	65.1
Deferred charges	10.2	6.5	12.4	(8.1)	(5.1)
Investment in shares of affiliated company	3.0	2.1	1.2	—	—
Investment in Itron, Inc.	—	7.6	7.6	—	—
Proceeds on sale of business units	—	—	—	(2.0)	(27.4)
Notes and mortgages	(2.7)	(3.3)	(0.2)	(3.3)	(1.3)
CASH USED IN (GENERATED FROM) INVESTMENT ACTIVITIES	76.6	(11.0)	29.2	44.6	(43.4)
CASH (DEFICIENCY) BEFORE FINANCING	(20.3)	48.4	21.1	(16.0)	75.9
FINANCING					
Long-term debt issued	75.0	—	55.0	—	75.0
Redemption of preference shares	(1.4)	(0.6)	(2.8)	(4.2)	(3.7)
Repayment of long-term debt	(47.3)	(82.6)	(92.6)	(17.7)	(19.7)
Advances with parent and affiliated companies	16.5	9.1	19.4	1.9	(22.3)
CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	42.8	(74.1)	(21.0)	(20.0)	29.3
(DECREASE) INCREASE IN CASH DEFICIENCY	(22.5)	25.7	(0.1)	36.0	(105.2)
CASH DEFICIENCY — BEGINNING OF THE PERIOD	69.9	70.0	70.0	34.0	139.2
CASH DEFICIENCY — END OF THE PERIOD	$ 47.4	$ 95.7	$ 69.9	$ 70.0	$ 34.0

UTILITIES COMPANY

NOTES TO COMBINED FINANCIAL STATEMENTS
For the Years Ended December 31, 1988, 1987 and 1986
(In Millions of Canadian Dollars)

1. BASIS OF COMBINATION

These combined financial statements include the assets, liabilities and results of gas distribution and related operations of the utilities business ("the Utilities Company") of Inter-City Gas Corporation ("ICG") which are proposed to be transfered to Westcoast Energy Inc., (see note 18(b)). These operations are carried out in the following legal entities:

ICG Utilities (Ontario) Ltd.
Greater Winnipeg Gas Company
ICG Utilities (Manitoba) Ltd.
Minell Pipeline Ltd.
ICG Utilities (Canada) Ltd.
ICG Utilities Investments Ltd.
ICG Utilities (Alberta) Ltd.
Bonnyville Gas Company Ltd.
ICG Utilities (British Columbia) Ltd.
ICG Northern Utilities Ltd.
Inter-City Pipelines Ltd.
Inter-City Minnesota Pipelines Ltd.
ICG Transmission Limited
ICG Transmission Holdings Ltd.
ICG Manitoba Pipeline Ltd.
ICG Manitoba Pipeline (Joint-Venture)
ICG Brunswick Gas (1985) Inc.
Canadian Hydrocarbons Marketing Inc.
ICG Energy Marketing Inc.
Daly Gas Storage Ltd.
Lantern Hill Farms Ltd.
ICG Engineering (New Brunswick) Ltd.
ICG Utilities (Northwest Territories) Ltd.
ICG Scotia Gas Limited
Vancouver Island Gas Company Ltd.
Victoria Gas Company (1988) Limited — Acquired March 1, 1989
846931 Ontario Ltd.
ICG Co-Gen Ltd.

The accompanying combined financial statements have been prepared from the books and records maintained by the subsidiaries named above.

Effective September 1, 1988 substantially all gas distribution and related operations were conducted by legal entities that were owned by ICG Utilities (Canada) Ltd. ("the Company"). Prior to that date, some of these operations were conducted by legal entities that were owned directly or indirectly by ICG, the parent corporation of the Company. As a result, the shareholder's equity section of the balance sheet as at December 31, 1987 represents the aggregate of the shareholder's equity of each entity within the Utilities Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements 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 in Note 20.

Inventories

Inventories of propane and natural gas are valued at the lower of cost and replacement cost. Inventories of merchandise, materials and supplies are valued at the lower of cost, replacement cost and net realizable value.

Fixed Assets

Fixed assets are recorded at cost, which includes direct costs, interest and overhead amounts capitalized during the construction period, less contributions in aid of construction.

Contributions 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. These amounts are amortized to income at rates that correspond with depreciation of the related assets.

Depreciation is provided on a straight-line basis at rates varying from 1% to 30% based on the estimated useful lives of the assets.

Gains or losses on disposals of fixed assets used for utility operations are recorded as additions or deletions to accumulated depreciation as provided by the Canadian Gas Association Uniform Code of Accounts for utilities.

Deferred Charges

Costs of issuing long-term debt are deferred in the year incurred and amortized against income over the term of the applicable issue.

The Utilities Company defers, in the year incurred, certain expenses which the regulatory authorities require or permit to be recovered from future revenues; such charges are being amortized over various time periods.

Revenue Accounting

Gas sales revenue 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

As a regulated utility, the Utilities Company provides only those income taxes currently payable in its financial statements and in calculating its rate of return for rate making purposes for its utility operations. However, for all other operations, including the utility operations in the United States, the Utilities Company provides for deferred income taxes on all timing differences between accounting income and taxable income, in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

Pension Costs

Pension costs and obligations are determined annually by independent actuaries using management's best estimate assumptions and the projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions, experience gains or losses, and the initial actuarial surplus as at January 1, 1987 are amortized on a straight-line basis over the expected average remaining service life of the employee group.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1987, to comply with the recommendations issued by the Canadian Institute of Chartered Accountants ("CICA"), the Utilities Company prospectively changed its method of accounting for pension costs and obligations to that described in Note 2 of these financial statements. Previously, it was the Utilities Company's policy to expense an amount equal to the actuarially determined funding requirement. The effect of this change on net income for the years ended December 31, 1987 and 1988 is not material.

4. INVENTORIES

Inventories are classified as follows:

	1988	1987
Natural gas in storage	$13.2	$12.6
Propane and petroleum products	3.7	4.3
Merchandise, materials and supplies	7.5	7.3
	$24.4	$24.2

5. ADVANCES WITH PARENT AND AFFILIATED COMPANIES

Advances to parent and affiliated companies are comprised of the following:

	1988	1987
Subordinated demand note due from parent company (i)	$45.6	$47.3
Less: Current portion included in accounts receivable — Parent and affiliated companies	(4.1)	(1.7)
	41.5	45.6
Other advances to parent and affiliated companies	2.2	4.0
	$43.7	$49.6

(i) The subordinated demand note due from ICG bears interest at 7.6% per annum and is subject to minimum annual repayments of $4.1 from 1989 to 1999 inclusive. Interest income of $3.6 (1987 — $3.6; 1986 — $3.6) is included in interest on advances with parent and affiliated companies. At December 31, 1988, an amount of $1.0 (1987 — $1.0) for interest receivable is included in accounts receivable-parent and affiliated companies on the balance sheet.

Advances from parent and affiliated companies are comprised of the following:

	1988	1987
Advance from affiliated company (ii)	$27.0	$30.0
Less: Current portion included in accounts payable and accrued liabilities — parent and affiliated companies	(3.0)	(3.0)
	24.0	27.0
Other advances from parent and affiliated companies	15.2	9.4
	$39.2	$36.4

(ii) Advance from affiliated company represents a promissory note from the Utilities Company's former affiliate, ICG Resources Ltd. The note bears interest at 14.75% and is subject to annual repayments of $3.0 from 1989 to 1995 inclusive, and $6.0 in 1996. Interest expense of $4.3 (1987 — $4.4; 1986 — $4.4) is included in interest on advances with parent and affiliated companies. At December 31, 1988 an amount of $0.3 (1987 — $0.4) for interest payable is included in accounts payable and accrued liabilities — parent and affiliated companies.

6. LONG-TERM INVESTMENTS

	1988	1987
Investment in Noverco Inc ("Noverco") Common shares of Noverco (i)	$—	$55.0
Preference shares of Gaz Metropolitain, inc., 7.85% 1978 series, issue price $25	12.7	13.5
	12.7	68.5
Investment in Hydrocarbons Pipeline Limited	—	5.1
Investment in Itron, Inc.		
Increasing rate subordinated note	3.7	—
Series B preferred stock	3.3	—
Common stock purchase warrants	0.6	—
Notes and mortgage receivable	—	3.3
Finance contracts	16.0	15.7
Other	—	1.0
	36.3	93.6
Less: Current portion included in current assets — Common shares of Noverco tendered in 1988	—	55.0
	$36.3	$38.6

(i) In prior years, one of the Company's subsidiaries issued two series of exchangeable subordinated debentures. The issues conferred 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, the subsidiary no longer has a voting interest in Noverco. Accordingly, the subsidiary accounts for its investment in Noverco by the cost method. The first issue has been exchanged. The second issue of $55.0 of 13% exchangeable subordinated debentures was exchanged effective August 31, 1988. The holders exercised their right to exchange the debentures for the remaining 6,877,049 common shares of Noverco.

7. FIXED ASSETS

Property, plant and equipment are classified as follows:

	1988			1987
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Production and other equipment	$ 20.2	$ 6.8	$ 13.4	$ 11.5
Transmission lines and distribution systems	710.9	154.8	556.1	536.0
Customer installations	61.4	21.9	39.5	31.6
Machinery, equipment and furniture	47.6	14.7	32.9	19.8
Transportation equipment	14.2	7.7	6.5	5.6
Buildings	14.4	2.7	11.7	10.9
Land	2.3	—	2.3	2.2
	$871.0	$208.6	$662.4	$617.6

8. OTHER ASSETS — at cost, less accumulated amortization

Other assets comprise the following:

	1988	1987
Intangible assets arising from acquisitions	$ 0.4	$—
Unrealized foreign currency translation losses	0.8	4.3
Long-term debt issue expense	2.2	2.2
Sales promotion expense	1.7	—
Preliminary survey and engineering costs	0.8	—
Rate hearing expense	3.2	—
Other	3.2	(2.2)
	$12.3	$ 4.3

Unrealized foreign currency translation losses represent the unrealized foreign currency loss on translation of long-term debt denominated in U.S. dollars $37.3 (U.S. $38.5 in 1987). The exchange rate as at December 31, 1988 was Cdn. $1.1927 = U.S. $1.00; (1987 — Cdn. $1.2998 = U.S. $1.00;). The average exchange rate for 1988 was Cdn. $1.2307 = U.S. $1.00; (1987 — Cdn $1.3259 = U.S. $1.00; 1986 — Cdn $1.3892 = U.S. $1.00).

9. LONG-TERM DEBT

The details of long-term debt are as follows:

	1988	1987
Capital lease obligations	$ 2.7	$ 2.5
Term bank loans, at prime bank rate repayable in 1990	55.0	5.0
Senior debentures at a weighted average interest rate of 11.72% repayable during the period 1989 to 2008	165.6	186.5
Subordinated debenture at a weighted average interest rate of 13.50% repayable during the period 1989 to 1993	1.5	1.7
First mortgage bonds at a weighted average interest rate of 9.85% repayable during the period 1989 to 1998	70.3	84.7
Promissory notes at a weighted average interest rate of 9.37% repayable during the period 1989 to 1996	12.0	15.0
13% Exchangeable subordinated debenture (note 6 [i])	—	55.0
Sundry notes and mortgages	1.3	—
	308.4	350.4
Less: current portion	32.4	85.8
	$276.0	$264.6

The first mortgage bonds are secured by specific mortgages on real and immovable property, franchises, gas purchases and sales contracts, monies deposited under trust deed, securities, appliances and equipment and additional property pledged with trustee and a floating charge on all other assets.

Under the provisions of the various indentures, the Utilities Company is required to make the following long-term debt repayments (excluding capital leases) during the next five years:

1989	$29.7
1990	69.7
1991	35.3
1992	20.4
1993	19.6

10. DIVIDEND RESTRICTIONS

The indentures and agreements relating to the Utilities Company's long-term debt obligations contain covenants limiting the amount of dividend payments in any one fiscal year.

11. REDEEMABLE PREFERENCE SHARES

ICG Utilities (Canada) Ltd.

Authorized —

An unlimited number of preference shares issuable in series

Issued and fully paid —

	1988		1987	
	Number	Amount	Number	Amount
Preference shares —				
Series A	808	$ 1.1	800	$ 1.1
Series B	6,395	2.5	6,395	2.5
Series C	1	0.3	1	0.3
		3.9		3.9
Less — shares held by subsidiary		(3.9)		(3.9)
		$—		$—

ICG Utilities (Ontario) Ltd

Authorized —

An unlimited number of preference shares issuable in series

Issued and fully paid —

	1988		1987	
	Number	Amount	Number	Amount
First preference shares				
$2.60 cumulative, first series	79,545	$ 3.9	82,786	$ 4.1
$2.70 cumulative, second series	21,954	1.1	22,854	1.1
Second preference shares				
7.85% cumulative, series A issue price $25.00	886,075	22.3	942,075	23.6
Third preference shares				
$1.94 cumulative, series C	92,000	2.3	138,000	3.5
		$29.6		$32.3

Details of ICG Utilities (Ontario) Ltd's ("Ontario") preference shares are as follows:

First preference shares, first and second series, (redeemable at Ontario's option at $50.50 per share) do not have voting rights, unless Ontario defaults in dividend payments for eight consecutive quarters.

Second preference shares, Series A, (redeemable at Ontario's option at $25.00 per share) do not have voting rights, unless Ontario defaults in dividend payments for eight consecutive quarters.

Third preference shares, Series C (redeemable at Ontario's option at $25.00 per share) have voting rights.

The following shares were redeemed for cash during the year:

	1988	1987
First preference shares, first series	3,241	3,200
First preference shares, second series	900	1,669
Second preference shares, series A	56,000	56,000
Third preference shares, series C	46,000	46,000

12. SHAREHOLDER'S EQUITY

As indicated in note 1 to these combined financial statements, a reorganization occurred as at September 1, 1988, as a result of which the ownership of substantially all Utilities operations were transferred to the Company. The shareholder's equity of the Utilities Company as at December 31, 1987 represents the aggregate of the shareholder's equity of each entity within the Utilities Company.

The components of shareholder's equity as at December 31, 1988 set out below are primarily those of the Utilities Company, and include equity of unincorporated utilities operations held by ICG.

Capital Stock	
Authorized —	
unlimited number of common shares.	
Issued and fully paid —	
388,128 common shares	151.8
Contributed surplus	165.6
Retained earnings	10.1
Foreign currency translation adjustment	(0.2)
Equity of unincorporated Utilities operations	4.3
	$331.6

13. INCOME TAXES

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

	1988	1987	1986
Income before income taxes	$67.5	$41.1	$54.1
Combined statutory tax rates	48.0%	52.0%	54.0%
Computed income taxes	32.4	21.4	29.2
Increase (decrease) in income taxes resulting from —			
Non-deductible expenses and losses in excess of non-taxable gains	(0.2)	0.7	1.2
Excess of tax deductions over accounting deductions	(4.5)	(5.5)	(7.2)
Non-taxable dividend income	(1.8)	(3.3)	(3.2)
Other	0.4	(1.2)	(0.8)
Provision for income taxes			
— current	24.3	12.1	19.2
— deferred	2.0	—	—
	$26.3	$12.1	$19.2
Effective rate of income taxes	39.0%	29.4%	35.5%

If tax allocation had been followed in respect of all timing differences between accounting income and taxable income, the provision for deferred income taxes would have increased and consolidated income would have decreased by $4.5 (1987 — $5.5, 1986 — $7.2). At December 31, 1988, the accumulated unrecorded deferred income taxes would have amounted to approximately $100.2 (1987 — $95.7, 1986 — $90.2).

In addition, the Utilities Company has approximately $1.1 of losses for income tax purposes which may be carried forward to reduce taxable income in future years, and for which no tax benefit has been recognized in the accounts. These losses must be claimed no later than:

Year ending December 31, 1991	$0.3
1992	0.4
1993	0.2
1994	0.1
1995	0.1
	$1.1

14. RELATED PARTY TRANSACTIONS

Included in operating, selling and administrative expenses for the year ended December 31, 1988 are fees of $1.3 (1987 — $1.2, 1986 — $1.4) paid to the parent and affiliated companies for services provided.

15. PENSION PLANS

The Utilities Company has various defined benefit pension plans available to substantially all permanent full-time employees. The total pension expense for 1988 amounted to $0.9 (1987 — credit of $0.7; 1986 — $1.4). The pension expense for 1988 consisted of the following:

Current service cost	$1.6
Cost of negotiated improvements	0.7
Interest costs on projected benefit obligation	2.5
Return on assets held in the plans	(3.2)
Net amortization and deferral	(0.7)
	$0.9

Substantially all full-time salaried employees of the Utilities Company are members of a defined benefit non-contributory ICG pension plan. The plan is fully funded as at December 31, 1988.

For employees who are members of a union, the Utilities Company provides non-contributory defined benefit pension plans. A summary of pension fund assets and accrued pension benefits for the union plans at December 31 is as follows:

	1988	1987
Market value of pension fund assets	$18.0	$16.4
Actuarial present value of accrued pension benefit	13.6	8.5

The actuarial present value of accrued pension benefits represents the discounted value of benefits expected to be paid to plan members, based on projected salaries prorated on service. No escalation of salaries is used to determine the actuarial present value of accrued pension benefits where the pension benefit is fixed and subject to renegotiation.

Certain key assumptions used in determining both the pension expense for 1988, and the actuarial present value of accrued pension benefits as at December 1988, are as follows:

Discount rate	9.0%
Rate of increase of compensation levels	6.5%
Expected long-term rates of return on plan assets	9.0%

The status of pension plans relating to the union employees as at December 31, 1988 is as follows:

Actuarial present value of —	
Vested benefit obligations	$13.2
Non-vested benefit obligations	0.2
Accumulated benefit obligations	13.4
Additional amounts related to projected salary and wage increases	0.2
Total projected benefit obligations	13.6
Plan assets at fair value	18.0
Plan assets in excess of projected benefit obligations	4.4
Unrecognized net gain	(0.9)
Unrecognized prior service cost	3.2
Unrecognized net asset	(6.6)
Prepaid pension cost netted against current liabilities	$ 0.1

16. CONTINGENT LIABILITY

The Utilities Company has guaranteed certain bank debt of ICG, supported by the hypothecation of the common shares of Ontario. The amount of debt so guaranteed at December 31, 1988 is $191.7.

17. COMMITMENTS

Ontario has signed contracts to supply electrical and steam energy from a natural gas co-generation facility to be constructed in Fort Frances, Ontario at a cost of approximately $100.0. Certain project development costs have been incurred to date and construction has commenced in 1989 with a projected start-up date of November, 1990. Ontario is seeking permission from the Ontario Energy Board to carry out the project as part of its regulated utility business.

18. SUBSEQUENT EVENTS

a) ***Acquisition of Victoria Gas Company (1988) Ltd.***

On March 1, 1989, a subsidiary of the Utilities Company, entered into an agreement to acquire all of the issued and outstanding common shares of Victoria Gas Company (1988) Ltd. ("Victoria Gas"). Victoria Gas operates the gas distribution system and holds the exclusive rights for gas distribution on Vancouver Island, south of the Malahat. Details of the transaction are as follows:

Fixed assets — net	$13.1
Goodwill	3.6
Share purchase value	$16.7
Consideration to be given:	
Cash	$ 3.0
Note payable due March 1, 1992	3.0
Note payable due upon completion of the natural gas pipeline to Vancouver Island	10.7
	$16.7

The notes bear interest at a rate of 10%.

b) ***Plan of Arrangement***

On December 11, 1989, the Utilities Company's parent ICG signed an Arrangement Agreement providing for a corporate reorganization pursuant to which the Utilities and Propane businesses of ICG will be transferred to a wholly-owned subsidiary of Westcoast Energy Inc. for an aggregate price of approximately $718.7 subject to adjustments. The price includes $487.7 and $231.0 for the Utilities Company and Propane Company, respectively. The reorganization contemplated in the Arrangement Agreement is to be implemented by way of an arrangement under the laws of Manitoba and, as such, will be subject to appropriate shareholder and court approvals, and the receipt of a favourable advance income tax ruling.

c) ***Long-Term Debt Issue***

On August 22, 1989 Ontario issued $75.0 senior debentures bearing interest at 10.75% per annum, maturing July 31, 2009. The proceeds from this issue will be applied to reduce bank advances and will be used for general business purposes.

19. INTERIM FINANCIAL STATEMENTS

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted with respect to the financial statements covering interim periods. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto. While the interim financial statements are unaudited, in the opinion of the management, all adjustments (consisting only of normal recurring adjustments) necessary for fair presentation have been included.

20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN ACCOUNTING PRACTICES (UNAUDITED)

Accounting policies adopted by the Utilities Company as reflected in these combined financial statements are generally consistent with accounting principles accepted in the United States ("U.S. GAAP") with the following exceptions:

a) As required by Canadian GAAP, the Utilities Company is deferring and amortizing the exchange translation gains and losses on long-term foreign currency denominated monetary items over the term of the related item. Under U.S. GAAP, these translation gains and losses would be credited or charged, as appropriate, to income in the year in which they arose.

b) There are differences between Canadian GAAP and U.S. GAAP relating to the presentation of items of income or expense. Certain items that are classified as extraordinary in Canada are specifically excluded from similar treatment in the U.S. Therefore, items such as gains on sale of investments and business units, and provisions for investment in utility expansion companies which are treated as extraordinary items in the Canadian GAAP financial statements, are excluded from such treatment in the U.S. GAAP financial statements.

c) In December 1987, the Financial Accounting Standards Board issued a Statement of Financial Accounting Standard ("SFAS") 96, Accounting for Income Taxes, which established new accounting rules that will change the manner in which income tax expense is determined for accounting purposes. Prior U.S. GAAP utilized a deferred method while SFAS 96 utilizes a liability method under which deferred tax liabilities are recorded and adjusted for the effect of a change in tax law or rates. The Utilities Company has until its fiscal year beginning January 1, 1990 to adopt the statement. The Utilities Company has not yet estimated the effect of the new statement.

The effect of these differences is set out below:

d) ***Consolidated Statement of Income***

	Nine months ended September 30,		Year ended December 31,		
	1989	**1988**	**1988**	**1987**	**1986**
	(unaudited)				
Income before extraordinary items under Canadian GAAP	$ 21.1	$ 20.6	$ 41.2	$ 29.0	$ 34.9
U.S GAAP adjustments, net of taxes:					
i) Foreign exchange	—	3.4	3.5	5.2	(1.9)
ii) Extraordinary items	—	2.0	2.0	—	(0.8)
Net income under U.S. GAAP	$ 21.1	$ 26.0	$ 46.7	$ 34.2	$ 32.2

e) ***Selected Financial Data***

	1988	**1987**	**1986**	**1985**	**1984**
Net income under U.S. GAAP	$ 46.7	$ 34.2	$ 32.2	$ 29.7	$ 17.0
Total assets	$921.6	$897.0	$893.2	$978.8	$989.5

f) ***Combined Statement of Changes in Financial Position***

	Nine months ended September 30,		Year ended December 31,		
	1989	**1988**	**1988**	**1987**	**1986**
	(unaudited)				
NET INCOME	$ 21.1	$ 22.6	$ 43.2	$29.0	$ 34.1
ADD (DEDUCT) ITEMS NOT INVOLVING CASH:					
Depreciation and amortization	21.7	19.5	26.3	22.8	21.5
Deferred income taxes	3.8	(0.1)	2.0	—	—
Extraordinary items	—	(2.0)	(2.0)	—	0.8
Loss (gain) on foreign exchange	—	(0.1)	(0.7)	1.4	(2.4)
CASH GENERATED FROM (USED IN) OPERATING WORKING CAPITAL:					
Accounts receivable	70.0	50.5	(30.1)	10.3	40.6
Inventories	(8.5)	(11.3)	(0.2)	(0.9)	2.4
Prepaid expenses	(5.5)	(0.2)	0.6	(0.2)	(1.1)
Accounts payable and accrued liabilities	(28.8)	(30.4)	18.1	(6.0)	(37.6)
Income taxes payable	(17.6)	4.5	11.4	(4.4)	(1.0)
Other	1.7	(1.2)	0.8	(2.5)	1.0
CASH PROVIDED FROM OPERATIONS	$ 57.9	$ 51.8	$ 69.4	$49.5	$ 58.3

Certain items in the combined statement of changes in financial position under U.S. GAAP, would be as follows:

BANK ADVANCES	$(22.5)	$ 25.7	$ (0.1)	$36.0	$(105.2)
CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(20.3)	(48.4)	(21.1)	16.0	(75.9)
(DECREASE) INCREASE IN CASH AND SHORT TERM DEPOSITS	—	—	—	—	—
CASH AND SHORT TERM DEPOSITS — BEGINNING OF PERIOD	—	—	—	—	—
CASH AND SHORT TERM DEPOSITS — END OF PERIOD	—	—	—	—	—

g) ***Combined Balance Sheet***

Combined balance sheet items under U.S. GAAP, would be as follows:

	September 30, 1989	December 31, 1988	December 31, 1987
	(unaudited)		
Other assets	5.8	11.5	—
Shareholder's equity	349.2	330.8	304.8

PROPANE COMPANY

COMBINED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Directors of Inter-City Gas Corporation

We have examined the combined balance sheets of the Propane Company as at December 31, 1988 and 1987 and the related combined statements of income and changes in financial position for the years ended December 31, 1988, 1987 and 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these combined financial statements present fairly the financial position of the Propane Company as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for the years ended December 31, 1988, 1987 and 1986 in accordance with generally accepted accounting principles applied, except for the change, with which we concur, made as of January 1, 1987, in the method of accounting for pension costs as described in note 3 to the financial statements, on a consistent basis.

Winnipeg, Canada
February 20, 1989
(except for note 10 which is
dated December 11, 1989)

(Signed) COOPERS & LYBRAND
Chartered Accountants

REPORT OF THE CHIEF FINANCIAL OFFICER

The undersigned, being the Chief Financial Officer of the Propane Division — Inter-City Gas Corporation states that the combined balance sheet as at September 30, 1989, and the related combined statements of income and changes in financial position for the nine months ended September 30, 1989 and 1988 which accompany this report, have been prepared by management and have not been audited, but have been prepared in accordance with generally accepted accounting principles in Canada. The differences between generally accepted accounting principles in Canada and the United States are disclosed in note 12 to the combined financial statements.

Winnipeg, Canada
December 15, 1989

(Signed) P. C. MONACHAN
Vice President, Finance and Administration
Propane Division
INTER-CITY GAS CORPORATION

PROPANE COMPANY

COMBINED BALANCE SHEET
(in millions of Canadian dollars)

	September 30, 1989 (unaudited)	December 31, 1988	December 31, 1987
ASSETS			
CURRENT ASSETS			
Cash	$ 0.2	$ 0.2	$ 1.6
Accounts and notes receivable —			
Trade (less allowance for doubtful accounts; 1988 — $1.0; 1987 — $1.1)	32.7	38.1	41.1
Affiliated companies	—	—	1.0
Inventories (note 4)	15.0	15.7	15.8
Prepaid expenses	1.5	0.9	0.9
	49.4	54.9	60.4
INVESTMENTS — at cost			
Shares of affiliated company	—	—	11.6
Notes and mortgages	0.5	0.6	0.7
	0.5	0.6	12.3
FIXED ASSETS (note 5)			
Property, plant and equipment — at cost	225.8	215.3	193.1
Accumulated depreciation	116.1	106.3	93.2
	109.7	109.0	99.9
GOODWILL AND DEFERRED CHARGES	3.0	3.3	3.0
	$162.6	$167.8	$175.6
LIABILITIES			
CURRENT LIABILITIES			
Bank indebtedness	$ 30.4	$ 36.7	$ 9.6
Accounts payable and accrued liabilities	23.4	28.3	35.4
Income taxes payable	0.3	0.3	0.4
Deferred income and deposits	1.5	1.8	2.2
Current portion of long-term debt	6.0	6.0	6.6
	61.6	73.1	54.2
LONG-TERM DEBT (note 6)	24.5	25.1	42.0
DEFERRED INCOME TAXES	0.8	5.3	7.3
	86.9	103.5	103.5
INVESTMENT BY AND ADVANCES FROM INTER-CITY GAS CORPORATION	75.7	64.3	72.1
	$162.6	$167.8	$175.6

PROPANE COMPANY

COMBINED STATEMENT OF INCOME
(in millions of Canadian dollars)

	Nine months ended September 30,		Year ended December 31,		
	1989	1988	1988	1987	1986
	(unaudited)				
OPERATING REVENUE					
Sales and related income	$197.9	$189.3	$265.8	$247.3	$266.0
Other income	8.3	8.0	11.8	10.3	14.6
	206.2	197.3	277.6	257.6	280.6
OPERATING COSTS					
Cost of sales	108.5	105.9	147.3	143.2	161.5
Operating, selling and administrative expenses	70.9	65.0	88.9	78.5	85.5
Depreciation	13.8	12.3	17.0	14.3	11.6
	193.2	183.2	253.2	236.0	258.6
OPERATING PROFIT	13.0	14.1	24.4	21.6	22.0
INVESTMENT INCOME	—	—	—	1.3	1.1
	13.0	14.1	24.4	22.9	23.1
FINANCIAL EXPENSES					
Interest on current borrowings	3.1	0.6	1.3	1.2	0.3
Interest on long-term debt	3.0	4.8	5.0	5.1	4.8
Interest on inter-company advances	—	1.2	1.1	1.2	1.4
Amortization of goodwill and deferred charges	—	0.7	0.9	0.1	0.1
Loss on foreign exchange	—	—	0.4	0.3	0.4
	6.1	7.3	8.7	7.9	7.0
INCOME BEFORE INCOME TAXES	6.9	6.8	15.7	15.0	16.1
PROVISION FOR INCOME TAXES					
Current	6.9	3.5	9.6	3.3	7.7
Deferred	(4.5)	0.2	(2.2)	2.7	(0.2)
	2.4	3.7	7.4	6.0	7.5
NET INCOME	$ 4.5	$ 3.1	$ 8.3	$ 9.0	$ 8.6

PROPANE COMPANY

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in millions of Canadian dollars)

	Nine months ended September 30,		Year ended December 31,		
	1989	1988	1988	1987	1986
	(unaudited)				
OPERATIONS					
Cash receipts —					
Sales and other income	$211.3	$206.6	$282.3	$251.4	$297.6
Investment income	—	—	—	1.3	0.8
	211.3	206.6	282.3	252.7	298.4
Cash disbursements —					
Purchases and expenses	184.0	176.2	244.2	224.6	254.8
Interest and bank charges	6.1	6.5	7.5	7.4	6.3
Income taxes	—	0.8	0.7	1.0	0.2
	190.1	183.5	252.4	233.0	261.3
CASH PROVIDED FROM OPERATIONS	21.2	23.1	29.9	19.7	37.1
INVESTMENT					
Additions to fixed assets	16.1	14.7	25.3	24.3	31.6
Proceeds on disposal of fixed assets	(1.9)	(1.3)	(2.0)	(3.3)	(1.4)
Goodwill and deferred charges	0.2	—	—	0.2	1.0
Investment in affiliated company	—	10.3	11.5	0.8	21.0
Transfer of investment in affiliated company to Inter-City Gas Corporation	—	—	(23.1)	—	—
Petroleum Incentive Plan grants received	—	—	—	(0.2)	(2.2)
Acquisition of subsidiary companies	—	—	3.0	3.4	2.2
Other investments	(0.1)	—	—	4.1	—
CASH USED IN (GENERATED FROM) INVESTMENT ACTIVITIES	14.3	23.7	14.7	29.3	52.2
CASH (DEFICIENCY) BEFORE FINANCING	6.9	(0.6)	15.2	(9.6)	(15.1)
FINANCING					
Investment by and advances from Inter-City Gas Corporation	—	(0.3)	(25.1)	0.8	9.9
Issuance of long-term debt	4.7	5.0	8.3	12.9	11.6
Repayment of long-term debt	(5.3)	(10.9)	(26.9)	(9.3)	(6.3)
CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	(0.6)	(6.2)	(43.7)	4.4	15.2
DECREASE (INCREASE) IN CASH DEFICIENCY	6.3	(6.8)	(28.5)	(5.2)	0.1
CASH DEFICIENCY — BEGINNING OF PERIOD	36.5	8.0	8.0	2.8	2.9
CASH DEFICIENCY — END OF PERIOD	30.2	14.8	36.5	8.0	2.8
Represented by:					
Bank indebtedness	30.4	15.0	36.7	9.6	6.4
Less: Cash	(0.2)	(0.2)	(0.2)	(1.6)	(3.6)
	$ 30.2	$ 14.8	$ 36.5	$ 8.0	$ 2.8

PROPANE COMPANY

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 1988, 1987 AND 1986

(in millions of Canadian dollars)

1. BASIS OF COMBINATION

These combined financial statements include the assets, liabilities and results of operations of the propane business ("the Propane Company") of Inter-City Gas Corporation ("ICG") which are proposed to be transferred to a wholly-owned subsidiary of Westcoast Energy Inc. or, if it assigns its right to purchase Propane Company as permitted under the Arrangement Agreement, to Petro-Canada Inc. (see note 10). The propane operations were carried out in the following legal entities:

Propane Division — Inter-City Gas Corporation
Propane Leases - Canadian Hydrocarbons Limited
ICG Liquid Gas Ltd.
720463 Ontario Limited
Kavmor Holdings Ltd.
Universal Propane Ltd.
Vigas Propane Ltd.
La Corporation du Gaz de la Cité (1980) Limitée
Gaz Idéal Inc.
Northern Allied Supply (Sudbury) Ltd.

The accompanying combined financial statements have been prepared from the books and records maintained by ICG and its subsidiaries named above. Such financial statements may not necessarily be indicative of the results of operations that would have been obtained if the Propane Company had been operated as a legal entity.

Income taxes have been provided in the statement of income at the statutory rates in effect in the respective years on the total results of operations of the Propane Company. To the extent that a portion of the tax liability has been eliminated by the use of ICG tax deductions, this portion has been credited to the advances from ICG.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements 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 in note 12.

Inventories

Inventories of propane and other petroleum products are valued at the lower of cost (first-in, first-out) and replacement cost. Inventories of merchandise, materials and supplies are valued at the lower of cost (first-in, first-out) and net realizable value.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis at the following rates based on the estimated useful lives of the applicable assets:

Customer installations	— 5% to 25%
Buildings and equipment	— 5% to 33%
Transportation equipment	— 5% to 18%

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

Goodwill

The amounts by which the purchase price of acquired companies exceeds the fair value of the assets acquired are treated as goodwill, and amortized on a straight-line basis over periods not exceeding ten years.

Deferred Charges

Amortization of financing expenses is provided on a straight-line basis over the terms of the respective debt issues and amortization of deferred charges is provided on a straight-line basis over periods not exceeding twenty years.

Pension Costs

Pension costs and obligations are determined annually by independent actuaries using management's best estimate assumptions and the projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions, experience gains or

losses, and the initial actuarial surplus as at January 1, 1987, are amortized on a straight-line basis over the expected average remaining service life of the employee group.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1987, to comply with the recommendations issued by the Canadian Institute of Chartered Accountants, the Propane Company prospectively changed its method of accounting for pension costs and obligations to the method described in note 2 of these financial statements. Previously, it was the Propane Company's policy to expense an amount equal to the actuarially determined funding requirement. The effect of this change on net income for the years ended December 31, 1988 and 1987 is not material.

4. INVENTORIES

Inventories are classified as follows:

	1988	1987
Propane and other petroleum products	$ 5.0	$ 5.6
Merchandise, materials and supplies	10.7	10.2
	$15.7	$15.8

5. FIXED ASSETS

Property, plant and equipment are classified as follow:

	1988			1987
	Cost	Accumulated depreciation	Net book value	Net book value
Customer installations	$ 95.4	$ 54.6	$ 40.8	$ 38.6
Buildings and equipment	73.3	30.2	43.1	39.2
Transportation equipment	41.9	21.5	20.4	18.2
Land	4.7	—	4.7	3.9
	$215.3	$106.3	$109.0	$ 99.9

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

	1988			1987
	Cost	Accumulated depreciation	Net book value	Net book value
Customer installations	$ 9.7	$ 6.2	$ 3.5	$ 6.4
Buildings and equipment	2.1	.8	1.3	1.3
Transportation equipment	28.6	12.3	16.3	14.6
	$ 40.4	$ 19.3	$ 21.1	$ 22.3

6. LONG-TERM DEBT

The details of long-term debt are as follows:

	1988	1987
Bank loan bearing interest at the bank's prime rate	$—	$15.0
Term bank loan bearing interest at the bank's prime rate	5.0	3.0
Debentures bearing interest at rates varying from 12.75% to bank prime plus 2.5%, due 1991 through to 1993	1.0	—
9.625% sinking fund debentures	—	3.3
11% sinking fund debentures	—	2.2
Notes and mortgages at rates varying from 6.33% to prime plus 0.75%, due 1989 through to 1992	1.5	1.9
Capitalized lease obligations at a weighted average interest rate of 12.4% (1987 — 11.4%)	23.6	23.2
	31.1	48.6
Less: Current portion	6.0	6.6
	$25.1	$42.0

Certain of the Propane Company's fixed assets have been pledged as security for the debentures.

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

1989	$0.7
1990	0.9
1991	0.5
1992	0.3
1993	5.1

Minimum lease payments required under capital leases are as follows:

1989	$ 7.6
1990	7.2
1991	5.7
1992	3.5
1993	2.4
Subsequent years	4.8
Total minimum lease payments	31.2
Less: Amount representing interest	7.6
Balance of capitalized lease obligations	$23.6

7. PENSION PLANS

The Propane Company has various defined benefit pension plans available to substantially all permanent full-time employees. The total pension expenses for 1988 amounted to $0.1 (1987 — $0.1; 1986 — $0.1). The pension expense for 1988 consisted of the following:

Current service cost	$ 0.8
Interest costs on projected benefit obligation	1.0
Return on assets held in the plans	(1.4)
Net amortization and deferral	(0.3)
	$ 0.1

Substantially all full-time salaried employees of the Propane Company are members of a defined benefit non-contributory ICG pension plan. The plan is fully funded as at December 31, 1988.

For employees who are members of a union, the Propane Company provides non-contributory defined benefit pension plans. A summary of pension fund assets and accrued pension benefits for the union plans at December 31, 1988 is as follows:

	1988	1987
Market value of pension fund assets	$1.9	$1.7
Actuarial present value of accrued pension benefit	0.8	0.7

The actuarial present value of accrued pension benefits represents the discounted value of benefits expected to be paid to plan members based on projected salaries prorated on service. No escalation of salaries is used to determine the actuarial present value of accrued pension benefits where the pension benefit is fixed and subject to renegotiation.

Certain key assumptions used in determining both the pension expense for 1988 and the actuarial present value of accrued pension benefits as at December 31, 1988 are as follows:

Discount rate	9.0%
Rate of increase of compensation levels	6.5%
Expected long-term rates of return on plan assets	9.0%

The status of pension plans relating to the union employees as at December 31, 1988 is as follows:

Actuarial present value of —	
Vested benefit obligations	$0.4
Non-vested benefit obligations	0.1
Accumulated benefit obligations	0.5
Additional amounts related to projected salary and wage increases	0.3
Total projected benefit obligations	0.8
Plan assets at fair value	1.9
Plan assets in excess of projected benefit obligations	1.1
Unrecognized net loss	0.1
Unrecognized net asset	(0.9)
Prepaid pension cost netted against current liabilities	$0.3

8. LEASE COMMITMENTS

Lease rentals expense during the current year amounted to $1.7 (1987 — $1.5; 1986 — $1.5). The approximate aggregate minimum annual rentals under long-term leases, excluding capital leases, at December 31, 1988, are as follows:

1989	$0.7
1990	0.4
1991	0.3
1992	0.2
1993	0.1
Subsequent years	0.4

9. RELATED PARTY TRANSACTIONS

Included in operating, selling and administrative expenses for the year ended December 31, 1988 are fees of $2.4 (1987 — $2.3; 1986 — $3.5) paid to ICG for services provided.

10. SUBSEQUENT EVENT

Plan of Arrangement

On December 11, 1989, ICG signed an Arrangement Agreement providing for a corporate reorganization of ICG pursuant to which the Utilities and Propane businesses of ICG will be transferred to a wholly owned subsidiary of Westcoast Energy Inc. for an aggregate cash price of approximately $718.7 subject to adjustments. The price includes $487.7 and $231.0 for the Utilities Company and Propane Company, respectively. The reorganization contemplated in the Arrangement Agreement is to be implemented by way of an Arrangement under the laws of Manitoba and, as such, will be subject to appropriate shareholder and court approvals, and the receipt of a favourable advance income tax ruling.

11. INTERIM FINANCIAL STATEMENTS

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted with respect to the financial statements covering interim periods. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto. While the interim financial statements are unaudited, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for fair presentation have been included.

12. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN ACCOUNTING PRACTICES (UNAUDITED)

Accounting policies adopted by the Propane Company as reflected in these combined financial statements are generally consistent with accounting principles accepted in the United States ("U.S. GAAP") with the following exceptions:

(a) As required by Canadian GAAP, the Propane Company is deferring and amortizing the exchange translation gains and losses on long-term foreign currency denominated monetary items over the term of the related item. Under U.S. GAAP, these gains and losses would be credited or charged, as appropriate, to income in the year in which they arose.

(b) There are differences between Canadian GAAP and U.S. GAAP in the presentation of the statement of changes in financial position . Under U.S. GAAP, a reconciliation of net income to net cash flow from operating activities is required where the direct method of reporting net cash flow from operations is used. As well, U.S. GAAP defines cash and cash equivalents to include cash and short-term, highly liquid investments, whereas Canadian GAAP defines cash to include cash, net of short-term borrowings.

(c) In December 1987, the Financial Accounting Standards Board issued a Statement of Financial Accounting Standard ("SFAS") 96, Accounting for Income Taxes, which established new accounting rules that will change the manner in which income tax expense is determined for accounting purposes. Prior U.S. GAAP utilized a deferred method while SFAS 96 utilizes a liability method under which deferred tax liabilities are recorded and adjusted for the effect of a change in tax laws or rates. The Propane Company has until its fiscal year beginning January 1, 1990 to adopt the statement. The Propane Company has not yet estimated the effect of the new statement.

