Westcoast Transmission Company Limited Annual Report 1977

Directors:

*†JOHN ANDERSON
Executive Vice President and
Chief Operating Officer
Westcoast Transmission Company
Limited
Vancouver, British Columbia

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Chairman of the Board of
Westcoast Petroleum Ltd. and of
Foothills Pipe Lines (Yukon) Ltd.
Calgary, Alberta

*ALTON J. GREEN
Vice President, Supply and Sales
Westcoast Transmission Company
Limited
Vancouver, British Columbia

J. TAYLOR KENNEDY
Director
Canada Cement Lafarge Ltd.
Montreal, Quebec

*EDWIN C. PHILLIPS
President and Chief Executive Officer
Westcoast Transmission Company
Limited
Vancouver, British Columbia

L. MERRILL RASMUSSEN
President and Chief Executive Officer
Pacific Petroleums Ltd.
Calgary, Alberta

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Chairman of the Board
MacMillan Bloedel Limited
Vancouver, British Columbia

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Executive Vice President
Phillips Petroleum Company
Bartlesville, Oklahoma

†WILLIAM H. TYE
Senior Vice President
Pacific Petroleums Ltd.
Calgary, Alberta

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Chairman of the Board
Woodward Stores Limited
Vancouver, British Columbia

FRANK M. McMAHON
Chairman Emeritus of the Board
Hamilton, Bermuda

NORMAN R. WHITTALL
Honorary Director
Vancouver, British Columbia

*Executive Committee Member
†Audit Committee Member

Officers:

EDWIN C. PHILLIPS
President and Chief Executive Officer

JOHN ANDERSON
Executive Vice President and
Chief Operating Officer

A. J. GREEN
Vice President, Supply and Sales

J. E. JOHNSON
Vice President, Operations

J. A. KAVANAGH
Vice President, Engineering

L. J. SMITH
Vice President, Finance and Treasurer

C. D. WILLIAMS
Vice President, General Counsel and
Secretary

J. E. MAY
Comptroller

D. O. HUNTER
Assistant Treasurer

P. M. STEELE
Assistant Secretary

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Annual Report 1977

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The Westcoast Transmission System

A publicly-owned and federally-incorporated utility, Westcoast Transmission Company Limited in 1977 completed its 20th year as a major source of energy for British Columbia and the United States Pacific Northwest. Through a complex system of pipelines and associated facilities it gathers and processes natural gas from northeastern B.C., the Yukon Territory and the Northwest Territories and transports this gas along with supplies from Alberta to meet the energy needs of thousands of residential and industrial consumers.

In discharging this responsibility, the Company makes a significant contribution to economic and social development within the vast area it serves.

Annual Meeting

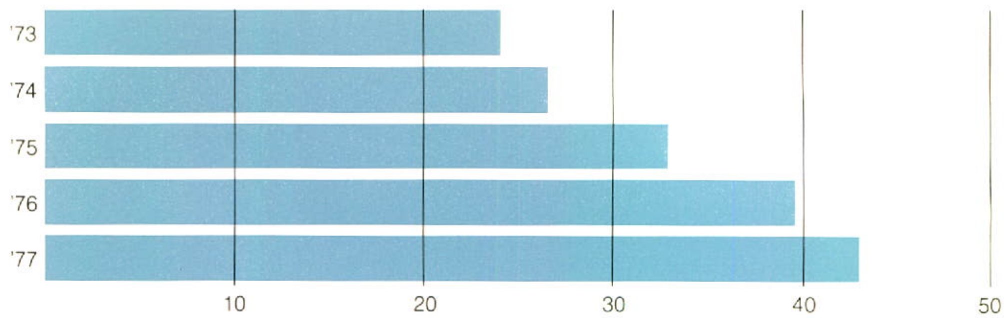
The Annual Meeting of the Shareholders of Westcoast Transmission Company Limited will be held in the Four Seasons Hotel, in the City of Vancouver, British Columbia, on Thursday, April 20, 1978 at 10 a.m.