The effect of these differences is set out below:

(d) ***Combined Statement of Income***

	Nine months ended September 30,		Year ended December 31,		
	1989	1988	1988	1987	1986
	(unaudited)				
Net income	$4.5	$3.1	$8.3	$9.0	$8.6
U.S. GAAP adjustment, net of taxes — Foreign exchange	—	—	—	—	0.2
Net income under U.S. GAAP	$4.5	$3.1	$8.3	$9.0	$8.8

(e) ***Combined Statement of Changes in Financial Position***

	Nine months ended September 30,		Year ended December 31,		
	1989	**1988**	**1988**	**1987**	**1986**
	(unaudited)				
Net income	$ 4.5	$ 3.1	$ 8.3	$ 9.0	$ 8.6
Add (deduct) items not involving cash —					
Depreciation and amortization	14.3	13.3	18.5	15.0	12.0
Deferred income taxes	(4.5)	0.2	(2.2)	2.7	(0.2)
Gain on sale of fixed assets	(0.3)	(0.1)	(0.1)	(0.3)	(0.6)
	14.0	16.5	24.5	26.4	19.8
Cash generated from (used in) operating working capital —					
Accounts and notes receivable —					
Trade	5.4	9.2	3.0	(5.4)	10.4
Affiliated companies	—	1.2	1.0	(2.0)	5.0
Inventories	0.7	3.0	0.1	1.7	4.8
Prepaid expenses	(0.6)	0.2	—	0.1	(0.3)
Accounts payable and accrued liabilities	(4.9)	(10.4)	(7.1)	(3.6)	(10.0)
Income taxes	6.9	4.1	8.8	2.8	8.2
Deferred income and deposits	(0.3)	(0.7)	(0.4)	(0.3)	(0.8)
	7.2	6.6	5.4	(6.7)	17.3
Cash provided from operations	$21.2	$23.1	$29.9	$19.7	$37.1

Certain items in the combined statement of changes in financial position under U.S. GAAP would be as follows:

	Nine months ended September 30,		Year ended December 31,		
	1989	**1988**	**1988**	**1987**	**1986**
	(unaudited)				
Bank indebtedness	$ (6.3)	$ 5.4	$ 27.1	$ 3.2	$ 2.4
Cash generated from (used in) financing activities	(6.9)	(0.8)	(16.6)	7.6	17.6
Increase (decrease) in cash	—	(1.4)	(1.4)	(2.0)	2.5
Cash — beginning of the period	0.2	1.6	1.6	3.6	1.1
Cash — end of the period	0.2	0.2	0.2	1.6	3.6

INTER-CITY PRODUCTS CORPORATION

PRO FORMA CONDENSED CONSOLIDATED

FINANCIAL INFORMATION

PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION
INTER-CITY PRODUCTS CORPORATION
COMPILATION REPORT

The accompanying balance sheet as at September 30, 1989 and statements of income for the year ended December 31, 1988 and for the nine months ended September 30, 1989 illustrate the effects on the consolidated financial statements of the Corporation of the Arrangement and the sale of the Resources Division and the investment in Ranger Oil Limited as if these had occurred on January 1, 1988.

To the Directors of
INTER-CITY GAS CORPORATION

We have reviewed, as to compilation only, the accompanying pro forma condensed consolidated balance sheet of Inter-City Products Corporation as at September 30, 1989 and the pro forma condensed consolidated statements of income for the year ended December 31, 1988 and for the nine months ended September 30, 1989. In our opinion, the pro forma condensed consolidated balance sheet and pro forma condensed consolidated statements of income have been properly compiled to give effect to the proposed and actual transactions and the assumptions described in the notes thereto.

Toronto, Canada
December 15, 1989

(Signed) COOPERS & LYBRAND
Chartered Accountants

Comment by Independent Chartered Accountants for United States readers on Canada-United States Reporting Conflict

The above opinion is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of pro forma financial statements. United States standards do not provide for the expression of an opinion on the compilation of pro forma financial statements. To report in conformity with United States standards on the reasonableness of the pro forma adjustments and their application to the pro forma financial statements would require an examination which would be substantially greater in scope than the procedures we have performed. Consequently, under United States standards, we would be unable to express any opinion with respect to the compilation of the accompanying pro forma condensed consolidated financial statements.

Toronto, Canada
December 15, 1989

(Signed) COOPERS & LYBRAND
Chartered Accountants

INTER-CITY PRODUCTS CORPORATION

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 1989
(UNAUDITED)

(In Millions of Canadian Dollars)

	ICG	Impact of sale of Investment in Ranger	Arrangement: Transfer of Utilities Company	Arrangement: Transfer of Propane Company	Other	Pro forma total
	(1)	(2)	(3)	(4)	(5)	(6)
ASSETS						
CURRENT ASSETS						
Accounts and notes receivable	$ 255.0	—	$ (70.1)	$ (32.7)	$ 6.1 3(b)	$158.3
Short-term investments	78.4	(74.3) 2(c)	—	—	(4.1) 3(c)	—
Inventories	199.5	—	(32.8)	(15.0)	—	151.7
Other current assets	21.9	—	(7.0)	(1.7)	—	13.2
	554.8	(74.3)	(109.9)	(49.4)	2.0	323.2
INVESTMENTS	80.5	—	(35.5)	(0.5)	(43.2) 3(c)	1.3
INTER-COMPANY ADVANCES RECEIVABLE	—	—	(43.6)	—	43.6 3(b)	—
DISCONTINUED OIL AND GAS PROPERTIES — at equity	3.7	—	—	—	—	3.7
NET FIXED ASSETS	1,128.3	—	(856.5)	(109.7)	(6.4) 3(d)	155.7
DEFERRED COSTS	12.3	—	(6.6)	(3.0)	—	2.7
	$1,779.6	$(74.3)	$(1,052.1)	$(162.6)	$ (4.0)	$486.6
LIABILITIES						
CURRENT LIABILITIES						
Bank advances	$ 284.0	$(74.3) 2(c)	$ (47.4)	$ (30.4)	$ (56.8) 3(e)	$ 75.1
Accounts payable and accrued liabilities	220.0	—	(116.1)	(25.2)	40.1 3(f)	118.8
Current portion of long-term debt	73.8	—	(50.4)	(6.0)	(3.4) 3(g)	14.0
	577.8	(74.3)	(213.9)	(61.6)	(20.1)	207.9
LONG-TERM DEBT	543.3	—	(326.3)	(24.5)	(74.3) 3(g)	118.2
OTHER LONG-TERM LIABILITIES	154.5	—	(133.7)	(0.8)	(17.5) 3(h)	2.5
	1,275.6	(74.3)	(673.9)	(86.9)	(111.9)	328.6
REDEEMABLE PREFERENCE SHARES	63.5	—	(28.2)	—	(35.3) 3(i)	—
SHAREHOLDERS' EQUITY	440.5	—	(350.0)	(75.7)	143.2 3(j)	158.0
	$1,779.6	$(74.3)	$(1,052.1)	$(162.6)	$ (4.0)	$486.6

(See accompanying notes to unaudited pro forma condensed consolidated financial information)

INTER-CITY PRODUCTS CORPORATION

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1989 (UNAUDITED)

(In Millions of Canadian Dollars, except per share amounts)

	ICG	Impact of sale of Resources Division	Arrangement: Transfer of Utilities Company	Arrangement: Transfer of Propane Company	Other	Pro forma total
	(1)	(2)	(3)	(4)	(5)	(6)
OPERATING REVENUE	$1,388.1	$—	$(574.0)	$(206.2)	$ —	$607.9
OPERATING COSTS						
Costs of sales	968.0	—	(409.1)	(108.5)	—	450.4
Operating, selling and administrative	247.3	—	(83.6)	(70.9)	(2.3) 4(b)	90.5
Depreciation	50.7	—	(21.7)	(13.8)	(0.5) 4(b)	14.7
	1,266.0	—	(514.4)	(193.2)	(2.8)	555.6
OPERATING PROFIT	122.1	—	(59.6)	(13.0)	2.8	52.3
INVESTMENT INCOME	11.6	(1.2) 4(a)(i)	(3.2)	—	(6.8) 4(c)	0.4
	133.7	(1.2)	(62.8)	(13.0)	(4.0)	52.7
FINANCIAL EXPENSES	72.7	(5.8) 4(a)(ii)	(30.0)	(6.1)	(12.6) 4(d)	18.2
INCOME BEFORE TAXES	61.0	4.6	(32.8)	(6.9)	8.6	34.5
PROVISION FOR TAXES	24.7	2.1 4(a)(iii)	(11.7)	(2.4)	4.5 4(e)	17.2
INCOME AFTER TAXES	36.3	2.5	(21.1)	(4.5)	4.1	17.3
MINORITY INTERESTS IN SUBSIDIARIES	(1.6)	—	—	—	1.6 4(f)	—
INCOME FROM CONTINUING OPERATIONS	34.7	2.5	(21.1)	(4.5)	5.7	17.3
DISCONTINUED OPERATIONS	1.2	(1.2) 4(a)(iv)	—	—	—	—
NET INCOME	35.9	1.3	(21.1)	(4.5)	5.7	17.3
DIVIDENDS ON PREFERENCE SHARES	8.3	—	—	—	(4.7) 4(g)	3.6
NET INCOME TO COMMON SHAREHOLDERS	$ 27.6	$ 1.3	$ (21.1)	$ (4.5)	$ 10.4	$ 13.7
NUMBER OF COMMON SHARES OUTSTANDING (in millions)	23.2					7.2
NET INCOME PER COMMON SHARE						
Basic						
From continuing operations	$1.13					$1.89 4(h)
Fully diluted						
From continuing operations	$1.10					(Note 1)

(See accompanying notes to unaudited pro forma condensed consolidated financial information)

INTER-CITY PRODUCTS CORPORATION

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1988
(UNAUDITED)

(In Millions of Canadian Dollars, except per share amounts)

	ICG	Impact of sale of Resources Division	Arrangement: Transfer of Utilities Company	Arrangement: Transfer of Propane Company	Arrangement: Other	Pro forma total
	(1)	(2)	(3)	(4)	(5)	(6)
OPERATING REVENUE	$1,761.4	$—	$(770.7)	$(277.6)	$ —	$713.1
OPERATING COSTS						
Costs of sales	1,223.3	—	(536.3)	(147.3)	—	539.7
Operating, selling and administrative	315.2	—	(109.7)	(88.9)	(3.0) 5(b)	113.6
Depreciation	61.6	—	(25.9)	(17.0)	0.6 5(b)	19.3
	1,600.1	—	(671.9)	(253.2)	(2.4)	672.6
OPERATING PROFIT	161.3	—	(98.8)	(24.4)	2.4	40.5
INVESTMENT INCOME	12.7	—	(6.6)	—	(4.6) 5(c)	1.5
	174.0	—	(105.4)	(24.4)	(2.2)	42.0
FINANCIAL EXPENSES	89.6	(10.9) 5(a)(i)	(37.9)	(8.7)	(17.9) 5(d)	14.2
INCOME BEFORE TAXES	84.4	10.9	(67.5)	(15.7)	15.7	27.8
PROVISION FOR TAXES	35.5	4.8 5(a)(ii)	(26.3)	(7.4)	7.1 5(e)	13.7
INCOME AFTER TAXES	48.9	6.1	(41.2)	(8.3)	8.6	14.1
MINORITY INTERESTS IN SUBSIDIARIES	(2.4)	—	—	—	2.4 5(f)	—
INCOME FROM CONTINUING OPERATIONS	46.5	6.1	(41.2)	(8.3)	11.0	14.1
DISCONTINUED OPERATIONS	(6.7)	6.7 5(a)(iii)	—	—	—	—
NET INCOME BEFORE EXTRAORDINARY ITEM	39.8	12.8	(41.2)	(8.3)	11.0	14.1
EXTRAORDINARY ITEM	—	—	(2.0)	—	2.0 5(f)	—
NET INCOME	39.8	12.8	(43.2)	(8.3)	13.0	14.1
DIVIDENDS ON PREFERENCE SHARES	11.9	—	—	—	(6.4) 5(g)	5.5
NET INCOME TO COMMON SHAREHOLDERS	$ 27.9	$12.8	$ (43.2)	$ (8.3)	$ 19.4	$ 8.6
NUMBER OF COMMON SHARES OUTSTANDING (in millions)	22.7					7.2
NET INCOME PER COMMON SHARE						
Basic						
From continuing operations	$1.52					$1.19 5(h)
Fully diluted						
From continuing operations	$1.47					(Note 1)

(See accompanying notes to unaudited pro forma condensed consolidated financial information)

INTER-CITY PRODUCTS CORPORATION

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

(In Millions of Canadian Dollars)

1. The unaudited pro forma condensed consolidated financial statements have been prepared by management from the audited consolidated financial statements of Inter-City Gas Corporation ("ICG") for the year ended December 31, 1988 and the unaudited consolidated financial statements of ICG for the nine months ended September 30, 1989 and should be read in conjunction with such statements, including notes thereto.

   These financial statements may not be indicative of the results that actually would have occurred if the events reflected herein had been in effect on the dates indicated or of the results which may be obtained in the future. Also, the interim results for the nine months ended September 30, 1989 are not necessarily indicative of the results to be expected for the full year.

   The pro forma condensed consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), the application of which conforms in all material respect with United States generally accepted accounting principles ("U.S. GAAP").

   The conversion price for the Class C 8% Convertible preference shares to common shares will be equal to 110% of the market price for Inter-City Products common shares, determined as the weighted average closing price of the common shares on The Toronto Stock Exchange during a 20-day trading period in 1990. Consequently at this time, the Corporation is unable to determine the effect of the convertible preference shares on the fully diluted earnings per share under Canadian GAAP and the primary earnings per share under U.S. GAAP.

2. The pro forma condensed consolidated financial statements give effect to:

   (a) The Arrangement whereby ICG will be reorganized so that its Utilities and Propane businesses will be held by the Utilities Company and the Propane Company, respectively, the shares of which will be directly owned by the common shareholders of ICG. All the shares of the Utilities Company and the Propane Company will then be sold by such shareholders to a wholly-owned subsidiary of Westcoast Energy Inc. which will pay total consideration of $718.7, including the assumption of $112.1 in debt of ICG and the cash payment of $606.6. Furthermore, ICG shareholders will hold common shares of Inter-City Products Corporation which will continue to carry on ICG's energy products business.

   (b) The disposition of the Resources Division which was sold effective April 30, 1989. These pro forma financial statements reflect the sale as if it had occurred on January 1, 1988 (column 2 on the pro forma condensed consolidated statements of income).

   (c) The sale of the investment in Ranger Oil Limited ("Ranger") which was sold effective December 8, 1989. These pro forma financial statements reflect the sale as if it had occurred on January 1, 1988 (column 2 on the pro forma condensed consolidated balance sheet).

3. The pro forma condensed consolidated balance sheet as at September 30, 1989 gives effect to the following transactions, which will become effective upon the completion of the Arrangement, as if they had occurred on September 30, 1989:

   (a) Columns 3 and 4 reflect the transfer of Utilities and Propane Companies and the reclassification of certain accounts to conform with ICG's consolidated presentation. Total assets under column 3 have been increased by $118.7 from the amount reported in the Utilities Company Combined Balance Sheet. This increase represents the reclassification of the figure relating to Customer Contributions In Aid of Construction as Other Long-Term Liabilities in these financial statements. The reclassifications in columns 3 and 4 do not affect the shareholders' equity sections of the Utilities and Propane Companies.

   (b) The settlement of inter-company payables.

   (c) The collection of the note receivable owed by Norcen ("Norcen note") ($45.6) which will be assumed by MICC Investments Limited and the employee share purchase plan loans ($1.7).

   (d) Miscellaneous reclassifications and adjustments arising from the transfer of the Utilities and Propane Companies.

   (e) Net effect of the collection of the Norcen note ($45.6), the collection of net inter-company receivables ($30.9), the exercise of outstanding ICG employee stock options for ICG common shares ($12.2), the collection of the employee share purchase plan loans ($1.7), the refinancing of long-term debt to bank advances ($7.1), the payment for the costs of the Arrangement ($28.0), the redemption of the Second preference shares — Series A and Series B ($2.5) and other miscellaneous adjustments ($4.0).

   (f) The settlement of inter-company receivables ($34.0) and other miscellaneous adjustments ($6.1).

   (g) The reduction in long-term debt resulting from the assumption of certain non-trade liabilities by Westcoast ($70.6) and the reclassification of long-term debt to bank advances ($7.1).

   (h) The elimination of minority interests in subsidiaries arising from the transfer of the Utilities Company ($28.2), the settlement of inter-company receivables ($1.0) and other miscellaneous adjustments ($9.7).

   (i) The reconstitution of the redeemable First preference shares — Series A as Class C 8% convertible preference shares ($61.0), which is included in shareholders' equity, redemption of the Second preference shares — Series A and Series B ($2.5) and the elimination of the redeemable preference shares arising from the transfer of the Utilities Company ($28.2).

3. (j) The adjustment to shareholders' equity of $143.2 has been calculated to arrive at pro forma consolidated shareholders' equity of $158.0 as follows:

ICG consolidated shareholders' equity	$440.5
Pro forma adjustments:	
Reconstitution of redeemable First preference shares as Class C 8% convertible preference shares	61.0
Exercise of employee stock options	12.2
Estimated additional equity based on earnings for Utilities and Propane Companies	32.9
Net gain on distribution of Utilities and Propane Companies	219.0
Distribution to shareholders	(606.6)
Other	(1.0)
Pro forma consolidated shareholders' equity	$158.0

4. The pro forma condensed consolidated statement of income for the nine months ended September 30, 1989 gives effect to the following transactions as if they had occurred on January 1, 1988:

   (a) Columns 3 and 4 reflect the transfer of Utilities and Propane Companies. Column 2 reflects the disposition of the Resources Division as if it had occurred on January 1, 1988:

      (i) The elimination of interest income on net proceeds on sale of the Resources Division from the date of sale to the date of receipt of proceeds.

      (ii) The reduction in financial expenses assuming the repayment of long-term debt on January 1, 1988 using the net proceeds on sale of the Resources Division of $108.2 from January 1, 1989 to the date of receipt of proceeds.

      (iii) The tax effect for items described in (i) and (ii) above.

      (iv) The removal of the results of discontinued operations.

   (b) The expected reduction in operating, selling and administrative costs and depreciation charges as a result of the reorganization.

   (c) The elimination of the interest income on the Norcen note ($2.6) and the gain on sale of investment in Turbo Resources ($4.2).

   (d) The reduction in financial expenses resulting from the assumption of $112.1 of certain non-trade liabilities by Westcoast ($10.0) and the elimination of interest expense ($2.6).

   (e) The tax effect for items described in 4(b) to 4(d) above.

   (f) The removal of non-recurring items from the resultant entity.

   (g) The elimination of dividends on preference shares resulting from the redemption of Second preference shares — Series A and Series B and the conversion of Third preference shares — 1985 Series to common shares.

   (h) Basic net income per common share was calculated based on a four for one subdivision of the ICG common shares.

5. The pro forma condensed consolidated statement of income for the year ended December 31, 1988 gives effect to the following transactions as if they had occurred on January 1, 1988:

   (a) Columns 3 and 4 reflect the transfer of Utilities and Propane Companies. Column 2 reflects the disposition of the Resources Division as if it had occurred on January 1, 1988:

      (i) The reduction in 1988 financial expenses assuming the repayment of long-term debt on January 1, 1988 using the net proceeds on sale of the Resources Division of $108.2.

      (ii) The tax effect for the item described in (a)(i) above.

      (iii) The removal of the results of discontinued operations.

   (b) The expected reduction in operating, selling and administrative costs and increase in depreciation charges as a result of the Arrangement.

   (c) The elimination of interest income on the Norcen note receivable ($3.6) and other non-recurring items ($1.0).

   (d) The reduction in financial expenses resulting from the assumption of $112.1 of certain non-trade liabilities by Westcoast ($14.3) and the elimination of interest expense ($3.6).

   (e) The tax effect for items described in 5(b) to 5(d) above.

   (f) The removal of non-recurring items from the resultant entity.

   (g) The elimination of dividends on preference shares resulting from the redemption of Second preference shares — Series A and Series B and the conversion of Third preference shares — 1985 Series to common shares.

   (h) Basic net income per common share was calculated based on a four for one subdivision of the ICG common shares.

APPROVAL OF DIRECTORS

The contents and the sending of this Management Proxy Circular to Shareholders and Option Holders of Inter-City Gas Corporation have been approved by the Board of Directors of Inter-City Gas Corporation.

DATED at Winnipeg, Manitoba, this 14th day of February, 1990.

J. E. CARSTAIRS
Secretary

SCHEDULE A

ARRANGEMENT RESOLUTION

Arrangement under Section 185 of the
Corporations Act (Manitoba)

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The Arrangement Agreement dated December 11, 1989 as amended and restated as of February 12, 1990 (the "Arrangement Agreement") among the Corporation, Westcoast Energy Inc., WestCoast Gas Inc., Central Capital Corporation, 2451417 Manitoba Ltd., The Chancellor Holdings Corporation, 2484685 Manitoba Ltd. and MICC Investments Limited attached as Schedule C to the Management Information Circular and Proxy Statement accompanying the notice of this meeting as the same may be amended in accordance with its terms is confirmed, ratified and approved;

2. The arrangement under Section 185 of the Corporations Act (Manitoba) set forth in the Arrangement attached as Exhibit 1 to Schedule C to the Management Information Circular and Proxy Statement accompanying the notice of this meeting as the same may be amended in accordance with the terms of the Arrangement Agreement is approved and authorized;

3. Notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, the Board of Directors of the Corporation may, without further approval of the shareholders, revoke this resolution at any time prior to the issue of a certificate of amendment giving effect to the arrangement and determine not to proceed with the arrangement; and

4. Any director or officer of the Corporation is authorized and directed, for and on behalf of the Corporation, to execute and deliver Articles of Arrangement and to do all things and to execute and, if appropriate, deliver all documents and instruments which in the opinion of the person so executing or doing are necessary or desirable to carry out the purpose of this special resolution.

SCHEDULE B

BOARD SIZE RESOLUTION

RESOLVED AS A SPECIAL RESOLUTION THAT:

1. In accordance with the provisions of The Corporations Act (Manitoba) and the Articles of Incorporation of the Corporation, the number of directors of the Corporation and the number of directors to be elected at each annual meeting of shareholders is fixed at five.
2. This resolution shall be effective as of the time that the articles of arrangement giving effect to the Arrangement described in the Management Information Circular and Proxy Statement accompanying the Notice of this meeting are effective.
3. Notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, the Board of Directors of the Corporation may, without further approval of the shareholders, revoke this resolution at any time prior to its becoming effective.

SCHEDULE C

AMENDED AND RESTATED ARRANGEMENT AGREEMENT

AMONG

INTER-CITY GAS CORPORATION
WESTCOAST ENERGY INC.
WESTCOAST GAS INC.
CENTRAL CAPITAL CORPORATION
THE CHANCELLOR HOLDINGS CORPORATION
2451417 MANITOBA LTD.
2484685 MANITOBA LTD.
MICC INVESTMENTS LIMITED

DECEMBER 11, 1989
AS AMENDED AND RESTATED AS OF FEBRUARY 12, 1990

AMENDED AND RESTATED
ARRANGEMENT AGREEMENT

Section Page

ARTICLE I

INTERPRETATION

ARTICLE II

THE ARRANGEMENT

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF ICG

ARRANGEMENT AGREEMENT

MEMORANDUM OF AGREEMENT made the 11th day of December, 1989, as amended and restated as of the 12th day of February, 1990.

A M O N G:

INTER-CITY GAS CORPORATION,
a corporation amalgamated under the laws of the Province of Manitoba,
(hereinafter called "ICG"),

OF THE FIRST PART,

— and —

WESTCOAST ENERGY INC.,
a corporation incorporated under the laws of Canada,
(hereinafter called "Westcoast"),

OF THE SECOND PART,

— and —

WESTCOAST GAS INC.,
a corporation incorporated under the laws of Canada,
(hereinafter called the "Purchaser"),

OF THE THIRD PART,

— and —

CENTRAL CAPITAL CORPORATION,
a corporation amalgamated under the laws of Canada,
(hereinafter called "Central"),

OF THE FOURTH PART,

— and —

THE CHANCELLOR HOLDINGS CORPORATION,
a corporation incorporated under
the laws of the Province of Manitoba,
(hereinafter called "Chancellor"),

OF THE FIFTH PART,

— and —

2451417 MANITOBA LTD.,
a corporation incorporated under
the laws of the Province of Manitoba,
(hereinafter called "2451417"),

OF THE SIXTH PART,

— and —

2484685 MANITOBA LTD.,
a corporation incorporated under the laws of
the Province of Manitoba,
(hereinafter called "Newco"),

OF THE SEVENTH PART,

— and —

MICC INVESTMENTS LIMITED,
a corporation incorporated under the laws of Canada,
(hereinafter called "MICCI"),

OF THE EIGHTH PART.

WHEREAS subject to the terms and conditions set forth in this Agreement, ICG intends to propose the Arrangement to the holders of its Common Shares, First Preference Shares, Third Preference Shares and Options pursuant to and in accordance with the provisions of Section 185 of the Act;

AND WHEREAS it is proposed that, pursuant to the Arrangement, the Purchaser, a wholly-owned subsidiary of Westcoast, will acquire all of the issued and outstanding shares of 2451417 and all of the issued and outstanding shares of Chancellor and that 2451417 and Chancellor will, on the Effective Date, own all of the issued and outstanding shares of Utilities Canada and Propane Corp., respectively;

AND WHEREAS Central and its subsidiaries own, in the aggregate, 10,570,400 Common Shares and 223,800 Third Preference Shares, it is proposed that a subsidiary of Central acquire before the ICG Special Meeting all of the outstanding First Preference Shares and Central has agreed with Westcoast and the Purchaser, subject to the terms and conditions herein contained, to cause all shares in the capital of ICG beneficially owned by Central or any of its subsidiaries to be voted at the ICG Special Meeting in favour of the Arrangement;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT in consideration of the respective covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I

INTERPRETATION

1.1 Definitions

In this Agreement, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the following meanings, respectively:

"Act" means The Corporations Act (Manitoba);

"Alberta Marketing Operations" means those common stream agreements, gas purchase agreements, transportation agreements and meter equipment which have been identified in writing by ICG to Westcoast and the Purchaser;

"Arrangement" means an arrangement under the provisions of Section 185 of the Act on the terms and conditions set out in Exhibit 1 hereto or any amendment or variation thereto made by written agreement of all of the parties hereto;

"Audited 1988 Financial Statements" means the audited consolidated balance sheet of ICG as at December 31, 1988 and the related consolidated statement of income, retained earnings and changes in financial position for the year ended December 31, 1988, together with the notes thereto and the report thereon dated February 20, 1989 of Coopers & Lybrand, independent chartered accountants;

"Bank Confirmation Letter" means a letter or letters to be delivered to ICG at the request of Westcoast by a Canadian chartered bank or banks acceptable to ICG confirming the availability at the Effective Time of an amount equal to the Required Cash Amount, in the form and on terms of the draft letter identified in writing by Westcoast and ICG;

"Break Fee" means $10,000,000 or, if the Third Party making the offer or proposal referred to in Section 6.10 giving rise to ICG's obligation to pay the Break Fee is a party which has entered into a confidentiality agreement with ICG on or after September 2, 1988, $15,000,000;

"Business Day" means a day which is not a Saturday, Sunday or statutory holiday within the meaning of the Interpretation Act (Canada);

"CA" means the Competition Act (Canada);

"CCMI" means Central Capital Management Inc., a corporation incorporated under the laws of Canada, or any successor thereof;

"Canadian Tax Act" means the Income Tax Act (Canada);

"Central Group" means, collectively, Central, Chancellor, Newco and 2451417 and "member of the Central Group" means each or any of the foregoing, individually as the context may require;

"Central/Norcen Agreement" means the agreement proposed to be made among Central, MICCI, Norcen and Norcen International Ltd. in the form and on the terms of the agreement, a copy of which has been identified in writing by Central, Westcoast and ICG;

"Central Subsidiaries" means, collectively, MICCI, MICC, Chancellor, 2451417, Newco, 2451409 Manitoba Ltd. and CCMI;

"Chancellor Butterfly Shares" means special shares in the capital of Chancellor;

"Chancellor Common Shares" means common shares in the capital of Chancellor;

"Chancellor Preference Shares" means preference shares in the capital of Chancellor;

"Chancellor Purchase Agreement" means the agreement of purchase and sale to be made between Chancellor and ICG pursuant to which Chancellor shall acquire all of the issued and outstanding shares of Propane Corp. from ICG in consideration for the issue by Chancellor to ICG of Chancellor Butterfly Shares;

"Chancellor Redemption Note" means the non-interest bearing demand promissory note in the aggregate principal amount of the Propane Cash Portion to be issued by Chancellor pursuant to the Arrangement in the form and on the terms of the note, a copy of which has been identified in writing by Central, Westcoast and ICG;

"Class C 8% Convertible Preference Shares" means the 8% Cumulative Redeemable Convertible Class C Preference Shares into which the First Preference Shares shall be changed pursuant to the Arrangement;

"Common Shares" means common shares in the capital of ICG;

"Court" means the Manitoba Court of Queen's Bench;

"Depositary" means Central Guaranty Trust Company at its offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, and Halifax or such other trust company satisfactory to Westcoast, acting reasonably, as ICG may appoint;

"Designated Propane Nominee" means the person identified in writing by Westcoast to ICG on or prior to the date hereof as the proposed purchaser of the shares of Chancellor;

"Disclosure Filings" means ICG's Form 10-K for the fiscal year ended December 31, 1988, all documents incorporated therein by reference and any other documents which have been filed by ICG with the United States Securities and Exchange Commission between the date of filing of such Form 10-K and May 30, 1989 and which were placed in the public file of the Securities and Exchange Commission on or before May 30, 1989;

"Dissenting Shareholders" has the meaning ascribed thereto in Section 4.1 of the Arrangement;

"Dissenting Shares" has the meaning ascribed thereto in the Arrangement;

"Dividend Reinvestment and Share Purchase Plan" means the dividend reinvestment and share purchase plan established by ICG;

"Documents" means Westcoast's Form 10-K for the fiscal year ended December 31, 1988;

"Effective Date" means the date shown on the certificate of amendment to be issued under the Act giving effect to the Arrangement;

"Effective Time" means the effective time of the Arrangement on the Effective Date as shown on the certificate of amendment to be issued under the Act giving effect to the Arrangement;

"Employee Share Option Plan" means the employee stock option plan established by ICG;

"Employee Share Ownership Plan" means the employee share ownership plan established by ICG;

"Estimated Propane Earnings" has the meaning ascribed thereto in Section 7.4 of this Agreement;

"Estimated Utilities Earnings" has the meaning ascribed thereto in Section 7.3 of this Agreement;

"Excluded Expenses" means out-of-pocket expenses incurred by Central in connection with legal advice received by Central with respect to:

(a) the application of Section 92 of the *Securities Act* (Ontario) to the potential sale by Central and the Central Subsidiaries of the shares of ICG beneficially held by them;

(b) the acquisition, reorganization and status of Chancellor, 2451417 and 2451409 Manitoba Ltd. including the acquisition by any of such corporations of shares of ICG previously held by Central or any of the Central Subsidiaries and the transactions effected by such corporations on or about June 28, 1989;

(c) the application of the provisions of the Canadian Tax Act and other applicable tax laws to Central and the Central Subsidiaries as a result of the participation of the Central Subsidiaries or any of them in the transactions contemplated by this Agreement and the Arrangement (other than the transactions contemplated by Section 6.3 of this Agreement and Sections 3.1(t) and 3.1(v) of the Arrangement);

(d) the drafting and negotiation of Articles IV and IX and Sections 6.9(b) and 6.10(b) of this Agreement;

(e) the performance by the directors and officers of Central who are directors of ICG of their duties and obligations in such capacity; and

(f) shareholders' approval of the Arrangement.

"Final Order" means the final order of the Court approving the Arrangement;

"First Preference Shares" means First Preference shares eight per cent (8%) Series A in the capital of ICG;

"GAAP" means the generally accepted accounting principles, as recommended in the Handbook of the Canadian Institute of Chartered Accountants;

"HSR Act" means the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976;

"ICG Circular" means the management information circular and proxy statement of ICG to be prepared in connection with the ICG Special Meeting;

"ICG Non-Trade Liabilities" means liabilities of ICG which ICG and Westcoast have agreed in writing on or before the date hereof are ICG Non-Trade Liabilities for purposes of this Agreement which liabilities, for greater certainty, do not, prior to the Propane Incorporation, constitute liabilities of the Propane Business;

"ICG Special Meeting" means the special meeting of the holders of Common Shares, First Preference Shares, Third Preference Shares and Options to be held to consider and, if deemed advisable, to approve the Arrangement;

"Interim Order" means the interim order of the Court pursuant to the application therefor contemplated by Section 2.1 hereof;

"Itron Securities" means, collectively, the series B preferred shares, common stock purchase warrants and increasing rate subordinated note of Itron, Inc. held by CHL Holdings Inc. and five units of AMRplus Partners held by CHL Holdings Inc.;

"Manitoba Pipeline" means the 60% joint venture interest of ICG in the Manitoba pipeline joint venture established pursuant to the agreement dated September 1, 1984 entered into by ICG, Omega Hydrocarbons Limited and The Manitoba Oil and Gas Corporation (its interest now held by Tundra Oil and Gas Limited);

"MICC" means The Mortgage Insurance Company of Canada, a corporation governed by the Canadian and British Insurance Companies Act;

"NASCO" means Northern Allied Supply (Sudbury) Ltd., a corporation incorporated under the laws of the Province of Ontario;

"Newco Butterfly Shares" means special shares in the capital of Newco;

"Newco Redemption Note" means the non-interest bearing demand promissory note in the aggregate principal amount of the Utilities Cash Portion to be issued by Newco pursuant to the Arrangement in the form and on the terms of the note, a copy of which has been identified in writing by Central, Westcoast and ICG;

"Norcen" means Norcen Energy Resources Limited;

"Norcen Note" means the demand subordinated note dated October 27, 1975 and bearing interest at 7.6% per annum owing by Norcen to ICG;

"Option Agreement" means the agreement dated June 29, 1989 and made between Central and MICC pursuant to which Central granted to MICC an option to purchase the sole issued and outstanding Chancellor Common Share;

"Options" means all options issued and outstanding pursuant to the Employee Share Option Plan;

"Ordinary Shares" means the ordinary shares in the capital of ICG after giving effect to Section 3.1(t) of the Arrangement;

"Outstanding Common Shares" means the issued and outstanding Common Shares immediately prior to giving effect to the provisions of Section 3.1(e) of the Arrangement, other than Dissenting Shares;

"Pension and Benefits Agreement" means the pension and benefits agreement to be made among Westcoast, the Purchaser, ICG, Propane Corp. and Utilities Canada pursuant to which responsibility for, and the assets and liabilities relating to, the union and salaried pension and group benefit plans of ICG will be allocated amongst ICG, Utilities Canada and Propane Corp.;

"prior practice" means, when used with respect to Propane Corp. or the Propane Business, such practice as is consistent with the prior practice of ICG, its predecessors and NASCO in carrying on the Propane Business and, when used with respect to Utilities Canada or the Utilities Business, such practice as is consistent with the prior practice of ICG, Utilities Canada, the subsidiaries of Utilities Canada, and their predecessors in carrying on the Utilities Business;

"Propane Business" means the businesses of distributing and marketing propane, gasoline and related products, equipment and services and all operations ancillary thereto carried on by ICG, as successor to and in continuation of its predecessor bodies corporate and includes the business carried on by NASCO;

"Propane Cash Portion" means the lesser of (a) the Propane Total and (b) the product obtained by multiplying:

(i) the number of Outstanding Common Shares; by

(ii) the product obtained by multiplying:

(A) $21.00; by

(B) the Propane Factor;

"Propane Corp." means a corporation to be incorporated under the laws of Manitoba under the name ICG Propane Inc., which shall acquire the assets, property and undertaking of the Propane Business from ICG in accordance with the provisions of Section 6.1(e) hereof;

"Propane Debt Portion" means the Propane Total less the Propane Cash Portion;

"Propane Earnings" means the income (or loss) before income taxes (and after interest expense) of the Propane Business for the period commencing on January 1, 1989 and terminating on December 31, 1989, determined in accordance with GAAP consistently applied, less income taxes, if any, payable by NASCO in respect of its income during such period;

"Propane Factor" means (a) the quotient obtained by dividing the Propane Total by the sum of the Utilities Total and the Propane Total; for such purposes, the Propane Total and Utilities Total shall be determined on the basis that the references in the respective definitions thereof to Propane Earnings and Utilities Earnings were references to Estimated Propane Earnings and Estimated Utilities Earnings, respectively; or (b) such other amount (being greater than or equal to zero and less than or equal to one) as Westcoast and ICG may mutually agree upon in writing prior to the Effective Time;

"Propane Incorporation" means the completion of the transactions contemplated by Section 6.1(e) hereof;

"Propane 1988 Financial Statements" means the combined balance sheet as at December 31, 1988 and the related combined statement of income and combined statement of changes in financial position for the year ended December 31, 1988 for the Propane Business, together with the notes thereto, copies of which have been identified in writing by ICG and Westcoast;

"Propane Pro Forma Transactions" means the transactions contemplated by Sections 6.1(e), 6.1(f) and 6.2 of this Agreement;

"Propane Total" means the aggregate of (i) $220,800,000, (ii) (A) if the Propane Earnings equal or exceed $10,000,000, an amount equal to 50% of the Propane Earnings or (B) in any other event an amount equal to the Propane Earnings less $5,000,000 and (iii) $3,000,000;

"Required Cash Amount" has the meaning ascribed thereto in Section 2.4;

"Roll Down Agreement" means the agreement of purchase and sale to be made between ICG and Propane Corp. pursuant to which Propane Corp. shall acquire the assets, property and undertaking of the Propane Business from ICG in consideration for the issue by Propane Corp. to ICG of common shares of Propane Corp. and the assumption by Propane Corp. of the liabilities of ICG contemplated by Section 6.1(e) hereof pursuant to the provisions of the Roll Down Assumption Agreement;

"Roll Down Assumption Agreement" means the assumption agreement to be made between ICG and Propane Corp. pursuant to the Roll Down Agreement pursuant to which Propane Corp. shall assume the liabilities of ICG contemplated by Section 6.1(e) hereof;

"Second Preference Shares" means Second Preference shares six and one-half per cent (6½%) Series A and Second Preference shares seven and one-half per cent (7½%) Series B in the capital of ICG;

"Taxes" means except where inconsistent with the context, in relation to Chancellor, 2451417 or Newco, any and all taxes (including any and all interest, fines and penalties in respect thereof) of any nature imposed, levied, withheld or assessed on or with respect to the income, profits or gains or the capital of Chancellor, 2451417 or Newco by Canada or by any province thereof and excise taxes, import duties and federal and provincial sales taxes (including any and all interest, fines and penalties in respect of any of such taxes);

"Tax Ruling" means an advance income tax ruling from Revenue Canada, Taxation relating to the Arrangement and the other transactions contemplated hereby and corresponding rulings from provincial taxation authorities in Alberta, Ontario and Quebec, in each case in form and on terms satisfactory to each of the parties hereto when obtained and as at the Effective Date;

"Termination Date" means April 2, 1990 or such later date as may be determined in accordance with the provisions of Section 11.5;

"Third Party" has the meaning ascribed thereto in Section 6.10 hereof;

"Third Preference Shares" means $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series in the capital of ICG;

"2451417 Common Shares" means common shares in the capital of 2451417;

"Utilities Assumption Agreement" means the assumption agreement to be made between ICG and Newco pursuant to the Utilities Purchase Agreement pursuant to which, in partial consideration for the transfer to Newco of all of the issued and outstanding common shares in the capital of Utilities Canada, Newco shall assume ICG Non-Trade Liabilities in an amount equal to the Utilities Debt Portion;

"Utilities Business" means the business, assets, property, liabilities, obligations and undertaking of Utilities Canada, on a consolidated basis, after giving effect to the Utilities Pro Forma Transactions;

"Utilities Canada" means ICG Utilities (Canada) Ltd., a corporation incorporated under the laws of Canada;

"Utilities Cash Portion" means the lesser of (a) the Utilities Total and (b) the product obtained by multiplying:

(i) the number of Outstanding Common Shares; by

(ii) the product obtained by multiplying:

(A) $21.00; by

(B) the Utilities Factor;

"Utilities Debt Portion" means the Utilities Total less the Utilities Cash Portion;

"Utilities Earnings" means the net after-tax earnings (or loss) of the Utilities Business for the period commencing on October 1, 1989 and terminating on December 31, 1989, determined in accordance with GAAP consistently applied;

"Utilities Factor" means the amount (being greater than or equal to zero and less than or equal to one) obtained by subtracting the Propane Factor from the whole number one;

"Utilities 1988 Financial Statements" means the combined balance sheet as at December 31, 1988 and the related combined statement of income and combined statement of changes in financial position for the year ended December 31, 1988 for the Utilities Business, together with the notes thereto, copies of which have been identified in writing by ICG and Westcoast;

"Utilities Pro Forma Transactions" means the transactions contemplated by Sections 6.1(a), (b), (c) and (d) and 6.2 of this Agreement;

"Utilities Purchase Agreement" means the agreement of purchase and sale to be made between ICG and Newco pursuant to which Newco shall acquire all of the issued and outstanding common shares of Utilities Canada from ICG in consideration for issue by Newco to ICG of the Newco Butterfly Shares and the assumption by Newco of ICG Non-Trade Liabilities in an amount equal to the Utilities Debt Portion pursuant to the Utilities Assumption Agreement;

"Utilities Regions" means each of the provinces of Manitoba, Alberta, Ontario and British Columbia;

"Utilities Subsidiaries" means, collectively, the entities identified in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof;

"Utilities Total" means the aggregate of (i) $462,000,000, (ii) an amount equal to the Utilities Earnings, and (iii) $9,000,000;

"Warrants" means share purchase warrants to be created and issued by MICCI pursuant to the Warrant Agreement; and

"Warrant Agreement" means the agreement to be made between MICCI and a warrant agent, pursuant to which MICCI shall create and issue share purchase warrants entitling the holders thereof, in the aggregate, upon the exercise of such warrants in accordance with their terms, to purchase, for a purchase price of $25.00 per Class C 8% Convertible Preference Share of ICG, that proportion of the Class C 8% Convertible Preference Shares of ICG held by MICCI immediately after giving effect to the provisions of Section 3.1(t) of the Arrangement which is equal to the quotient obtained by dividing (i) the number of Ordinary Shares, other than Dissenting Shares, outstanding immediately after giving effect to the provisions of Section 3.1(t) of the Arrangement held by persons other than MICCI by (ii) the number of Ordinary Shares, other than Dissenting Shares, outstanding immediately after giving effect to the provisions of Section 3.1(t) of the Arrangement.