Cover

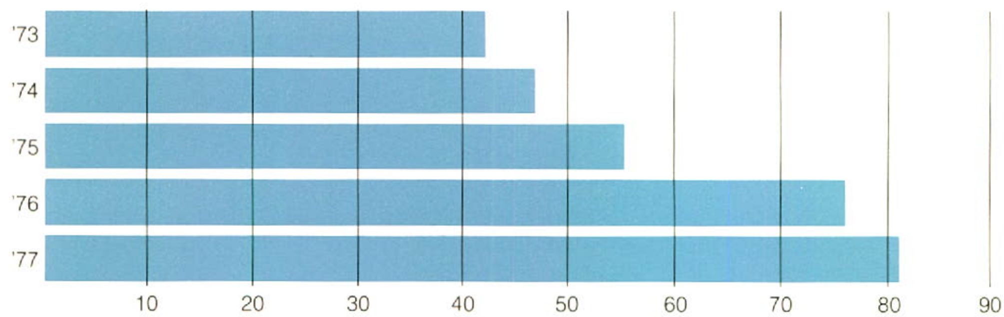
Welders apply the last — or cap — weld to sections of 36-inch pipe between Taylor and Willow Flats in northeastern British Cloumbia. This 1977 project looped another 23 miles of the Westcoast mainline.

Photography: Simon Scott

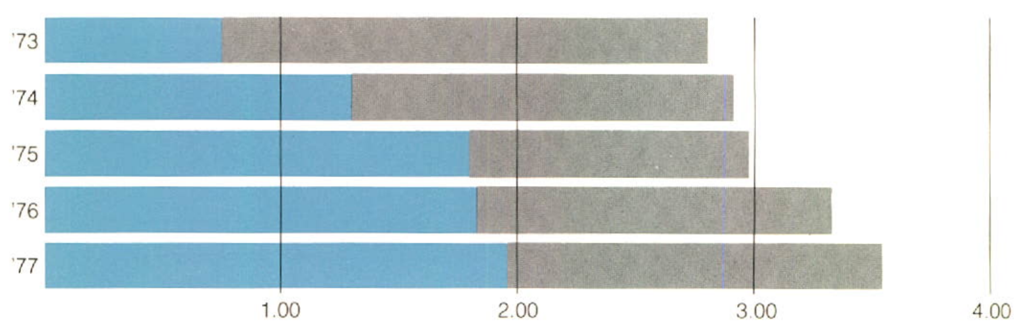
Net Income (Millions of dollars)



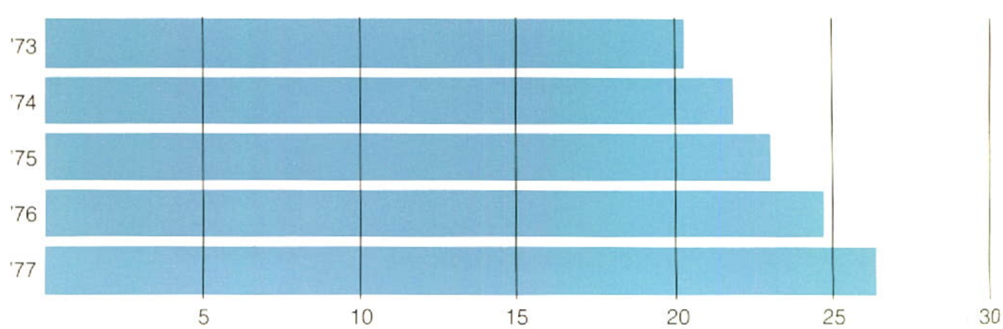
Cash Flow (Millions of dollars)



Dividends Paid per Common Share (Dollars) / Earnings per Common Share (Dollars)



Shareholders' Equity per Common Share (Dollars)



Results in Brief

Financial	1977	Restated 1976*
Total Operating Revenues	$780,164,000	$579,276,000
Net Income Applicable to Common Shares	39,450,000	36,059,000
— per share	3.56	3.34
Cash Flow	81,419,000	75,867,000
— per share	7.34	7.03
Total Assets	823,289,000	767,840,000
Common Shareholders' Equity	296,487,000	268,873,000
— per outstanding share	26.43	24.74
Common Shares — weighted average	11,087,031	10,785,065

Operating	1977	Restated 1976*
Total Gas Sales, Mcf	369,508,000	345,649,000
Average Daily Sales, Mcf	1,012,000	944,000
Peak Day Sales, Mcf	1,320,000	1,164,000

*Restated to include the consolidation of Westcoast Petroleum Ltd. See Note 1 to the financial statements.

Northeast of Chetwynd, 36-inch pipeline loop stretches toward major natural gas markets to the south. The welded line awaits cleaning by huge rotating steel brushes, wrapping in corrosion-proof plastic and finally lowering into trench at left. An $8.5 million project completed in 1977, the 23-mile loop adjoins Westcoast's original 30-inch-diameter mainline.

To the Shareholders

Edwin C. Phillips

The year under review was unquestionably outstanding, viewed in the perspective of sales volume, net income, regulatory decisions and employee relations. Annual operating revenue of $780,164,000 and net income of $42,850,000 set new records, as did the earnings per common share of $3.56. Those features are valid tests of corporate progress, but by another measure, 1977 was a year in which the Company "bottomed out". This apparent anomaly in a record year is the trend in rate base, an important indicator of growth in a regulated enterprise.

As a consequence of the damaging lull in gas and oil exploration in 1974 and 1975, Westcoast's system expansion went into decline. Depreciation exceeded capital additions and by October, 1977, the rate base had dropped to $527,563,000, the lowest point of the year and below the closing rate base of 1976. Exploration activity has been restored in British Columbia for the past two years because of improved natural gas economics. With the traditional time lag from gas discovery to gas delivery, system expansion is just now beginning to take place and the upward trend of rate base gain has been re-established. The beneficial impact on net income will commence later in 1978; it will be significant in 1979 and should continue for an indeterminate period, well into the future.

During the year, the Company enlarged its interest in the non-regulated area of gas and oil exploration. By open market purchases, an additional 468,300 common shares of Westcoast Petroleum Ltd. were acquired to raise the parent company's common share holdings to over 61 percent of the total outstanding. This type of diversification has contributed substantially to Westcoast Transmission's consolidated net income.

As to the future prosperity of the Company, nothing has had the dramatic influence of the July 4, 1977 National Energy Board decision selecting Foothills Pipe Lines (Yukon) Ltd. to co-ordinate the construction of the Canadian portion of the Alaska Highway pipeline. With its co-sponsor in Foothills, The Alberta Gas Trunk Line Company Limited, Westcoast shares a prominent position in the ownership and operation of the largest private construction project ever undertaken in North America. Much remains to be done before Alaskan natural gas flows and earnings accrue to the sponsors, but no obstacle is presently perceived that will prevent accomplishment of both.

Total common dividends in 1977 were $1.96 per share, being the sixth year of successive increases. Consistent with statutory limitations, the Directors give earnest consideration each quarter to dividend policy with due recognition of the regulated cost-of-service nature of the business.

During the year, the competitive activity of the Company peaked sharply as adversary hearings before many boards, inquiries, committees, commissions, and legislative groups in Canada and the United States drew to a successful conclusion. The demands on executives and staff at all levels were unprecedented. The response was similarly superlative and the Board of Directors offer their grateful acknowledgment of a total effort that has launched the Company toward a new level of influence and prosperity.

On behalf of the board,

E. Phillips

President and
Chief Executive Officer

Vancouver, Canada
March 13, 1978

Gas Supply

The Company increased its deliveries of natural gas in 1977 over the previous year by 7 percent to 369.5 billion cubic feet although a continuing shortage of supply prevented it from meeting the full export demand. The nominated contract requirements of Canadian customers were supplied in full.

A combination of water intrusion in two northern gas fields and natural decreases in deliverability of gas from a number of older fields reduced volumes available for export.

The shortfall will be minimized in the medium term by connecting to the mainline and gathering systems gas reserves from heretofore unconnected fields, by drawing surplus supplies from Alberta, and by an intensified exploration drilling program in British Columbia.

Some additional supplies were acquired in 1977 from the connection of new fields, such as Aitken Creek, Birch, Buick Creek West, Farrell Creek, North Rigel and Osprey, as well as from the attachment of a number of new wells drilled for deliverability in older fields. The planned project of using Aitken Creek for underground storage has been delayed at least a year.