1.2 Subsidiaries and Affiliates

For the purposes of this Agreement a company (as such term is defined in the *Securities Act* (Ontario)) shall be and be deemed to be a subsidiary or affiliate of another company if the former company is a subsidiary or affiliate, as the case may be, of the latter company for purposes of the *Securities Act* (Ontario).

1.3 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada unless otherwise specified.

1.4 Interpretation Not Affected by Headings, etc.

The division of this Agreement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof" and "hereunder" and similar expressions refer to this Agreement and the exhibit hereto and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.5 **Number, etc.**

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa; words importing the use of any gender shall include both genders; and words importing persons shall include firms and corporations.

1.6 **Date for Any Action**

In the event that any date on which any action is required to be taken hereunder by the parties hereto is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day in such place.

1.7 **Letters of Understanding**

This Agreement supersedes the letters of understanding dated July 4, 1989 made between Westcoast and ICG and Westcoast and Central, respectively, and such letters of understanding shall be of no further force or effect as between the parties thereto. There are no representations, warranties, agreements, covenants or conditions with respect to the subject matter hereof except as contained herein or in any other written agreement, document or instrument signed and delivered contemporaneously with the execution and delivery of this Agreement or contemplated by or referred to in this Agreement provided, for greater certainty, that any such written agreement, document or instrument shall be binding only upon the party or parties which have executed the same.

1.8 **The Date Hereof**

The phrase "the date hereof" as used in this Agreement refers to December 11, 1989.

ARTICLE II

THE ARRANGEMENT

2.1 **The Arrangement**

As soon as reasonably practicable ICG, Chancellor and 2451417 shall apply to the Court pursuant to Section 185 of the Act for an Interim Order providing for, among other things, the calling and holding of the ICG Special Meeting for the purpose of considering and, if deemed advisable, approving the Arrangement. If the approval of the Arrangement as set out in the Interim Order is obtained, as soon as reasonably practicable thereafter, ICG, Chancellor and 2451417 shall take the necessary steps to submit the Arrangement to the Court and apply for the Final Order in such fashion as the Court may direct. If such Final Order is obtained, as soon as reasonably practicable thereafter, and subject to the provisions of Section 2.4 and the fulfilment or waiver of each of the conditions set forth in Article XI hereof, ICG, Chancellor and 2451417 shall file, pursuant to Section 185(12) of the Act, articles of arrangement with respect to the Arrangement.

2.2 **Consideration payable by the Purchaser for 2451417 Common Shares pursuant to the Arrangement**

The consideration for the transfer to the Purchaser of all of the issued and outstanding 2451417 Common Shares pursuant to the Arrangement shall be the Utilities Cash Portion.

2.3 **Consideration payable by the Purchaser for Chancellor Preference Shares pursuant to the Arrangement**

The consideration for the transfer to the Purchaser or, if the Purchaser has assigned certain of its rights and obligations under this Agreement pursuant to and in accordance with Section 13.5, to the Designated Propane Nominee, of all of the issued and outstanding Chancellor Preference Shares pursuant to the Arrangement shall be the Propane Cash Portion.

2.4 **Depositary and Funding Matters**

(a) Not less than five Business Days prior to the intended Effective Date, ICG shall advise Westcoast and the Purchaser of the date which is intended to constitute the Effective Date. At the same time ICG will provide to Westcoast and the Purchaser a statement showing ICG's calculation of the estimated Required Cash Amount (as defined in Section 2.4(b)), showing the calculation described in Section 2.4(b) and a statement showing the estimate by ICG of all amounts not included in the Required Cash Amount and required to be paid by Propane Corp. and Newco on the Effective Date pursuant to

the Roll Down Assumption Agreement and the Utilities Assumption Agreement, respectively (the "Additional Amounts"). Westcoast and the Purchaser jointly and severally covenant and agree with ICG to deliver to ICG the Bank Confirmation Letter not less than two Business Days prior to the intended Effective Date.

(b) Westcoast and the Purchaser shall deliver to the Depositary at 88 University Avenue, Suite 600, Toronto, Ontario, or at such other office of the Depositary as Westcoast, the Purchaser and ICG may agree in writing, at the Effective Time immediately available funds in an amount (the "Required Cash Amount") equal to the difference between:

(i) the sum of the Utilities Total and the Propane Total (calculated on the basis that the references in the respective definitions of such terms to Utilities Earnings and Propane Earnings were references to the Estimated Utilities Earnings and Estimated Propane Earnings, respectively); and

(ii) the sum of:

(A) an amount equal to that portion of ICG Non-Trade Liabilities to be assumed by Newco pursuant to the Utilities Assumption Agreement which Newco is not required to pay and discharge on the Effective Date in accordance with the terms of the Utilities Assumption Agreement (provided that for the purposes of determining such amount, the amount of ICG Non-Trade Liabilities to be assumed by Newco thereunder shall be calculated on the basis that Propane Earnings were equal to Estimated Propane Earnings and Utilities Earnings were equal to Estimated Utilities Earnings); and

(B) an amount equal to that portion of ICG Non-Trade Liabilities to be assumed by Propane Corp. pursuant to the Roll Down Assumption Agreement which Propane Corp. is not required to pay and discharge on the Effective Date in accordance with the terms of the Roll Down Assumption Agreement (provided that for the purposes of determining such amount, the amount of ICG Non-Trade Liabilities to be assumed by Propane Corp. thereunder shall be calculated on the basis that Propane Earnings were equal to Estimated Propane Earnings and Utilities Earnings were equal to Estimated Utilities Earnings).

(c) ICG, Westcoast and the Purchaser shall enter into an agreement with the Depositary prior to the Effective Date which shall provide that on the Effective Date, the Depositary shall apply the funds delivered to it in accordance with the provisions of this Section 2.4 as follows:

(i) an amount equal to the Utilities Cash Portion shall be set aside by the Depositary for distribution, subject to any withholdings or deductions required by Section 116 of the Canadian Tax Act or Section 3406 of the United States Internal Revenue Code of 1986, pursuant to the Arrangement in accordance with the provisions of Section 3.1(q) of the Arrangement; such funds shall be and be deemed for all purposes of this Agreement and the Arrangement to have been paid by the Purchaser to the persons entitled thereto in accordance with such provisions of the Arrangement; any amounts so withheld or deducted by the Depositary shall be applied by the Depositary in accordance with the provisions of Section 116 of the Canadian Tax Act or Section 3406 of the United States Internal Revenue Code of 1986;

(ii) an amount equal to the Propane Cash Portion shall be set aside by the Depositary for distribution, subject to any withholdings or deductions required by Section 116 of the Canadian Tax Act or Section 3406 of the United States Internal Revenue Code of 1986, pursuant to the Arrangement in accordance with the provisions of Section 3.1(r) of the Arrangement; such funds shall be and be deemed for all purposes of this Agreement and the Arrangement to have been paid by the Purchaser or, if the Purchaser has assigned certain of its rights and obligations under this Agreement pursuant to and in accordance with the provisions of Section 13.5 hereof, by the Designated Propane Nominee, to the persons entitled thereto in accordance with such provisions of the Arrangement; any amounts so withheld or deducted by the Depositary shall be applied by the Depositary in accordance with the provisions of Section 116 of the Canadian Tax Act or Section 3406 of the United States Internal Revenue Code of 1986;

(iii) an amount equal to the difference between the Utilities Debt Portion and the amount referred to in Section 2.4(b)(ii)(A) shall be and be deemed for all purposes hereof to constitute advances made

immediately after the completion of the transactions contemplated by Section 3.1 of the Arrangement by the Purchaser to 2451417 (for the purchase by the Purchaser of shares of 2451417 to be subscribed for and purchased by the Purchaser immediately following the Effective Time) and shall be paid and applied on the Effective Date immediately following the Effective Time, at the direction of ICG and for the account of 2451417, in payment and satisfaction of ICG Non-Trade Liabilities assumed by Newco pursuant to the Utilities Assumption Agreement; and

(iv) an amount equal to the difference between the Propane Debt Portion and the amount referred to in Section 2.4(b)(ii)(B) shall be and be deemed for all purposes hereof to constitute advances made immediately after the completion of the transactions contemplated by Section 3.1 of the Arrangement by the Purchaser or, if the Purchaser has assigned certain of its rights and obligations under this Agreement pursuant to and in accordance with the provisions of Section 13.5 hereof, by the Designated Propane Nominee, to Propane Corp. and shall be paid and applied on the Effective Date immediately after the Effective Time, at the direction of ICG and for the account of Propane Corp., in payment and satisfaction of ICG Non-Trade Liabilities assumed by Propane Corp. pursuant to the Roll Down Assumption Agreement.

(d) Westcoast and the Purchaser shall pay or cause to be paid on the Effective Date immediately after the Effective Time all Additional Amounts.

ARTICLE III

Representations and Warranties of ICG

A. Representations and Warranties with Respect to ICG

ICG represents and warrants to Westcoast and the Purchaser as follows:

3.1 Organization of ICG

ICG has been duly incorporated and is a validly existing corporation under the laws of the Province of Manitoba and has the corporate power and authority to own, operate and lease its properties and assets relating to the Propane Business and the Utilities Business and to carry on the Propane Business and the Utilities Business as such businesses are now being carried on by it.

3.2 Authorization of Agreement of ICG

ICG has the corporate power and authority to enter into this Agreement and, subject to the Interim Order and the Final Order and obtaining the requisite approvals contemplated hereby and thereby, to perform its obligations hereunder and under the Arrangement. This Agreement has been duly executed and delivered by ICG and constitutes a valid and binding obligation of ICG enforceable against it in accordance with its terms, subject to the availability of equitable remedies and the enforcement of creditors' rights generally. The execution and delivery of this Agreement by ICG and the consummation by ICG of the transactions contemplated hereby and by the Arrangement have been duly authorized by the Board of Directors of ICG and do not contravene:

(a) the articles or by-laws of ICG; or

(b) any applicable laws, the contravention of which could reasonably be expected to (i) prevent or hinder the completion of the Arrangement or the Propane Incorporation or (ii) prevent or materially hinder the completion of any other transaction contemplated by this Agreement; or

(c) except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument, written or oral, to which ICG is a party or by which it may be bound, the contravention of which could reasonably be expected to (i) prevent or hinder the completion of the Arrangement or the Propane Incorporation or (ii) prevent or materially hinder the completion of any other transaction contemplated by this Agreement.

3.3 Capitalization of ICG

The authorized capital of ICG consists of (i) an unlimited number of Common Shares, (ii) 600,000 shares designated as first preference shares, issuable in series, of which 110,000 are designated as First Preference Shares,

265,000 are designated as first preference shares series B and 200,000 are designated as first preference shares series C, (iii) 262,468 shares designated as second preference shares, issuable in series, of which 125,000 are designated as second preference shares series A and 100,000 are designated as second preference shares series B, and (iv) 10,000,000 shares designated as third preference shares, issuable in series, of which 3,000,000 are Third Preference Shares. As of October 31, 1989, (i) 23,702,332 Common Shares, 87,140 First Preference Shares, 63,197 second preference shares series A, 59,395 second preference shares series B and 2,727,527 Third Preference Shares were issued and outstanding as fully paid and non-assessable shares, (ii) 4,000,000 Common Shares were reserved for issuance in connection with the Employee Share Option Plan (iii) 5,220,000 Common Shares were reserved for issuance in connection with the conversion rights attaching to the Third Preference Shares, (iv) 1,000,000 Common Shares were reserved for issuance in connection with the Employee Share Ownership Plan and (v) 1,000,000 Common Shares were reserved for issuance in connection with the Dividend Reinvestment and Share Purchase Plan. Except for the shares in the capital of ICG issuable pursuant to the Employee Share Option Plan, the Employee Share Ownership Plan and the Dividend Reinvestment and Share Purchase Plan, upon conversion of the Third Preference Shares or otherwise pursuant to the Arrangement in order to give effect thereto, there are no options, warrants or other rights, agreements or commitments outstanding that obligate ICG to issue any shares in its capital or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of unissued shares in its capital. The paid up capital for purposes of the Canadian Tax Act of the issued and outstanding Common Shares immediately prior to the completion of the exchange contemplated by Section 3.1(e) of the Arrangement will not be more than $10.00 per Common Share.

3.4 Employee Share Option Plan, Employee Share Ownership Plan and Dividend Reinvestment and Share Purchase Plan

As at October 31, 1989, 749,613 Common Shares are issuable pursuant to options outstanding pursuant to the Employee Share Option Plan. No more than 100,000 Common Shares will be issued after the date hereof and prior to the Effective Date pursuant to the Employee Share Ownership Plan and no more than 1,000,000 Common Shares will be issued after the date hereof and prior to the Effective Date pursuant to the Dividend Reinvestment and Share Purchase Plan.

3.5 Litigation

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof and except for any proceedings or investigations commenced in order to satisfy the conditions set forth in Article XI, (a) there are no actions, suits, proceedings or investigations commenced or to the knowledge of ICG contemplated or threatened against or affecting ICG or any of its subsidiaries at law or in equity, before or by any governmental department, commission, board, bureau, court, agency, arbitrator or instrumentality, domestic or foreign, of any kind and (b) to the knowledge of ICG, there are no existing facts or conditions which could reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations which, in either case, individually or in the aggregate, could reasonably be expected to (i) prevent or hinder the completion of the Arrangement or the Propane Incorporation or (ii) prevent or materially hinder the completion of any other transactions contemplated by this Agreement.

3.6 Financial Statements

The Audited 1988 Financial Statements have been prepared in accordance with GAAP, consistently applied (except as and to the extent noted therein) and present fairly and disclose, on a consolidated basis, the assets, liabilities and the financial position of ICG as of the date thereof and the results of its operations for the 12 month period then ended. The value at which the Itron Securities were carried on the books of CHL Holdings Inc. as at October 31, 1989 was as disclosed in writing by ICG to Westcoast on or prior to the date hereof.

3.7 Compliance with Letter of Understanding

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof or as otherwise contemplated by this Agreement, since August 3, 1989, ICG and its subsidiaries have not taken any action, directly or indirectly, with the intention of adversely affecting the approval of the Arrangement or the completion of the transactions contemplated hereby and, without limiting the generality of the foregoing, ICG has

complied in all material respects with all of the provisions to be complied with by ICG which are contained in the Letter of Understanding dated July 4, 1989 between ICG and Westcoast.

B. Representations and Warranties with Respect to Utilities Canada

ICG represents and warrants to Westcoast and the Purchaser as follows:

3.8 Organization of Utilities Canada

Each of Utilities Canada and the Utilities Subsidiaries (a) has been duly incorporated and is a validly existing corporation under the laws of its jurisdiction of incorporation and has the corporate power and authority to own, operate and lease its properties and assets and to carry on its business as it is now being conducted and (b) is duly registered, licensed or qualified as an extra-provincial or foreign corporation, and is up-to-date in the filing of all corporate and similar returns, under the laws of each jurisdiction in which a material portion of the Utilities Business is carried on and in which the nature of the business conducted or the assets owned or leased by it makes such registration, licensing or qualification necessary. Utilities Canada has no subsidiaries other than the Utilities Subsidiaries, ICG Energy Marketing Inc., ICG Utilities (Northwest Territories) Ltd., Daly Gas Storage Ltd., Lantern Hill Farms Limited, ICG Engineering (New Brunswick) Ltd., ICG Brunswick Gas (1985) Inc., ICG Scotia Gas Ltd. and ICG Co-Gen Ltd.

3.9 Capitalization of Utilities Canada

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, or as otherwise contemplated by this Agreement, (a) the authorized capital of Utilities Canada consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 388,128 common shares, 808 preference shares, series A, 6,395 preference shares, Series B and 208,101 preference shares, Series C are issued and outstanding as fully paid and non-assessable shares; (b) all of the issued and outstanding shares of Utilities Canada are beneficially owned by ICG free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever; (c) each of the Utilities Subsidiaries is a wholly-owned, direct or indirect subsidiary of Utilities Canada and the shares of each of the Utilities Subsidiaries held by Utilities Canada or a Utilities Subsidiary are held free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever; and (d) there are no options, warrants or other rights, agreements or commitments outstanding that obligate Utilities Canada or any of the Utilities Subsidiaries to issue any shares in their respective capital or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of unissued shares in their respective capital. Pursuant to the Arrangement, all common shares of Utilities Canada will, on the Effective Date, be transferred by ICG to Newco free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever.

3.10 Utilities 1988 Financial Statements

The Utilities 1988 Financial Statements present fairly the assets, liabilities and financial position of the Utilities Business as at December 31, 1988 and the results of its operations for the 12 month period ended December 31, 1988, in accordance with GAAP, consistently applied (except as and to the extent noted therein).

3.11 Assets of Utilities Canada

(a) The Utilities 1988 Financial Statements reflect all of the assets and undertaking required to carry on the Utilities Business as at December 31, 1988 consistent with prior practice. Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, Utilities Canada and the Utilities Subsidiaries hold, or upon completion of the Utilities Pro Forma Transactions, will hold, all of the assets and undertaking reflected on the balance sheet forming part of the Utilities 1988 Financial Statements, subject only to such additions to or dispositions of such assets and undertaking as have occurred in the ordinary course of business consistent with prior practice during the period between December 31, 1988 and the Effective Date. Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, Utilities Canada and the Utilities Subsidiaries hold, or upon completion of the Utilities Pro Forma Transactions, will hold, such right, title and interest in and to the assets and undertaking used in connection with the Utilities Business as may be requisite for the carrying on of such business consistent with prior practice;

(b) the assets of Inter-City Minnesota Pipelines Ltd. located in the United States have an aggregate book value of less than $15,000,000 (U.S.). The assets of ICG Energy Marketing Inc. have an aggregate book value of less than $25,000,000 (U.S.). The assets of ICG Energy Marketing Inc. located in the United States have an aggregate book value of less than $15,000,000 (U.S.). The annual net sales of ICG Energy Marketing Inc. for its most recently completed fiscal year were less than $25,000,000 (U.S.). ICG and its subsidiaries own, on a fully diluted basis, less than 50% of the outstanding voting shares of Itron, Inc. and ICG does not have the contractual right to designate a majority of the directors of Itron, Inc.; and

(c) the Alberta Marketing Operations (a) constitute all of the common stream agreements, gas purchase agreements, transportation agreements, meter equipment and other rights and assets ("marketing operations") owned by ICG or any of its subsidiaries (other than Utilities Canada and its subsidiaries) and used exclusively in connection with the carrying on of the Utilities Business and (b) represent marketing operations reflected in the Utilities 1988 Financial Statements subject to such acquisitions or dispositions of marketing operations by ICG as have occurred in the ordinary course of carrying on of the Utilities Business consistent with prior practice since December 31, 1988.

3.12 **Dispositions of Assets by Utilities Canada**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither Utilities Canada nor any of the Utilities Subsidiaries has, since December 31, 1988, disposed of or agreed to dispose of any assets at less than the fair market value of such assets other than assets which, in the aggregate, were or would be disposed of for an aggregate amount which is not more than $50,000 less than the aggregate fair market value of such assets. Except for sales of assets in the ordinary course of business consistent with prior practice or as otherwise disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, no person, firm or corporation has any agreement or option or commitment or any right or privilege (whether by law or contract) capable of becoming an agreement or option or commitment for the purchase from Utilities Canada or any of the Utilities Subsidiaries of any assets which are, individually or in the aggregate, material to the carrying on of the Utilities Business as a whole or in any of the Utilities Regions, consistent with prior practice.

3.13 **Acquisition of Assets by Utilities Canada**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither Utilities Canada nor any of its subsidiaries has, since December 31, 1988, acquired any assets which are, individually or in the aggregate, material to the carrying on of the Utilities Business as a whole or in any of the Utilities Regions, consistent with prior practice other than:

(a) assets of a nature or kind which are customarily included by regulatory authorities in setting the respective rate bases or costs of service for each of the utilities operations of the Utilities Business;

(b) assets acquired in the ordinary course of conducting the Utilities Business consistent with prior practice;

(c) assets acquired pursuant to the Utilities Pro Forma Transactions;

(d) assets acquired in the ordinary course of conducting the businesses acquired pursuant to the Utilities Pro Forma Transactions, consistent with prior practice; or

(e) assets acquired in the ordinary course of planning, designing, purchasing equipment for and constructing the co-generation project at Boise Cascade's facilities at Fort Frances, Ontario or related to engineering and feasibility studies concerning other co-generation projects.

3.14 **Liabilities of Utilities Canada**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither Utilities Canada nor any of its subsidiaries has or has agreed to have or, by reason of the consummation of the transactions contemplated hereby, will have or will have agreed to have any outstanding liabilities, contingent or otherwise (i) for borrowed money or (ii) otherwise than for borrowed money which aggregate (for Utilities Canada and all subsidiaries of Utilities Canada) in excess of $500,000, and neither Utilities Canada nor any subsidiary of Utilities Canada is or, by reason of the consummation of the transactions contemplated hereby, will be a party to or bound by any agreement of guarantee, support, indemnification, contribution (by way of capital or otherwise), assumption, or endorsement of, or any other similar commitment with respect to the obligations, liabilities

(contingent or otherwise) or indebtedness of any person which could represent a liability of Utilities Canada on a consolidated basis (unless such liabilities, when aggregated with the liabilities referred to in clause (ii) above, do not exceed $500,000), other than, in either case:

(a) those set out in the Utilities 1988 Financial Statements; and

(b) trade or business obligations (including obligations for borrowed money incurred after December 31, 1988) incurred in the ordinary course of the Utilities Business, consistent with prior practice, none of which has had or could reasonably be expected to have a material adverse effect on the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice.

No amount of any advances from ICG to ICG Brunswick Gas (1985) Inc. outstanding on December 31, 1988 or made thereafter has been repaid.

3.15 **Compliance**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither Utilities Canada nor any of the Utilities Subsidiaries is or, by reason of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, will be:

(a) in breach or violation of any of the terms or provisions of, or in default under, any indenture, mortgage, deed of trust, loan agreement or other agreement (written or oral) or instrument to which Utilities Canada or any of the Utilities Subsidiaries is a party or by which Utilities Canada or any of the Utilities Subsidiaries is bound or to which any of the properties or assets of Utilities Canada or any of the Utilities Subsidiaries is subject and there exists no state of facts which after notice or the passage of time, or both, would constitute such a default, breach or violation, except breaches, violations or defaults which, individually or in the aggregate, would not have a material adverse effect on the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice; or

(b) in breach or violation of any of the provisions of its articles, by-laws or resolutions or any statute or any order, rule or regulation of any court or government or governmental agency or authority having jurisdiction over Utilities Canada or any of the Utilities Subsidiaries or any of their properties or assets and there exists no state of facts which after notice or the passage of time, or both, would constitute such a breach or violation, except breaches or violations which, individually or in the aggregate, would not have a material adverse effect on the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice.

3.16 **Dividends or other Distributions**

No dividends or other distributions of any kind have been declared, paid or set aside for payment by Utilities Canada and no repayments of capital have been made by Utilities Canada (other than repayments of indebtedness at or below the amount at which such indebtedness is shown on the books of Utilities Canada) since December 31, 1988.

3.17 **Litigation**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof and except for any proceedings or investigations commenced in order to satisfy the conditions set out in Article XI, (a) there are no actions, suits, proceedings or investigations commenced or to the knowledge of ICG contemplated or threatened against or affecting ICG or any of its subsidiaries at law or in equity, before or by any governmental department, commission, board, bureau, court, agency, arbitrator or instrumentality, domestic or foreign, of any kind nor, (b) to the knowledge of ICG, are there any existing facts or conditions which could reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations which, in either case, individually or in the aggregate, could reasonably be expected to have a material adverse effect on the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice.

3.18 **Employment Contracts**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither Utilities Canada nor any of its subsidiaries has any employment contracts, whether written or oral, which cannot be

terminated without cause by Utilities Canada or such subsidiary, as the case may be, upon giving such notice as may be required by law and without the payment of any bonus, damages or penalty.

3.19 **No Misrepresentation**

The information set out in the Disclosure Filings relating to Utilities Canada and the Utilities Subsidiaries and their respective businesses and property was true, correct and complete in all material respects as of the dates specified therein and did not as of such dates contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they were made, with materiality assessed on the basis required in respect of such filings.

3.20 **Absence of Unusual Transactions and Events**

Except for matters contemplated by the Utilities Pro Forma Transactions, neither Utilities Canada nor any of its subsidiaries has, since December 31, 1988:

(a) made or suffered any change or changes in its financial condition, assets, liabilities or business which, individually or in the aggregate, have materially adversely affected or could reasonably be expected to materially adversely affect the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice; or

(b) suffered or incurred any damage, destruction or loss, whether or not covered by insurance, which has materially adversely affected or could reasonably be expected to materially adversely affect the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice.

3.21 **Non-Arm's Length Transactions**

(a) Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither Utilities Canada nor any of its subsidiaries has since December 31, 1988 made any payment or loan to, or has borrowed any monies from or is otherwise indebted to, any officer, director, employee, shareholder or any person not dealing at arm's length (within the meaning of the Canadian Tax Act) with any of the foregoing or any affiliate of any of the foregoing, except for (i) usual compensation payable in the ordinary course of business, consistent with prior practice, (ii) inter-company advances and repayments in the ordinary course of business, consistent with prior practice, and (iii) payments made or indebtedness incurred in respect of the provision of goods and services in the ordinary course of business, consistent with prior practice; and

(b) except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither Utilities Canada nor any of its subsidiaries is a party to any contract or agreement with any officer, director, employee, shareholder or any person not dealing at arm's length (within the meaning of the Canadian Tax Act) with any of the foregoing or any affiliate of any of the foregoing, except for (i) contracts of employment and contracts or agreements entered into in the ordinary course of business, consistent with prior practice, (ii) contracts and agreements in respect of inter-company advances in the ordinary course of business, consistent with prior practice and (iii) contracts or agreements in respect of the provision of goods and services in the ordinary course of business, consistent with prior practice.

3.22 **No Contaminants**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, none of ICG, Utilities Canada or any of the subsidiaries of Utilities Canada is aware, after due inquiry, of (a) any release of any hazardous substance or contaminant to the environment or (b) any disposal, deposit, or discharge of any hazardous substance or contaminant in the course of carrying on the Utilities Business which, in either case, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice.

3.23 **Tax Matters**

Each of Utilities Canada and the Utilities Subsidiaries has filed all tax returns required to be filed by it in all applicable jurisdictions and has paid all taxes, assessments, reassessments, penalties, interest and fines due and payable by it. Adequate provision has been made in the Utilities 1988 Financial Statements, for all taxes whether

relating to income, sales, real or personal property, or other types of taxes, including interest and penalties thereon, payable in respect of the business or assets of Utilities Canada and its subsidiaries for all periods up to December 31, 1988. Canadian federal income tax assessments have been issued to Utilities Canada and the Utilities Subsidiaries covering all past periods up to and including the fiscal year ended December 31, 1988 and such assessments, if any amounts were owing in respect thereof, have been paid, and only those fiscal years disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof remain open for reassessment of additional taxes. Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, there are no actions, suits or other proceedings or investigations or claims in progress, pending or threatened against Utilities Canada or any of the Utilities Subsidiaries in respect of any taxes, governmental charges or assessments and, in particular, there are no currently outstanding reassessments or written inquiries which have been issued or raised by any governmental authority relating to any such taxes, governmental charges and assessments. Utilities Canada and the Utilities Subsidiaries have withheld and remitted all amounts required to be withheld and remitted by them in respect of any taxes. Correct and complete copies of all federal income tax returns, including schedules thereto, filed by Utilities Canada and the Utilities Subsidiaries with Revenue Canada, Taxation for each of their last five fiscal years and all written communications relating thereto have been made available to Westcoast.

3.24 **Permits**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, each of Utilities Canada and the Utilities Subsidiaries holds all permits, licences, approvals and franchises (collectively, "permits") which it requires, or is required to have, to own its properties and assets and to carry on the business as presently conducted by it in a manner consistent with prior practice (which permits, other than those referred to in the balance of this sentence, are herein referred to as the "Material Utilities Permits"), other than permits required in connection with such properties or assets or such part of its business which, individually or in the aggregate, are not material to the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice. Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, all of the Material Utilities Permits are in full force and effect. Each of Utilities Canada and the Utilities Subsidiaries is in compliance in all material respects with all the terms and conditions relating to the Material Utilities Permits; and except for any proceedings in progress or pending in order to satisfy the conditions set out in Article XI, there are no proceedings in progress, pending or threatened which could reasonably be expected to result in revocation, cancellation, suspension or any adverse modification of the Material Utilities Permits.

3.25 **Ordinary Course of Business**

Except as otherwise contemplated by this Agreement, since December 31, 1988 ICG has caused the Utilities Business to be conducted in the ordinary course of business consistent with prior practice.

C. Representations and Warranties with Respect to the Propane Business

ICG represents and warrants to Westcoast and the Purchaser as follows:

3.26 **Corporate Power, Registration and Licensing**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, each of ICG and NASCO (a) has been duly incorporated and is a validly existing corporation under the laws of its jurisdiction of incorporation and has the corporate power and authority to own, operate and lease its properties and assets used in connection with the Propane Business and to carry on the Propane Business as it is now being conducted and (b) is duly registered, licensed or qualified as an extra-provincial or foreign corporation, and is up-to-date in filing of all corporate and similar returns, under the laws of each jurisdiction in which a material portion of the Propane Business is carried on and in which the nature of the Propane Business or the assets owned or leased by it for use in connection with the Propane Business makes such registration, licensing or qualification necessary. ICG has no subsidiaries which carry on the Propane Business or any part thereof other than NASCO.

3.27 **Capitalization of NASCO**

NASCO is a wholly-owned subsidiary of ICG, the outstanding shares of which are held by ICG free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever. There are no options, warrants or other rights, agreements or commitments outstanding that obligate ICG or NASCO to issue any shares or other

securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of unissued shares in the capital of NASCO.

3.28 **Propane 1988 Financial Statements**

The Propane 1988 Financial Statements present fairly the assets, liabilities and financial position of the Propane Business as at December 31, 1988 and the results of its operations for the 12 month period ended December 31, 1988 in accordance with GAAP, consistently applied (except as and to the extent noted therein).

3.29 **Assets of Propane Business**

(a) The Propane 1988 Financial Statements reflect all of the assets and undertaking required to carry on the Propane Business as at December 31, 1988 consistent with prior practice. Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, ICG and NASCO hold all of the assets and undertaking reflected on the balance sheet forming part of the Propane 1988 Financial Statements, subject only to such additions to or dispositions of such assets and undertaking as have occurred since December 31, 1988 in the ordinary course of business consistent with prior practice. Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, ICG and NASCO hold such right, title and interest in and to the assets and undertaking used in connection with the Propane Business as may be requisite for the carrying on of such business consistent with prior practice; and

(b) the assets of the Propane Business located in the United States have an aggregate book value of less than $15,000,000 (U.S.).

3.30 **Dispositions of Assets of Propane Business**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither ICG nor NASCO has, since December 31, 1988, disposed or agreed to dispose of any assets of the Propane Business at less than the fair market value of such assets other than assets which, in the aggregate, were or would be disposed of for an aggregate amount which is not more than $50,000 less than the aggregate fair market value of such assets. The proceeds received by ICG or NASCO after December 31, 1988 in the carrying on of the Propane Business, whether received in connection with any disposition of assets, the provision of any services or otherwise, constitute, and have been accounted for as, assets of the Propane Business or have been applied to the payment of expenses of the Propane Business in the ordinary course of business, consistent with prior practice, and, for greater certainty, have not been applied to reduce any indebtedness of ICG other than indebtedness of the type to be assumed by Propane Corp. as described in Section 6.1(e)(ii) or (b) so as to form part of the assets of ICG which do not constitute assets of the Propane Business. Except for sales of assets in the ordinary course of business consistent with prior practice, or as otherwise disclosed in this Agreement or in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, no person, firm or corporation has any agreement or option or commitment or any right or privilege (whether by law or contract) capable of becoming an agreement or option or commitment for the purchase from ICG or NASCO of any assets used in connection with the Propane Business which are, individually or in the aggregate, material to the carrying on of the Propane Business consistent with prior practice.

3.31 **Acquisition of Assets by ICG and NASCO**

Neither ICG nor NASCO has, since December 31, 1988, acquired any assets which are, individually or in the aggregate, material to the carrying on of the Propane Business consistent with prior practice other than assets acquired in the ordinary course of conducting the Propane Business consistent with prior practice.

3.32 **Liabilities of Propane Business**

Neither ICG nor NASCO has or has agreed to have or, by reason of the consummation of the transactions contemplated hereby, will have or will have agreed to have any outstanding liabilities, contingent or otherwise which would on completion of the Propane Incorporation form part of the liabilities of Propane Corp. on a consolidated basis, (i) for borrowed money or (ii) otherwise than for borrowed money which aggregate in excess of $250,000, and neither ICG nor NASCO is or, by reason of the consummation of the transactions contemplated hereby, will be a party to or bound by any agreement of guarantee, support, indemnification, contribution (by way of capital or otherwise), assumption, or endorsement of, or any other similar commitment with respect to the obligations,

liabilities (contingent or otherwise) or indebtedness of any person which would on completion of the Propane Incorporation represent a liability of Propane Corp. on a consolidated basis (unless such liabilities, when aggregated with the liabilities referred to in clause (ii) above, do not exceed $250,000), other than, in either case:

(a) those set out in the Propane 1988 Financial Statements; and

(b) trade or business obligations (including obligations for borrowed money incurred after December 31, 1988) incurred in the ordinary course of the Propane Business, consistent with prior practice, none of which has had or could reasonably be expected to have a material adverse effect on the carrying on of the Propane Business consistent with prior practice.

3.33 **Compliance**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither ICG nor NASCO is or, by reason of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, will be:

(a) in breach or violation of any of the terms or provisions of, or in default under, any indenture, mortgage, deed of trust, loan agreement or other agreement (written or oral) or instrument relating to the Propane Business to which ICG or NASCO is a party or by which ICG or NASCO is bound or to which any of the properties or assets of ICG or NASCO used in connection with the Propane Business is subject and there exists no state of facts which after notice or the passage of time, or both, would constitute such a default, breach or violation, except breaches, violations or defaults which, individually or in the aggregate, would not have a material adverse effect on the carrying on of the Propane Business consistent with prior practice; or

(b) in breach or violation of any of the provisions of its articles, by-laws or resolutions or any statute (limited as to ICG to any statute relating to the carrying on of the Propane Business) or any order, rule or regulation of any court or government or governmental agency or authority having jurisdiction over ICG or NASCO or any of their properties or assets relating to the Propane Business and there exists no state of facts which after notice or the passage of time, or both, would constitute such a breach or violation, except breaches or violations which, individually or in the aggregate, would not have a material adverse effect on the carrying on of the Propane Business consistent with prior practice.

3.34 **Dividends or Other Distributions by NASCO**

No dividends or other distributions of any kind have been declared, paid or set aside for payment by NASCO and no repayments of capital have been made by NASCO and no repayment of indebtedness has been made by NASCO or by ICG with respect to any indebtedness which constituted indebtedness of the Propane Business (other than repayments of indebtedness at or below the amount at which such indebtedness is shown on the books of NASCO or the Propane Business) since December 31, 1988.

3.35 **Employment Contracts**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither ICG nor NASCO has any employment contracts, whether written or oral, with any individual employed in connection with the Propane Business which cannot be terminated without cause by ICG or NASCO, as the case may be, upon giving such notice as may be required by law and without the payment of any bonus, damages or penalty.

3.36 **No Misrepresentation**

The information set out in the Disclosure Filings relating to the Propane Business is true, correct and complete in all material respects as of the date specified therein and did not, as of such dates, contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they were made, with materiality assessed on the basis required in respect of such filings.

3.37 **Absence of Unusual Transactions and Events**

Except for matters contemplated by the Propane Pro Forma Transactions, neither ICG nor NASCO has, since December 31, 1988:

(a) made or suffered any change or changes in its financial condition, assets, liabilities or business of or relating to the Propane Business which, either individually or in the aggregate, have materially adversely affected or could reasonably be expected to materially adversely affect the carrying on of the Propane Business consistent with prior practice; or

(b) suffered or incurred any damage, destruction or loss, whether or not covered by insurance, which has materially adversely affected or could reasonably be expected to materially adversely affect the carrying on of the Propane Business consistent with prior practice.

3.38 **Non-Arm's Length Transactions**

(a) Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither ICG nor NASCO has since December 31, 1988 made any payment or loan to, or has borrowed any monies from or is otherwise indebted to, any employee employed in the Propane Business or any officer or director of NASCO, or any person not dealing at arm's length (within the meaning of the Canadian Tax Act) with any of the foregoing, or any affiliate of any of the foregoing, except for (i) usual compensation payable in the ordinary course of business, consistent with prior practice, (ii) inter-company advances and repayments in the ordinary course of business, consistent with prior practice and (iii) payments made or indebtedness incurred in respect of the provision of goods and services in the ordinary course of business, consistent with prior practice; and

(b) neither ICG nor NASCO is a party to any contract or agreement with any employee employed in the Propane Business or any officer or director of NASCO, or any person not dealing at arm's length (within the meaning of the Canadian Tax Act) with any of the foregoing, or any affiliate of any of the foregoing, except for (i) contracts of employment and contracts or agreements entered into in the ordinary course of business, consistent with prior practice, (ii) contracts and agreements in respect of inter-company advances in the ordinary course of business, consistent with prior practice and (iii) contracts or agreements in respect of the provision of goods and services in the ordinary course of business, consistent with prior practice.

3.39 **No Contaminants**

Neither ICG nor NASCO is aware, after due inquiry, of (a) any release of any hazardous substance or contaminant to the environment or (b) any disposal, deposit, or discharge of any hazardous substance or contaminant in the course of carrying on the Propane Business which, in either case, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on the carrying on of the Propane Business consistent with prior practice.

3.40 **Permits**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, each of ICG and NASCO holds all permits, licences, approvals and franchises (collectively, "permits") which it requires, or is required to have, to own its properties and assets used in connection with the Propane Business and to carry on the Propane Business as presently carried on by it in a manner consistent with prior practice (which permits, other than those referred to in the balance of this sentence, are herein referred to as the "Material Propane Permits"), other than permits required in connection with such properties or assets or such part of the Propane Business which, individually or in the aggregate, are not material to the carrying on of the Propane Business consistent with prior practice. All the Material Propane Permits are in full force and effect. Each of ICG and NASCO is in compliance in all material respects with all the terms and conditions relating to the Material Propane Permits; and there are no proceedings in progress, pending or threatened which could reasonably be expected to result in revocation, cancellation, suspension or any adverse modification of any of the Material Propane Permits.

3.41 **Ordinary Course of Business**

Except as otherwise contemplated by this Agreement, since December 31, 1988 ICG has caused the Propane Business to be conducted in the ordinary course of business consistent with prior practice.

D. Representations and Warranties with Respect to Propane Corp.

ICG hereby covenants and agrees with Westcoast and the Purchaser that the following representations and warranties will be true and correct on the date of completion of the Propane Incorporation, each of which shall from and after that date be treated for all purposes of this Agreement as a representation and warranty of ICG:

3.42 **Organization of Propane Corp.**

Propane Corp. (a) has been duly incorporated and is a validly existing corporation under the laws of its jurisdiction of incorporation and has the corporate power and authority to own, operate and lease its properties and assets and to carry on the Propane Business in a manner consistent with the prior practice of ICG and its affiliates and predecessor corporations and (b) is duly registered, licensed or qualified as an extra-provincial or foreign corporation under the laws of each jurisdiction in which the nature of the Propane Business conducted or the assets owned or leased by it makes such registration, licensing or qualification necessary and (c) is up-to-date in the filing of all corporate and similar returns, under the laws of the jurisdictions in which it carries on a material portion of the Propane Business, other than the filings of such returns which, individually or in the aggregate, are not material to the carrying on of the Propane Business consistent with prior practice. Propane Corp. has no subsidiaries other than NASCO.

3.43 **Capitalization of Propane Corp.**

All of the issued and outstanding shares of Propane Corp. are beneficially owned by ICG free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever. Pursuant to the Arrangement, all of such shares will, on the Effective Date, be transferred by ICG to Chancellor free and clear of all liens, charges, encumbrances, and adverse claims of any kind whatsoever. NASCO is a wholly-owned subsidiary of Propane Corp. and the shares of NASCO are held free and clear of all liens, charges encumbrances and adverse claims of any kind whatsoever. Except as required by this Agreement in order to effect the Arrangement, there are no options, warrants or other rights, agreements or commitments outstanding that obligate ICG or Propane Corp. to issue any shares in the capital of Propane Corp. or NASCO or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of unissued shares in the capital of Propane Corp. or NASCO.

3.44 **Assets of Propane Corp.**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof and subject only to such changes as have occurred in the ordinary course of business consistent with prior practice during the period between December 31, 1988 and the Effective Date, Propane Corp. and NASCO hold all of the assets and undertaking reflected on the balance sheet forming part of the Propane 1988 Financial Statements and all of the assets which are to be accounted for as assets of the Propane Business in accordance with the provisions of Section 3.30. Propane Corp. and NASCO hold such right, title and interest in and to the assets and undertaking used in connection with the Propane Business as may be requisite for the carrying on of such business consistent with prior practice.

3.45 **Dispositions of Assets by Propane Corp.**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, none of ICG, NASCO or Propane Corp. has, since December 31, 1988, disposed or agreed to dispose of any assets of the Propane Business at less than the fair market value of such assets other than assets which, in the aggregate, were or would be disposed of for an aggregate amount which is not more than $50,000 less than the aggregate fair market value of such assets. Except for sales of assets in the ordinary course of business consistent with prior practice or as otherwise disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, no person, firm or corporation has any agreement or option or commitment or any right or privilege (whether by law or contract) capable of becoming an agreement or option or commitment for the purchase from Propane Corp. of any assets which are, individually or in the aggregate, material to the carrying on of the Propane Business consistent with prior practice.

3.46 **Acquisition of Assets by Propane Corp.**

Propane Corp. has not, since its incorporation, acquired any assets other than assets acquired by Propane Corp. in connection with the Propane Incorporation and assets acquired in the ordinary course of conducting the Propane Business consistent with prior practice.

3.47 **Undepreciated Capital Cost**

The aggregate undepreciated capital cost (as such term is defined for purposes of the Canadian Tax Act) of all depreciable property (as such term is defined for purposes of the Canadian Tax Act) of Propane Corp. and NASCO as at the Effective Date (calculated after giving effect to the filing of all tax returns required by the Canadian Tax Act for all periods ending on or prior to the Effective Date), shall be not less than $78,000,000, allocated amongst the various classes of assets established by the Canadian Tax Act for such purposes substantially in accordance with the report disclosed in writing by ICG to Westcoast on or prior to the date hereof.

3.48 **Liabilities of Propane Corp. and NASCO**

Propane Corp. does not have and has not agreed to have and will not, by reason of the consummation of the transactions contemplated hereby, have or have agreed to have any outstanding liabilities, contingent or otherwise, other than:

(a) obligations, liabilities or indebtedness assumed or to be assumed by Propane Corp. pursuant to the Roll Down Agreement or the Roll Down Assumption Agreement; and

(b) liabilities incurred after the Propane Incorporation in the ordinary course of carrying on the Propane Business, consistent with prior practice.

3.49 **Compliance**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, Propane Corp. is not, nor will it be, by reason of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby:

(a) in breach or violation of any of the terms or provisions of, or in default under, any indenture, mortgage, deed of trust, loan agreement or other agreement (written or oral) or instrument to which Propane Corp. is a party or by which Propane Corp. is bound or to which any of the properties or assets of Propane Corp. is subject and there exists no state of facts which after notice or the passage of time, or both, would constitute such a default, breach or violation, except breaches, violations or defaults which, individually or in the aggregate, would not have a material adverse effect on the carrying on of the Propane Business consistent with prior practice; or

(b) in breach or violation of any of the provisions of its articles, by-laws or resolutions or any statute or any order, rule or regulation of any court or government or governmental agency or authority having jurisdiction over Propane Corp. or any of its properties or assets and there exists no state of facts which after notice or the passage of time, or both, would constitute such a breach or violation, except breaches or violations which, individually or in the aggregate, would not have a material adverse effect on the carrying on of the Propane Business consistent with prior practice.

3.50 **Dividends or other Distributions**

No dividends or other distributions of any kind have been declared, paid or set aside for payment by Propane Corp. and no repayments of capital have been made by Propane Corp. (other than repayments of indebtedness at or below the amount at which such indebtedness is shown on the books of Propane Corp.), other than any amounts paid by Propane Corp. to ICG pursuant to and in accordance with the provisions of this Agreement or the agreements contemplated by Section 6.1(e).

3.51 **Litigation**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof and except for any proceedings or investigations commenced in order to satisfy the conditions set out in Article XI, (a) there are no actions, suits, proceedings or investigations commenced or to the knowledge of ICG contemplated or threatened against or affecting ICG or any of its subsidiaries in connection with the Propane Business, Propane

Corp. or NASCO at law or in equity, before or by any governmental department, commission, board, bureau, court, agency, arbitrator or instrumentality, domestic or foreign, of any kind and (b) to the knowledge of ICG, there are no existing facts or conditions which could reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations which, in either case, individually or in the aggregate, could reasonably be expected to have a material adverse effect on the carrying on of the Propane Business consistent with prior practice.

3.52 **Employment Contracts**

Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, Propane Corp. does not have any employment contracts, whether written or oral, which cannot be terminated without cause by Propane Corp. upon giving such notice as may be required by law and without the payment of any bonus, damages or penalty.

3.53 **Absence of Unusual Transactions and Events**

Except for matters contemplated by the Propane Pro Forma Transactions, Propane Corp. has not, since its incorporation:

(a) made or suffered any change or changes in its financial condition, assets, liabilities or business of or relating to the Propane Business which, individually or in the aggregate, have materially adversely affected or could reasonably be expected to materially adversely affect the carrying on of the Propane Business consistent with prior practice; or

(b) suffered or incurred any damage, destruction or loss, whether or not covered by insurance, which has materially adversely affected or could reasonably be expected to materially adversely affect the carrying on of the Propane Business consistent with prior practice.

3.54 **Non-Arm's Length Transactions**

(a) Except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, neither NASCO nor Propane Corp. has, since December 31, 1988, made any payment or loan to, or has borrowed any monies from or is otherwise indebted to, any officer, director, employee, shareholder or any person not dealing at arm's length (within the meaning of the Canadian Tax Act) with any of the foregoing or any affiliate of any of the foregoing except for (i) usual compensation payable in the ordinary course of business, consistent with prior practice, (ii) inter-company advances and repayments in the ordinary course of business, consistent with prior practice and (iii) payments made or indebtedness incurred in respect of the provision of goods and services in the ordinary course of business, consistent with prior practice; and

(b) neither NASCO nor Propane Corp. is a party to any contract or agreement with any officer, director, employee, shareholder or any person not dealing at arm's length (within the meaning of the Canadian Tax Act) with any of the foregoing or any affiliate of any of the foregoing, except for (i) contracts of employment and contracts or agreements entered into in the ordinary course of business, consistent with prior practice, (ii) contracts and agreements in respect of inter-company advances in the ordinary course of business, consistent with prior practice and (iii) contracts or agreements in respect of the provision of goods and services in the ordinary course of business, consistent with prior practice.

3.55 **No Contaminants**

Propane Corp. is not aware, after due inquiry, of (a) any release of any hazardous substance or contaminant to the environment or (b) any disposal, deposit, or discharge of any hazardous substance or contaminant in the course of carrying on the Propane Business which, in either case, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on the carrying on of the Propane Business consistent with prior practice.

3.56 **Tax Matters**

NASCO has filed all tax returns required to be filed by it in all applicable jurisdictions and has paid all taxes, assessments, reassessments, penalties, interest and fines due and payable by it. Adequate provision has been made in the Propane 1988 Financial Statements, for all taxes whether relating to income, sales, real or personal property, or other types of taxes, including interest and penalties thereon, payable in respect of the business or assets of NASCO

for all periods up to December 31, 1988. Canadian federal income tax assessments have been issued to NASCO covering all past periods up to and including the fiscal year ended December 31, 1988 and such assessments, if any amounts were owing in respect thereof, have been paid, and only the fiscal years subsequent to December 31, 1985 remain open for reassessment of additional taxes. Except as disclosed in writing by ICG to Westcoast and the Purchaser prior to the date hereof, there are no actions, suits or other proceedings or investigations or claims in progress, pending or threatened against ICG or NASCO in respect of any taxes, governmental charges or assessments relating to the Propane Business and, in particular, there are no currently outstanding reassessments or written inquiries which have been issued or raised by any governmental authority relating to any such taxes, governmental charges and assessments. ICG, Propane Corp. and NASCO have withheld and remitted all amounts required to be withheld and remitted by them in respect of any employees of the Propane Business or Propane Corp. Correct and complete copies of all federal income tax returns, including schedules thereto, filed by NASCO with Revenue Canada, Taxation for each of its last three fiscal years and all written communications relating thereto have been made available to Westcoast.

ARTICLE IV

Representations and Warranties of Central

Central hereby represents and warrants to Westcoast and the Purchaser and, in the case of Section 4.7 below, to Westcoast, the Purchaser and ICG, as follows:

4.1 Organization

Each member of the Central Group has been duly incorporated and is a validly existing corporation under the laws of its jurisdiction of incorporation. Each member of the Central Group has the corporate power and authority to own, operate and lease its properties and assets and to carry on its business as it is now being conducted.

4.2 Authorization of Agreement

Each member of the Central Group has the corporate power and authority to enter into this Agreement and, subject to the Interim Order and the Final Order and obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder. Each of Central and the Central Subsidiaries has the corporate power and authority to complete the transactions to be completed by it under the Arrangement. The performance of such obligations, including any transfers of shares among the Central Subsidiaries, does not result in, or constitute, a breach of any agreement to which Central or any of the Central Subsidiaries are parties. The execution and delivery of this Agreement by each member of the Central Group has been duly authorized by all necessary corporate action and this Agreement has been duly executed and delivered by each member of the Central Group and constitutes a valid and binding obligation of such member of the Central Group, enforceable against it in accordance with its terms, subject to the availability of equitable remedies and the enforcement of creditors' rights generally. Central shall cause each of the Central Subsidiaries to duly authorize by all necessary corporate action each of the transactions contemplated by the Arrangement to be completed by it.

4.3 Capitalization of Chancellor

The authorized capital of Chancellor consists of an unlimited number of common shares and an unlimited number of preference shares, of which one common share and 3,495,700 preference shares are issued and outstanding as fully paid and non-assessable shares. The sole issued and outstanding common share of Chancellor is beneficially owned by Central free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever other than the rights of MICC pursuant to the Option Agreement. All of the issued and outstanding preference shares of Chancellor are beneficially owned by MICC free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever. There are no options, warrants or other rights, agreements (other than this Agreement or the Arrangement) or commitments outstanding that obligate Chancellor to issue any shares in its capital or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of shares in its capital. No additional shares will be created or issued by Chancellor except as contemplated by this Agreement or the Arrangement. Upon the completion of the Arrangement in accordance with the provisions of this Agreement, all of the issued and outstanding preference shares of Chancellor and the sole issued and outstanding common share of Chancellor shall be beneficially owned by the Purchaser (or if the Purchaser has assigned certain of its rights and obligations under this Agreement pursuant to and in accordance with

the provisions of Section 13.5 hereof, shall be beneficially owned by the Designated Propane Nominee) free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever.

4.4 Capitalization of 2451417

The authorized capital of 2451417 consists of an unlimited amount of common shares, of which 4,675,000 common shares are issued and outstanding as fully paid and non-assessable shares. All of the issued and outstanding shares of 2451417 are beneficially owned by MICCI free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever. There are no options, warrants or other rights, agreements (other than this Agreement or the Arrangement) or commitments outstanding that obligate 2451417 to issue any shares in its capital or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of shares in its capital. No additional shares will be created or issued by 2451417 except as contemplated by this Agreement or the Arrangement. Upon the completion of the Arrangement in accordance with this Agreement, all of the issued and outstanding shares of 2451417 shall be beneficially owned by the Purchaser free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever.

4.5 Capitalization of Newco

The authorized capital of Newco consists of an unlimited amount of common shares, of which one common share is issued and outstanding as a fully paid and non-assessable share. The sole issued and outstanding share of Newco is beneficially owned by 2451417 free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever. There are no options, warrants or other rights, agreements (other than this Agreement or the Arrangement) or commitments outstanding that obligate Newco to issue any shares in its capital or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of shares in its capital. No additional shares will be created or issued by Newco except as contemplated by this Agreement or the Arrangement.

4.6 Beneficial Ownership of Common Shares and Third Preference Shares

Central and its subsidiaries are the beneficial owners, free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever, of that number of Common Shares and Third Preference Shares as set forth opposite their respective names below:

Central Group	Number of Common Shares	Number of Third Preference Shares
2451417	4,675,000	—
Chancellor	3,495,700	—
2451409 Manitoba Ltd.	2,399,700	—
Central Guaranty Trust Company	—	223,800

4.7 Litigation

Except for any proceedings or investigations commenced in order to satisfy the conditions set forth in Article XI, (a) there are no actions, suits, proceedings or investigations commenced or to the knowledge of any member of the Central Group contemplated or threatened against or affecting Central or any of the Central Subsidiaries at law or in equity, before or by any governmental department, commission, board, bureau, court, agency, arbitrator or instrumentality, domestic or foreign, of any kind and (b) to the knowledge of any member of the Central Group, there are no existing facts or conditions which could reasonably be expected to be a proper basis for any such actions, suits, proceedings or investigations, which, in either case, could reasonably be expected to prevent or materially hinder the completion of the Arrangement or the other transactions contemplated by this Agreement.

4.8 Assets of 2451417 and Newco

2451417 does not have any assets other than cash or other liquid investments in an aggregate amount not exceeding $1,000, 4,675,000 Common Shares and one common share in the capital of Newco beneficially owned by 2451417 free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever. Newco does not have any assets other than cash in an aggregate amount not exceeding $1,000. Upon completion of the Arrangement on the Effective Date, 2451417 will own all of the issued and outstanding common shares of Utilities

Canada free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever created by Central or any of the Central Subsidiaries or arising as a result of the Arrangement and will have no other assets, on an unconsolidated basis, other than cash or other liquid investments in an aggregate amount not exceeding $1,000.

4.9 **Liabilities of 2451417 and Newco**

Neither 2451417 nor Newco has or will have, on the Effective Date, as a result of or arising from the completion of the Utilities Pro Forma Transactions, the Arrangement or otherwise, any outstanding liabilities, contingent or otherwise, and neither 2451417 nor Newco is or will be on the Effective Date a party to or bound by any agreement of guarantee, support, indemnification, assumption, or endorsement of, or any other similar commitment with respect to the obligations, liabilities (contingent or otherwise) or indebtedness of any person, other than those contemplated by the Utilities Purchase Agreement, the Utilities Assumption Agreement, the Newco Redemption Note and Section 2.4.

Except for the Newco Redemption Note, as set forth in the Utilities Assumption Agreement and as contemplated by Section 2.4, 2451417 and Newco have not agreed to create or issue any bonds, debentures, notes, mortgages or other similar evidences of indebtedness.

4.10 **Assets of Chancellor**

Chancellor does not have any assets other than cash or other liquid investments in an aggregate amount not exceeding $1,000 and 3,495,700 Common Shares beneficially owned by Chancellor free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever. Upon completion of the Arrangement on the Effective Date, Chancellor will own all of the issued and outstanding shares of Propane Corp. free and clear of all liens, charges, encumbrances and adverse claims of any kind whatsoever created by Central or any of the Central Subsidiaries or arising as a result of the Arrangement and will have no other assets, on an unconsolidated basis, other than cash or other liquid investments in an aggregate amount not exceeding $1,000.

4.11 **Liabilities of Chancellor**

Chancellor does not have and will not have on the Effective Date, as a result of or arising from the completion of the Propane Pro Forma Transactions, the Arrangement or otherwise, any outstanding liabilities, contingent or otherwise, and Chancellor is not and will not be on the Effective Date a party to or bound by any agreement of guarantee, support, indemnification, assumption, or endorsement of, or any other similar commitment with respect to the obligations, liabilities (contingent or otherwise) or indebtedness of any person, other than those contemplated by the Chancellor Purchase Agreement and the Chancellor Redemption Note.

Except for the Chancellor Redemption Note, Chancellor has not agreed to create or issue any bonds, debentures, notes, mortgages or other similar evidences of indebtedness.

4.12 **Tax Matters**

Each of Chancellor, 2451417 and Newco has filed all tax returns required to be filed by it in all applicable jurisdictions and has paid all taxes, assessments, reassessments, penalties, interest and fines due and payable by it. There are no actions, suits or other proceedings or investigations or claims in progress, pending or threatened against Chancellor, 2451417 or Newco in respect of any taxes, governmental charges or assessments and, in particular, there are no currently outstanding reassessments or written inquiries which have been issued or raised by any governmental authority relating to any such taxes, governmental charges and assessments. Chancellor, 2451417 and Newco have withheld and remitted all amounts required to be withheld and remitted by them in respect of any taxes. Correct and complete copies of all Federal income tax returns, including schedules thereto, filed by Chancellor with Revenue Canada, Taxation for its last fiscal year and all written communications relating thereto have been provided to Westcoast. 2451417 and Newco have not filed any such return or conducted any written communications with Revenue Canada, Taxation except as provided to Westcoast.

4.13 **Employment Contracts**

Since June 1, 1989, none of Chancellor, 2451417 or Newco has carried on any business or employed any employees.

4.14 **Compliance with Letter of Understanding**

Central has complied in all material respects with all the provisions to be complied with by Central which are contained in the Letter of Understanding dated July 4, 1989 between Central and Westcoast.

4.15 **Tax Cost**

The adjusted cost base for purposes of the Canadian Tax Act to 2451417 and Chancellor of the Common Shares held by them, respectively, immediately prior to the completion of the exchanges contemplated by Section 3.1(e) of the Arrangement will not be less than $10.00 per Common Share.

4.16 **Ownership of Central Subsidiaries**

Each of the Central Subsidiaries is a direct or indirect subsidiary of Central.

ARTICLE V

Representations and Warranties of Westcoast and the Purchaser

Westcoast and the Purchaser jointly and severally represent and warrant to ICG and Central as follows:

5.1 **Organization**

Each of Westcoast and the Purchaser has been duly incorporated and is a validly existing corporation under the laws of its jurisdiction of incorporation and has at the date hereof and will have at the Effective Date the corporate power and authority to carry on its business as presently conducted by it.

5.2 **Authorization of Agreement**

Each of Westcoast and the Purchaser has the corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder and under the Arrangement. This Agreement has been duly executed and delivered by each of Westcoast and the Purchaser and constitutes a valid and binding obligation of each of Westcoast and the Purchaser enforceable against each of them in accordance with its terms, subject to the availability of equitable remedies and enforcement of creditors' rights generally. The execution and delivery of this Agreement by Westcoast and the Purchaser and the consummation by each of Westcoast and the Purchaser of the transactions contemplated hereby and by the Arrangement have been duly authorized by the Boards of Directors of each of Westcoast and the Purchaser and do not contravene:

(a) the articles or by-laws of Westcoast or the Purchaser;

(b) any applicable laws the contravention of which could reasonably be expected to (i) prevent or hinder the completion of the Arrangement or (ii) prevent or materially hinder the completion of any other transaction contemplated by this Agreement; or

(c) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument, written or oral, to which Westcoast or the Purchaser is a party or by which it may be bound, the contravention of which could reasonably be expected to (i) prevent or hinder the completion of the Arrangement or (ii) prevent or materially hinder the completion of any other transaction contemplated by this Agreement.

5.3 **Financing**

Westcoast and the Purchaser will have on or prior to the Effective Date sufficient readily available funds and, on or prior to the Effective Date, shall deposit with the Depositary sufficient funds to acquire all of the issued and outstanding 2451417 Common Shares and Chancellor Preference Shares in accordance with the provisions of Article II of this Agreement and the Arrangement. The letter from the Canadian Imperial Bank of Commerce dated December 11, 1989 confirming that such bank has committed to finance the obligations of Westcoast and the Purchaser pursuant to Article II of this Agreement to the extent such obligations do not exceed $715,000,000 is in full force and effect, unamended, as of the date hereof.

5.4 **No Misrepresentation**

The information set out in the Documents relating to Westcoast, its subsidiaries and other interests, and its businesses and property (including without limitation information useful in the assessment of the financial ability of Westcoast to complete the Arrangement) was true, correct and complete in all material respects as of the dates specified therein and did not as of such dates contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they were made, with materiality assessed on the basis required in respect of such filings.

5.5 **Litigation**

Except for any proceedings or investigations commenced in order to satisfy the conditions set forth in Article XI, (a) there are no actions, suits, proceedings or investigations commenced or to the knowledge of Westcoast contemplated or threatened against or affecting Westcoast or the Purchaser at law or in equity, before or by any governmental department, commission, board, bureau, court, agency, arbitrator or instrumentality, domestic or foreign, of any kind and (b) to the knowledge of Westcoast, there are no existing facts or conditions which could reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations, which, in either case, could reasonably be expected to prevent or materially hinder the completion of the Arrangement or the other transactions contemplated by this Agreement.

5.6 **Securities of ICG**

Neither Westcoast nor the Purchaser is the beneficial owner of any securities in the capital of ICG or securities which are convertible or exchangeable into securities of ICG or options which are exercisable for the purchase of securities of ICG.

ARTICLE VI

Pre-Arrangement Covenants

6.1 **Preliminary Transactions**

Subject to receipt of the Tax Ruling, on or prior to the Effective Date:

Utilities Canada Transactions

(a) *Alberta Marketing Operations and Manitoba Pipeline*

ICG shall transfer to Utilities Canada all right, title and interest of ICG in and to the Alberta Marketing Operations and the Manitoba Pipeline in consideration for the issue by Utilities Canada to ICG of additional common shares of Utilities Canada.

(b) *Itron, Inc.*

CHL Holdings Inc., a wholly-owned subsidiary of ICG, shall assign and transfer the Itron Securities to Utilities Canada for the value at which the Itron Securities are carried on the books of CHL Holdings Inc. at the time of such assignment and transfer, payable in cash by Utilities Canada to CHL Holdings Inc.;

(c) *ICG Brunswick Gas (1985) Inc. and ICG Scotia Gas Ltd.*

ICG shall assign and transfer to Utilities Canada all of the issued and outstanding shares in the capital of ICG Brunswick Gas (1985) Inc. and all amounts owing by ICG Brunswick Gas (1985) Inc. to ICG and all of the issued and outstanding common shares of ICG Scotia Gas Ltd. owned by ICG in consideration for the issue by Utilities Canada to ICG of additional common shares of Utilities Canada.

(d) *Utilities Bank Restructuring*

ICG may restructure, at its cost, its bank indebtedness relating to the Utilities Business in a manner such that the bank indebtedness reflected in the Utilities 1988 Financial Statements, as the same may have increased or decreased in the ordinary course of carrying on the Utilities Business consistent with prior practice to the date of such restructuring, is indebtedness (i) which is assumed by Utilities Canada or a

Utilities Subsidiary and, under the terms of such assumption, is repayable by Utilities Canada or a Utilities Subsidiary directly to the lenders and (ii) which is immediately repayable without penalty.

Propane Corp. Transactions

(e) *Incorporation of Propane Business*

ICG shall cause Propane Corp. to be incorporated, with articles of incorporation satisfactory to Westcoast acting reasonably. On or prior to the Effective Date, ICG and Propane Corp. shall execute and deliver the Roll Down Agreement and pursuant thereto ICG shall assign, transfer and convey to Propane Corp. the assets, property and undertaking of the Propane Business, together with all the issued and outstanding shares in the capital of NASCO in consideration for the issue by Propane Corp. to ICG of common shares in the capital of Propane Corp. and the assumption by Propane Corp., pursuant to the Roll Down Assumption Agreement, of (i) ICG Non-Trade Liabilities in an amount equal to the Propane Debt Portion and (ii) all liabilities and obligations, contingent or absolute, of ICG with respect to the Propane Business other than liabilities in respect of:

(A) any and all taxes (including any and all interest, fines and penalties in respect thereof) of any nature imposed, levied, withheld or assessed on or with respect to the income, profits, gains or, for the period commencing on the date of incorporation of Propane Corp., the capital (within the meaning of applicable corporation capital tax legislation), of ICG by Canada or by any province thereof;

(B) litigation described in subparagraph (b)(ii) of the definition of "Roll Down Liabilities" in Section 1.1 of the Roll Down Assumption Agreement;

(C) all costs and expenses including without limitation, all applicable land transfer, retail sales and other taxes (including any and all interest, fines and penalties in respect thereof), all legal costs and all audit and related costs incurred in connection with the incorporation of Propane Corp., the registration and/or licensing of Propane Corp. to carry on the Propane Business consistent with prior practice and the aforesaid assignment, transfer and conveyance to Propane Corp. of the undertaking, property and assets of the Propane Business; and

(D) the Propane Business which did not arise in the ordinary course of carrying on the Propane Business consistent with prior practice, unless and to the extent that on or prior to the Effective Date Westcoast and the Purchaser shall have notified ICG in writing that Propane Corp. may assume any such liability.

Such assignment, transfer, conveyance and assumption shall be effected in a manner such that, on the date of completion of the Propane Incorporation, each of the representations and warranties relating to Propane Corp. set forth in Sections 3.42 to 3.56, inclusive, shall be true and correct and Propane Corp. shall hold all permits, licences, approvals and franchises which it requires or is required to have to own the properties and assets used in connection with the Propane Business and to carry on the Propane Business in a manner consistent with prior practice other than permits required in connection with such properties or assets or such part of the Propane Business which, individually or in the aggregate, are not material to the carrying on of the Propane Business consistent with prior practice. The Roll Down Agreement and the Roll Down Assumption Agreement shall be in the form of the agreements identified in writing by each of ICG and Westcoast. Not later than January 15, 1990, ICG shall deliver to Westcoast drafts of all agreements, instruments and other documents necessary to effect the completion of the purchase and sale contemplated by the Roll Down Agreement and all such agreements, instruments and other documents shall be in form and content satisfactory to Westcoast, acting reasonably; and

(f) *Propane Bank Restructuring*

ICG may restructure, at its cost, its bank indebtedness relating to the Propane Business in a manner such that (i) the bank indebtedness reflected in the Propane 1988 Financial Statements, as the same may have increased or decreased in the ordinary course of carrying on the Propane Business to the date of such restructuring, is indebtedness which (A) will become direct indebtedness of Propane Corp. upon the Propane Incorporation and (B) is immediately repayable without penalty and (ii) the indebtedness

of NASCO to Roynat Inc. reflected in the Propane 1988 Financial Statements, as the same may have increased or decreased in the ordinary course of business, consistent with prior practice, is refinanced with bank indebtedness which is immediately repayable without penalty.

6.2 **Pension Plans**

ICG, Westcoast, the Purchaser, Utilities Canada and Propane Corp. shall, on or prior to the Effective Date, execute and deliver the Pension and Benefits Agreement, which shall be in the form and on the terms of the agreement identified in writing by each of ICG and Westcoast.

6.3 **Central/Norcen Agreement, Listing of Shares on the Winnipeg Stock Exchange and Transfer of Common Shares**

(a) Central shall comply with all of the covenants to be performed by it pursuant to the Central/Norcen Agreement and shall use all reasonable efforts to complete the transactions contemplated by the Central/Norcen Agreement, including the purchase of the First Preference Shares.

(b) Provided the Central/Norcen Agreement shall be completed:

(i) Central shall cause MICCI not to tender for cancellation on January 1, 1990 11,430 First Preference Shares with a par value of $8,001,000; ICG hereby confirms and agrees that, if the Arrangement is not completed, ICG shall purchase for cancellation such First Preference Shares on the day that is 30 days after the Termination Date;

(ii) on the Effective Date and prior to the Effective Time, ICG will demand and Central shall cause MICCI to pay to ICG the principal amount due on the Norcen Note plus accrued interest thereon to the Effective Date;

(iii) subject to the performance by ICG of its obligations pursuant to Section 6.3(b)(iv) and in consideration of ICG agreeing to change all the outstanding First Preference Shares into 2,439,920 Class C 8% Convertible Preference Shares as contemplated by subsection 3.1(t)(ii) of the Arrangement, MICCI agrees to issue the Warrants in accordance with the Warrant Agreement and the provisions of Section 3.1(v) of the Arrangement;

(iv) ICG agrees with MICCI that ICG shall change all the outstanding First Preference Shares into 2,439,920 Class C 8% Convertible Preference Shares as contemplated by subsection 3.1(t)(ii) of the Arrangement; in addition, ICG shall co-operate with Central and MICCI with respect to all matters relating to the issue of the Warrants by MICCI and the issue of Class C 8% Convertible Preference Shares upon the exercise of the Warrants in accordance with the terms thereof; without limiting the generality of the foregoing, ICG shall, if necessary, prepare, file and distribute in all applicable jurisdictions in accordance with applicable law a prospectus or similar document and shall indemnify Central and MICCI from and against all liability, claims and costs which Central or MICCI may incur or suffer in connection therewith (other than any such liability, claims or costs arising with respect to any information relating to Central or MICCI contained in such prospectus or similar document which was provided by Central or MICCI); and

(v) until the exercise or expiry of all Warrants issued by MICCI pursuant to the provisions hereof, ICG shall not take or suffer or permit to be taken any action or matter with respect to the Class C 8% Convertible Preference Shares of the nature or kind referred to in clauses 3.5 and 3.6 of Appendix I to the Arrangement, provided that for the purposes of this Section 6.3(b)(v), each reference in such Appendix to Common Shares shall be deemed to be a reference to Class C 8% Convertible Preference Shares;

(c) Central shall use all reasonable efforts to cause the 2451417 Common Shares and Chancellor Preference Shares to be listed on the Winnipeg Stock Exchange prior to and at the Effective Time; and

(d) Prior to the Effective Time Central shall cause the following to occur:

(i) 2451409 Manitoba Ltd. shall transfer to CCMI 2,399,700 Common Shares in connection with the commencement of the voluntary dissolution of 2451409 Manitoba Ltd.; and

(ii) CCMI shall transfer to MICCI 2,399,700 Common Shares.

6.4 **Second Preference Shares of ICG**

Subject to receipt by ICG of the Tax Ruling, ICG shall redeem, in accordance with the respective terms and conditions thereof, all of the issued and outstanding Second Preference Shares prior to the date of the ICG Special Meeting or, if the Interim Order provides that holders of Second Preference Shares shall not be entitled to vote as such in respect of the resolution to approve the Arrangement, prior to the Effective Date.

6.5 **Employee Share Ownership Plan, Employee Share Option Plan and Dividend Reinvestment and Share Purchase Plan**

(a) ICG has not issued any rights or options under or pursuant to the Employee Share Option Plan since October 31, 1989 and shall not issue any such rights or options after the date hereof.

(b) ICG shall not issue any shares, options or rights under or pursuant to the Employee Share Ownership Plan after December 31, 1989 and on or prior to the Effective Date. All Common Shares to be issued pursuant to the rights or options outstanding under the Employee Share Ownership Plan shall be issued and outstanding prior to the date of the ICG Special Meeting.

(c) ICG shall not issue any shares, options or rights under or pursuant to the Dividend Reinvestment and Share Purchase Plan after January 15, 1990 and on or prior to the Effective Date. All Common Shares to be issued pursuant to the rights or options outstanding under the Dividend Reinvestment and Share Purchase Plan shall be issued and outstanding prior to the date of the ICG Special Meeting.

6.6 **Conduct of Utilities Business until the Effective Date**

Until the Effective Date, except as disclosed in writing by ICG to Westcoast and the Purchaser on or prior to the date hereof, unless (i) Westcoast shall otherwise consent in writing, (ii) a utilities regulatory authority having jurisdiction over Utilities Canada or any of the Utilities Subsidiaries otherwise orders or (iii) otherwise contemplated by the completion of the Utilities Pro Forma Transactions and the Arrangement:

(a) ICG shall, and shall cause Utilities Canada to, carry on the Utilities Business in the ordinary course, consistent with prior practice and, to the extent consistent with such practice, use reasonable efforts to preserve the business operations of the Utilities Business including maintaining the goodwill of the Utilities Business with the employees, customers, suppliers, regulatory authorities and others having business dealings with the Utilities Business;

(b) ICG shall not permit Utilities Canada or any of the Utilities Subsidiaries to merge into or with, or amalgamate or consolidate with, or acquire all or substantially all of the shares or assets of, or enter into any corporate reorganization with, any other corporation or person;

(c) ICG shall not permit Utilities Canada or any of the Utilities Subsidiaries to perform any act or enter into any transaction or negotiation which reasonably could be expected to interfere or be inconsistent with the completion of the transactions contemplated by this Agreement;

(d) ICG shall not permit Utilities Canada or any of the Utilities Subsidiaries to amend its corporate charter, by-laws or similar organizational documents;

(e) ICG shall not permit Utilities Canada or any of the Utilities Subsidiaries to issue or agree to issue any additional shares of, or rights of any kind to acquire any shares of, any class of its share capital or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of shares in its capital;

(f) ICG shall cause Utilities Canada and each of the Utilities Subsidiaries to maintain all its assets, whether owned or leased, in good condition and repair on a basis consistent with prior practice, and maintain insurance upon its respective assets comparable in amount, scope and coverage to that in effect on the date hereof;

(g) ICG shall cause Utilities Canada and each of the Utilities Subsidiaries to maintain its books, records and accounts in the ordinary course of business on a basis consistent with prior practice;

(h) ICG shall not permit Utilities Canada or any of the Utilities Subsidiaries to enter into any new employment contract, amend any existing employment contract or grant any increases in compensation or benefits, other than such amendments or increases made or granted in the ordinary course of the

annual salary reviews of Utilities Canada or any of the Utilities Subsidiaries consistent with prior practice; and

(i) ICG shall cause Utilities Canada and each of the Utilities Subsidiaries to do or refrain from doing all acts and things in order that the representations and warranties in Sections 3.8 to 3.25, inclusive, hereof shall be true and correct on the Effective Date as if such representations and warranties were made at and as of such date and to satisfy or cause to be satisfied the conditions in Article XI which are within the control of Utilities Canada or the Utilities Subsidiaries.

6.7 **Conduct of Propane Business until the Effective Date**

Until the Effective Date, unless Westcoast shall otherwise consent in writing or as otherwise contemplated by the completion of the Propane Pro Forma Transactions and the Arrangement:

(a) prior to the Propane Incorporation ICG shall and shall cause NASCO to, and thereafter ICG shall cause Propane Corp. and NASCO to, carry on the Propane Business in the ordinary course, consistent with prior practice and, to the extent consistent with such practice, use reasonable efforts to preserve the business operations of the Propane Business, including maintaining the goodwill of the Propane Business with the employees, customers, suppliers, regulatory authorities and others having business dealings with the Propane Business;

(b) prior to the Propane Incorporation ICG shall not merge, amalgamate or consolidate the Propane Business with the business of any other corporation or person or with any other business of ICG, nor will ICG permit NASCO to merge into or with, or amalgamate or consolidate with or acquire all or substantially all of the shares or assets of, or enter into any corporate reorganization with, any other corporation or person and, after the Propane Incorporation, ICG shall not permit Propane Corp. or NASCO to merge into or with, or amalgamate or consolidate with, or acquire all or substantially all of the shares or assets of, or enter into any corporate reorganization with, any other corporation or person;

(c) prior to the Propane Incorporation ICG shall not, nor shall ICG permit NASCO to, perform any act or enter into any transaction or negotiation which reasonably could be expected to interfere or be inconsistent with the completion of the transactions contemplated by this Agreement and, after the Propane Incorporation, ICG shall not permit Propane Corp. or NASCO to perform any act or enter into any transaction or negotiation which reasonably could be expected to interfere or be inconsistent with the completion of the transactions contemplated by this Agreement;

(d) prior to the Propane Incorporation ICG shall not permit NASCO to, and after the Propane Incorporation, ICG shall not permit Propane Corp. or NASCO to, amend its corporate charter, by-laws or similar organizational documents;

(e) prior to the Propane Incorporation ICG shall not permit NASCO to, and, after the Propane Incorporation, ICG shall not permit Propane Corp. or NASCO to, issue or agree to issue any additional shares of, or rights of any kind to acquire any shares of, any class of its share capital or other securities which are convertible or exchangeable into shares or options which are exercisable for the purchase of shares in its capital;

(f) prior to the Propane Incorporation ICG shall, and shall cause NASCO to, maintain all its assets used in connection with the Propane Business, whether owned or leased, in good condition and repair on a basis consistent with prior practice and maintain insurance upon such assets comparable in amount, scope and coverage to that in effect on the date hereof and, after the Propane Incorporation, ICG shall cause Propane Corp. and NASCO to maintain all of their respective assets, whether owned or leased, in good condition and repair on a basis consistent with prior practice and maintain insurance upon such assets comparable in an amount, scope and coverage to that in effect on the date hereof;

(g) prior to the Propane Incorporation ICG shall, and shall cause NASCO to, maintain its books, records and accounts used in connection with the Propane Business in the ordinary course of business on a basis consistent with prior practice and, after the Propane Incorporation, ICG shall cause Propane Corp. and NASCO to maintain their respective books, records and accounts in the ordinary course of business on a basis consistent with prior practice;

(h) prior to the Propane Incorporation any costs including, without limitation, land transfer taxes, retail sales and other taxes (including any and all interest, fines and penalties in respect thereof), registration fees and legal fees and disbursements in connection with the transfer of title to property from predecessor bodies corporate of ICG to ICG shall not be accounted for by ICG as expenses of the Propane Business nor shall such costs be paid for out of assets of the Propane Business or be accrued as liabilities of the Propane Business;

(i) prior to the Propane Incorporation ICG shall not and shall not permit NASCO to, and, after the Propane Incorporation, ICG shall not permit Propane Corp or NASCO to enter into any new employment contract, amend any existing employment contract or grant any increases in compensation or benefits, other than such amendments or increases made or granted in the ordinary course of the annual salary reviews of ICG or NASCO consistent with prior practice for the Propane Business; and

(j) prior to the Propane Incorporation ICG shall and shall cause NASCO to, and following the Propane Incorporation, ICG shall cause Propane Corp. and NASCO to, do or refrain from doing all acts and things in order that the representations and warranties in Sections 3.26 to 3.56 inclusive, shall be true and correct on the Effective Date except as to those representations and warranties in Sections 3.26 to 3.41, inclusive, to the extent contemplated by the Propane Incorporation, as if such representations and warranties were made at and as of such date and to satisfy or cause to be satisfied the conditions in Article XI which are within the control of ICG, Propane Corp. or NASCO.

6.8 **ICG Circular**

ICG shall, in a timely manner, prepare and file the ICG Circular in all jurisdictions where the same is required and mail the same in accordance with applicable law and the Interim Order. Westcoast and the Purchaser shall furnish, on a timely basis, all such information regarding Westcoast, the Purchaser and the Designated Propane Nominee as may be required to be included in the ICG Circular. Westcoast and the Purchaser shall be permitted to review and comment upon drafts of the ICG Circular prior to the filing and mailing thereof and all information regarding Westcoast, the Purchaser and the Designated Propane Nominee contained in the ICG Circular shall be subject to the approval of Westcoast and the Purchaser. Central shall furnish or shall cause to be furnished, on a timely basis, all such information regarding Central and the Central Subsidiaries as may be required to be included in the ICG Circular. Central shall be permitted to review and comment upon drafts of the ICG Circular prior to the filing and mailing thereof and all information regarding Central and the Central Subsidiaries contained in the ICG Circular which is based upon information supplied by Central shall be subject to the approval of Central.

6.9 **The Arrangement**

(a) Subject to the provisions of Section 6.10, each of the parties hereto shall use all reasonable efforts to satisfy each of the conditions precedent to be satisfied by it and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under applicable laws and regulations to permit the completion of the Arrangement in accordance with the provisions of this Agreement and to consummate and make effective all other transactions contemplated in this Agreement and to cooperate with each other in connection with the foregoing, including using all reasonable efforts to:

(i) obtain the Tax Ruling including, if necessary to obtain such rulings or to comply with the conditions thereof the amendment of this Agreement, the Arrangement and/or any other document or instrument contemplated hereby, provided any such amendment or compliance with any such condition would not adversely affect any party hereto or the Designated Propane Nominee, in the sole opinion of such party;

(ii) provide notice to and obtain all necessary waivers, consents and approvals from other parties to loan agreements, leases and other contracts to which it or any of its subsidiaries is a party and releases of all pledges, guarantees and security made or granted by it, which in any case, are necessary to effect the Arrangement or the other transactions contemplated hereby;

(iii) obtain all necessary consents, approvals and authorizations as are required to be obtained by it under any Canadian, United States or other foreign law or regulations which are necessary to effect the Arrangement or the other transactions contemplated hereby;

(iv) defend all lawsuits or other legal proceedings to which it is a party challenging this Agreement, the Arrangement or the completion of the transactions contemplated hereby or thereby; and

(v) lift or rescind any injunction or restraining order or other order which may be entered against it adversely affecting the ability of the parties to complete the transactions contemplated hereby;

and also including, in the case of ICG, Westcoast and the Purchaser, using all reasonable efforts to:

(vi) obtain the Interim Order and the Final Order as provided in Section 2.1 hereof; and

(vii) effect all necessary registrations and filings (including, but not limited to, any filings required by the HSR Act or the CA or required to maintain the Material Utilities Permits in full force and effect upon completion of the Arrangement) and submissions of information requested of it by governmental authorities which are necessary to effect the Arrangement or the other transactions contemplated hereby;

and also including, in the case of ICG, using all reasonable efforts to obtain the approvals of the holders of the Common Shares, the First Preference Shares, the Third Preference Shares and the Options required for the implementation of the Arrangement.

Without limiting the generality of the foregoing, each of the parties hereto shall keep all other parties apprised of the steps taken or to be taken by such party to effect the foregoing matters and where appropriate, provide the other parties hereto with the opportunity to comment on documents, in draft form, which are necessary in connection with such matters.