Supplies will be further augmented by the construction this year of four pipeline connections:

- The Grizzly Valley-Sukunka area to the mainline at compressor station No. 2 near Chetwynd. It is planned to complete this pipeline project by November, 1978 with initial deliveries estimated at 50 MMcfd (50 million cubic feet daily). In addition a gas processing plant and sulphur recovery facility will be installed by November, 1979, at which time deliveries of residue gas from this area will rise to aproximately 200 MMcfd. The plant is designed to handle 260 MMcfd of raw gas and to recover 1,100 tons of sulphur per day.
- The Silver-Dahl area to the Fort St. John gathering system by April, 1978. This project will add 65 MMcfd.
- The Clarke Lake South area to the Fort Nelson gathering system. It will supply approximately 15 MMcfd and the scheduled completion date is April, 1978.
- The Red Creek gas field to the Fort St. John gathering system. Scheduled for completion by April, 1978, it will add 10 MMcfd.

In addition, continuing studies are underway in co-operation with the British Columbia Petroleum Corporation (B.C.P.C.) regarding the feasibility of connecting several additional gas reserves in the Fort St. John and Fort Nelson areas.

A fairly substantial surplus of gas began developing in Alberta during 1977, which made it possible for Westcoast to negotiate for a long-term volume purchase of gas produced in that province. These negotiations have resulted in the signing of two significant contracts with Pan-Alberta Gas Ltd. for the purchase of 200 MMcfd. The contracts are effective through to October 31, 1989. While only 145 MMcfd are firm gas deliveries, the contracts provide that the firm component can be expanded to the full 200 MMcfd at Westcoast's option prior to October 31, 1981. Connections to receive this gas have been made at Pouce Coupe and in the Worsley, Alberta gathering area.

The Company currently purchases quantities of gas in Alberta in addition to the volumes obtained from Pan-Alberta Gas. The supply from other Alberta sources enters B.C. by virtue of Alberta export permits which were due to expire during the period from 1979-1981. The Energy Resources Conservation Board in Alberta has extended these permits to the period 1987-1989 and the Company will be allowed to continue to receive gas under existing permits from northern Alberta until 1989. For gas received from southern Alberta and exported at Kingsgate, B.C., approval of the National Energy Board will be required for a coincidental extension in export licence GL-4 until 1987.

Despite the foregoing efforts the Company will still experience a shortage of gas in 1978 due to the decline in supply from some traditional fields and the four to five year lead time required to connect new discoveries. The shortfall became evident in the winter of 1973-74 and since then Westcoast has been unable to meet the full needs of its export customer, Northwest Pipeline Corporation. A peak day shortage of 310 MMcf was recorded January 16, 1977, but the corresponding peak shortage during the 1977-78 heating season is expected to be reduced appreciably due to the improved gas supply situation.

As of January 1, 1977, the reserves of Westcoast's supply area, not including back-up volumes from Pan-Alberta Gas, were 7.3 trillion cubic feet of which 5 trillion were contracted. Approximately 93 percent of this total volume is located in northeastern B.C.