(b) Subject to the provisions of Section 6.10, Central hereby covenants and agrees with Westcoast and the Purchaser as follows:

(i) Central and each of its subsidiaries shall vote or cause to be voted in favour of the Arrangement at the ICG Special Meeting all shares in the capital of ICG which it beneficially owns or over which it exercises control or direction;

(ii) neither Central nor any of the Central Subsidiaries shall take any action, directly or indirectly, with the intention of adversely affecting the completion of the Arrangement;

(iii) neither Central nor any of the Central Subsidiaries shall permit any Common Shares, First Preference Shares or Third Preference Shares which it beneficially owns or over which it exercises control or direction to be transferred other than (A) as contemplated by this Agreement; or (B) to a direct or indirect subsidiary of Central which has agreed to be bound by the provisions of this Agreement provided such transfer does not require amendments to the Tax Ruling or ICG Circular which cause undue delay in completing the Arrangement;

(iv) subject to obtaining all necessary regulatory approvals, Central shall cause to be transferred to MICCI such number of Third Preference Shares currently held by Central or any of its subsidiaries or shall otherwise cause MICCI to acquire such number of Common Shares and/or Third Preference Shares as may be necessary to ensure that the number of Common Shares held by MICCI immediately prior to giving effect to the provisions of Section 3.1(c) of the Arrangement is not less than the MICCI Proportionate Number (as defined in the Arrangement); and

(v) Central and each of the Central Subsidiaries which owns shares in the capital of ICG shall act as a shareholder of ICG with a view to ensuring that all other things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the Arrangement are done and that all other transactions contemplated in this Agreement are effected and, as a shareholder of ICG, Central and each of the Central Subsidiaries which owns shares in the capital of ICG shall use all reasonable efforts in such capacity and cooperate with Westcoast and the Purchaser (A) with a view to causing the Utilities Business and the Propane Business to be conducted in the ordinary course of business consistent with past practice and so as to maintain the goodwill of such businesses with their suppliers, customers, employees and regulators and with a view to causing ICG to provide reasonable access to Westcoast, the Purchaser, the Designated Propane Nominee and their respective representatives to the premises, personnel and records of such businesses so that Westcoast, the Purchaser and the Designated Propane Nominee may carry

out due diligence procedures to verify the truth of the representations and warranties of ICG in this Agreement, and (B) in order to permit ICG to:

(I) obtain the approvals of the holders of the Common Shares, the First Preference Shares and the Third Preference Shares required for the implementation of the Arrangement;

(II) obtain the Interim Order and the Final Order as provided in Section 2.1 hereof;

(III) effect all necessary registrations and filings (including, but not limited to, any filings required by the HSR Act or the CA or required to maintain the Material Utilities Permits in full force and effect upon completion of the Arrangement) and submissions of information requested of ICG by governmental authorities which are necessary to effect the Arrangement or the other transactions contemplated hereby;

(IV) obtain all necessary waivers, consents and approvals from other parties to loan agreements, leases and other contracts to which ICG is a party which are necessary to effect the Arrangement or the other transactions contemplated hereby;

(V) obtain all necessary consents, approvals and authorizations as are required to be obtained by ICG under any Canadian, United States or other foreign law or regulations which are necessary to effect the Arrangement or the other transactions contemplated hereby;

(VI) defend all lawsuits or other legal proceedings to which ICG is a party challenging this Agreement, the Arrangement or the completion of the transactions contemplated hereby or thereby;

(VII) lift or rescind any injunction or restraining order or other order which may be entered against ICG adversely affecting the ability of the parties to complete the transactions contemplated hereby; and

(VIII) ensure that none of Utilities Canada, any of the Utilities Subsidiaries, NASCO or Propane Corp. issues or agrees to issue any shares or securities convertible or exchangeable into shares or options exercisable for the purchase of shares on or before the Effective Date except as contemplated in this Agreement and by the Arrangement.

6.10 **No Solicitation**

(a) Until the Effective Date, ICG shall not, except as contemplated by this Agreement, solicit, encourage, assist or agree to any offers or proposals for the acquisition by any party of the Utilities Business or the Propane Business (except in connection with the acquisition of ICG as a whole) and ICG shall not solicit, encourage, assist or agree to any offer or proposals for the acquisition of ICG as a whole, or negotiate or discuss with any party the acquisition of ICG as a whole; provided, however, that the foregoing provisions of this Section 6.10 shall not apply to unsolicited offers or proposals by any party (a "Third Party") other than any party hereto or any subsidiary or affiliate of any party hereto to acquire ICG as a whole. If ICG shall receive an unsolicited offer or proposal from a Third Party to acquire ICG as a whole which ICG desires to accept, ICG shall be free to terminate this Agreement and accept such Third Party offer or proposal. If this Agreement is so terminated and control of ICG is acquired by a Third Party pursuant to such offer or proposal, ICG shall pay the Break Fee to the Purchaser.

(b) Until the Effective Date, Central agrees with Westcoast and the Purchaser that neither Central nor any subsidiary thereof shall, except as contemplated by this Agreement, solicit, encourage, assist or agree to, and will not vote or allow to be voted any securities of ICG which are controlled by Central or any subsidiary thereof in favour of, any offer or proposal for the acquisition by any party of the Utilities Business or the Propane Business (except in connection with the acquisition of ICG as a whole) and neither Central nor any subsidiary thereof shall solicit, encourage, assist or agree to any offer or proposal for the acquisition of ICG as a whole, or negotiate or discuss with any party the acquisition of ICG as a whole; provided, however, that the foregoing provisions of this section shall not apply to unsolicited offers or proposals by any Third Party to acquire ICG as a whole. If Central or any subsidiary thereof shall receive an unsolicited offer or proposal from a Third Party to acquire ICG as a whole which Central or such subsidiary desires to accept and if ICG is required to pay the Break Fee pursuant to Section 6.10(a)

of this Agreement, Central shall be free to terminate its obligations under this Agreement and accept such Third Party offer or proposal.

(c) For the purposes of the foregoing provisions of this Section 6.10, (i) references to assisting any offer or proposal include providing any confidential information about the Utilities Business or the Propane Business to the party proposing to make an offer or proposal and includes commenting on proposals or offers by a Third Party without the consent of Westcoast and (ii) references to an offer or proposal for the acquisition of ICG as a whole include (A) an offer or proposal to acquire control of ICG and (B) an offer or proposal to acquire the Utilities Business, the Propane Business and the energy products business of ICG.

6.11 **Access to Information; Confidentiality**

(a) ICG shall afford to Westcoast, the Purchaser, the Designated Propane Nominee and their respective officers, employees and agents for purposes of their due diligence investigations access during reasonable hours, from the date hereof to the Effective Date, to the officers, employees and agents of ICG, Utilities Canada, the Utilities Subsidiaries, Propane Corp. and NASCO (collectively, the "ICG Group") and to the properties, books, records, contracts, tax returns and files of the ICG Group relating to the Utilities Business and the Propane Business, and shall furnish all financial, operating and other data and information of the ICG Group relating to the Utilities Business and the Propane Business as Westcoast, the Purchaser or the Designated Propane Nominee may reasonably request for purposes of their due diligence investigations. No investigation made by Westcoast, the Purchaser, the Designated Propane Nominee or their respective representatives shall affect the rights of Westcoast or the Purchaser to rely on any representation or warranty made by ICG in this Agreement or in any document contemplated by this Agreement. Subject to disclosure to the Designated Propane Nominee of such information which relates to the Propane Business and the transactions contemplated by this Agreement and subject to the requirements of law or judicial process, Westcoast and the Purchaser shall hold in confidence all non-public information received by them from ICG or its agents or representatives in connection with the transactions contemplated hereby until such time as such information is otherwise publicly available provided, however, that (i) if the Arrangement shall be completed in accordance with the provisions of this Agreement, Westcoast and the Purchaser shall have no further obligation to ICG pursuant to this Section 6.11; and (ii) if this Agreement is terminated, Westcoast and the Purchaser shall deliver or cause to be delivered to ICG all documents, work papers and other material (including copies containing non-public information) held by them, by the Designated Propane Nominee or on behalf of any of them, and obtained from ICG as a result of this Agreement or in connection herewith, whether so obtained before or after the execution hereof.

(b) Westcoast and the Purchaser shall provide ICG with such information concerning Westcoast, the Purchaser and the Designated Propane Nominee and the financing of the transactions contemplated hereby as may be reasonably necessary for ICG to obtain any third party consent or approval required hereunder, to ascertain the accuracy and completeness of the information supplied by Westcoast and the Purchaser for inclusion in the ICG Circular or in any pre-merger notification report filed under the HSR Act or any filings under the CA (and any additional information or documentary material supplied in response to any request pursuant to the HSR Act or the CA) or with any governmental agency or instrumentality or to verify the performance of and compliance with Westcoast's and the Purchaser's representations, warranties, covenants and conditions contained herein. Subject to the requirements of law or judicial process, ICG shall hold in confidence all non-public information received by it from Westcoast, the Designated Propane Nominee or their respective agents or representatives in connection with the transactions contemplated hereby and, on the earlier of the Effective Date and the termination of this Agreement, ICG will deliver to Westcoast all documents, work papers and other material (including copies containing non-public information) held by ICG or on its behalf and obtained from Westcoast or the Purchaser as a result of this Agreement or in connection herewith, whether so obtained before or after the execution hereof.

6.12 **Public Announcements**

No press release or other public announcement concerning the proposed transactions contemplated by this Agreement shall be made by any party hereto without the prior consent of the other parties (such consent not to be unreasonably withheld); provided, however, that any party may, without such consent, make such disclosure as may be required by any stock exchange on which any of the securities of such party or any of its affiliates are listed or by any securities commission or other similar regulatory authority having jurisdiction over such party or any of its affiliates, and if such disclosure is required the party making the disclosure shall use reasonable best efforts to give prior oral or written notice to the other parties and if such prior written notice is not possible, to give such notice immediately following the making of such disclosure.

6.13 **Support of Resolution to Approve Arrangement**

Subject to Section 6.10, in connection with any approval, consent, waiver or order required to be obtained from the security holders of ICG or any regulatory or governmental authority or private party in connection with the approval of the Arrangement or the completion of the transactions contemplated by this Agreement, ICG's board of directors will recommend that ICG's security holders vote for approval of the Arrangement and ICG will cooperate with the Purchaser and Westcoast in using all reasonable efforts to obtain the approval of the security holders and to support the granting of any such approval, consent, waiver or order by such regulatory or governmental authority or private party; provided, however, that if Burns Fry Limited (or such other financial advisors to the board of directors of ICG as Westcoast shall consent to) shall advise the board of directors of ICG that such advisors are unable to provide an opinion that the Arrangement is fair, from a financial point of view, to all holders of Common Shares and Third Preference Shares, other than Central and its affiliates, ICG shall nevertheless call and hold the ICG Special Meeting, but ICG's board of directors will not be required to make any recommendation in the ICG Circular and, in any event, ICG's board of directors shall not recommend that holders of ICG securities vote against the resolution approving the Arrangement.

6.14 **Standstill**

Until the Effective Date, other than pursuant to this Agreement, the Arrangement and the transactions contemplated hereby and thereby, Westcoast agrees that neither Westcoast nor any of Westcoast's representatives or affiliates (including any person or entity, directly or indirectly, through or with one or more intermediaries controlled by, Westcoast) will, unless in any such case specifically approved by the board of directors of ICG or as provided below: (i) acquire or agree to acquire, or make any proposal or offer to acquire, directly or indirectly, or in any manner, any securities or assets of ICG or of any subsidiary of ICG (other than any acquisition by Westcoast or any representative or affiliate thereof of any assets of ICG in the ordinary course of business of Westcoast or any representative or affiliate thereof consistent with prior practice); (ii) solicit proxies from shareholders of ICG or otherwise attempt to influence the conduct of the shareholders of ICG, other than shareholders who are holders of Options; (iii) engage in any discussions or negotiations, or enter into any agreement, commitment or understanding, or otherwise act jointly or in concert, with any third party in order to propose or effect a transaction relating to the acquisition of control of ICG or in order to influence the conduct of ICG or its directors, or (iv) make any public announcement or disclosure with respect to the foregoing except in accordance with the provisions of this Agreement; provided that nothing herein shall prohibit Westcoast from engaging in discussions with a third party concerning (x) financing with respect to the Arrangement, or (y) the sale by Westcoast of all or any part of the Utilities Business or the Propane Business.

6.15 **Indebtedness to be on Commercial Terms**

ICG hereby covenants and agrees with Westcoast and the Purchaser that ICG shall take whatever action may be necessary so that any outstanding advance or indebtedness referred to in any of Sections 3.21(a)(ii) (other than advances or indebtedness between Utilities Canada and any subsidiary of Utilities Canada or between any of the subsidiaries of Utilities Canada and any indebtedness identified in writing by ICG to Westcoast on or prior to the date hereof), 3.38(a)(ii) or 3.54(a)(ii) hereof may be repaid immediately after the Effective Time, any outstanding advance or indebtedness referred to in any of Sections 3.21(a)(iii) (other than advances or indebtedness between Utilities Canada and any subsidiary of Utilities Canada or between any of the subsidiaries of Utilities Canada), 3.38(a)(iii) or 3.54(a)(iii) hereof may be paid or repaid within 30 days after the Effective Date and any contract or agreement referred to in any of Sections 3.21(b)(ii), 3.21(b)(iii), 3.38(b)(ii), 3.38(b)(iii),

3.54(b)(ii) or 3.54(b)(iii) hereof may be terminated by Utilities Canada, Propane Corp. or the relevant subsidiary of either of them without notice or penalty immediately after the Effective Time.

ARTICLE VII

COVENANTS RESPECTING THE IMPLEMENTATION OF THE ARRANGEMENT

7.1 The Arrangement

Subject to Section 6.10 and the conditions herein provided, each party hereto shall take or cause to be taken all action and shall do, or cause to be done, all other things necessary, proper or advisable to consummate and make effective the Arrangement. Without limiting the generality of the foregoing, ICG and Chancellor shall execute and deliver the Chancellor Purchase Agreement and perform their respective obligations thereunder and ICG and Newco shall execute and deliver the Utilities Purchase Agreement and perform their respective obligations thereunder. The Chancellor Purchase Agreement and the Utilities Purchase Agreement shall each be in the form and on the terms of the agreements, copies of which have been identified in writing by Central, ICG and Westcoast.

7.2 Shares to be Issued Pursuant to the Arrangement

The Chancellor Butterfly Shares and the Newco Butterfly Shares shall have terms and conditions attaching thereto on the terms and conditions of the share provisions, copies of which have been identified in writing by Central, ICG and Westcoast.

7.3 Determination of Estimated Utilities Earnings for Purposes of the Arrangement

ICG has disclosed in writing to Westcoast and the Purchaser on or prior to the date hereof, its estimate of the net after-tax earnings of the Utilities Business for each of the months of October, November and December, 1989. In the event that prior to the Effective Date actual Utilities Earnings for any one or more of such calendar months shall be determined, the estimated Utilities Earnings shall be adjusted accordingly. Such estimated Utilities Earnings, as so adjusted, are herein referred to as the "Estimated Utilities Earnings".

7.4 Determination of Estimated Propane Earnings for Purposes of the Propane Incorporation and the Arrangement

ICG has disclosed in writing to Westcoast and the Purchaser on or prior to the date hereof, its estimate of the Propane Earnings for 1989. In the event that prior to the Effective Date actual Propane Earnings for any one or more of the last three calendar months in 1989 shall be determined, the estimated Propane Earnings shall be adjusted accordingly. Such estimated Propane Earnings, as so adjusted, are herein referred to as the "Estimated Propane Earnings".

7.5 Assumption of ICG Non-Trade Liabilities by Newco Pursuant to the Arrangement

As part of the Arrangement and pursuant to the Utilities Purchase Agreement, ICG and Newco shall execute and deliver the Utilities Assumption Agreement, which shall be in the form and on the terms of the agreement, a copy of which has been identified in writing by Central, ICG and Westcoast. Pursuant to the Utilities Assumption Agreement, Newco shall assume ICG Non-Trade Liabilities in an amount equal to the Utilities Debt Portion subject to the terms and conditions contained in such agreement.

7.6 Resignations and Releases — ICG Subsidiaries

On or prior to the Effective Date, ICG shall use all reasonable efforts to obtain, and Central shall act as a shareholder of ICG and shall cause the Central Subsidiaries which are shareholders of ICG to act as shareholders of ICG with a view to assisting ICG in obtaining, the resignations of such directors of Utilities Canada, the Utilities Subsidiaries, Propane Corp. and NASCO as the Purchaser may request and to obtain from each of such directors releases of all claims (other than claims with respect to which such directors are entitled to an indemnity pursuant to agreements or by-laws which are not broader than the indemnification provisions permitted by the applicable statute governing the incorporation of such corporation (in this section "insured claims")) which such persons may have against any of such corporations in their capacity as a director of such corporations. If ICG shall be unable to secure such a release from any one or more of such directors, ICG shall indemnify the relevant corporation or corporations, on terms satisfactory to Westcoast, acting reasonably, from all claims (other than insured claims)

which such director or directors may have against such corporation or corporations in his or their capacity as a director thereof. If so requested by Westcoast by notice in writing delivered to ICG not less than three Business Days prior to the Effective Date, accompanied by a list of nominees, ICG shall cause, and Central shall act as a shareholder of ICG and shall cause the Central Subsidiaries which are shareholders of ICG to act as shareholders of ICG with a view to assisting ICG in causing, nominees of Westcoast to be elected or appointed directors of any of such corporations with effect from the Effective Date in order to fill any vacancy on the board of directors of such corporations so created.

7.7 **Resignation and Releases — Central Subsidiaries**

On or prior to the Effective Date, Central shall use all reasonable efforts to obtain the resignations of such directors of 2451417, Chancellor and Newco as Westcoast may request and to obtain from each of such directors releases of all claims (other than claims with respect to which such directors are entitled to an indemnity pursuant to agreements or by-laws which are not broader than the indemnification provisions permitted by the applicable statute governing the incorporation of such corporation (in this section "insured claims")) which such persons may have against any of such corporations in his or their capacity as a director of such corporations. If Central shall be unable to secure such a release from any one or more such directors, Central shall indemnify the relevant corporation or corporations, on terms satisfactory to Westcoast, acting reasonably, from all claims (other than insured claims) which such director or directors may have against such corporation or corporations in his or their capacity as a director thereof. If so requested by Westcoast by notice in writing delivered to Central not less than three Business Days prior to the Effective Date, accompanied by a list of nominees, Central shall, with effect from the Effective Date, cause nominees of Westcoast to be elected or appointed directors of any such corporations with effect from the Effective Date in order to fill any vacancy on the board of directors of such corporations so created.

ARTICLE VIII

Post-Arrangement Covenants

8.1 **Tax Returns and Tax Elections**

(a) ICG agrees with Westcoast and the Purchaser that ICG shall prepare all elections under the Canadian Tax Act to be filed in connection with the Arrangement and the other transactions contemplated hereby by any one or more of ICG, the Purchaser, Utilities Canada, the Utilities Subsidiaries, Propane Corp. or NASCO. Prior to filing any such election, ICG shall deliver a copy thereof to Westcoast for its approval, acting reasonably. Westcoast agrees with ICG that Westcoast shall forthwith execute or cause to be executed all such elections which have been prepared for execution for or on behalf of Westcoast, the Designated Propane Nominee or any of their respective subsidiaries or affiliated companies and shall deliver the same to ICG for execution by ICG, if necessary, and filing by ICG. ICG agrees with Westcoast and the Purchaser that ICG shall prepare all tax returns to be filed for any fiscal period ended on or prior to the Effective Date for each of Utilities Canada, the Utilities Subsidiaries, Propane Corp. and NASCO and shall deliver the same to Westcoast for approval and filing by Westcoast. Westcoast and the Purchaser agree with ICG that they shall cooperate in the preparation and filing of such elections and returns and shall provide ICG with access to such of its facilities and such of its personnel as were formerly in the employ of ICG to the extent necessary for the preparation thereof. Each party shall be responsible for any costs and expenses incurred by it in connection with the preparation and filing of such elections and returns.

(b) Central agrees with Westcoast and the Purchaser that Central shall prepare or cause to be prepared all elections under the Canadian Tax Act to be filed in connection with the Arrangement and the other transactions contemplated thereby by Central or any of the Central Subsidiaries. Prior to filing any such election, Central shall deliver a copy thereof to Westcoast for its approval, acting reasonably. Westcoast agrees with Central that Westcoast shall forthwith execute or cause to be executed all such elections which have been prepared for execution for or on behalf of Westcoast, the Purchaser, the Designated Propane Nominee or any of their respective subsidiaries or affiliated companies and shall deliver the same to Central for execution by any member of the Central Group, if necessary, and filing by Central. Central agrees with Westcoast and the Purchaser that Central shall prepare or cause to be prepared all tax returns to be filed for any fiscal period ended on or prior to the Effective Date for each of Chancellor,

2451417 and Newco and shall deliver the same to Westcoast for approval and filing by Westcoast. Westcoast and the Purchaser agree with Central that they shall cooperate in the preparation and filing of such elections and returns and shall provide the members of the Central Group with access to its facilities and its personnel to the extent necessary for the preparation thereof. Each party shall be responsible for any costs and expenses incurred by it in connection with the preparation and filing of such elections and returns.

8.2 **Title Matters**

If and to the extent requested by Westcoast or the Purchaser, ICG shall execute all such documents and instruments as Westcoast or the Purchaser may reasonably require in order to further assure Westcoast, the Purchaser or the Designated Propane Nominee and their respective subsidiaries of title to the property and assets comprised in or intended to be comprised in the Utilities Business or the Propane Business.

8.3 **Determination of Utilities Earnings**

As soon as practicable and in any event on or before March 30, 1990, ICG shall prepare a report determining in reasonable detail the Utilities Earnings, a copy of which report shall be promptly delivered to Westcoast. Within 30 days of Westcoast's receipt of the report, Westcoast shall advise ICG whether Westcoast disputes any items contained in the report. If Westcoast disputes any items in the report, ICG and Westcoast shall forthwith thereafter attempt to resolve the matters in dispute. If they are unable to resolve any such matters within a period of 30 days after Westcoast has so advised ICG of Westcoast's dispute, ICG and Westcoast shall forthwith refer the items still in dispute to Price Waterhouse, chartered accountants. ICG and Westcoast shall afford or cause to be afforded to Price Waterhouse and its respective employees and agents access to such officers, employees and agents of Westcoast, the Purchaser, ICG, Utilities Canada and all subsidiaries of Utilities Canada and to the properties, books, records, contracts, tax returns and files of any of them relating to the Utilities Business as may be requested by Price Waterhouse to resolve the dispute between ICG and Westcoast. The decision of Price Waterhouse shall be conclusive and binding upon the parties hereto and the Utilities Earnings as agreed to by ICG and Westcoast or as so determined by Price Waterhouse shall constitute the Utilities Earnings and shall be conclusive and binding upon the parties hereto, and there shall be no appeal to any court from such decision of Price Waterhouse with respect to such determination of the Utilities Earnings. ICG and Westcoast agree to pay all fees and expenses charged by Price Waterhouse for rendering the foregoing services in such proportions as Price Waterhouse, in its absolute discretion, shall determine.

8.4 **Determination of Propane Earnings**

As soon as practicable and in any event on or before March 30, 1990, ICG shall prepare a report determining in reasonable detail the Propane Earnings, a copy of which report shall be promptly delivered to Westcoast. Within 30 days of Westcoast's receipt of the report, Westcoast shall advise ICG whether Westcoast disputes any items contained in the report. If Westcoast disputes any items in the report, ICG and Westcoast shall forthwith thereafter attempt to resolve the matters in dispute. If they are unable to resolve any such matters within a period of 30 days after Westcoast has so advised ICG of Westcoast's dispute, ICG and Westcoast shall forthwith refer the dispute to Price Waterhouse, Chartered Accountants. ICG and Westcoast shall afford or cause to be afforded to Price Waterhouse and its respective employees and agents access to such officers, employees and agents of Westcoast, the Purchaser, the Designated Propane Nominee, ICG, Propane Corp. or NASCO and to the properties, books, records, contracts, tax returns and files of any of them relating to the Propane Business as may be requested by Price Waterhouse to resolve the dispute between ICG and Westcoast. The decision of Price Waterhouse shall be conclusive and binding upon the parties hereto and the Propane Earnings as agreed to by ICG and Westcoast or as so determined by Price Waterhouse shall constitute the Propane Earnings and shall be conclusive and binding upon the parties hereto, and there shall be no appeal to any court from such decision of Price Waterhouse with respect to such determination of the Propane Earnings. ICG and Westcoast agree to pay all fees and expenses charged by Price Waterhouse for rendering the foregoing services in such proportions as Price Waterhouse, in its absolute discretion, shall determine.

8.5 **Adjustment of Assets and Liabilities Among ICG, Propane Corp. and Utilities Canada**

The assets and liabilities of ICG, Propane Corp., Utilities Canada and their respective subsidiaries shall be adjusted as follows:

(a) if any transaction shall have been carried out by ICG, Propane Corp., Utilities Canada or any subsidiary thereof during the period commencing on the first day of the second whole calendar month immediately preceding the month in which the Effective Date occurs (provided that if the Effective Date is the last Business Day in any calendar month, such period shall commence on the first day of the calendar month immediately preceding the month in which the Effective Date occurs) and terminating on the Effective Date (the "Verification Period") in breach of any representation, warranty or covenant contained in this Agreement and, as a result thereof:

(i) (A) assets which, but for such breach, would have constituted assets of, or would have been applied in reduction of liabilities of, Utilities Canada, Propane Corp. or any of their respective subsidiaries, constitute assets of, or have otherwise been applied for the benefit of, ICG or any corporation which is, after the Effective Date, a subsidiary of ICG; and/or

(B) liabilities which, but for such breach, would have constituted liabilities of ICG or any subsidiary thereof (other than Utilities Canada, Propane Corp. or any corporation which is, after the Effective Date, a subsidiary of either Utilities Canada or Propane Corp.), have been paid by or constitute liabilities of Utilities Canada, Propane Corp. or any of their respective subsidiaries;

then, not later than 60 days after the Effective Date, Westcoast may, by notice in writing, demand that ICG or the applicable subsidiary thereof, convey such assets to (or reimburse the value thereof if they cannot be so conveyed) and/or assume such liabilities of (or reimburse the amount paid in respect thereof to the extent such liabilities have been paid) Utilities Canada, Propane Corp. and/or any applicable subsidiaries thereof; and/or

(ii) (A) assets which, but for such breach, would have constituted assets of, or would have been applied in reduction of the liabilities of, ICG or any corporation which is, after the Effective Date, a subsidiary of ICG, constitute assets of, or have otherwise been applied for the benefit of, Utilities Canada, Propane Corp. or any corporation which is, after the Effective Date, a subsidiary of Utilities Corp. or Propane Corp.; and/or

(B) liabilities which, but for such breach, would have constituted liabilities of Utilities Canada, Propane Corp. or any corporation which is, after the Effective Date, a subsidiary thereof, have been paid by or constitute liabilities of ICG or any corporation which is, after the Effective Date, a subsidiary of ICG;

then, not later than 60 days after the Effective Date, ICG may, by notice in writing, demand that Utilities Canada, Propane Corp. or the applicable subsidiary thereof, convey such assets to (or reimburse the value thereof if they cannot be so conveyed) and/or assume such liabilities of (or reimburse the amount paid in respect thereof to the extent such liabilities have been paid) ICG and/or any applicable subsidiaries thereof;

(b) any notice delivered pursuant to Section 8.5(a) (a "Notice") shall specify particulars of the relevant transaction, assets and liabilities which are the subject of such demand;

(c) within 30 days of the receipt by any party (the "Recipient") of any Notice, the Recipient shall advise the party which delivered such Notice (the "Complainant") whether the Recipient disputes any items contained in the Notice; if the Recipient disputes any items in the Notice, ICG and Westcoast shall forthwith thereafter attempt to resolve the matters in dispute; if they are unable to resolve any such matters within a period of 30 days after the Recipient has so advised the Complainant, ICG and Westcoast shall forthwith refer the items still in dispute to Price Waterhouse, chartered accountants; ICG and Westcoast shall afford or cause to be afforded to Price Waterhouse and its respective employees and agents access to such officers, employees and agents of Westcoast, the Purchaser, ICG, the subsidiaries of ICG, Utilities Canada, the Utilities Subsidiaries, Propane Corp. or NASCO and to the properties, books, records, contracts, tax returns and files of any of them relating to the matter in dispute as may be requested by Price Waterhouse to resolve the dispute between ICG and Westcoast. The decision of Price Waterhouse shall be conclusive and binding upon the parties hereto and there shall be no appeal to any court from such decision of Price Waterhouse with respect to such determination; ICG

and Westcoast agree to pay all fees and expenses charged by Price Waterhouse for rendering the foregoing services in such proportions as Price Waterhouse, in its absolute discretion, shall determine;

(d) if the parties agree or Price Waterhouse determines that the demand, or any part thereof, contained in any Notice has been correctly asserted in accordance with the provisions of this Section 8.5, the Recipient shall forthwith comply with the demand by conveying the relevant assets (or making a payment in reimbursement of the value thereof if they cannot be so conveyed) or assuming the relevant liabilities (or making a payment in reimbursement of the amount paid in respect thereof), as the case may be, all so as agreed or so determined by Price Waterhouse; and

(e) for the purposes of this Section, the value of any asset to be reimbursed shall be the amount of the proceeds received on the disposition of such asset, unless such disposition occurred in a non-arm's length transaction in which case the value of such asset to be reimbursed shall be the greater of (i) the fair market value of such asset at the date of disposition and (ii) the proceeds received on the disposition of such asset.

8.6 **Adjustment of Assets and Liabilities Between Propane Corp. and Utilities Canada**

The assets and liabilities of ICG, Propane Corp., Utilities Canada and their respective subsidiaries shall be adjusted as follows:

(a) if any transaction shall have been carried out by ICG, Propane Corp., Utilities Canada or any subsidiary thereof during the Verification Period in breach of any representation, warranty or covenant contained in this Agreement and, as a result thereof:

(i) (A) assets which, but for such breach, would have constituted assets of, or would have been applied in reduction of liabilities of, Utilities Canada or any of its subsidiaries, constitute assets of, or have otherwise been applied for the benefit of, Propane Corp. or NASCO; and/or

(B) liabilities which, but for such breach, would have constituted liabilities of Propane Corp. or NASCO (or any predecessor companies which carried on the Propane Business), have been paid by or constitute liabilities of Utilities Canada or any of its subsidiaries;

then, not later than 60 days after the Effective Date, Utilities Canada may, by notice in writing, demand that Propane Corp. or NASCO convey such assets to (or reimburse the value thereof if they cannot be so conveyed) and/or assume such liabilities of (or reimburse the amount paid in respect thereof to the extent such liabilities have been paid) Utilities Canada and/or any subsidiaries thereof; and/or

(ii) (A) assets which, but for such breach, would have constituted assets of, or would have been applied in reduction of the liabilities of, Propane Corp. or NASCO, constitute assets of, or have otherwise been applied for the benefit of, Utilities Canada or any subsidiary thereof; and/or

(B) liabilities which, but for such breach, would have constituted liabilities of Utilities Canada or any subsidiary thereof, have been paid by or constitute liabilities of Propane Corp. or NASCO;

then, not later than 60 days after the Effective Date, Propane Corp. may, by notice in writing, demand that Utilities Canada or the applicable subsidiary thereof, convey such assets to (or reimburse the value thereof if they cannot be so conveyed) and/or assume such liabilities of (or reimburse the amount paid in respect thereof to the extent such liabilities have been paid) Propane Corp. and/or any applicable subsidiaries thereof;

(b) any notice delivered pursuant to Section 8.6(a) (a "Notice") shall specify particulars of the relevant transaction, assets and liabilities which are the subject of such demand;

(c) within 30 days of the receipt by any party (the "Recipient") of any Notice, the Recipient shall advise the party which delivered such Notice (the "Complainant") whether the Recipient disputes any items contained in the Notice; if the Recipient disputes any items in the Notice, Utilities Canada and Propane Corp. shall forthwith thereafter attempt to resolve the matters in dispute; if they are unable to resolve any such matters within a period of 30 days after the Recipient has so advised the Complainant, Utilities

Canada and Propane Corp. shall forthwith refer the items still in dispute to Price Waterhouse, chartered accountants; Utilities Canada and Propane Corp. shall afford or cause to be afforded to Price Waterhouse and its respective employees and agents access to such officers, employees and agents of Westcoast, the Purchaser, Utilities Canada, the Utilities Subsidiaries, Propane Corp. or NASCO and to the properties, books, records, contracts, tax returns and files of any of them relating to the matter in dispute as may be requested by Price Waterhouse to resolve the dispute between Utilities Canada and Propane Corp. The decision of Price Waterhouse shall be conclusive and binding upon the parties hereto and there shall be no appeal to any court from such decision of Price Waterhouse with respect to such determination; Utilities Canada and Propane Corp. agree to pay all fees and expenses charged by Price Waterhouse for rendering the foregoing services in such proportions as Price Waterhouse, in its absolute discretion, shall determine;

(d) if the parties agree or Price Waterhouse determines that the demand, or any part thereof, contained in any Notice has been correctly asserted in accordance with the provisions of this Section 8.6, the Recipient shall forthwith comply with the demand by conveying the relevant assets (or making a payment in reimbursement of the value thereof if they cannot be so conveyed) or assuming the relevant liabilities (or making a payment in reimbursement of the amount paid in respect thereof), as the case may be, all so as agreed or so determined by Price Waterhouse; and

(e) for the purposes of this Section, the value of any asset to be reimbursed shall be the amount of the proceeds received on the disposition of such asset, unless such disposition occurred in a non-arm's length transaction in which case the value of such asset to be reimbursed shall be the greater of (i) the fair market value of such asset at the date of disposition and (ii) the proceeds received on the disposition of such asset.

8.7 **Central Expenses**

ICG acknowledges the role of Central leading to the execution and delivery of this Agreement and further acknowledges that the benefit of the Arrangement contemplated by this Agreement will accrue to all the shareholders of ICG. Accordingly, ICG agrees to reimburse Central, forthwith upon the completion of the Arrangement, for the reasonable out-of-pocket expenses, other than Excluded Expenses, incurred by Central on or prior to the execution and delivery of this Agreement in connection with the Arrangement. The parties agree that such reimbursable expenses amount to $1,151,152. ICG hereby further agrees to reimburse Central, forthwith upon the completion of the Arrangement, for:

(a) legal fees and expenses incurred by Central or any of the Central Subsidiaries after the execution and delivery of this Agreement in connection with the following matters:

(i) the completion of the transactions contemplated by the Arrangement to which Central or any of the Central Subsidiaries is a party ; and

(ii) the Tax Ruling, other than legal advice received by Central with respect to the application of the provisions of the Canadian Tax Act and other applicable tax laws to Central and the Central Subsidiaries as a result of the participation of the Central Subsidiaries or any of them in the transactions contemplated by this Agreement and the Arrangement other than the transactions referred to in Section 8.7(b); and

(b) all out-of-pocket expenses including, without limitation, legal fees and expenses, incurred by Central or any of the Central Subsidiaries after the execution and delivery of this Agreement in connection with the completion of the transactions contemplated by the Central/Norcen Agreement, the conversion of the First Preference Shares into Class C 8% Convertible Preference Shares, the preparation, execution and delivery of the Warrant Agreement and the performance of the obligations contained therein, the issue and distribution of the Warrants pursuant to the Warrant Agreement, the sale of Class C 8% Convertible Preference Shares pursuant to the exercise of the Warrants and all other matters ancillary to the foregoing matters, including, without limitation, all fees and expenses of the warrant agent to be appointed pursuant to the Warrant Agreement (such fees to be subject to the approval of ICG, acting reasonably) and any costs and expenses incurred in complying with all applicable laws relating to the issue and/or distribution of the Warrants and the Class C 8% Convertible Preference Shares including

the costs and expenses, if any, relating to the preparation, printing, filing and distribution of a prospectus or similar document relating to the Warrants and/or the Class C 8% Convertible Preference Shares.

Central shall provide to ICG, upon request, evidence satisfactory to ICG, acting reasonably, as to the amount of and particulars of all such expenses for which Central is seeking reimbursement hereunder for the period commencing after the execution and delivery of this Agreement.

ARTICLE IX

CENTRAL INDEMNITY

9.1 Indemnity

Subject to the provisions of this Article IX and provided that the Arrangement shall be completed, Central shall indemnify and save harmless Westcoast, the Purchaser, Chancellor and 2451417 from and against all claims, demands, proceedings, losses, damages, liabilities, costs and expenses, including reasonable legal fees and disbursements (other than loss of profits) (collectively "Losses") which Westcoast, the Purchaser, Chancellor and 2451417 may incur or suffer arising out of or relating to:

(a) any breach by Central of any representation, warranty or covenant made by Central pursuant to Article IV of this Agreement; and

(b) any assessment, reassessment, levy, charge or other claim for Taxes in respect of any taxation year (or portion thereof) of Chancellor, 2451417 or Newco ending on or before the Effective Date (an "Assessment").

9.2 Limitations on Indemnity

Notwithstanding Section 9.1:

(a) Central shall not be obligated to make any payment pursuant to Section 9.1 in respect of any matter referred to in Section 9.1(a) until and to the extent that the aggregate of all Losses exceeds $10,000, whereupon Central's obligation to make payment shall commence from the first dollar of Losses;

(b) Central shall not be obligated to make any payment pursuant to Section 9.1 in respect of any Losses relating to Taxes under 9.1(b) unless a demand for payment by Westcoast or the Purchaser has been made by Westcoast or the Purchaser within such a period of time as will allow Central a reasonable opportunity to prepare a written submission or a timely objection to, or otherwise appeal, any such proposed or actual Assessment;

(c) Central's liability pursuant to Section 9.1(b) shall be limited to Taxes that would be payable by Chancellor, 2451417 or Newco after taking into account any permitted deductions, offsets or other benefits whatsoever (including any deductions, offsets or other benefits that may be available by filing an amended return or other form or request such as, but not limited to, the claiming of non-capital losses from other taxation years ending on or prior to the Effective Date and the claiming of discretionary reserves (but for greater certainty not capital cost allowance) not in excess of the maximum amount available) that (a) were available to Chancellor, to 2451417 or to Newco in any period ending on or before the Effective Date, and (b) would have resulted in the reduction of such Taxes actually payable by Chancellor, 2451417 and Newco (whether or not such permitted deductions, offsets or other benefits have actually been utilized by Chancellor, 2451417 and Newco, Westcoast or the Purchaser in respect of taxation years ending on or after the Effective Date); and

(d) except as provided in Section 10.4(a), Central shall not be obligated to make any payment pursuant to Section 9.1 in respect of Losses arising on or after December 31, 1995, except in respect of Losses arising as a result of fraud or wilful misconduct of or by Central in which case the right to make a demand by Westcoast or the Purchaser against Central with respect thereto shall survive indefinitely.

9.3 Litigation

Promptly after receipt of notice of the commencement of any legal proceeding against Westcoast, the Purchaser, Chancellor or 2451417 which is based, directly or indirectly, upon any matter in respect of which

indemnification pursuant to Section 9.1 may be sought from Central, Westcoast or the Purchaser shall notify Central of the commencement thereof and:

(a) Central shall have the right to participate in any negotiations with respect thereto and no settlement of any such claims or demands shall be agreed to by Westcoast or the Purchaser without the prior written consent of Central, such consent not to be unreasonably delayed or withheld;

(b) Central shall be entitled (but not obligated) to assume the defence, at its sole expense, of any such proceeding without prejudice to the right of Westcoast or the Purchaser to retain separate counsel at its own expense;

(c) Westcoast and the Purchaser shall cooperate with Central and its counsel in contesting such proceeding (including by providing to Central information available to Westcoast or the Purchaser which is requested by Central for use in contesting the same); and

(d) in any proceeding in which Central shall have elected to assume the defence, Central will have the sole authority for the direction of such proceeding and to make all decisions regarding the direction of such proceeding;

provided, however, that the failure by Westcoast or the Purchaser to promptly notify Central of the commencement of any legal proceeding shall not affect Central's indemnity under Section 9.1 if such failure to promptly notify Central does not in any manner whatsoever adversely affect Central's ability to object to, respond to or otherwise defend against the subject matter of the indemnity and provided further that if Central shall fail for any reason to assume the defence of or, in Central's sole discretion, to settle any such legal proceeding within 60 days of receipt by Central of notice of the commencement thereof from Westcoast or the Purchaser, Westcoast and the Purchaser shall be entitled to settle any such proceeding and such settlement shall be binding upon Central for the purposes of this Section.

9.4 **Claims for Taxes**

Promptly after Westcoast, the Purchaser, Chancellor or 2451417 receives notification of a proposed or actual Assessment to which the indemnity of Central pursuant to Section 9.1 may apply or extend, Westcoast or the Purchaser shall deliver to Central a copy of any correspondence, notices of assessment or reassessment and any other written communications relating to such a proposed or actual Assessment, and:

(a) Central shall be entitled to contest, at its sole expense, any such proposed or actual Assessment subject to the payment by Central of any amounts required to be paid as security in respect of such matter without prejudice, however, to the right of Westcoast or the Purchaser to retain separate counsel at its own expense and provided that without the prior consent of Westcoast or the Purchaser, as the case may be, which consent shall not be unreasonably delayed or withheld, Central shall not settle any matter which would adversely affect the ability of Chancellor or 2451417 to continue their operations or which would result in a tax liability which would not otherwise be incurred;

(b) Westcoast and the Purchaser shall fully cooperate with Central in contesting such proposed or actual Assessment, including:

(i) providing to Central copies of any correspondence, notices of assessment or reassessment, written communications, information and documentation which is available to Westcoast or the Purchaser which is requested for use in contesting the same;

(ii) authorizing the relevant federal, provincial, state, municipal, county or regional government or governmental authority, including any department, commission, bureau, board, administrative agency or regulatory body thereof, to communicate with and provide information to Central and its counsel in respect of the same;

(iii) permitting Central and its counsel to participate fully in any discussions, negotiations or meetings in respect of the same; and

(iv) by making a filing of, or causing Chancellor or 2451417 to make or file, written submissions or an objection to, or appeal of, any such proposed or actual Assessment in a timely manner; and

(c) Central shall have the sole authority for the direction of any objection or appeal, provided that without the prior consent of Westcoast or the Purchaser, as the case may be, which consent shall not be

unreasonably delayed or withheld, Central shall not settle any appeal in a manner which would adversely affect the ability of Chancellor or 2451417 to continue their operations or which would result in a tax liability which would not otherwise be incurred;

provided that, if Westcoast or the Purchaser fails to inform Central of any such actual Assessment as required pursuant to the foregoing provisions of this Section 9.4, for all purposes of this Agreement (including indemnification against any other related claim by Westcoast or the Purchaser arising out of Section 9.1(b) and the availability of any permitted deduction, offset or other benefit for purposes of Section 9.2(c)) such Assessment shall be deemed not to have been made unless such failure to inform Central does not in any manner whatsoever affect Central's ability to object to, respond to or otherwise contest such proposed or actual Assessment and provided further that if Central shall fail for any reason to commence the contestation of or, in Central's sole discretion, to settle any such Assessment within 60 days of receipt by Central of notice of such Assessment from Westcoast or the Purchaser, Westcoast and the Purchaser shall be entitled to settle such Assessment and such settlement shall be binding upon Central for the purposes of this Section.

ARTICLE X

LIMITATION ON REMEDIES

10.1 **Limitation on Remedies of Westcoast and the Purchaser**

In the event that any of the representations and warranties of ICG or Central contained in this Agreement shall be untrue or incorrect on the Effective Date for any reason which is not in the control of ICG or Central, as the case may be, Westcoast and the Purchaser shall have no rights or remedies in respect thereof (other than pursuant to Sections 8.5 and 8.6 and Article IX of this Agreement if the Arrangement is completed) except to elect not to complete the Arrangement pursuant to the conditions in subsections 11.3(a) or (b), as the case may be. For greater certainty, it is understood that the limitation contained in this Section 10.1 does not apply in the event that any of the representations and warranties of ICG or Central contained in this Agreement are untrue or incorrect on the date hereof provided:

(a) notice of such untrue or incorrect representation and warranty is promptly given in accordance with the provisions of Section 11.5; and

(b) ICG or Central, as the case may be, fails to cause such representation and warranty to be true and correct as at the Effective Date.

10.2 **Limitation on Remedies of ICG**

In the event that any of the representations and warranties of Westcoast or the Purchaser contained in this Agreement or the representation and warranty of Central contained in Section 4.7 of this Agreement shall be untrue or incorrect on the Effective Date for any reason which is not in the control of Westcoast, the Purchaser, or Central, as the case may be, ICG shall have no rights or remedies in respect thereof except to elect not to complete the Arrangement pursuant to the conditions in subsections 11.2(a) or (b), as the case may be. For greater certainty, it is understood that the limitation contained in this Section 10.2 does not apply in the event that any of the representations and warranties of Westcoast, the Purchaser or Central contained in this Agreement are untrue or incorrect on the date hereof provided:

(a) notice of such untrue or incorrect representation and warranty is promptly given in accordance with the provisions of Section 11.5; and

(b) Westcoast, the Purchaser or Central, as the case may be, fails to cause such representation and warranty to be true and correct as at the Effective Date.

10.3 **Limitation on Remedies of Central**

In the event that any of the representations and warranties of Westcoast or the Purchaser contained in this Agreement shall be untrue or incorrect on the Effective Date for any reason which is not in the control of Westcoast or the Purchaser, Central shall have no rights or remedies in respect thereof except to elect not to complete the Arrangement pursuant to the conditions in subsections 11.4(a) or (b), as the case may be. For greater certainty, it is understood that the limitation contained in this Section 10.3 does not apply in the event that any of the

representations and warranties of Westcoast or the Purchaser contained in this Agreement are untrue or incorrect on the date hereof provided:

(a) notice of such untrue or incorrect representation and warranty is promptly given in accordance with the provisions of Section 11.5; and

(b) Westcoast or the Purchaser, as the case may be, fails to cause such representation and warranty to be true and correct as at the Effective Date.

10.4 **Non-Survival of Representations, Warranties and Covenants**

(a) The representations and warranties of Central contained in Article IV of this Agreement in favour of Westcoast and the Purchaser shall survive the completion of the Arrangement and this Agreement for the benefit of Westcoast and the Purchaser and shall survive until December 31, 1995. The representations and warranties of Westcoast and the Purchaser in favour of Central shall survive the completion of the Arrangement for the benefit of Central and shall survive until December 31, 1995. No investigation made by Westcoast, the Purchaser or their respective representatives shall affect the rights of Westcoast or the Purchaser to rely on any representation or warranty made by Central in this Agreement or in any document contemplated by this Agreement.

(b) Except as provided in Section 10.4(a), the respective representations, warranties and covenants of ICG, Westcoast, the Purchaser, Chancellor, 2451417, Central and MICCI contained herein shall expire and be terminated and extinguished at the Effective Time, other than the covenants contained in Section 2.4, Section 6.3(b)(ii), (iii), (iv) and (v), Article VIII, Article IX, Section 13.1 and the confidentiality provisions of Section 6.11.

ARTICLE XI

CONDITIONS

11.1 **Mutual Conditions Precedent**

The respective obligations of each party hereto to complete the transactions contemplated hereby and to file articles of arrangement to give effect to the Arrangement shall be subject to the fulfilment, or mutual waiver by ICG, Westcoast and the Purchaser on or before the Effective Date, of each of the following conditions:

(a) the Interim Order shall have been obtained in form and substance satisfactory to each party hereto;

(b) the Arrangement shall have been approved at the ICG Special Meeting in accordance with the Interim Order;

(c) the Final Order shall have been obtained in form and substance satisfactory to each party hereto;

(d) Westcoast shall have been advised by the Director of Investigation and Research appointed under the CA that he has determined not to make application under the CA for an order in respect of the Arrangement and the acquisition of the shares of Chancellor by the Designated Propane Nominee or, if he has determined to make such application, the Competition Tribunal has determined to permit the transactions contemplated hereby and by the Arrangement to be completed, in either case either without conditions or on conditions which are in form and content satisfactory to ICG and Westcoast, acting reasonably;

(e) each of the following shall have been obtained by ICG either without conditions or on conditions which are in form and content satisfactory to ICG and Westcoast, as follows:

(i) leave of the Lieutenant Governor-in-Council for the Province of Ontario pursuant to the undertakings dated June 16, 1988 made by ICG and certain of the Utilities Subsidiaries to the extent such leave is required to complete the transactions contemplated hereby and by the Arrangement;

(ii) approval of the Public Utilities Board of the Province of Manitoba pursuant to *The Public Utilities Board Act* (Manitoba) to the completion of the transactions contemplated hereby and by the Arrangement to the extent such approval is required by such Board;

(iii) the maintenance, without amendment, of Alberta Public Utilities Board order no. C81146 dated June 18, 1981 or the approval of the Alberta Public Utilities Board pursuant to Section 25.1(2)(d) of the *Gas Utilities Act* (Alberta) and Section 91.1(2)(d) of the *Public Utilities Board Act* (Alberta) to the completion of the transactions contemplated hereby and by the Arrangement or an order of the Alberta Public Utilities Board declaring that the foregoing statutory provisions do not apply thereto; and

(iv) approval of the Northwest Territories Public Utilities Board pursuant to Sections 70 and 72 of the *Public Utilities Act* (Northwest Territories) to the completion of the transactions contemplated hereby and by the Arrangement or confirmation by the Northwest Territories Public Utilities Board that no such approval need be obtained in respect thereof;

(f) Westcoast shall have received approval of the British Columbia Utilities Commission pursuant to Section 61 of the *Utilities Commission Act* (British Columbia) to the completion of the transactions contemplated hereby or by the Arrangement, or Westcoast shall have received advice, satisfactory to Westcoast, acting reasonably, from the British Columbia Utilities Commission that the *Utilities Commission Act* (British Columbia) is not applicable to the transactions contemplated by this Agreement;

(g) the Tax Ruling shall have been obtained;

(h) all other consents, waivers, orders and approvals, including regulatory and judicial approvals and orders, necessary for the completion of the Arrangement and the other transactions contemplated by this Agreement and any other consents, waivers, orders and approvals necessary to ensure the continued holding by Utilities Canada and the Utilities Subsidiaries of the Material Utilities Permits after the completion of the Arrangement and the other transactions contemplated by this Agreement shall have been obtained or received and reasonably satisfactory evidence thereof shall have been delivered to the other parties hereto, except for any such consents, waivers, orders and approvals that if not obtained, either individually or in the aggregate, would not have a material adverse effect on ICG or Westcoast or the carrying on by Propane Corp. and NASCO of the Propane Business, consistent with prior practice, or the carrying on of the Utilities Business, as a whole or in any of the Utilities Regions, consistent with prior practice;

(i) no preliminary or permanent injunction, restraining order or other order of any court or regulatory body in Canada or the United States which prevents the consummation of the transactions contemplated by this Agreement or which restrains or prohibits in any material respect, the carrying on by Propane Corp. and NASCO of the Propane Business, consistent with prior practice, or which restrains or prohibits, in any material respect, the carrying on of the Utilities Business, as a whole or in any of the Utilities Regions, consistent with prior practice shall have been issued and remain in effect, and no such injunction or order shall be pending or threatened;

(j) the Central/Norcen Agreement shall have been executed and delivered by the parties thereto; and

(k) this Agreement shall not have been terminated pursuant to Article XII hereof.

11.2 **Additional Conditions Precedent to the Obligations of ICG**

The obligations of ICG to complete the transactions contemplated hereby and to file articles of arrangement to give effect to the Arrangement shall be also subject to the fulfilment, or waiver by ICG, on or before the Effective Date, of each of the following additional conditions:

(a) each of Westcoast, the Purchaser, Central, Chancellor, 2451417 and MICCI shall have performed each obligation to be performed by it hereunder in favour of ICG on or prior to the Effective Date;

(b) the representations and warranties of Westcoast, the Purchaser and Central set out in this Agreement shall be true and correct on and as of the Effective Date as if made on and as of such date, except as affected by transactions contemplated or permitted by this Agreement; and

(c) ICG shall have received certificates of Westcoast, the Purchaser and Central, dated the Effective Date, each signed by two of their respective officers, to the effect that, to the best of the knowledge,

information and belief of each such officer, the conditions specified in Sections 11.2(a) and (b) hereof to the extent applicable to Westcoast, the Purchaser or Central, as the case may be, have been fulfilled.

11.3 **Additional Conditions Precedent to the Obligations of the Purchaser and Westcoast**

The obligations of the Purchaser and Westcoast to complete the transactions contemplated hereby shall be also subject to the fulfilment, or waiver by the Purchaser and Westcoast, on or before the Effective Date, of each of the following additional conditions:

(a) ICG, Central, 2451417 and Chancellor shall have performed each obligation to be performed by it hereunder in favour of Westcoast and the Purchaser on or prior to the Effective Date;

(b) the representations and warranties of ICG and Central set out in this Agreement shall be true and correct except as affected by transactions contemplated by this Agreement on and as of the Effective Date as if made on and as of such date except for the representations and warranties of ICG contained in Sections 3.20, 3.37, 3.53 to the extent that they relate to matters beyond the control of ICG, which representations and warranties shall be true and correct on and as of the date of the ICG Special Meeting as if made on and as of such date;

(c) the Purchaser and Westcoast shall each have received certificates of ICG and Central dated the Effective Date, signed by two of their respective officers, to the effect that, to the best of the knowledge, information and belief of each officer, the conditions specified in Sections 11.3(a) and (b) to the extent applicable to ICG or Central, as the case may be, have been fulfilled; and

(d) the consents, waivers, orders and approvals required by Sections 11.1(h) hereof shall not contain terms or conditions or require undertakings which would have a material adverse effect on the carrying on by Propane Corp. of the Propane Business, consistent with prior practice, or the carrying on of the Utilities Business as a whole or in any of the Utilities Regions, consistent with prior practice;

(e) no substantial damage to the assets of the Utilities Business or the Propane Business shall have occurred prior to the date of the ICG Special Meeting which damage, taking into account all insurance proceeds recoverable as a result thereof, shall have a material adverse effect on the carrying on of the Propane Business, consistent with prior practice, or the carrying on of the Utilities Business as a whole or in any of the Utilities Regions, consistent with prior practice;

(f) no legislation shall have been enacted prior to the date of the ICG Special Meeting which materially adversely affects the carrying on of the Utilities Business as a whole or in any of the Utilities Regions consistent with prior practice or the carrying on of the Propane Business consistent with prior practice, which legislation impacts principally companies carrying on like businesses in Canada;

(g) the Propane Pro Forma Transactions and the Utilities Pro Forma Transactions shall have been completed to the extent so required by this Agreement and as a consequence thereof or of the transactions forming part of the Arrangement, none of 2451417, Chancellor, Newco, Utilities Canada, any subsidiaries of Utilities Canada, Propane Corp. or NASCO shall have incurred any adverse tax consequences or shall have suffered or incurred or become liable for any taxes (including sales taxes, land transfer taxes and income taxes), expenses or other costs (including group termination payments under applicable legislation) which, in the aggregate, have a material adverse effect on the financial position of any of them, in each case on a consolidated basis, and the Purchaser shall be satisfied, acting reasonably, that none of them will incur or suffer any such consequences or liabilities;

(h) the terms of and all documentation relating to the Propane Pro Forma Transactions and the Utilities Pro Forma Transactions and the implementation thereof (including all election forms filed or to be filed in connection therewith), and all actions and proceedings taken on or prior to the Effective Date in connection therewith and with the transactions forming part of the Arrangement shall be satisfactory to the Purchaser and its counsel, acting reasonably, and the Purchaser shall have received copies of all such documentation or other evidence as it may reasonably request in order to establish the consummation of the Propane Pro Forma Transactions, the Utilities Pro Forma Transactions and the transactions forming part of the Arrangement and the taking of all corporate proceedings in connection therewith in compliance with the terms and conditions of this Agreement, in form and substance satisfactory to the Purchaser and its counsel, acting reasonably; and

(i) the audited versions of the Utilities 1988 Financial Statements and the Propane 1988 Financial Statements contained in the ICG Circular shall not contain any changes which are, in the opinion of Westcoast, acting reasonably, substantive in nature from the Utilities 1988 Financial Statements and the Propane 1988 Financial Statements, respectively.

11.4 **Conditions Precedent to the Obligations of Central**

The obligations of Central to complete and to cause the Central Subsidiaries to complete the transactions contemplated hereby shall be subject to the fulfilment, or waiver by Central, on or before the Effective Date, of each of the following conditions:

(a) each of Westcoast and the Purchaser shall have performed each obligation to be performed by it hereunder in favour of Central on or prior to the Effective Date;

(b) the representations and warranties of Westcoast and the Purchaser set out in this Agreement shall be true and correct on and as of the Effective Date as if made on and as of such date, except as affected by transactions contemplated or permitted by this Agreement;

(c) Central shall have received certificates of Westcoast and the Purchaser, dated the Effective Date, each signed by two of their respective officers, to the effect that, to the best of the knowledge, information and belief of each such officer, the conditions specified in Sections 11.4(a) and (b) hereof to the extent applicable to Westcoast or the Purchaser, as the case may be, have been fulfilled;

(d) the Tax Ruling shall have been obtained;

(e) no preliminary or permanent injunction, restraining order or other order of any court or regulatory body in Canada or the United States which prevents the consummation of the transactions contemplated by this Agreement shall have been issued and remain in effect, and no such injunction or order shall be pending or threatened;

(f) this Agreement shall not have been terminated pursuant to Article XII hereof;

(g) all regulatory approvals necessary to the issue and distribution of the Warrants in accordance with the provisions of this Agreement and the Arrangement, the distribution of the Class C 8% Convertible Preference Shares upon the exercise of the Warrants and any other acquisition or distribution of securities by Central or the Central Subsidiaries in accordance with the provisions of this Agreement and the Arrangement shall have been obtained or in the opinion of Central will be obtained; and

(h) the Central/Norcen Agreement shall have been executed and delivered by the parties thereto.

11.5 **Notice and Cure Provisions**

(a) Each party hereto shall give prompt notice to each other party hereto of the occurrence, or failure to occur, at any time from the date hereof to the Effective Time, of any event or state of facts which occurrence or failure would, or would be likely to, (i) cause any of the representations or warranties of any party contained herein to be untrue or inaccurate in any material respect, or (ii) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any party hereunder provided, however, that no such notification shall affect the representations or warranties of the parties or the conditions to the obligations of the parties hereunder.

(b) No party may elect not to complete the transactions contemplated hereby pursuant to the conditions precedent contained in Sections 11.2(a), 11.2(b), 11.3(a), 11.3(b), 11.3(d), 11.3(e), 11.3(g), 11.3(h), 11.4(a) and 11.4(b) unless, prior to the filing on the Effective Date of articles of arrangement for the purpose of giving effect to the Arrangement, the party intending to rely thereon has delivered a written notice to the other parties to this Agreement (the "defaulting parties") specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the party delivering such notice is asserting as the basis for the non-fulfilment of the applicable condition precedent. More than one such notice may be delivered by any party. If any such notice is delivered less than 30 days prior to the Termination Date, provided that one or more of the defaulting parties are proceeding diligently to cure such breach, the Termination Date shall be extended to a date which is the earlier of (i) 30 days after the date of delivery of the last such notice and (ii) April 30, 1990. No such notice may be given after April 2, 1990 except in respect of (i) any matter which has occurred after April 2, 1990 or (ii) any matter in

respect of which a notice was delivered prior to April 2, 1990 which has not been remedied or cured to the satisfaction of the party which delivered such notice.

11.6 **Satisfaction of Conditions**

Subject to Sections 8.5 and 8.6, the conditions set out in Sections 11.1, 11.2, 11.3 and 11.4 hereof shall be conclusively deemed to have been satisfied, waived or released when, with the agreement of Westcoast, ICG and Central, articles of arrangement under the Act are filed.

ARTICLE XII

TERMINATION AND AMENDMENT

12.1 **Termination**

(a) This Agreement may be terminated at any time prior to the Effective Time, whether before or after the ICG Special Meeting, by ICG or Central in order that an unsolicited offer or proposal from a Third Party may be accepted as contemplated by Section 6.10 hereof; in the event of any such termination, no party shall have any liability or further obligation to any party hereunder except for the obligations set forth in Section 6.10 and as set forth in Section 12.2.

(b) This Agreement shall automatically terminate on the Termination Date in the event the Arrangement has not been effected on or before the Termination Date and no party hereto shall have any liability or further obligation to any other party hereunder except (i) in respect of any breach of this Agreement which occurred on or before the Termination Date and (ii) as set forth in Section 12.2.

(c) This Agreement may be terminated by mutual agreement of the parties hereto on such terms and conditions as may be agreed upon without, subject to applicable law, any further notice to or action on the part of their respective security holders.

12.2 **Effect of Termination**

The obligations set out in Sections 6.3(b)(i) and the confidentiality provisions of Section 6.11 shall survive any termination of this Agreement.

12.3 **Amendment**

Subject to applicable law, this Agreement may, at any time and from time to time before and after the holding of the ICG Special Meeting but not later than the Effective Date, be amended by written agreement of the parties hereto without further notice to or action on the part of their respective security holders.

ARTICLE XIII

GENERAL PROVISIONS

13.1 **Brokers**

Each of the parties hereto represents and warrants to each of the other parties that it has not done any act which would give rise to any valid claim against any other party for a brokerage commission, finder's fee or other like payment.

13.2 **Notices**

All notices and other communications hereunder shall be in writing and shall be delivered by hand or sent by telecopier to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice:

(a) if to ICG:

35th Floor
20 Queen Street West
Toronto, Ontario
M5H 3R3

Telecopier: (416) 598-5288
Attention: Senior Vice-President
and Chief Financial Officer

with copies to:

Osler, Hoskin & Harcourt
Barristers & Solicitors
1 First Canadian Place
66th Floor
Toronto, Ontario
M5X 1B8

Telecopier: (416) 862-6666
Attention: Peter J. Dey, Q.C.

(b) if to Westcoast or the Purchaser:

1333 West Georgia Street
Vancouver, British Columbia
V6E 3K9

Telecopier: (604) 664-5883
Attention: Senior Vice-President
and Chief Financial Officer

with copies to:

Tory, Tory, DesLauriers & Binnington
Barristers & Solicitors
Suite 3000, IBM Tower
P.O. Box 270
Toronto-Dominion Centre
Toronto, Ontario
M5K 1N2

Telecopier: (416) 865-7394
Attention: Peter E.S. Jewett

Aikins, MacAulay & Thorvaldson
Barristers & Solicitors
30th Floor
360 Main Street
Winnipeg, Manitoba
R3C 4G1

Telecopier: (204) 957-0840
Attention: David G. Unruh

(c) if to Central or MICCI:

c/o Central Capital Corporation
1 First Canadian Place
38th Floor
Toronto, Ontario
M5X 1G4

Telecopier: (416) 345-4620
Attention: President and
Chief Executive Officer

with copies to:

Davies, Ward & Beck
1 First Canadian Place
44th Floor
Toronto, Ontario
M5X 1B1

Telecopier: (416) 863-0871
Attention: Jeffrey D. Glatt

(d) if to Chancellor or 2451417:

(i) if before the Effective Time as per Section 13.2(c) above; and

(ii) if after the Effective Time as per Section 13.2(b) above.

A notice delivered to the party to whom it is addressed as previously provided shall be deemed to have been given and received on the day it is so delivered at such address, provided that if such day is not a Business Day then the notice shall be deemed to have been given and received on the Business Day next following such day. Any notice so telecopied shall be deemed to have been given and received on the date of telecopying if telecopied during the normal business hours of the addressee on a Business Day or otherwise shall be deemed to have been given and received on the Business Day next following the date of its telecopying.

13.3 **Nature of Representations, Warranties and Covenants**

Any representations, warranties or covenants of Westcoast or the Purchaser herein or in any certificate or document given or made pursuant hereto are given or made jointly and severally.

13.4 **Applicable Law**

This Agreement shall be governed by, and construed in accordance with, the laws of the Province of Manitoba and the laws of Canada applicable therein and shall be treated in all respects as a Manitoba contract.

13.5 **Assignment**

No party may assign this Agreement or any of its rights hereunder or under the Arrangement without the prior written consent of the other parties hereto. Notwithstanding the foregoing, Westcoast and the Purchaser may assign all of their rights, liabilities and obligations hereunder and under the Arrangement and any other written agreement, document or instrument contemplated by or referred to in this Agreement with respect to the Propane Business, Propane Corp., NASCO and the purchase of shares of Chancellor to the Designated Propane Nominee. To the extent that the Designated Propane Nominee assumes, in form and on terms satisfactory to ICG and Central, acting reasonably, any such liabilities or obligations, Westcoast and the Purchaser shall be absolutely released from such liabilities and obligations. To the extent that Westcoast and the Purchaser assign any such rights to the Designated Propane Nominee, ICG and Central shall be absolutely released from any liabilities or obligations to Westcoast and the Purchaser with respect to such rights.

13.6 **Counterparts**

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

13.7 **Binding Effect**

This Agreement and the Arrangement shall be binding upon and shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be executed as of the date first above written.

INTER-CITY GAS CORPORATION

By (Signed) R. G. GRAHAM

(Signed) PETER MARRIOTT C.S.

WESTCOAST ENERGY INC.

By (Signed) M. PHELPS

(Signed) GRAHAM WILSON C.S.

WESTCOAST GAS INC.

By (Signed) M. PHELPS

(Signed) GRAHAM WILSON C.S.

CENTRAL CAPITAL CORPORATION

By (Signed) H. R. COHEN

(Signed) LEONARD ELLEN C.S.

THE CHANCELLOR HOLDINGS CORPORATION

By (Signed) S. M. BECK C.S.

2451417 MANITOBA LTD.

By (Signed) S. M. BECK C.S.

2484685 MANITOBA LTD.

By (Signed) S. M. BECK C.S.

MICC INVESTMENTS LIMITED

By (Signed) D. A. RATTEE

(Signed) J. D. BERGERON C.S.

EXHIBIT 1

to the Arrangement Agreement among
Inter-City Gas Corporation,
Westcoast Energy Inc., WestCoast Gas Inc.,
Central Capital Corporation,
The Chancellor Holdings Corporation,
2451417 Manitoba Ltd.,
2484685 Manitoba Ltd. and
MICC Investments Limited

Arrangement Under Section 185 of The Corporations Act (Manitoba)

ARTICLE I

INTERPRETATION

1.1 **Definitions**

In this Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the following meanings respectively:

"Act" means The Corporations Act (Manitoba);

"Adverse Claim" shall have the meaning ascribed thereto in subsection 44(2) of the Act;

"Aggregate MICCI Shares" means the aggregate number of Common Shares held by MICCI, 2451417 and Chancellor immediately after giving effect to the provisions of Section 3.1(b) of this Arrangement;

"Aggregate ICG FMV" means the aggregate fair market value of the Outstanding Common Shares as at the Effective Time, as determined by the board of directors of ICG (or any person or committee selected by the board of directors of ICG) on the advice of its financial advisors;

"Arrangement Agreement" means the agreement dated December 11, 1989 as amended and restated as of February 12, 1990, made among ICG, Westcoast, the Purchaser, Central, Chancellor, 2451417, Newco and MICCI;

"Business Day" means a day which is not a Saturday, Sunday or statutory holiday within the meaning of the Interpretation Act (Canada);

"Canadian Tax Act" means the Income Tax Act (Canada);

"Central" means Central Capital Corporation, a corporation amalgamated under the laws of Canada;

"Chancellor" means The Chancellor Holdings Corporation, a corporation incorporated under the laws of the Province of Manitoba;

"Chancellor Balancing Shares" means that number of Common Shares equal to: (a) if the number determined in paragraph (ii) of the definition of 2451417 Balancing Shares is greater than the number determined in paragraph (i) of such definition, the difference between the number determined in paragraph (ii) and the number determined in paragraph (i) of such definition; and (b) in any other case, nil;

"Chancellor Butterfly Shares" means special shares in the capital of Chancellor;

"Chancellor Common Shares" means common shares in the capital of Chancellor;

"Chancellor Holding" means the number of Common Shares held by Chancellor immediately after the transfer referred to in Section 3.1(d) of this Arrangement;

"Chancellor Purchase Agreement" means the agreement of purchase and sale to be made between Chancellor and ICG pursuant to which Chancellor shall acquire all of the issued and outstanding shares of Propane Corp. from ICG in consideration for the issue by Chancellor to ICG of Chancellor Butterfly Shares;

"Chancellor Preference Shares" means preference shares in the capital of Chancellor;

"Chancellor Redemption Note" means the non-interest bearing demand promissory note in the aggregate principal amount of the Propane Cash Portion to be issued by Chancellor pursuant to this Arrangement;

"Common Shares" means common shares in the capital of ICG;

"Court" means the Manitoba Court of Queen's Bench;

"Depositary" means Central Guaranty Trust Company at its offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax in Canada and through its associate First Chicago Trust Company of New York at its offices in New York in the United States of America, or such other trust company satisfactory to Westcoast, acting reasonably, as ICG may appoint;

"Designated Propane Nominee" means the person identified in writing by Westcoast to ICG pursuant to the Arrangement Agreement as the proposed purchaser of the shares of Chancellor;

"Dissenting Shareholders" has the meaning ascribed thereto in Section 4.1 of this Arrangement;

"Dissenting Shares" means all shares which are deemed to have been cancelled for the purposes of this Arrangement immediately prior to the Effective Time in accordance with the provisions of Section 4.1 of this Arrangement;

"Effective Date" means the date shown on the certificate of amendment to be issued under the Act giving effect to this Arrangement;

"Effective Time" means the effective time of the Arrangement on the Effective Date, as shown on the certificate of amendment to be issued under the Act giving effect to this Arrangement;

"Employee Share Option Plan" means the employee stock option plan established by ICG;

"Exchanged Common Shares" means the Outstanding Common Shares other than those held by Chancellor, 2451417 or MICCI;

"Exchanged Third Preference Shares" means the outstanding Third Preference Shares immediately prior to giving effect to the provisions of Section 3.1(b) of this Arrangement other than Dissenting Shares;

"Final Order" means the final order of the Court approving this Arrangement;

"First Preference Shares" means First Preference shares eight per cent (8%) Series A in the capital of ICG;

"ICG" means Inter-City Gas Corporation, a corporation amalgamated under the laws of the Province of Manitoba;

"ICG Non-Trade Liabilities" means liabilities of ICG which ICG, Westcoast and the Purchaser have agreed in writing on or before the date hereof are ICG Non-Trade Liabilities for purposes of the Arrangement Agreement;

"ICG Propane Note" means a non-interest bearing demand promissory note of ICG in the aggregate principal amount equal to the Propane Cash Portion;

"ICG Special Meeting" means the special meeting of the holders of Common Shares, First Preference Shares, Third Preference Shares and Options to be held to consider and, if deemed advisable, to approve this Arrangement;

"ICG Utilities Note" means a non-interest bearing demand promissory note of ICG in the aggregate principal amount equal to the Utilities Cash Portion;

"Interim Order" means the interim order of the Court pursuant to the application therefor contemplated by Section 2.1 of the Arrangement Agreement;

"Letter of Transmittal" means the letter of transmittal to be sent to each registered holder of Common Shares and/or Third Preference Shares on the record date for the determination of shareholders entitled to receive notice of the ICG Special Meeting;

"MICC" means The Mortgage Insurance Company of Canada, a corporation governed by the Canadian and British Insurance Companies Act;

"MICCI" means MICC Investments Limited, a corporation incorporated under the laws of Canada;

"MICCI Proportionate Number" means the product obtained by multiplying the Aggregate MICCI Shares by the MICCI Ratio;

"MICCI Ratio" means the quotient obtained by dividing the Remaining ICG FMV by the Aggregate ICG FMV;

"Newco" means 2484685 Manitoba Ltd., a corporation incorporated under the laws of the Province of Manitoba;

"Newco Butterfly Shares" means special shares in the capital of Newco;

"Newco Redemption Note" means the non-interest bearing demand promissory note in the aggregate principal amount of the Utilities Cash Portion to be issued by Newco pursuant to this Arrangement;

"Options" means all options issued and outstanding pursuant to the Employee Share Option Plan on the date of the ICG Special Meeting;

"Ordinary Shares" means the ordinary shares in the capital of ICG after giving effect to Section 3.1(t) of this Arrangement;

"Outstanding Common Shares" means the issued and outstanding Common Shares immediately prior to giving effect to the provisions of Section 3.1(e) of this Arrangement, other than Dissenting Shares;

"Propane Cash Portion" means the lesser of (a) the Propane Total and (b) the product obtained by multiplying:

(i) the number of Outstanding Common Shares; by

(ii) the product obtained by multiplying:

(A) $21.00; by

(B) the Propane Factor;

"Propane Corp." means ICG Propane Inc., a corporation incorporated under the laws of the Province of Manitoba;

"Propane Debt Portion" means the Propane Total less the Propane Cash Portion;

"Propane Factor" means (a) the quotient obtained by dividing the Propane Total by the sum of the Utilities Total and the Propane Total; for such purposes, the Propane Total and Utilities Total shall be determined on the basis that the references in the respective definitions thereof to Propane Earnings and Utilities Earnings were references to Estimated Propane Earnings and Estimated Utilities Earnings, respectively; or (b) such other amount (being greater than or equal to zero and less than or equal to one) as Westcoast and ICG may mutually agree upon in writing prior to the Effective Time;

"Propane Ratio" means the quotient obtained by dividing (i) the Propane Cash Portion by (ii) the Aggregate ICG FMV;

"Propane Total" means the aggregate of (i) $220,800,000, (ii) (A) if the Propane Earnings equal or exceed $10,000,000, an amount equal to 50% of the Propane Earnings or (B) in any other event an amount equal to the Propane Earnings less $5,000,000 and (iii) $3,000,000, Propane Earnings having the meaning ascribed thereto and being determined for the purposes hereof as set forth in the Arrangement Agreement;

"Public Shareholders" means all holders of Exchanged Common Shares;

"Purchaser" means WestCoast Gas Inc., a corporation incorporated under the laws of Canada;

"Remaining ICG FMV" means the difference between the Aggregate ICG FMV and the sum of the Utilities Cash Portion and the Propane Cash Portion;

"Third Preference Shares" means $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series in the capital of ICG;

"2451417" means 2451417 Manitoba Ltd., a corporation incorporated under the laws of the Province of Manitoba;

"2451417 Balancing Shares" means that number of Common Shares equal to the lesser of (i) that number of Common Shares that would result in 2451417 holding the 2451417 Proportionate Number of Common Shares

immediately after the sale contemplated in section 3.1(c) of this Arrangement; and (ii) that number of Common Shares that would result in MICCI owning the MICCI Proportionate Number of Common Shares immediately after such sale;

"2451417 Common Shares" means common shares in the capital of 2451417;

"2451417 Holding" means the number of Common Shares held by 2451417 immediately after the transfer referred to in Section 3.1(c) of this Arrangement;

"2451417 Proportionate Number" means the product obtained by multiplying the Aggregate MICCI Shares by the Utilities Ratio;

"Utilities Assumption Agreement" means the assumption agreement to be made between ICG and Newco pursuant to the Utilities Purchase Agreement pursuant to which, in partial consideration for the transfer to Newco of all of the issued and outstanding common shares in the capital of Utilities Canada, Newco shall assume ICG Non-Trade Liabilities in an amount equal to the Utilities Debt Portion;

"Utilities Canada" means ICG Utilities (Canada) Ltd., a corporation incorporated under the laws of Canada;

"Utilities Cash Portion" means the lesser of (a) the Utilities Total and (b) the product obtained by multiplying:

(i) the number of Outstanding Common Shares; by

(ii) the product obtained by multiplying:

(A) $21.00; by

(B) the Utilities Factor;

"Utilities Debt Portion" means the Utilities Total less the Utilities Cash Portion;

"Utilities Factor" means the amount (being greater than or equal to zero and less than or equal to one) obtained by subtracting the Propane Factor from the whole number one;

"Utilities Purchase Agreement" means the agreement of purchase and sale to be made between ICG and Newco pursuant to which Newco shall acquire all of the issued and outstanding common shares of Utilities Canada from ICG in consideration for the issue by Newco to ICG of Newco Butterfly Shares and the assumption by Newco of ICG Non-Trade Liabilities in an amount equal to the Utilities Debt Portion pursuant to the Utilities Assumption Agreement;

"Utilities Ratio" means the quotient obtained by dividing (i) the Utilities Cash Portion by (ii) the Aggregate ICG FMV;

"Utilities Total" means the aggregate of (i) $462,000,000, (ii) an amount equal to the Utilities Earnings and (iii) $9,000,000, Utilities Earnings having the meaning ascribed thereto and being determined for the purposes hereof as set forth in the Arrangement Agreement;

"Warrant Agreement" means the agreement to be made between MICCI and a warrant agent pursuant to which MICCI shall create and issue share purchase warrants entitling the holders thereof, in the aggregate, upon the exercise of such warrants in accordance with their terms, to purchase, for a purchase price of $25.00 per Class C 8% Convertible Preference Share, that proportion of the Class C 8% Convertible Preference Shares held by MICCI immediately after giving effect to the provisions of Section 3.1(t) of this Arrangement which is equal to the quotient obtained by dividing (i) the number of Ordinary Shares, other than Dissenting Shares, outstanding immediately after giving effect to the provisions of Section 3.1(t) of this Arrangement held by persons other than MICCI by (ii) the number of Ordinary Shares, other than Dissenting Shares, outstanding immediately after giving effect to the provisions of Section 3.1(t) of this Arrangement;

"Warrants" means share purchase warrants to be created and issued by MICCI pursuant to the Warrant Agreement;

"Warrant Sales Agent" means a Canadian chartered bank or investment dealer satisfactory to MICCI and ICG; and

"Westcoast" means Westcoast Energy Inc., a corporation incorporated under the laws of Canada.

1.2 **Interpretation Not Affected by Headings, etc.**

The division of this Arrangement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Arrangement. The terms "this Arrangement", "hereof", "herein" and "hereunder" and similar expressions refer to this Arrangement and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.3 **Currency**

All sums of money which are referred to in this Arrangement are expressed in lawful money of Canada unless otherwise specified.

1.4 **Number, etc.**

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa; words importing the use of any gender shall include all genders; and words importing persons shall include firms and corporations.

ARTICLE II

ARRANGEMENT AGREEMENT

2.1 **Arrangement Agreement**

This Arrangement is made pursuant to the provisions of the Arrangement Agreement.

ARTICLE III

3.1 **The Arrangement**

At the Effective Time the following shall occur and be deemed to occur in the order specified below, without any further act or formality except as herein otherwise provided:

Stated Capital Adjustments

(a) the stated capital of the Third Preference Shares is reduced to nil, an amount equal to the paid up capital for purposes of the Canadian Tax Act of the Third Preference Shares (calculated prior to the foregoing reduction) is added to the stated capital of the Common Shares and an amount equal to the difference between the stated capital of the Third Preference Shares and the paid up capital for purposes of the Canadian Tax Act of the Third Preference Shares (calculated in each case prior to the foregoing changes) is added to a surplus account of ICG;

Third Preference Shares

(b) each Exchanged Third Preference Share is changed into 1.662 Common Shares;

Transfers by MICCI

(c) MICCI transfers to 2451417 the 2451417 Balancing Shares, if any, for an equal number of 2451417 Common Shares;

(d) MICCI transfers to Chancellor the Chancellor Balancing Shares, if any, for an equal number of Chancellor Preference Shares;

Exchanges by Public Shareholders

(e) each Public Shareholder transfers to 2451417, in exchange for an equal number of 2451417 Common Shares, that number of Common Shares as is determined under the following formula:

$$N = \frac{(A \times U) - B}{A - C} \times D$$

where

A = the number of Outstanding Common Shares;

B = the 2451417 Holding;

C = the Aggregate MICCI Shares;

D = the number of Common Shares held by such holder immediately before the exchange referred to in this paragraph;

N = the number of Common Shares transferred by such holder to 2451417; and

U = the Utilities Ratio;

where the calculation of N produces a number that is not a whole number, the number of shares transferred by, and the number of shares issued to, such holder includes fractional shares, calculated and rounded to the nearest one one-thousandth of a share; Central and its subsidiaries are deemed for all purposes of this Arrangement to have transferred the Common Shares transferred by them pursuant to this Section 3.1(e) prior to the transfer of Common Shares by all other Public Shareholders pursuant to this Section 3.1(e);

(f) each Public Shareholder transfers to Chancellor, in exchange for an equal number of Chancellor Preference Shares, that number of Common Shares as is determined under the following formula:

$$N = \frac{(A \times P) - E}{A - C} \times D$$

where

A = the number of Outstanding Common Shares;

C = the Aggregate MICCI Shares;

D = the number of Common Shares held by such holder immediately before the exchange referred to in the immediately preceding paragraph;

E = the Chancellor Holding;

N = the number of Common Shares transferred by such holder to Chancellor; and

P = the Propane Ratio;

where the calculation of N produces a number that is not a whole number, the number of shares transferred by, and the number of shares issued to, such holder includes fractional shares, calculated and rounded to the nearest one one-thousandth of a share; Central and its subsidiaries are deemed for all purposes of this Arrangement to have transferred the Common Shares transferred by them pursuant to this Section 3.1(f) prior to the transfer of Common Shares by all other Public Shareholders pursuant to this Section 3.1(f);

Distribution to Chancellor of Propane Corp.

(g) pursuant to the Chancellor Purchase Agreement ICG transfers to Chancellor all of the outstanding shares of Propane Corp. in exchange for the issue by Chancellor to ICG of that number of Chancellor Butterfly Shares which is equal to the amount in dollars of the Propane Cash Portion;

(h) Chancellor redeems all of the Chancellor Butterfly Shares held by ICG; the aggregate redemption price being paid and satisfied in full by Chancellor by issuing to ICG the Chancellor Redemption Note;

(i) ICG purchases for cancellation all of the Common Shares held by Chancellor; the aggregate purchase price being paid and satisfied in full by ICG by issuing to Chancellor the ICG Propane Note;

(j) the Chancellor Redemption Note and the ICG Propane Note are set-off against one another and the two notes are cancelled;

Distribution to Newco of Utilities Canada

(k) pursuant to the Utilities Purchase Agreement ICG transfers to Newco all of the outstanding common shares of Utilities Canada in exchange for:

(i) the assumption by Newco, pursuant to the Utilities Assumption Agreement, of ICG Non-Trade Liabilities in an amount equal to the Utilities Debt Portion; and

(ii) the issue by Newco to ICG of that number of Newco Butterfly Shares which is equal to the amount in dollars of the Utilities Cash Portion;

(l) Newco redeems all of the Newco Butterfly Shares held by ICG; the aggregate redemption price being paid and satisfied in full by Newco by issuing to ICG the Newco Redemption Note;

(m) the voluntary dissolution of Newco is commenced and, in connection therewith, all of the assets of Newco are transferred to and all of the liabilities of Newco are assumed by 2451417;

(n) ICG purchases for cancellation all of the Common Shares held by 2451417; the aggregate purchase price being paid and satisfied in full by ICG by issuing to 2451417 the ICG Utilities Note;

(o) the Newco Redemption Note and ICG Utilities Note are set-off against one another and the two notes are cancelled;

Common Shares of Chancellor

(p) the option held by MICC in respect of the one outstanding Chancellor Common Share is cancelled and Central transfers to the Purchaser or, if the Purchaser has assigned certain of its rights and obligations under the Arrangement Agreement pursuant to and in accordance with the provisions of Section 13.5 thereof, to the Designated Propane Nominee, in consideration of $1.00, the one outstanding Chancellor Common Share held by Central;

Sale to the Purchaser

(q) the Public Shareholders (other than Central and its subsidiaries) transfer, and immediately thereafter Central and its subsidiaries transfer, in each case, free from any Adverse Claims, all of their 2451417 Common Shares to the Purchaser for cash consideration in an aggregate amount equal to the Utilities Cash Portion, payable in equal amounts per 2451417 Common Share in accordance with the provisions of Article V of this Arrangement;

(r) the Public Shareholders (other than Central and its subsidiaries) transfer, and immediately thereafter Central and its subsidiaries transfer, in each case, free from any Adverse Claims, all of their Chancellor Preference Shares to the Purchaser or, if the Purchaser has assigned certain of its rights and obligations under the Arrangement Agreement to the Designated Propane Nominee pursuant to and in accordance with the provisions of Section 13.5 thereof, to the Designated Propane Nominee, for cash consideration in an aggregate amount equal to the Propane Cash Portion, payable in equal amounts per Chancellor Preference Share in accordance with the provisions of Article V of this Arrangement;

Stated Capital Adjustments

(s) the stated capital of the First Preference Shares is reduced to nil, an amount equal to the paid up capital for purposes of the Canadian Tax Act of the First Preference Shares (calculated prior to the foregoing reduction) is added to the stated capital of the Common Shares and an amount equal to the difference between the stated capital of the First Preference Shares and the paid up capital for purposes of the Canadian Tax Act of the First Preference Shares (calculated in each case prior to the foregoing changes) is added to a surplus account of ICG;

Amendments to Articles of ICG

(t) the articles of ICG are amended as follows:

(i) by creating 8% Cumulative Redeemable Convertible Class C Preference Shares (the "Class C 8% Convertible Preference Shares") having the rights and attributes as set forth in Appendix I to this Arrangement;

(ii) by changing all the outstanding First Preference Shares into 2,439,920 Class C 8% Convertible Preference Shares;

(iii) by changing all the Common Shares, other than Dissenting Shares, outstanding immediately prior to giving effect to the provisions of this Section 3.1(t) of this Arrangement on a pro rata basis into such number of Common Shares as is equal to one-quarter of the number of Outstanding Common Shares;

(iv) by changing the name of ICG to Inter-City Products Corporation/Société de Produits Inter-Cité Inc.;

(v) by cancelling the first preference shares, second preference shares and third preference shares;

(vi) by creating Class A Preference Shares and Class B Preference Shares having the rights and attributes as set forth in Appendix II to this Arrangement; and

(vii) by redesignating the Common Shares as Ordinary Shares and thereafter all references in the articles of ICG to Common Shares shall be deemed to refer to Ordinary Shares;

Stated Capital Adjustments

(u) the stated capital of the Ordinary Shares is reduced by $51,388,000 (or such other amount as may be agreed upon in writing by MICCI and ICG on or prior to the filing of articles of arrangement giving effect to this Arrangement) and an amount equal to the amount of such reduction is added to the stated capital of the Class C 8% Convertible Preference Shares; and

Issue of Warrants by MICCI

(v) MICCI issues to or for the benefit of each holder of Ordinary Shares (other than MICCI) one Warrant in respect of each Ordinary Share outstanding immediately after giving effect to the provisions of Section 3.1(t) of this Arrangement (other than Dissenting Shares and Ordinary Shares outstanding at that time which are held by MICCI).