Price Increases

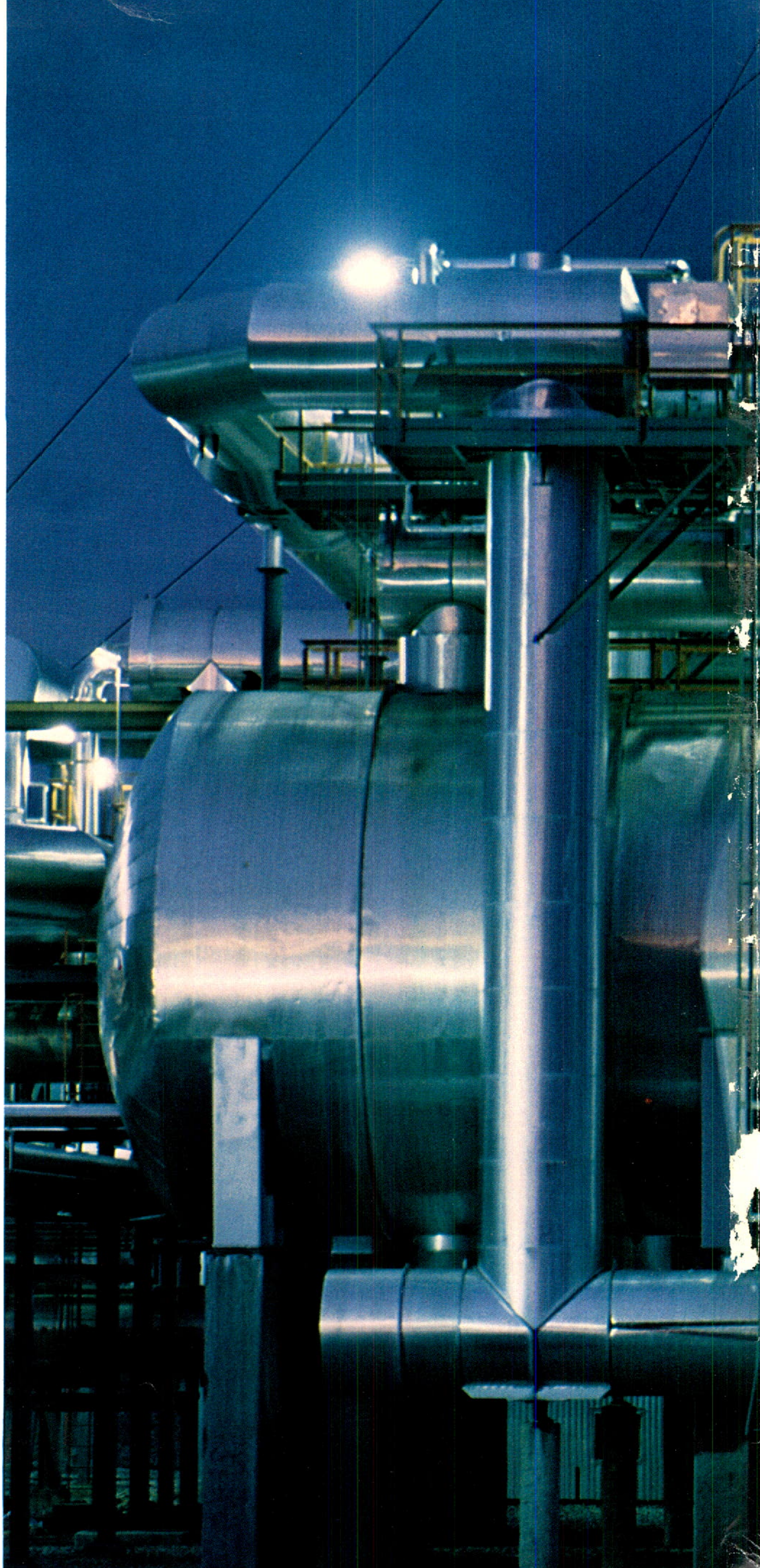
The actions of the B.C. Energy Commission and the B.C. government with regard to prices, combined with key indicators relating to exploration and drilling activity and land sales, have created a climate most favourable to expansion of gas supply.

In June, 1977 the Commission held its third hearing in as many years to review all aspects of the petroleum and natural gas industry — including prices, reserves, and delivery contracts. Based on its findings that all activities from land sales to footage drilled were appreciably above 1975-76 levels, the Commission accordingly recommended:

- Field prices be increased for both "old" and "new" gas.
- Royalty rates be reduced for both "old" and "new" oil.
- The wholesale price of gas to utility distributors be increased.

On October 28 the B.C. government accepted the recommendations with

Shimmering, aluminum-clad sulfreen converter is one unit of the sulphur recovery plant adjacent to the Fort Nelson gas processing installation. The extraction plant serves a dual role – removing waste fumes from natural gas to prevent atmospheric pollution in compliance with provincial government pollution control regulations; and producing as a by-product 400 long tons of sulphur per day.



minor changes. Effective November 1, 1977 the price of "old" gas was raised from 65 cents to 78 cents per Mcf, and the price for "new" gas was raised from 85 cents to $1.03 per Mcf. This wellhead price to the producers is net — that is, free of royalty and thus comparable to prices being paid in Alberta.

It is anticipated that these price increases will sustain the dramatic revival in exploration and development activities which took place in the province in 1977. The extent of the upturn is illustrated by the following statistics for 1977, with corresponding 1976 figures in brackets:

During the year a total of 303 (166) wells were drilled in B.C., resulting in 156 (87) new gas producers and 31 (11) new oil wells. Of the total wells drilled, 93 (37) were exploratory and they discovered 28 (12) new natural gas pools and 6 (4) new oil pools.

The Company believes that this reawakened interest in exploration and development will lead to new records in the number of gas wells drilled and new gas fields found in British Columbia during 1978 and 1979. Sixty-one drilling rigs participated in the 1977-78 winter drilling season in the province. In the period from November 1, 1977 to January 31, 1978 a total of 97 wells were drilled, compared with 49 wells in the equivalent 1976-77 period. Included in the current winter drilling season were 36 exploratory wells resulting in 7 natural gas discoveries but no oil discoveries. This compares with 25 exploratory drillings in the 1976-77 period and a resulting 5 natural gas and 3 oil discoveries.

It is expected that more than 300 new wells will be drilled in B.C. in 1978. Based upon the performance of the last several years, it appears reasonable to expect a 50 percent success ratio, raising the prospect that more than 150 new gas wells will be available for connection to the Westcoast system.

Government Land Sales

A new record in annual revenues was established in five land sales held during 1977 by the B.C. government, an obvious consequence of improved prices for gas and expanding market demand. Bonus payments of $125.5 million were accepted which is almost triple the previous annual record of $43.2 million paid in 1976. The majority of the land purchased in 1977 was exploratory acreage, a further indication that drilling for gas will continue at a brisk pace in future years.

Confirming continuation of this trend, a single land sale record of $67.3 million took place on January 25, 1978.

Gas Sales

Following several years of declining sales due to insufficient gas supply, the Company recorded an increase in the year under review. During the final month of 1977 average day sales were 1,253 MMcf. This established an all-time monthly average day record, exceeding by some 15 MMcf the previous record achieved in January, 1973. Furthermore, Westcoast's single day sales record was surpassed on December 4, 1977 when sales reached 1,320 MMcf. On a daily basis throughout the year, customers' purchases averaged 1,012 MMcf compared with 944 MMcf in 1976. The increase in the year's sales was due primarily to incremental supplies of gas which the Company was able to purchase in Alberta. Of 1977's total shipments, 64 percent was exported to the United States which compares with 62 percent a year earlier.

Canadian gas exported by Westcoast services an area of the United States which enjoys the continent's lowest electricity rates and has relatively accessible coal deposits, both of which are highly competitive with gas. As gas prices increased, many industries in the U.S. Pacific Northwest began converting in 1976 to alternative energy sources. It appears this market shift has now been completed and the remaining markets for gas have stabilized. It is expected they will continue to use gas at historical levels with general economic conditions determining the future growth in consumption.

Gas sales revenue increased 35 percent over the record level achieved during 1976, the growth resulting from a wholesale price increase to Canadian customers and an increase in the export border price.

On March 1, 1977 all of the Canadian customers of the Company began paying an additional 24 cents per Mcf. The price for gas entering the United States increased by an order of the National Energy Board effective September 21, 1977 to $2.16 in U.S. currency from the price of $1.94 Mcf in Canadian currency.

In 1977, a total of 78.6 billion cubic feet of gas was delivered to the B.C. Hydro and Power Authority, an increase of less than 1 percent from 1976. As in other recent years, B.C. Hydro did not utilize gas in its Burrard thermal generating plant.

Deliveries to Inland Natural Gas Co. Ltd. were 41.1 billion cubic feet, up approximately 4 percent from the previous year. In view of the continuing substantial sales growth in its market areas, Inland is currently negotiating with Westcoast to obtain volumes of gas above and beyond those provided under its existing sales agreement.