3.2 **Other Documents and Instruments**

Each of ICG, Utilities Canada, Propane Corp., Westcoast, the Purchaser, Central, MICCI, MICC, Chancellor, 2451417 and Newco shall make, do and execute or cause and procure to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments, share certificates, share registers, or documents as may be required in order further to document or evidence any of the transactions or events set out in Section 3.1 hereof.

ARTICLE IV

RIGHTS OF DISSENT

4.1 **Rights of Dissent**

Holders of Common Shares, First Preference Shares, Third Preference Shares or Options may exercise rights of dissent in the manner set out in Section 184 of the Act (as modified by the Interim Order, the Final Order and this Section 4.1) in connection with the Arrangement. Holders of such securities who:

(a) send to ICG a written objection ("Objection Notice") in accordance with the provisions of Section 184(5) of the Act; and

(b) do not withdraw such Objection Notice prior to 3:00 p.m. (Winnipeg Time) on the Business Day immediately preceding the Effective Date;

(collectively, the "Dissenting Shareholders") shall be entitled to be paid by ICG the fair value for the securities of the class or classes held by them in respect of which they dissent in the manner set out in Section 184 of the Act (as modified by the Interim Order, the Final Order and this Section 4.1) determined as of the close of business on the day before the day on which the ICG Special Meeting is held. ICG hereby waives the requirements contained in Section 184(7) and 184(9) of the Act that a security holder wishing to exercise rights of dissent shall forward a notice of demand to ICG and shall forward all certificates representing the securities in respect of which he dissents to ICG and confirms that no Dissenting Shareholder shall cease to be entitled to be paid by ICG the fair value for the securities in respect of which he dissents as a result of any failure to comply with the said provisions of the Act. A Dissenting Shareholder ceases to have any rights as a holder of securities of the class or classes in respect of which he dissents other than the right to be paid the fair value of such securities as determined under Section 184 of the Act and the Common Shares, First Preference Shares, Third Preference Shares or Options in respect of which a Dissenting Shareholder dissents shall be deemed to have been cancelled by ICG for all purposes of this Arrangement with effect immediately prior to the Effective Time. ICG shall not be required to recognize a Dissenting Shareholder as the holder of the Common Shares, First Preference Shares, Third Preference Shares or Options in respect of which such Dissenting Shareholder has dissented with effect upon sending the Objection Notice to ICG unless such Objection Notice is withdrawn in accordance with (b) above, and the name of such holder shall be deleted from the register of holders of Common Shares, First Preference Shares, Third Preference Shares and Options, as the case may be, at the Effective Time.

ARTICLE V

CASH AND CERTIFICATES

5.1 **Share Certificates and Warrant Certificates**

(i) As soon as practicable after the Effective Time, ICG shall cause to be delivered to the Depositary share certificates representing all of the Ordinary Shares outstanding after giving effect to Section 3.1 of this Arrangement.

(ii) As soon as practicable after the Effective Time, ICG shall cause to be delivered to the Depositary share certificates representing all of the Class C 8% Convertible Preference Shares outstanding after giving effect to Section 3.1 of this Arrangement.

(iii) As soon as practicable after the Effective Time, MICCI shall cause to be delivered to the Depositary warrant certificates representing all of the Warrants outstanding after giving effect to Section 3.1 of this Arrangement.

5.2 **Delivery of Cash, Share Certificates and Warrant Certificates**

(a) Subject to Section 5.6, from and after the Effective Time, each share certificate representing Common Shares or Third Preference Shares which were outstanding immediately prior to the Effective Time (other than Dissenting Shares) shall represent only the right of the registered holder of the shares represented by such share certificate to receive:

(i) payment, in accordance with the provisions of this Article V, of the cash amount payable to such holder in accordance with Sections 3.1 and 5.5 of this Arrangement;

(ii) certificates representing that number of Ordinary Shares to which such holder is entitled immediately after giving effect to Sections 3.1 and 5.7 of this Arrangement; and

(iii) certificates representing that number of Warrants to which such holder is entitled immediately after giving effect to Sections 3.1 and 5.8 of this Arrangement;

upon such holder depositing with the Depositary such share certificate, duly endorsed for transfer, accompanied by (A) a Letter of Transmittal duly signed and completed by such holder in accordance with the terms thereof or (B) such other documents and instruments as the Depositary may reasonably require. Upon receipt by the Depositary of any such share certificate, together with such Letter of Transmittal or such other documents and instruments, the Depositary shall deliver to such holder the cash payment, share certificates and warrant certificates referred to in clauses (i), (ii) and (iii) of this Section 5.2(a) to which such holder is entitled in accordance with the provisions of this Arrangement subject, in the case of any such cash payment, to any withholdings or deductions

required by Section 116 of the Canadian Tax Act and any potential backup withholding which may be required by Section 3406 of the United States Internal Revenue Code of 1986 . Any amounts so withheld or deducted by the Depositary shall be applied by the Depositary in accordance with the provisions of Section 116 of the Canadian Tax Act or Section 3406 of the United States Internal Revenue Code of 1986.

(b) Subject to Section 5.6, from and after the Effective Time, each share certificate representing First Preference Shares which were outstanding immediately prior to the Effective Time (other than those in respect of which rights of dissent were exercised by a Dissenting Shareholder) shall represent only the right of the registered holder of the shares represented by such share certificate to receive a share certificate representing that number of Class C 8% Convertible Preference Shares to which such holder is entitled immediately after giving effect to Section 3.1 of this Arrangement, upon such holder depositing with the Depositary such share certificate, duly endorsed for transfer and accompanied by (i) a Letter of Transmittal duly signed and completed by such holder in accordance with the terms thereof or (ii) such other documents and instruments as the Depositary may reasonably require. Upon receipt by the Depositary of any such share certificate, together with such Letter of Transmittal or such other documents and instruments, the Depositary shall deliver to such holder a share certificate representing that number of Class C 8% Convertible Preference Shares to which such holder is entitled in accordance with the provisions of this Arrangement.

5.3 **Delivery of Cheques in Satisfaction of Cash Payment**

Unless otherwise directed in accordance with any Letter of Transmittal, any cash payments to be made pursuant to this Arrangement shall be made by the Depositary issuing cheques in Canadian currency payable at any branch in Canada of a Canadian chartered bank or trust company. Payment will be made in United States dollars to those persons who elect to receive any such payment in United States dollars in the manner provided in the Letter of Transmittal and, for such purpose, Canadian dollar amounts shall be converted into United States dollars at the United States dollar/Canadian dollar noon exchange rate quoted by Canadian Imperial Bank of Commerce on the Business Day immediately preceding the date of issuance of the cheque evidencing such payment. All cheques forwarded pursuant hereto shall be deemed to have been delivered at the time of delivery thereof to the post office or to such other party as may be charged with the responsibility for the transmission thereof.

5.4 **Use of Postal Services**

Unless otherwise directed in accordance with any Letter of Transmittal, all cheques, share certificates and/or warrant certificates which any person is entitled to receive in accordance with the provisions of this Arrangement shall be forwarded by first class mail, postage prepaid or, in the case of a postal disruption in Canada, by such other means as the Depositary may deem prudent, to the persons and at the addresses specified in the relevant Letter of Transmittal or as otherwise specified to the satisfaction of the Depositary.

5.5 **Interest, Dividends and other Distributions**

All funds which the Depositary shall hold pending delivery thereof to the persons entitled thereto in accordance with the provisions of this Arrangement shall be held by the Depositary in trust for the persons entitled thereto. All dividends paid and distributions made in respect of Ordinary Shares after the Effective Time for which a certificate representing such shares has not been delivered to the persons entitled thereto in accordance with Section 5.2 (including, if applicable, any distributions pursuant to Section 5.7 or 5.8 of this Arrangement) shall be paid to the Depositary to be held by the Depositary in trust for such persons. All monies so held or received by the Depositary shall be invested by the Depositary in one or more interest-bearing trust accounts on terms acceptable to ICG and the Depositary.

5.6 **Extinguishment of Claims**

The delivery by the Purchaser and/or the Designated Propane Nominee to the Depositary of an aggregate amount equal to the sum of the Utilities Cash Portion and the Propane Cash Portion in accordance with the provisions of the Arrangement Agreement shall satisfy the obligations of the Purchaser and/or the Designated Propane Nominee set forth in Section 3.1(q) and 3.1(r) of this Arrangement and, thereupon, all holders of securities of ICG immediately prior to the Effective Time shall cease to have any claim or interest of any kind against the Purchaser or the Designated Propane Nominee arising as a result of the transactions which form part of this Arrangement. Any share certificate representing Common Shares, Third Preference Shares or First Preference

Shares which were outstanding immediately prior to the Effective Time which is not deposited with the Depositary in accordance with the provisions of Section 5.2 of this Arrangement on or prior to the sixth anniversary of the Effective Date shall cease to represent a claim or interest of any kind against ICG. On such sixth anniversary, all unclaimed cash held by the Depositary in accordance with the provisions of Section 5.5 of this Arrangement shall be surrendered by the Depositary to ICG and all share certificates held by the Depositary pursuant to this Arrangement shall be returned to ICG for cancellation.

5.7 **Fractional Shares**

Notwithstanding any other provision of this Arrangement, no certificate representing fractional Ordinary Shares shall be issued or delivered in connection with this Arrangement. In lieu thereof, a certificate or certificates representing an accumulation of all fractional interests in Ordinary Shares which, but for the provisions of this Section 5.7, would have been issued pursuant to this Arrangement, shall be delivered to the Depositary. The Depositary shall attempt to sell such Ordinary Shares on The Toronto Stock Exchange or on such other stock exchange on which such shares are listed or quoted as may be selected by the Depositary in its discretion during the 60-day period following the Effective Date. The aggregate proceeds of such sale will be distributed by the Depositary, *pro rata*, among the persons who, but for the provisions of this Section 5.7, would have been entitled to receive such fractional interests in such Ordinary Shares.

5.8 **Warrants Held by Certain U.S. Nationals or Residents**

No certificates representing Warrants will be issued or delivered either upon the Arrangement or upon transfer or exchange to any person who the Depositary has reason to believe is a resident of any state, territory or possession of the United States of America or the District of Columbia in which such issuance or delivery would be unlawful. In lieu thereof, certificates representing all Warrants which, but for the provision of this Section 5.8, would have been issued and delivered to such persons pursuant to this Arrangement, shall be delivered to the Warrant Sales Agent. The Warrant Sales Agent shall attempt to sell such Warrants on The Toronto Stock Exchange or in such other manner as the Warrant Sales Agent shall in its discretion determine. The aggregate proceeds of such sales shall be forwarded by the Warrant Sales Agent to the Depositary for distribution by the Depositary, *pro rata*, among the persons who, but for the provisions of this Section 5.8, would have been entitled to receive such Warrants.

APPENDIX I TO ARRANGEMENT

Subject to the requirements of The Corporations Act (Manitoba) as now enacted or as the same may be amended, re-enacted or replaced the 8% Cumulative Redeemable Convertible Class C Preference Shares (the "Class C 8% Convertible Preference Shares") shall have attached thereto the following rights, privileges, restrictions and conditions (the "Class C Provisions"):

1. GENERAL

1.1 Definitions

Where used in these Class C Provisions, the following words and phrases shall, unless there is something in the context otherwise inconsistent herewith, have the following meanings, respectively:

(a) "Arrangement" means the series of transactions carried out pursuant to an arrangement as set out in an arrangement agreement among the Corporation, Westcoast Energy Inc., WestCoast Gas Inc., The Chancellor Holdings Corporation, 2451417 Manitoba Ltd., Central Capital Corporation, 2484685 Manitoba Ltd. and MICC Investments Limited under the provisions of Section 185 of the MCA;

(b) "business day" means a day which is not a Saturday or Sunday and which is not a civic or statutory holiday in Toronto, Ontario;

(c) "Class C Preference holder" means a person recorded on the securities register of the Corporation as being the registered holder of one or more Class C 8% Convertible Preference Shares;

(d) "close of business" means the normal closing hour of the principal office of the transfer agent for the Class C 8% Convertible Preference Shares in the City of Toronto;

(e) "Common Shares" means the common shares in the capital of the Corporation;

(f) "Conversion Rate" at any time means the number of Common Shares into which one Class C 8% Convertible Preference Share may be converted at such time in accordance with the provisions of Section 3;

(g) "Corporation" means Inter-City Gas Corporation or any successor company;

(h) "Current Market Price of the Common Shares" means, at any date, the Weighted Average Price at which the Common Shares have traded on The Toronto Stock Exchange or, if the Common Shares are not then listed and posted for trading on The Toronto Stock Exchange, on such stock exchange on which such shares are listed and posted for trading as may be selected for such purpose by the board of directors of the Corporation or, if the Common Shares are not then listed and posted for trading on any stock exchange, then on the over-the-counter market, during the 20 consecutive trading days ending on a date not earlier than the second trading day preceding such date; and the "Weighted Average Price" shall be determined by dividing the aggregate sale price of all Common Shares sold in board lots on said exchange or market, as the case may be, during the period of 20 trading days by the total number of Common Shares so sold in such board lots;

(i) "director" means a director of the Corporation for the time being and "directors" or "board of directors" means the board of directors of the Corporation or, if duly constituted and empowered, the executive committee of the board of directors of the Corporation for the time being, and reference, without further elaboration, to action by the directors means either action by the directors of the Corporation as a board or action by the said executive committee as such committee;

(j) "dividends paid in the ordinary course" means cash dividends (and as used in subclause 3.5(c) shall include the value of any securities or other property or assets distributed at the option of shareholders in lieu of cash dividends) declared payable on the Common Shares in any fiscal year of the Corporation to the extent that such cash dividends do not exceed, in the aggregate, the greatest of:

(i) 200% of the aggregate amount of cash dividends declared payable by the Corporation on the Common Shares in its immediately preceding fiscal year;

(ii) 300% of the arithmetic mean of the aggregate amounts of cash dividends declared payable by the Corporation on the Common Shares in its three immediately preceding fiscal years; and

(iii) 100% of the aggregate consolidated net income of the Corporation, before extraordinary items, for its immediately preceding fiscal year;

(k) "Effective Date" means the date shown on the certificate of amendment to be issued under the MCA giving effect to the Arrangement;

(l) "herein", "hereto", "hereunder", hereof", "hereby" and similar expressions mean or refer to these Class C Provisions and not to any particular Section, clause, subclause, subdivision or portion hereof, and the expressions "Section", "clause" and "subclause" followed by a number or a letter mean and refer to the specified Section, clause or subclause hereof;

(m) "Initial Issue Date" means the first date on which any Class C 8% Convertible Preference Shares are issued and outstanding;

(n) "Initial Issue Price" means $25.00 per share;

(o) "Junior Shares" means any shares in the capital of the Corporation ranking after or subordinated to the Class C 8% Convertible Preference Shares as to the payment of dividends or the return of capital, including, without limiting the generality of the foregoing, the Common Shares;

(p) "Liquidation Distribution" means a distribution in connection with the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs;

(q) "MCA" means The Corporations Act (Manitoba) as such statute may from time to time be amended, re-enacted or replaced;

(r) "ranking as to capital" means ranking or priority with respect to the distribution of assets in the event of a Liquidation Distribution;

(s) "trading day" means any day on which The Toronto Stock Exchange is open for business and on which one or more board lots of the relevant class of shares of the Corporation are traded on such exchange;

(t) "transfer agent" means the person or persons from time to time appointed by the directors as the transfer agent for the Class C 8% Convertible Preference Shares and, in the event that no such person is appointed, "transfer agent" means the Corporation;

(u) "Warrants" means the share purchase warrants to be created by MICC Investments Limited ("MICCI") pursuant to a warrant indenture under which MICCI shall create and issue share purchase warrants entitling the holders thereof upon the exercise of such warrants in accordance with their terms, to purchase Class C 8% Convertible Preference Shares;

(v) "Warrant Expiry Date" means the last date on which Warrants may be exercised.

(w) "Weighted Average Trading Price" shall have the meaning ascribed to it in clause 3.1 hereof.

1.2 **Gender, etc.**

Words importing only the singular number include the plural and vice versa and words importing any gender include all genders.

1.3 **Currency**

All monetary amounts referred to herein shall be in lawful money of Canada.

1.4 **Headings**

The division of these Class C Provisions into Sections, clauses, subclauses or other subdivisions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof.

1.5 **Business Day**

In the event that any date upon which any dividends on the Class C 8% Convertible Preference Shares are payable by the Corporation, or upon or by which any other action is required to be taken by the Corporation by any

Class C Preference holder hereunder, is not a business day, then such dividend shall be payable or such other action shall be required to be taken on or by the next succeeding day which is a business day.

1.6 **The Corporations Act (Manitoba)**

These Class C Provisions shall be governed by and are subject to the applicable provisions of the MCA and all other laws binding upon the Corporation except as otherwise expressly provided herein.

2. **DIVIDENDS**

2.1 **Declaration and Payment of Dividends**

The holders of Class C 8% Convertible Preference Shares shall be entitled to receive and the Corporation shall pay thereon, as and when declared by the board of directors, fixed preferential cumulative cash dividends at the rate of $2.00 per share per annum. Such dividends, subject as hereinafter provided, shall be payable in equal quarterly installments of $0.50 per share on the first day of each of January, April, July and October in each year (each of which dates is hereinafter referred to as a "dividend payment date"), commencing on the first dividend payment date following the Effective Date.

2.2 **Amount of Dividend**

(a) the amount of the dividend for any period which is less than a full quarter of a year with respect to any Class C 8% Convertible Preference Share:

(i) which is redeemed or purchased; or

(ii) where assets of the Corporation are distributed to the Class C Preference holders pursuant to Section 7 hereof;

shall be equal to the amount calculated by multiplying $0.50 by a fraction the numerator of which is the number of days in such quarter for which such share has been outstanding (including first dividend payment date at the beginning of such quarter), and the denominator of which is the number of days in such quarter (including the dividend payment date at the beginning thereof and excluding the next succeeding dividend payment date).

(b) The amount of the dividend payable in respect of each Class C 8% Convertible Preference Share on the first dividend payment date (the "First Payment Date") following the Initial Issue Date shall, subject to clause 2.2(c), be $0.50 per share, representing (i) that proportion of $0.50 which the number of days from and including the Initial Issue Date to but excluding the First Payment Date is to the total number of days in the three month period immediately preceding the First Payment Date; and (ii) in respect of First Preference shares eight per cent (8%), Series A ("First Preference Shares") which have been reconstituted into Class C 8% Convertible Preference Shares, that proportion of the quarterly dividend in respect of each of the First Preference Shares which the number of days from and including the last dividend payment date in respect of the First Preference Shares to but excluding the Initial Issue Date is to the total number of days in the three month period immediately preceding the First Payment Date.

(c) The holders of Class C 8% Convertible Preference Shares immediately prior to the Warrant Expiry Date shall be entitled, on the dividend payment date following the Warrant Expiry Date, to a dividend (the "Pre-Warrant Expiry Dividend") payable in respect of each Class C 8% Convertible Preference Share (held by them respectively immediately prior to the Warrant Expiry Date) equal to that proportion of $0.50 which the number of days from and including the last dividend payment date in respect of the Class C 8% Convertible Preference Shares to but excluding the first business day following the Warrant Expiry Date is to the total number of days in the three month period immediately preceding the first dividend payment date following the Warrant Expiry Date. The holders of Class C 8% Convertible Preference Shares following the Warrant Expiry Date shall be entitled, on the first dividend payment date following the Warrant Expiry Date, to a dividend payable in respect of each Class C 8% Convertible Preference Share (held by them respectively on the record date for the dividend payable on the first dividend payment date following the Warrant Expiry Date) equal to $0.50 minus the Pre-Warrant Expiry Dividend.

2.3 **Cumulation of Dividends**

If on any dividend payment date a dividend accrued to and payable on such date is not paid in full on the Class C 8% Convertible Preference Shares then issued and outstanding, the said dividend or the unpaid part thereof shall be paid on a subsequent dividend payment date or dividend payment dates determined by the board of directors on which the Corporation shall have sufficient moneys properly applicable to the payment of the same. The Class C Preference holders shall not be entitled to any dividends other than or in excess of the fixed preferential cumulative dividends provided for in this Section 2.

2.4 **Method of Payment**

Any dividends declared on the Class C 8% Convertible Preference Shares shall be paid by forwarding by prepaid first class mail, mailed on or before the dividend payment date, addressed to each Class C Preference holder at his address as it appears on the books of the Corporation or, in the case of joint holders, to the address of that one of the joint holders whose name stands first in the books of the Corporation, a cheque for such dividends (less the amount of any tax or other amounts required to be deducted or withheld by the Corporation) payable to or to the order of such holder (or, in the case of joint holders, payable to, and in the name of, all such holders, failing written instructions from them to the contrary) in lawful money of Canada at par at any branch in Canada of the Corporation's bankers for the time being. Notwithstanding the foregoing, any dividend cheque may be delivered to a Class C Preference holder at his address as aforesaid. The mailing or delivery of any such cheque in the foregoing manner shall satisfy such dividends to the extent of the sum represented by such cheque (plus the amount of any tax or other amounts required to be deducted or withheld as aforesaid) unless such cheque is not paid on presentation. Each dividend on the Class C 8% Convertible Preference Shares shall be paid to the registered holders appearing on the register at the close of business on such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined in advance from time to time by the directors. Dividends which are represented by cheques which have not been presented to the Corporation's bankers for payment or which otherwise remain unclaimed for a period of six years from the date on which they were declared to be payable shall be forfeited to the Corporation.

3. **CONVERSION**

3.1 **Right to Convert**

Upon and subject to the terms and conditions hereinafter set forth, the holders of Class C 8% Convertible Preference Shares shall have the right, at any time and from time to time, commencing on the first business day following the Warrant Expiry Date and prior to the close of business on the earlier of (i) June 30, 2000 and (ii) in the case of Class C 8% Convertible Preference Shares called for redemption, the close of business on the business day immediately preceding the date fixed for the redemption of such Class C 8% Convertible Preference Shares (provided, however, that if the Corporation shall fail to redeem such Class C 8% Convertible Preference Shares in accordance with the notice of redemption the right of conversion shall thereupon be restored as if such call for redemption had not been made), to convert all or any part of their Class C 8% Convertible Preference Shares into fully paid and non-assessable Common Shares, at the Conversion Rate in effect on the date of conversion. Unless and until adjusted in accordance with these Class C Provisions, the Conversion Rate for each Class C 8% Convertible Preference Share to be converted shall be the number of Common Shares determined by dividing (A) $25.00 by (B) 110% of the weighted average of the trading prices (the "Weighted Average Trading Price") at which board lots of the Common Shares have traded on The Toronto Stock Exchange determined by dividing the aggregate sale price of all Common Shares sold in board lots on The Toronto Stock Exchange during the period (the "Trading Period") of 20 consecutive trading days commencing on the 30th day following the Effective Date by the total number of Common Shares so sold in such board lots. Within five business days following the last trading day of such Trading Period, the Corporation shall notify each Class C Preference holder of the Conversion Rate by written notice. The Corporation shall publish, as soon as practicable, a notice specifying the Conversion Rate in the manner provided for in clause 11(a) hereof.

3.2 **Conversion Procedure**

The conversion right provided for in clause 3.1 may be exercised by completing and executing the notice of conversion on the certificate or certificates representing the Class C 8% Convertible Preference Shares in respect of which the holder thereof desires to exercise such right of conversion and by delivering the said certificate or

certificates to the transfer agent for the Class C 8% Convertible Preference Shares at any office for the transfer of the Class C 8% Convertible Preference Shares. The said notice of conversion shall be signed by such holder or by his duly authorized attorney or agent, with signature guaranteed in a manner satisfactory to the transfer agent, and shall specify the number of Class C 8% Convertible Preference Shares which the Class C Preference holder desires to have converted. The transfer form on the certificate or certificates in question need not be endorsed, except in the circumstances contemplated by clause 3.3. If less than all the Class C 8% Convertible Preference Shares represented by a certificate or certificates are to be converted, the Class C Preference holder shall be entitled to receive, at the expense of the Corporation, a new certificate representing the Class C 8% Convertible Preference Shares represented by the certificate or certificate surrendered as aforesaid which are not to be converted.

3.3 **Person to Whom Common Shares Will Be Issued**

On any conversion of Class C 8% Convertible Preference Shares, the share certificates for Common Shares resulting therefrom shall be issued at the expense of the Corporation in the name of the registered holder of the Class C 8% Convertible Preference Shares converted or in such name or names as such registered holder may direct in writing, provided that such registered holder shall pay any applicable security transfer taxes. In any case where the Common Shares are to be issued in the name of a person other than the holder of the converted Class C 8% Convertible Preference Shares, the transfer form on the back of the certificates in question shall be endorsed by the registered holder of the Class C 8% Convertible Preference Shares or his duly authorized attorney or agent, with signatures guaranteed in a manner satisfactory to the transfer agent.

3.4 **Effective Date of Conversion**

Each Class C Preference holder whose shares are to be converted in whole or in part (or any other person or persons in whose name or names any certificates representing Common Shares are issued as provided in clause 3.3) shall be deemed to have become the holder of record of the Common Shares into which such Class C 8% Convertible Preference Shares are converted, for all purposes, on the date of receipt by the transfer agent of the certificate or certificates representing the Class C 8% Convertible Preference Shares to be converted as provided in clause 3.2, notwithstanding any delay in the delivery of the certificate or certificates representing the Common Shares into which such Class C 8% Convertible Preference Shares have been converted and, effective as of such date, the Class C Preference holder shall cease to be registered as the holder of record of the Class C 8% Convertible Preference Shares so converted.

3.5 **Adjustment of Conversion Rate**

(a) *Common Share Reorganization* — If and whenever at any time and from time to time the Corporation shall:

(i) subdivide, redivide, reclassify or change its then outstanding Common Shares into a greater number of Common Shares,

(ii) reduce, combine, reclassify, consolidate or change its then outstanding Common Shares into a lesser number of Common Shares, or

(iii) issue Common Shares (or securities exchangeable for or convertible into Common Shares) to the holders of all or substantially all of its then outstanding Common Shares by way of stock dividend or other distribution, other than an issue of Common Shares or securities exchangeable for or convertible into Common Shares to holders of Common Shares who exercise an option to receive dividends in Common Shares or securities exchangeable for or convertible into Common Shares in lieu of receiving cash dividends paid in the ordinary course,

(any of such events being herein called a "Common Share Reorganization"),

the Conversion Rate shall be adjusted effective immediately after the record date at which the holders of Common Shares are determined for the purpose of the Common Share Reorganization by multiplying the Conversion Rate in effect on such record date by the quotient obtained when:

(A) the number of Common Shares outstanding after the completion of such Common Share Reorganization (but before giving effect to the issue of any Common Shares issued after such record date otherwise than as part of such Common Share Reorganization) including, in the case where securities exchangeable for or convertible into Common Shares are distributed, the number

of Common Shares that would have been outstanding had such securities been exchanged for or converted into Common Shares on such record date,

is divided by

(B) the number of Common Shares outstanding on such record date before giving effect to the Common Share Reorganization.

(b) *Rights Offering* — If and whenever at any time the Corporation shall fix the record date for the issuance of rights, options or warrants to the holders of all or substantially all of its outstanding Common Shares entitling them for a period of not more than 45 days after such record date to subscribe for or to purchase Common Shares (or securities of the Corporation exchangeable for or convertible into Common Shares) at a price per Common Share (or having a conversion price per Common Share) equal to or less than 95% of the Current Market Price of a Common Share on such record date (any such event being herein referred to as a "Rights Offering"), then the Conversion Rate then in effect shall be adjusted immediately after such record date by multiplying the Conversion Rate in effect on such record date by the quotient obtained when:

(i) the sum of the number of Common Shares outstanding on such record date and the number of additional Common Shares offered for subscription or purchase under the Rights Offering (or the number of Common Shares into which the securities so offered are convertible or exchangeable),

is divided by

(ii) the sum of the number of Common Shares outstanding on such record date and a number determined by dividing the aggregate price of the total number of additional Common Shares offered for subscription or purchase under the Rights Offering (or the aggregate conversion price of the convertible or exchangeable securities so offered) by the Current Market Price of a Common Share on such record date.

Any Common Shares owned by or held for the account of the Corporation shall be deemed not to be outstanding for the purpose of any such computation. If such rights, options or warrants are not so issued or if, at the date of expiry of the rights, options or warrants subject to the Rights Offering, less than all the rights, options or warrants have been exercised, then the Conversion Rate shall be readjusted effective immediately after the date of expiry to the Conversion Rate which would have been in effect if such record date had not been fixed or to the Conversion Rate which would then be in effect on the date of expiry if the only rights, options or warrants issued had been those that were exercised, as the case may be.

(c) *Special Distribution* — If and whenever at any time the Corporation shall fix a record date for the making of a distribution (including a distribution by way of stock dividend) to the holders of all or substantially all its outstanding Common Shares of

(i) shares of the Corporation of any class other than Common Shares (and shares convertible into or exchangeable for Common Shares referred to in subclause 3.5(a)),

(ii) rights, options or warrants (excluding a Rights Offering or rights, options or warrants exercisable within 45 days of the record date to acquire Common Shares (or securities convertible into or exchangeable for Common Shares) having a conversion price per Common Share greater than 95% of the then Current Market Price),

(iii) evidences of its indebtedness (excluding indebtedness convertible into or exchangeable for Common Shares referred to in subclause 3.5(a)), or

(iv) assets,

(other than, with respect to (i), (ii), (iii) and (iv) above, dividends paid in the ordinary course or a Common Share Reorganization)

(any such event being herein referred to as a "Special Distribution")

then, in each such case, the Conversion Rate shall be adjusted effective immediately after the record date at which the holders of Common Shares are determined for the purpose of the Special Distribution by multiplying the Conversion Rate in effect on such record date by the quotient obtained when:

(A) the product obtained when the number of Common Shares outstanding on the record date is multiplied by the Current Market Price of a Common Share on such date,

is divided by

(B) the difference obtained when the amount by which the aggregate fair market value (as determined by the board of directors, which determination shall be conclusive) of the shares, rights, options, warrants, evidences of indebtedness or assets, as the case may be, distributed in the Special Distribution exceeds the fair market value (as determined by the board of directors, which determination shall be conclusive) of the consideration, if any, received therefor by the Corporation, is subtracted from the product obtained when the number of Common Shares outstanding on the record date is multiplied by the Current Market Price of a Common Share on such date,

provided that no such adjustment shall be made if the result of such adjustment would be to decrease the Conversion Rate in effect immediately before such record date. Any Common Shares owned by or held for the account of the Corporation shall be deemed not to be outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed. To the extent that such distribution is not so made, the Conversion Rate shall be readjusted effective immediately to the Conversion Rate which would then be in effect based upon such shares or rights, options or warrants or evidences of indebtedness or assets actually distributed.

(d) *Capital Reorganization* — If and whenever there is a capital reorganization of the Corporation not otherwise provided for in this clause 3.5 or a consolidation, merger, arrangement or amalgamation of the Corporation with or into another body corporate (any such event being called a "Capital Reorganization"), any Class C Preference holder who has not exercised his right of conversion prior to the record date for such Capital Reorganization shall be entitled to receive and shall accept, upon the exercise of such right at any time after the record date for such Capital Reorganization, in lieu of the number of Common Shares to which he was theretofore entitled on conversion, the aggregate number of shares or other securities of the Corporation or of the body corporate resulting from the Capital Reorganization that such holder would have been entitled to receive as a result of such Capital Reorganization if, on the record date, he had been the registered holder of the number of Common Shares to which he was theretofore entitled upon conversion, subject to adjustment thereafter in accordance with provisions the same, as nearly as may be possible, as those contained in clauses 3.5 and 3.6; provided that no such Capital Reorganization shall be carried into effect unless all necessary steps shall have been taken so that the Class C Preference holder shall thereafter be entitled to receive such number of shares or other securities of the Corporation or of the body corporate resulting from the Capital Reorganization.

(e) *Reclassification* — In the case of any reclassification of, or other change in, the outstanding Common Shares, other than a Common Share Reorganization or a Capital Reorganization, the right of conversion shall be adjusted immediately after the record date for such reclassification or other change so that Class C Preference holders shall be entitled to receive, upon the exercise of such right at any time after the record date of such reclassification or other change, such shares as they would have received had such Class Class C 8% Convertible Preference Shares been converted into Common Shares immediately prior to such record date subject to adjustment thereafter in accordance with provisions the same, as nearly may be possible, as those contained in clauses 3.5 and 3.6.

3.6 **Rules for Adjustment of Conversion Rate**

The following rules and procedures shall be applicable to the adjustments of the Conversion Rate made pursuant to clause 3.5:

(a) if the purchase price provided for in any rights, options or warrants (the "Rights Offering Price") referred to in subclauses 3.5(b) or 3.5(c) is decreased, the Conversion Rate shall forthwith be changed so as to increase the Conversion Rate to such Conversion Rate as would have been obtained had the adjustment to the Conversion Rate made pursuant to subclauses 3.5(b) or 3.5(c), as the case may be, with respect to such rights, options or warrants been made upon the basis of the Rights Offering Price as so decreased; provided that the provisions of this subclauses 3.6(a) shall not apply to any decrease in the

Rights Offering Price resulting from provisions in any such rights, options or warrants designed to prevent dilution if the resulting increase in the Conversion Rate under this subclause 3.6(a) is not greater than the increase, if any, in the Conversion Rate to be made pursuant to the provisions of this Section 3 by virtue of the occurrence of the event giving rise to such decrease in the Rights Offering Price;

(b) the adjustments provided for in clause 3.5 are cumulative and shall apply to successive subdivisions, redivisions, reductions, reclassifications, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of clauses 3.5 and 3.6; provided that, notwithstanding any other provision of this Section, no adjustment in the Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least 1% of the Conversion Rate then in effect; provided, however, that any adjustment which, except for the provisions of this subclause 3.6(b) would otherwise have been required to be made, shall be carried forward and taken into account in any subsequent adjustment;

(c) no adjustment in the Conversion Rate shall be made pursuant to subclauses 3.5(b) or 3.5(c) in respect of any rights, options, warrants or distributions if identical rights, options or warrants are issued, or distributions are made, to the holders of the Class C 8% Convertible Preference Shares as though and to the same effect as if they had converted their Class C 8% Convertible Preference Shares into Common Shares prior to the record date for the issue of such rights, options or warrants or for the making of such distributions;

(d) in the absence of a resolution of the directors fixing a record date for a Special Distribution or a Rights Offering, the Corporation shall be deemed to have fixed as the record date therefor the date on which the Special Distribution or Rights Offering is effected;

(e) forthwith after any adjustment in the Conversion Rate, the Corporation shall file with the transfer agent of the Corporation for the Class C 8% Convertible Preference Shares a certificate of an officer of the Corporation certifying as to the amount of such adjustment and, in reasonable detail, the event requiring and the manner of computing such adjustment; the Corporation shall also at such time mail, by prepaid first class mail, a copy of such certificate to the Class C Preference holders; and

(f) any questions that at any time or from time to time arises with respect to the Conversion Rate or any adjustment in the amount of the Conversion Rate or, as provided for in clause 3.9, the amount of any cash payment made in lieu of issuing a fractional share shall be conclusively determined by the auditors from time to time of the Corporation and shall be binding upon the Corporation and all shareholders, transfer agents and registrars of shares of the Corporation, including, without limitation, Class C 8% Convertible Preference Shares and Common Shares.

3.7 **Entitlement to Dividends**

Each Class C Preference holder on the record date for any dividend declared payable on the Class C 8% Convertible Preference Shares shall be entitled to such dividend notwithstanding that any Class C 8% Convertible Preference Share owned by him is converted after such record date and before the payment date of such dividend. The registered holder of any Common Share resulting from any conversion effected pursuant to this Section 3 shall be entitled to rank equally with the registered holders of all other Common Shares in respect of all dividends declared payable to holders of Common Shares of record on or after the date of conversion. Except as provided in clauses 3.5 and 3.6, no adjustment will be made on account of any dividend declared or accrued prior to the date of conversion on the Class C 8% Convertible Preference Shares converted or the Common Shares resulting from any conversion.

3.8 **Notice of Certain Events**

(a) If the Corporation intends to fix a record date for any Common Share Reorganization, Rights Offering, Special Distribution or Capital Reorganization, the Corporation shall, not less than 14 days prior to such record date, notify each Class C Preference holder of such intention by written notice setting forth the particulars of such Common Share Reorganization, Rights Offering, Special Distribution or Capital Reorganization in reasonable detail, to the extent that such particulars have been determined at the time of giving of the notice.

(b) The Corporation shall notify each Class C Preference holder of the expiry of the right of each Class C Preference holder, at any time prior to the close of business on June 30, 2000, to convert all or any part of their

Class C 8% Convertible Preference Shares into fully-paid and non-assessable Common Shares, at the Conversion Rate in effect on the date of conversion. Such notice shall be given not less than 21 days and not more than 50 days prior to June 30, 2000.

3.9 **Avoidance of Fractional Shares**

In any case where a fraction of a Common Share would otherwise be issuable on conversion by a Class C Preference holder of one or more Class C 8% Convertible Preference Shares, the Corporation shall adjust such fractional interest by payment by cheque in an amount equal to the then current market value of such fractional interest. Such cheque shall be payable to the holder thereof in lawful money of Canada at par at any branch in Canada of the Corporation's bankers for the time being. The amount of any cash adjustment shall equal the current market value (computed to the nearest cent) of such fractional interest computed on the basis of the last board lot sale price (or the average of the closing bid and ask price if there were no sales) per share for the Common Shares on The Toronto Stock Exchange (or, if such shares are not then listed and posted for trading on such stock exchange, on such stock exchange in Canada on which such shares are listed and posted for trading as may be selected by the board of directors) on the business day next preceding the conversion date. In the event the Common Shares of the Corporation are not listed and posted for trading on any stock exchange in Canada the current market value shall be determined by the board of directors, which determination shall be conclusive. If a cash adjustment is to be paid pursuant to the provisions of this clause 3.9, the mailing by prepaid first class mail from the Corporation's registered office or any office of the registrar for the Class C 8% Convertible Preference Shares to a Class C Preference holder who has exercised his right to convert, to his last address as shown on the books of the Corporation, shall be deemed to be payment of the cash adjustment resulting from such fractional interest unless the cheque is not paid upon due presentation. Cash adjustments that are represented by a cheque which has not been presented to the Corporation's bankers for payment or that otherwise remain unclaimed for a period of six years from the date on which the same became payable shall be forfeited to the Corporation.

3.10 **Postponement of Issuance of Shares upon Conversion**

In any case where the application of the foregoing provisions results in an increase of the Conversion Rate taking effect immediately after the record date for a specific event, if any Class C 8% Convertible Preference Shares are converted after that record date and prior to completion of the event, the Corporation may postpone the issuance to the Class C Preference holder of the additional Common Shares to which he is entitled by reason of the increase of the Conversion Rate but such additional Common Shares shall be issued and delivered to that holder upon completion of the event and the Corporation shall deliver to the holder an appropriate instrument evidencing his right to receive such additional Common Shares.

3.11 **Reservation of Common Shares**

So long as any of the Class C 8% Convertible Preference Shares are outstanding and entitled to the right of conversion herein provided, the Corporation will:

(a) at all times reserve and hold out of its unissued Common Shares a sufficient number of unissued Common Shares to enable all of the Class C 8% Convertible Preference Shares outstanding to be converted upon the basis and upon the terms and conditions herein provided in this Section 3; provided that nothing contained in this clause 3.11 shall affect or restrict the right of the Corporation to issue Common Shares from time to time;

(b) use its best efforts to qualify, if necessary, the Common Shares issued upon the conversion of Class C 8% Convertible Preference Shares for distribution or distribution to the public, as the case may be, in all provinces of Canada in which there are at the time of issue addresses of holders of Class C 8% Convertible Preference Shares appearing in the books of the Corporation or in which there is a stock exchange upon which the Class C 8% Convertible Preference Shares are then listed and posted for trading; and

(c) use its best efforts to have the Common Shares issued upon the conversion of Class C 8% Convertible Preference Shares listed and posted for trading on each stock exchange on which the Class C 8% Convertible Preference Shares are then listed and posted for trading.

4. REDEMPTION

4.1 Optional Redemption

Subject as hereinafter provided, the Corporation shall not redeem the Class C 8% Convertible Preference Shares or any of them on or prior to December 31, 1991.

Thereafter, the Corporation, upon giving notice as hereinafter provided, may redeem at any time and from time to time all or part of the then outstanding Class C 8% Convertible Preference Shares, on payment for each share to be redeemed of $25.00 together with an amount equal to all accrued and unpaid cumulative preferential dividends thereon calculated to but excluding the date fixed for redemption (the whole constituting and herein referred to as the "Redemption Price") for each share to be redeemed provided that on or prior to June 30, 1993, the Corporation may redeem such shares if and only if the Redemption Trading Price is at least equal to 120% of 110% of the Weighted Average Trading Price.

For the purposes of this Section 4.1, the "Redemption Trading Price" shall be equal to the weighted average of the trading prices at which board lots of the Common Shares have traded on The Toronto Stock Exchange, determined by dividing the aggregate sale price of all Common Shares sold in board lots on The Toronto Stock Exchange by the total number of Common Shares so sold in such board lots, during the period of 20 consecutive trading days ending on the fifth trading day prior to the date of sending the notice of redemption referred to in Section 4.3 hereof.

4.2 Partial Redemption

If less than all the outstanding Class C 8% Convertible Preference Shares are at any time to be redeemed, the shares to be redeemed shall be selected by lot or in such other manner as the board of directors of the Corporation may deem equitable or, if the board of directors so determines, on a pro rata basis, disregarding fractions, according to the number of Class C 8% Convertible Preference Shares held by each of the registered holders thereof. If less than all of the outstanding Class C 8% Convertible Preference Shares are at any time to be redeemed and a Class C Preference holder has duly exercised his right to convert into Common Shares all or any part of the Class C 8% Convertible Preference Shares held by such holder which have been called for redemption, the number of Class C 8% Convertible Preference Shares held by such Class C Preference holder to be redeemed shall be reduced by the number (but not exceeding the number of Class C 8% Convertible Preference Shares held by such Class C Preference holder called for redemption) of Class C 8% Convertible Preference Shares in respect of which such registered holder has duly exercised his right to convert into Common Shares. If a part only of the Class C 8% Convertible Preference Shares represented by an certificate shall be redeemed, a new certificate representing the balance of such shares shall be issued to the holder thereof at the expense of the Corporation upon presentation and surrender of the first mentioned certificate.

4.3 Method of Redemption

In any case of redemption of Class C 8% Convertible Preference Shares, the Corporation shall not less than 30 days and not more than 60 days before the date specified for redemption send by prepaid first class mail or deliver to the registered address of each person who at a date not more than seven days prior to the date of mailing or delivery is a Class C Preference holder of Class C 8% Convertible Preference Shares to be redeemed a notice in writing of the intention of the Corporation to redeem Class C 8% Convertible Preference Shares registered in the name of such holder. Accidental failure or omission to give such notice to one or more holders shall not affect the validity of such redemption, but upon such failure or omission being discovered notice shall be given forthwith to such holder or holders and such notice shall have the same force and effect as if given in due time. Such notice shall set out the number of Class C 8% Convertible Preference Shares held by the person to whom it is addressed which are to be redeemed, the Redemption Price, the date specified for redemption and the place or places within Canada at which holders of Class C 8% Convertible Preference Shares may present and surrender such shares for redemption. On and after the date so specified for redemption, the Corporation shall pay or cause to be paid to or to the order of the Class C Preference holders of Class C 8% Convertible Preference Shares to be redeemed the Redemption Price of such shares on presentation and surrender, at the registered office of the Corporation or any other place or places within Canada specified in such notice of redemption, of the certificate or certificates representing the Class C 8% Convertible Preference Shares called for redemption. Payment in respect of Class C 8% Convertible Preference Shares being redeemed shall be made by cheque payable to the holder thereof in lawful

money of Canada at par at any branch in Canada of the Corporation's bankers for the time being. From and after the date specified for redemption in any such notice of redemption, the Class C 8% Convertible Preference Shares called for redemption shall cease to be entitled to dividends or any other participation in the assets of the Corporation and the holders thereof shall not be entitled to exercise any of their other rights as shareholders in respect thereof unless payment of the Redemption Price shall not be made upon presentation and surrender of the certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected. The Corporation shall have the right at any time after the mailing or delivery of notice of its intention to redeem Class C 8% Convertible Preference Shares to deposit the Redemption Price of the Class C 8% Convertible Preference Shares so called for redemption, or of such of the Class C 8% Convertible Preference Shares which are represented by certificates which have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption, to a special account in any Canadian chartered bank or any trust company in Canada named in such notice or in a subsequent notice to the registered holders of the shares in respect of which the deposit is made, to be paid without interest to or to the order of the respective Class C Preference holders whose shares have been called for redemption, upon presentation and surrender to such chartered bank or trust company of the certificates representing such shares. Upon such deposit being made or upon the date specified for redemption in such notice, whichever is later, the Class C 8% Convertible Preference Shares in respect of which such deposit shall have been made shall be deemed to have been redeemed and the rights of the holders thereof shall be limited to receiving their proportion (less any tax required to be deducted or withheld therefrom) of the amount so deposited without interest, upon presentation and surrender of the certificate or certificates representing the Class C 8% Convertible Preference Shares being redeemed. Any interest allowed on any such deposit shall belong to the Corporation. Redemption moneys that are represented by a cheque which has not been presented to the Corporation's bankers for payment or that otherwise remain unclaimed (including moneys held on deposit in a special account as provided for above) for a period of six years from the date specified for redemption shall be forfeited to the Corporation.

5. PURCHASE FOR CANCELLATION

5.1 Purchases after June 30, 2000

Subject to the provisions of Section 6 hereof, during the period of 12 consecutive calendar months commencing on June 30, 2000 and in each period of 12 consecutive months thereafter, so long as any of the Class C 8% Convertible Preference Shares are outstanding, the Corporation shall use reasonable efforts to purchase for cancellation, 10% of the number of Class C 8% Convertible Preference Shares outstanding on the first day of each such period of 12 consecutive months, by tender to all holders of Class C 8% Convertible Preference Shares or through the facilities of any exchange on which the Class C 8% Convertible Preference Shares are listed or in any other manner provided that the price for the Class C 8% Convertible Preference Shares purchased for cancellation shall not exceed the Redemption Price plus any costs of purchase.

5.2 Optional Purchases

Notwithstanding the foregoing and subject to the provisions of Section 6 hereof, the Corporation may at any time and from time to time purchase for cancellation all or any part of the then outstanding Class C 8% Convertible Preference Shares at any price by tender to all holders of Class C 8% Convertible Preference Shares or through the facilities of any stock exchange on which the Class C 8% Convertible Preference Shares are listed and posted for trading or in any other manner provided that, in the case of a purchase in such other manner, the price for the Class C 8% Convertible Preference Shares purchased for cancellation shall not exceed the highest price offered on the date of such purchase for cancellation for a board lot of Class C 8% Convertible Preference Shares on any stock exchange on which such shares are listed and posted for trading.

5.3 Price Determination

If, in response to an invitation for tenders under the provisions of this Section 5, more Class C 8% Convertible Preference Shares are tendered at a price or prices acceptable to the Corporation than the Corporation is prepared to purchase, the Class C 8% Convertible Preference Shares to be purchased by the Corporation shall be purchased from holders tendering at the same price, as nearly as may be possible, pro rata according to the number of shares tendered by each holder who submits a tender to the Corporation; provided that when shares are tendered at different prices, the pro rating shall be effected only with respect to the shares tendered at the price at which more

shares were tendered than the Corporation is prepared to purchase after the Corporation has purchased all the shares tendered at lower prices.

6. RESTRICTIONS ON DIVIDENDS, RETIREMENT AND ISSUANCE OF SHARES

While any Class C 8% Convertible Preference Shares are outstanding, the Corporation shall not at any time, without the approval of the holders of Class C 8% Convertible Preference Shares given as specified in Section 10:

(a) declare, set aside for payment or pay any dividends on any Junior Shares (other than dividends consisting of Junior Shares); or

(b) call for redemption, redeem, purchase, retire for value or make any capital distribution on or in respect of any Junior Shares (except out of the net cash proceeds of a substantially concurrent issue of Junior Shares); or

(c) call for redemption, redeem, purchase or otherwise retire for value less than all of the Class C 8% Convertible Preference Shares; or

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to the Class C 8% Convertible Preference Shares, call for redemption, redeem, purchase or otherwise retire for value any other shares ranking as to capital or dividends on a parity with the Class C 8% Convertible Preference Shares; or

(e) reserve, set aside, allot or issue any shares ranking as to capital or dividends prior to or on a parity with the Class C 8% Convertible Preference Shares

unless, in each such case, all dividends then payable on the Class C 8% Convertible Preference Shares and on all other cumulative shares of the Corporation ranking prior to or on a parity with Class C 8% Convertible Preference Shares then outstanding in respect of the payment of dividends accrued up to and including the dividends payable on the immediately preceding respective date or dates for the payment of dividends thereon shall have been declared and paid or set apart for payment and there shall have been paid or set apart for payment all declared and unpaid non-cumulative dividends in respect of all non-cumulative shares of the Corporation ranking prior to or on a parity with Class C 8% Convertible Preference Shares in respect of the payment of dividends.

7. LIQUIDATION, DISSOLUTION OR WINDING-UP

In the event of any Liquidation Distribution, each Class C Preference holder shall be entitled to receive before any amount shall be paid by the Corporation or any assets of the Corporation shall be distributed to holders of shares ranking as to capital junior to the Class C 8% Convertible Preference Shares in connection with the Liquidation Distribution, $25.00 per Class C 8% Convertible Preference Share held by such holder, together with an amount equal to all accrued but unpaid cumulative dividends thereon up to the date of payment or distribution. After payment to the Class C Preference holders of the amount so payable to them, they shall not be entitled to share in any further distribution of assets of the Corporation.

8. VOTING RIGHTS

8.1 The holders of the Class C 8% Convertible Preference Shares shall not be entitled, as such, to receive notice of or attend or vote at any meeting of shareholders of the Corporation other than a meeting of Class C Preference holders unless and until the Corporation from time to time shall fail to pay in the aggregate 8 quarterly preferential cumulative cash dividends on the Class C 8% Convertible Preference Shares on the dates on which the same should be paid whether or not consecutive and whether or not such dividends have been declared and whether or not there are any moneys of the Corporation properly applicable to the payment of dividends. Thereafter, but only so long as such dividends on the Class C 8% Convertible Preference Shares remain in arrears, the holders of the Class C 8% Convertible Preference Shares shall be entitled to receive notice of and to attend all meetings of the shareholders of the Corporation at which directors are to be elected and shall be entitled, voting separately, to elect two directors of the Corporation but shall not otherwise be entitled (except as specifically provided in the articles of the Corporation or by applicable law) to vote at any meeting of shareholders of the Corporation or to receive notice of or attend any meeting of shareholders of the Corporation held for any other purpose. Nothing herein contained shall restrict the right of the Corporation from time to time to increase or decrease the number or minimum or maximum number of its directors. On every poll taken at a meeting of shareholders of the Corporation at which the holders of Class C 8% Convertible Preference Shares are entitled to vote to elect directors, each holder of a Class C 8% Convertible

Preference Share entitled to vote threat shall be entitled to one vote in respect of each Class C 8% Convertible Preference Share held by him. A quorum for a separate meeting of the holders of the Class C 8% Convertible Preference Shares for the purpose of electing directors shall be holders of Class C 8% Convertible Preference Shares being not less than two in number and holding or representing by proxy not less than 10% of the then issued and outstanding Class C 8% Convertible Preference Shares. The formalities to be observed with respect to giving of notice and the conduct at such meetings shall be those from time to time required by the MCA and prescribed in the by-laws of the Corporation with respect to meetings of shareholders.

8.2 Notwithstanding anything contained in the articles or by-laws of the Corporation, the terms of office of all persons who are directors of the Corporation at any time when the right to elect two directors shall accrue to the holders of the Class C 8% Convertible Preference Shares as provided in this Section 8, or who may be appointed as directors after such right shall have accrued and before a meeting of shareholders shall have been held for the purpose of electing directors, shall terminate upon the election of new directors at the next annual meeting of shareholders or at a special meeting of shareholders which may be held for the purpose of electing directors at any time after the accrual of such right to elect a director.

8.3 Any meeting of the holders of the Class C 8% Convertible Preference Shares for the purpose of electing directors may be held upon not less than 21 days notice to the holders of the Class C 8% Convertible Preference Shares. Any such meeting shall be called by the Secretary of the Corporation upon the written request of the holders of at least 10% of the then outstanding Class C 8% Convertible Preference Shares and if the Secretary shall not call such meeting within five business days after the making of such request, such meeting may be called by any holder of Class C 8% Convertible Preference Shares.

8.4 A vacancy occurring in the directors elected to represent the holders of Class C 8% Convertible Preference Shares in accordance with the forgoing provisions of this Section 8 may be filled by the remaining director (the "Remaining Class C Director") elected to represent the holders of Class C 8% Convertible Preference Shares or, if there is no Remaining Class C Director, such vacancies may be filled by the board of directors of the Corporation with any individual who is a Class C Preference holder who is qualified to act as a director under the MCA. Whether or not such vacancy or vacancies is or are so filled, the registered holders of at least 10% of the then outstanding Class C 8% Convertible Preference Shares shall have the right to require the Secretary of the Corporation to call a meeting of the Class C Preference holders for the purpose of filling the vacancy or replacing the person or persons filling such vacancy who has been appointed by the Remaining Class C Director or the board of directors, as the case may be, and the foregoing provisions of this Section 8 shall apply in respect of the calling of such meeting.

8.5 Notwithstanding anything contained in the articles or by-laws of the Corporation, upon any termination of the right of the holders of the Class C 8% Convertible Preference Shares to elect two directors as provided in this Section 8, the term of office of the directors elected to represent the holders of Class C 8% Convertible Preference Shares shall terminate and the vacancies thereby created may be filled by the remaining directors.

9. AMENDMENTS TO CLASS C PROVISIONS

These Class C Provisions may be repealed, altered, modified, amended or varied only with the prior approval of the holders of the Class C 8% Convertible Preference Shares given in the manner provided in Section 10 hereof in addition to any other approval required by the MCA or any other statutory provision of like or similar effect applicable to the Corporation from time to time in force.

10. CONSENTS AND APPROVALS

The consent or approval of the Class C Preference holders with respect to any and all matters hereinbefore referred to, other than matters governed by the provisions of Section 8, may be given by a resolution passed by at least two-thirds of the votes cast at a meeting of the Class C Preference holders duly called for that purpose and held upon at least 21 days' notice, at which the holders of 20% of the outstanding Class C 8% Convertible Preference Shares are present or represented by proxy. If at any such meeting the holders of 20% of the outstanding Class C 8% Convertible Preference Shares are not present or represented by proxy within one-half an hour after the time appointed for such meeting, then the meeting may be adjourned to such date being not less than 30 days later and to such time and place as may be appointed by the chairman of the meeting and not less than 21 days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the

meeting was originally called. At such adjourned meeting the holders of the Class C 8% Convertible Preference Shares present or represented by proxy may transact the business for which the meeting was originally called and the consent or approval of the holders of the Class C 8% Convertible Preference Shares with respect thereto may be given by at least two-thirds of the votes cast at such adjourned meeting. The formalities to be observed with respect to the giving of notice of any such meeting and the conduct thereof shall be those from time to time prescribed by the by-laws of the Corporation with respect to meetings of shareholders. On every poll taken at every such meeting or adjourned meeting every Class C Preference holder shall be entitled to one vote in respect of each Class C 8% Convertible Preference Share of which he is the registered holder.

11. **NOTICES**

Any notice required or permitted to be given to any Class C Preference holder shall be sent by first class mail, postage prepaid, or delivered to such holder at his address as it appears on the records of the Corporation or, in the event of the address of any such shareholder not so appearing, to the last known address of such shareholder. The accidental failure to give notice to one or more of such shareholders shall not affect the validity of any action requiring the giving of notice by the Corporation. Any notice given as aforesaid shall be deemed to be given on the date upon which it is mailed or delivered.

If the directors of the Corporation determine that mail service is or is threatened to be interrupted at the time when the Corporation is required or elects to give any notice hereunder, or is required to send any cheque or any share certificate to any Class C Preference holder, whether in connection with the redemption or conversion of Class C 8% Convertible Preference Shares or otherwise, the Corporation may, notwithstanding the provisions hereof:

(a) give such notice by publication thereof once in a daily English language newspaper of general circulation published in each of Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax and once in a daily French language newspaper published in Montreal and such notice shall be deemed to have been validly given on the day next succeeding its publication in all of such cities; or

(b) fulfill the requirements to send such cheque or such share certificate by arranging for the delivery thereof to such holder by the transfer agent for the Class C 8% Convertible Preference Shares at its principal offices in the cities of Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax, and such cheque and/or certificate shall be deemed to have been sent on the date on which notice of such arrangement shall have been given as provided in (a) above, provided that as soon as the directors of the Corporation determine that mail service is not longer interrupted or threatened to be interrupted such cheque or share certificate, if not theretofore delivered to such holder, shall be sent by mail as herein provided.

12. **TAX ELECTION**

The Corporation shall elect, in the manner and within the time provided under section 191.2 of the Income Tax Act (Canada) or any successor or replacement provision of similar effect, to pay tax at a rate such that, and shall take all other necessary action under such Act so that, no holder of Class C 8% Convertible Preference Shares will be required to pay tax under Part IV.1 of the Income Tax Act (Canada) or any successor or replacement provision of similar effect in respect of any dividends paid on the Class C 8% Convertible Preference Shares or deemed for purposes of the Income Tax Act (Canada) to be paid on the Class C 8% Convertible Preference Shares.

APPENDIX II TO ARRANGEMENT

Class A Preference Shares

The Class A Preference Shares, as a class, shall have attached thereto the following rights, privileges, restrictions and conditions:

(i) the Class A Preference Shares may from time to time be issued in one or more series and subject to the following provisions, and subject to the sending of articles of amendment in prescribed form, and the endorsement thereon of a certificate of amendment in respect thereof, the directors may fix from time to time before such issue the number of shares that is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series of Class A Preference Shares including, without limiting the generality of the foregoing, the issue price per share of the shares of such series, the rate or amount of any dividends or the method of calculating any dividends, the dates of payment thereof, any redemption, purchase and/or conversion prices and terms and conditions of any redemption, purchase and/or conversion, and any sinking fund or other provisions;

(ii) the Class A Preference Shares of each series shall, with respect to the payment of any dividends and any distribution of assets or return of capital in the event of liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, rank on a parity with the Class A Preference Shares of every other series and be entitled to preference over the Common Shares, the Class B Preference Shares, the 8% Cumulative Redeemable Convertible Class C Preference Shares and any other shares of the Corporation ranking junior to the Class A Preference Shares. The Class A Preference Shares of any series may also be given such other preferences, not inconsistent with these articles, over the Common Shares, the Class B Preference Shares, the 8% Cumulative Redeemable Convertible Class C Preference Shares and any other shares of the Corporation ranking junior to such Class A Preference Shares as may be fixed in accordance with paragraph (i);

(iii) if any cumulative dividends or amounts payable on the return of capital in respect of a series of Class A Preference Shares are not paid in full, all series of Class A Preference Shares shall participate rateably in respect of such dividends and return of capital;

(iv) the Class A Preference Shares of any series may be made convertible into Common Shares;

(v) unless the directors otherwise determine in the articles of amendment designating a series, and subject to the provisions of The Corporations Act (Manitoba) and paragraph (vi) below, the Class A Preference Shares shall have no voting rights as a class; and

(vi) any amendment to the articles of the Corporation to remove or vary any rights, privileges, restrictions or conditions attaching to the Class A Preference Shares as a class or to create any other class of shares ranking in priority to or on a parity with the Class A Preference Shares, in addition to the authorization by special resolution, must be given by at least two-thirds of the votes cast at a meeting of the holders of Class A Preference Shares duly called for that purpose and at every such meeting a holder of a Class A Preference Share shall be entitled to one vote in respect of each Class A Preference Share held in addition to any other vote required by The Corporations Act (Manitoba).

Class B Preference Shares

The Class B Preference Shares, as a class, shall have attached thereto the following rights, privileges, restrictions and conditions:

(i) the Class B Preference Shares may from time to time be issued in one or more series and subject to the following provisions, and subject to the sending of articles of amendment in prescribed form, and the endorsement thereon of a certificate of amendment in respect thereof, the directors may fix from time to time before such issue the number of shares that is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series of Class B Preference Shares including, without limiting the generality of the foregoing, the issue price per share of the shares of such series, the rate or amount of any dividends or the method of calculating any dividends, the dates of payment thereof, any redemption, purchase and/or conversion prices and terms and conditions of any redemption, purchase and/or conversion, and any sinking fund or other provisions;

(ii) the Class B Preference Shares of each series shall, with respect to the payment of any dividends and any distribution of assets or return of capital in the event of liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, rank on a parity with the Class B Preference Shares of every other series and be entitled to preference over the Common Shares, the 8% Cumulative Redeemable Convertible Class C Preference Shares and any other shares of the Corporation ranking junior to the Class B Preference Shares. The Class B Preference Shares of any series may also be given such other preferences, not inconsistent with these articles, over the Common Shares, the 8% Cumulative Redeemable Convertible Class C Preference Shares and any other shares of the Corporation ranking junior to such Class B Preference Shares as may be fixed in accordance with paragraph (i);

(iii) if any cumulative dividends or amounts payable on the return of capital in respect of a series of Class B Preference Shares are not paid in full, all series of Class B Preference Shares shall participate rateably in respect of such dividends and return of capital;

(iv) the Class B Preference Shares of any series may be made convertible into Common Shares;

(v) unless the directors otherwise determine in the articles of amendment designating a series, and subject to the provisions of The Corporations Act (Manitoba) and paragraph (vi) below, the Class B Preference Shares shall have no voting rights as a class; and

(vi) any amendment to the articles of the Corporation to remove or vary any rights, privileges, restrictions or conditions attaching to the Class B Preference Shares as a class or to create any other class of shares ranking in priority to or on a parity with the Class B Preference Shares, in addition to the authorization by special resolution, must be given by at least two- thirds of the votes cast at a meeting of the holders of Class B Preference Shares duly called for that purpose and at every such meeting a holder of a Class B Preference Share shall be entitled to one vote in respect of each Class B Preference Share held in addition to any other vote required by The Corporations Act (Manitoba).

SCHEDULE D

BURNS FRY LIMITED

Suite 5000, P.O. Box 150,
1 First Canadian Place, Toronto, Ontario, Canada, M5X 1H3, (416) 365-4000

February 14, 1990

The Board of Directors
Inter-City Gas Corporation
20 Queen Street West
Toronto, Ontario
M5H 3R3

Dear Sirs:

We understand that Inter-City Gas Corporation ("ICG") is proposing an arrangement under section 185 of The Corporations Act (Manitoba) involving ICG and its shareholders (the "Arrangement"). The description herein of the Arrangement is subject to and modified by the detailed description of the Arrangement as set forth in the Management Information Circular and Proxy Statement of ICG dated February 14, 1990 (the "Information Circular"). Terms defined in the Information Circular and not defined in this letter are used with the meanings defined in the Information Circular.

Summary Details of the Arrangement

The Arrangement provides for the indirect ownership by Common Shareholders of Utilities Company (which consists of corporations which, with the exception of ICG Ontario, ICG Utilities (Manitoba) Ltd., formerly Greater Winnipeg Gas Company, Bonnyville Gas Company Ltd. and ICG Scotia Gas Ltd., are, directly or indirectly, wholly-owned by ICG) through the acquisition of Utilities Holdings Shares and of Propane Company (a corporation to be incorporated which will be wholly-owned by ICG) through the acquisition of Propane Holdings Shares to facilitate the sale as part of the Arrangement of all Utilities Holdings Shares to WestCoast Gas and all Propane Holdings Shares to WestCoast Gas or, if WestCoast Gas assigns its right to acquire Propane Holdings Shares, to Petro-Canada. In the Common Share Transfers, all Common Shareholders will transfer a portion of their Common Shares to Utilities Holdings in exchange for Utilities Holdings Shares and a portion of their Common Shares to Propane Holdings in exchange for Propane Holdings Shares. The Propane Company Transfer will result in Propane Holdings acquiring all of the shares of Propane Company. The Utilities Company Transfer will result in Utilities Holdings acquiring all of the shares of Utilities Company and assuming certain liabilities of the Corporation. In the Sale of Utilities Holdings and Propane Holdings, all outstanding Utilities Holdings Shares will be sold to WestCoast Gas for cash and all outstanding Propane Holdings Shares will be sold to WestCoast Gas, or, if WestCoast assigns its right to acquire Propane Holdings Shares, to Petro-Canada, for cash. The number of Common Shares to be transferred to Utilities Holdings and Propane Holdings in exchange for Utilities Holdings Shares and Propane Holdings Shares, respectively, will be determined on the basis of a formula set forth in the Arrangement. That formula is intended to result in each Common Shareholder transferring to Utilities Holdings and Propane Holdings such proportion of his Common Shares as the aggregate value of each of Utilities Holdings and Propane Holdings represents to the value of the Common Shares as at the Effective Time.

The Utilities Division Purchase Price is the aggregate of (i) $462 million, (ii) the net after-tax earnings of the Utilities Division for the period between October 1, 1989 and December 31, 1989, and (iii) $9 million. The Propane Division Purchase Price is the aggregate of (i) $220.8 million, (ii) (A) if the income before income taxes (and after interest expense) of the Propane Division for the period between January 1, 1989 and December 31, 1989 less income taxes payable by NASCO equals or exceeds $10 million, an amount equal to 50% of such income or (B) in any other event, the amount of such income determined on the same basis less $5 million, and (iii) $3 million. The aggregate amount of cash to be received by Common Shareholders for their Utilities Holdings Shares and their Propane Holdings Shares will be equal to the product of $21 and the number of Common Shares participating in the Arrangement. All Common Shares held by Shareholders immediately prior to the Arrangement, as well as

Common Shares issued pursuant to the Change of Third Preference Shares, other than Common Shares in respect of which a Common Shareholder dissents in respect of the Arrangement Resolution, will participate in the Arrangement. Holders of Common Shares participating in the Arrangement will be entitled to receive $21 in cash in respect of each such Common Share. The balance of the Utilities Division Purchase Price and the Propane Division Purchase Price will be satisfied by the assumption by Utilities Holdings and Propane Company of certain liabilities of ICG.

The Arrangement also provides for the recapitalization of ICG in a manner consistent with the Corporation's business focus after the Arrangement. The number of Common Shares outstanding following the cancellation of Common Shares transferred by Common Shareholders and Third Preference Shareholders to Utilities Holdings and Propane Holdings pursuant to the Utilities Division and Propane Division Transactions will be changed such that, immediately following the Arrangement, the number of Inter-City Products Ordinary Shares will be one-quarter of the number of Common Shares as were outstanding immediately following the Change of Third Preference Shares. The Articles of ICG will be amended to create the Class A Preference Shares and the Class B Preference Shares. The Articles of ICG will be amended to cancel ICG's classes of first preference shares, second preference shares and third preference shares. The Common Shares will be redesignated as ordinary shares. ICG's name will be changed to "Inter-City Products Corporation/Société de Produits Inter-Cité Inc."

In order to facilitate the Arrangement and the recapitalization of ICG, MICCI has acquired all the outstanding First Preference Shares which will be changed under the Arrangement into the Class C 8% Convertible Preference Shares and has agreed to issue the Warrants to or for the benefit of all other Inter-City Products Ordinary Shareholders (other than residents of any State in which such distribution of the Warrants or issuance of the Class C 8% Convertible Preference Shares would be unlawful). Accordingly, the Warrants will be warrants to acquire Class C 8% Convertible Preference Shares of Inter-City Products from MICCI. Three Warrants will be required to purchase one Class C 8% Convertible Preference Share from MICCI for a purchase price of $25.00.

Under the Arrangement, holders of Common Shares will receive for each 100 Common Shares of ICG held (i) $2,100 in cash, (ii) 25 Inter-City Products Ordinary Shares, and (iii) 25 Warrants.

The Arrangement provides for the change of each Third Preference Share into 1.662 Common Shares. Holders of Third Preference Shares changed into Common Shares under the Arrangement will participate in the Arrangement as Common Shareholders on the same basis as outlined above.

No certificates for fractional shares will be issued. Arrangements will be made to sell fractional shares and the proceeds will be distributed on a pro rata basis to shareholders entitled to such interest. No fractional Warrants will be issued.

We understand that prior to the Arrangement taking place ICG will undertake several transactions in order to combine the Utilities Division in Utilities Company, to transfer the Propane Division to Propane Company and to reorganize its capital structure.

You have asked us to provide you with an opinion as to the fairness of the Arrangement from a financial point of view to the holders of Common Shares and Third Preference Shares, other than Central Capital and its affiliates.

We have acted as financial adviser to the Board of Directors of ICG in connection with this transaction and will receive a fee for our services and for this opinion. We also acted as financial adviser to ICG in connection with its recent sale of ICG Resources Inc. and received a fee for the rendering of these services. Past and current services are described under "The Arrangement — Opinion of Financial Adviser" in the Information Circular. In the ordinary course of our business as an investment dealer, we have traded, from time to time, as principal and agent in the securities of ICG and other parties participating in the Arrangement and we have provided financial advisory services to such parties. As at the date hereof and assuming conversion of the Third Preference Shares into Common Shares as contemplated under the Arrangement, Burns Fry holds as principal a net position of 298,248 Common Shares.

In forming our opinion, we reviewed, considered and relied upon, among other things:

(a) the Information Circular, including the Arrangement Agreement attached as a schedule thereto, which forms part of the information to be sent to holders of Common Shares and Third Preference Shares regarding the proposed Arrangement;

(b) publicly-available information related to ICG including annual reports, interim financial statements and annual information statements;

(c) historic, current and pro forma (both before and after giving effect to the Arrangement), financial and operating statements and other internal estimates and financial and operating reports of ICG prepared by the management of ICG;

(d) discussions with management of ICG with respect to, among other things, their businesses, operations and prospects, the industries in which they operate, the quality of their assets and their operating performances;

(e) certain forecasts and strategic plans prepared by management of ICG for the Utilities Division, Propane Division and Energy Products Business;

(f) stock market trading information relating to the Common Shares and the Third Preference Shares;

(g) the financial terms of certain comparable transactions;

(h) certain public stock market and financial data on comparable publicly-traded companies and other relevant current and historical stock market data;

(i) the current state of financial markets; and

(j) letters of representation dated February 14, 1990 from officers of ICG certifying the accuracy and completeness of the information made available to us and as to other matters.

In addition, we have conducted such other analyses, investigations and research as we deemed necessary in the circumstances.

We have relied on, with your approval and without independent verification and assumed the completeness, accuracy and fair presentation of all of the financial and other information obtained by us from public sources and received by us from ICG, and this opinion is conditional upon such completeness, accuracy and fairness. We have assumed that the forecasts and projections provided to us by ICG management represent its best estimates of the most probable results for ICG, the Utilities Division, the Propane Division and the Energy Products Business for the periods presented therein. In addition, we have not obtained any independent evaluation or appraisal of ICG or of its assets nor have we been furnished with any such appraisals.

In arriving at our opinion we have assumed that all of the conditions required to implement the Arrangement will be satisfied and that the Arrangement will proceed as described and substantially within the time frames specified within the Information Circular and that the recapitalization as described in the Information Circular is completed. Our opinion is rendered on the basis of securities market, economic and general business and financial conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of ICG, the Propane Division, the Utilities Division, and the Energy Products Business as they were reflected in the information and documents reviewed by us and as they were represented to us in our discussions with management of ICG. The prices at which the Inter-City Products Ordinary Shares will trade in public markets following the implementation of the Arrangement will be affected by many factors which are difficult to predict and beyond control. In any event, we do not express any opinion herein as to the price at which the Inter-City Products Ordinary Shares would actually trade if and when the Arrangement was consummated.

Based upon and subject to the foregoing, it is our opinion that the Arrangement is fair from a financial point of view to the holders of Common Shares and Third Preference Shares, other than Central Capital and its affiliates with respect to which we express no opinion.

Yours truly,

BURNS FRY LIMITED

(Signed) BURNS FRY LIMITED

SCHEDULE E

File No. CI 90-01-44230

IN THE QUEEN'S BENCH
WINNIPEG CENTRE

THE HONOURABLE
ASSOCIATE CHIEF JUSTICE SCOTT

Tuesday, the 13th day
of February, 1990.

B E T W E E N : INTER-CITY GAS CORPORATION ("ICG"), THE CHANCELLOR HOLDINGS CORPORATION, 2451417 MANITOBA LTD. AND 2484685 MANITOBA LTD.,

Applicants,

— and —

THE HOLDERS OF COMMON SHARES, FIRST PREFERENCE SHARES EIGHT PERCENT (8%) SERIES A, AND $2.125 CUMULATIVE REDEEMABLE VOTING CONVERTIBLE THIRD PREFERENCE SHARES, 1985 SERIES OF ICG AND OPTIONS TO PURCHASE COMMON SHARES OF ICG UNDER THE EMPLOYEE STOCK OPTION PLAN ESTABLISHED BY ICG, AND THE DIRECTOR UNDER THE CORPORATIONS ACT,

Respondents.

IN THE MATTER OF an application by the Applicants under Section 185 of The Corporations Act, R.S.M. 1987, c. C225

O R D E R

THIS MOTION made by the Applicants for advice and direction of the Court in connection with an arrangement under S. 185 of The Corporations Act ("the Act"), was heard this day at Winnipeg, Manitoba.

ON READING the Affidavit of Peter Marriott sworn February 13, 1990 and the exhibits thereto, and on hearing the submissions of counsel for ICG, for the other Applicants, for the Director, for Central Capital Corporation, and for Westcoast Energy Inc., WestCoast Gas Inc. and Petro-Canada Inc:

1. THIS COURT ORDERS that ICG may call, hold and conduct a special meeting ("Special Meeting") of the holders of its common shares ("Common Shares"), First Preference Shares eight per cent (8%) Series A ("First Preference Shares"), $2.125 Cumulative Redeemable Voting Convertible Third Preference shares, 1985 Series ("Third Preference Shares") and options to purchase Common Shares of ICG under the employee stock option plan established by ICG ("Options"), to consider, and if deemed advisable, to pass, with or without variation, a special resolution (the "Arrangement Resolution") to approve an arrangement (the "Arrangement"), under Section 185 of the Act;

2. THIS COURT ORDERS that the Special Meeting shall be called, held and conducted in accordance with the Act and the Articles and By-laws of ICG, subject to what may be provided hereafter;

3. THIS COURT ORDERS that the Notice of Special Meeting of Shareholders and Option Holders, Notice of Application and Management Information Circular and Proxy Statement in substantially the same form as contained in Exhibit A to the Affidavit of Peter Marriott, with such amendments thereto as counsel for ICG may advise are necessary or desirable, provided that such amendments are not inconsistent with the terms of this Order, shall be sent to the holders of Common Shares, First Preference Shares, Third Preference Shares, and Options, to the directors and auditors of ICG, to the

Director under the Act, and to Westcoast Energy Inc., WestCoast Gas Inc., Petro-Canada Inc., and Central Capital Corporation, by mailing the same by prepaid ordinary mail to such persons in accordance with the Act at least 21 days prior to the date of the Special Meeting, excluding the date of mailing and excluding the date of the Special Meeting;

4. THIS COURT ORDERS that, subject to paragraphs 13 and 14 hereof, each Option Holder shall be entitled at the Special Meeting to one vote in respect of each Common Share which such Option Holder is entitled to purchase upon the exercise of the Options held by such Option Holder;

5. THIS COURT ORDERS that subject to paragraph 6 hereof the Arrangement Resolution will be effective if passed, with or without variation, by at least two-thirds of the votes cast by the holders of the Common Shares, First Preference Shares, Third Preference Shares and Options, each voting as a separate class, at the Special Meeting;

6. THIS COURT ORDERS that, in addition to the approval described in paragraph 5 hereof, the Arrangement Resolution will be effective if passed, with or without variation, by a majority of the votes cast by holders of the Common Shares and Third Preference Shares, other than Central Capital Corporation and its affiliates, associates and insiders, each voting as a separate class at the Special Meeting;

7. THIS COURT ORDERS that holders of Common Shares, First Preference Shares, Third Preference Shares, or Options may exercise rights of dissent in the manner set out in Section 184 of the Act with the following modifications:

   (i) holders of such securities who send to ICG a written objection ("the Objection Notice") in accordance with the provisions of Section 184(5) of the Act, and do not withdraw such Objection Notice prior to 3:00 p.m. (Winnipeg Time) on the business day immediately preceding the date on which a certificate of amendment is issued under the Act giving effect to the Arrangement ("the Effective Date") (collectively, the "Dissenting Shareholders") shall be entitled to be paid by ICG the fair value, to be determined as of the close of business on the day immediately before the Special Meeting, of the securities of the class or classes held by them in respect of which they dissent in the manner set out in Section 184 of the Act as modified by the Order;

   (ii) the requirements contained in Section 184(7) and 184(9) of the Act that a security holder wishing to exercise rights of dissent shall forward a notice of demand to ICG and shall forward all certificates representing the securities in respect of which he dissents to ICG shall not apply, and no Dissenting Shareholder shall cease to be entitled to be paid by ICG the fair value of the securities in respect of which he dissents as a result of any failure to comply with the said provisions of the Act;

   (iii) a Dissenting Shareholder shall cease to have any rights as a holder of securities of the class or classes in respect of which he dissents other than the right to be paid the fair value of such securities as determined under Section 184 of the Act as modified by this Order and the Common Shares, First Preference Shares, Third Preference Shares or Options in respect of which a Dissenting Shareholder dissents shall be deemed to have been cancelled by ICG for all purposes of the Arrangement with effect upon sending an Objection Notice. ICG shall not be required to recognize a Dissenting Shareholder as the holder of the Common Shares, First Preference Shares, Third Preference Shares or Options in respect of which such Dissenting Shareholder has dissented with effect upon sending an Objection Notice, and the name of such holder shall be deleted from the register of holders of Common Shares, First Preference Shares, Third Preference Shares and Options, as the case may be, at the effective time of the Arrangement on the Effective Date.

8. THIS COURT ORDERS that holders of Second Preference shares six and one-half per cent (6½%) Series A and Second Preference shares seven and one-half per cent (7½%) Series B (collectively, the "Second Preference Shares") of ICG shall not be entitled to notice of the Special Meeting or to attend or vote thereat;

9. THIS COURT ORDERS that at the commencement of the Special Meeting the quorum required in respect of the holders of Common Shares shall consist of two persons present and holding or representing

by proxy not less than thirty-three and one-third per cent (33⅓%) of the Common Shares enjoying voting rights at the Special Meeting;

10. THIS COURT ORDERS that at the commencement of the Special Meeting the quorum required in respect of the holders of First Preference Shares shall be a person or persons present and holding or representing by proxy not less than thirty-three and one-third per cent (33⅓%) of the First Preference Shares enjoying voting rights at the Special Meeting;

11. THIS COURT ORDERS that at the commencement of the Special Meeting the quorum required in respect of the holders of Third Preference Shares shall consist of two persons present and holding or representing by proxy not less than ten per cent (10%) of the Third Preference Shares enjoying voting rights at the Special Meeting;

12. THIS COURT ORDERS that at the commencement of the Special Meeting the quorum required in respect of the holders of Options shall be a person or persons present and holding or representing by proxy not less than ten per cent (10%) of the Options enjoying voting rights at the Special Meeting;

13. THIS COURT ORDERS that the only persons entitled to notice of the Special Meeting shall be the registered holders of Common Shares, First Preference Shares, Third Preference Shares and Options, and the directors and auditors of ICG, and the other persons or corporations referred to in paragraph 3 above and that the only persons entitled to be represented and to vote at the Special Meeting, either in person or by proxy, shall be the registered holders of Common Shares, First Preference Shares and Third Preference Shares, and the Option Holders as at the close of business on the business day immediately preceding the day on which the Notice of Special Meeting is sent in accordance with this Order, subject to the provisons of the Act with respect to persons who become registered holders of such securities after that date;

14. THIS COURT ORDERS that the record date for the determination of shareholders and option holders entitled to receive notice of the Special Meeting shall be at the close of business on the business day immediately preceding the day on which the Notice of Special Meeting is sent.

15. THIS COURT ORDERS that upon approval of the Arrangement by the holders of securities of ICG in the manner set forth in this Order, the Applicants may apply before this Court for approval of the Arrangement;

16. THIS COURT ORDERS that notwithstanding approval of the Arrangement by the holders of securities of ICG in the manner set forth in this Order and notwithstanding any approval of the Arrangement by this Court, ICG shall not file Articles of Arrangement giving effect to the Arrangement prior to the eighth day following the date of the approval of the Arrangement by the holders of securities of ICG;

17. THIS COURT ORDERS that service of the Notice of Application herein in accordance with the provisions of this Order shall constitute good and sufficient service of such Notice of Application upon all persons who are entitled to receive such Notice of Application pursuant to this Order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings, and such service shall be effective on the fifth day after the said Notice of Application is mailed.

February 13, 1990

"R. J. SCOTT"

A.C.J.

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