The Company's other major Canadian customer, Pacific Northern Gas Ltd., took deliveries of 9.7 billion cubic feet in 1977, which is a drop of 26 percent from 1976. The decrease reflects primarily a reduction in sales by Pacific Northern to its largest customer, Canadian Cellulose Co. Ltd., at its Prince Rupert pulp mill.

Deliveries to Northwest Pipeline Corporation, the Company's only export customer, were approximately 238 billion cubic feet, 12 percent more than was shipped during 1976, but still below the volume requested. The increase was made possible by the Company's long-term gas purchase agreement with Pan-Alberta Gas and the utilization by Northwest Pipeline of additional storage facilities which enabled the U.S. company to purchase above-normal quantities of gas during the summer for use in its system during the cold winter months. Northwest Pipeline, as well, negotiated short-term summer sales to southern California which also increased its summer purchases from the Company.

Rate Application

The rates and tolls which the Company charges its domestic customers and the price it pays for gas purchased outside British Columbia are subject to the jurisdiction of the National Energy Board. On September 15, 1977 the Company filed a complete rate application with the Board. Hearing of the application, which is expected to be lengthy, began on February 28, 1978 in Vancouver. In brief, Westcoast seeks to alter its accounting treatment of depreciation to a unit-of-production basis; a change from flow-through to normalized income tax accounting; an increase in its rate of return; approval of its method of allocating costs to out-of-province gas producers; and approval of rates designed for its domestic customers. A favourable decision by the Board on all these points would improve Westcoast's cash flow as a result of higher depreciation charges and collection of normalized taxes, and its earnings would increase slightly because of the higher return.

1977 Construction

During the year a number of construction projects totalling in excess of $21 million were completed along the Company's system. Twenty-three miles of main line loop were installed between Station No. 1 at Taylor and Station No. 2 at Willow Flats at a cost of $8.5 million. Expenditures of $2.9 million were made to complete the Bonanza compressor station and connecting line. All three of these projects were to facilitate the deliveries from Pan-Alberta Gas.

Sweet gas from Aitken Creek was linked to the Fort Nelson line with 19.5 miles of 12-inch pipeline at a cost of $3.1 million. Installation of two 3,000 horsepower compressors was largely completed at Station No. 1 to handle gas from the Silver-Dahl, Oak and Rigel areas, accounting for $4.5 million.

A 36-inch diameter pipeline was installed across the Peace River, paralleling the existing Fort Nelson 30-inch mainline. The $2.3 million project was necessary at this time because the area soon will be flooded by B.C. Hydro and Power Authority's Site 1 hydro-electric dam.

To comply with provincial pollution control regulations, the Taylor sulphur plant was equipped with a gas incinerator and stack at a cost of over $1 million.

1978 Construction

An extensive construction program is planned this year involving expenditures in the order of $230 million. It is designed to expand facilities and connect new gas supplies to satisfy current and growing market demand, to achieve fuel savings, and to secure the system against interruption of service. The Company's expansion plans are predicated on its estimate that annual demand for gas will exceed existing pipeline capacity by 1979.

Application was made January 3, 1978 to the National Energy Board to proceed with construction of this year's largest single project, looping of the remaining unlooped 111.5 miles of the main transmission line from Station No. 2 near Chetwynd to Huntingdon at the U.S. border. Laying of the 36-inch loopline at a cost of $80.6 million is, subject to National Energy Board approval, scheduled for completion in October. A significant feature of the

loop is that, in part, it is an energy conservation project which will save 7 billion cubic feet of gas a year. This is a positive Company response to the federal and B.C. governments' energy conservation programs announced last year. The 16 compressor stations along the transmission lines are powered by gas drawn from the pipeline itself. With the added throughput capacity the system can be operated with less horsepower, thus cutting gas consumption by the compressors. The National Energy Board hearing of the Company's application is scheduled to commence April 25, 1978.

The Grizzly Valley-Sukunka connection and the associated process plant near Chetwynd will be constructed at a combined cost of about $122 million, $47 million for the 101-mile pipeline system and $75 million for the plant. The Silver-Dahl pipeline will consist of 95 miles of pipeline and a compressor station and is estimated to cost $28 million. It is scheduled for completion in March, 1978.

It is a source of satisfaction to the Company that this major 1978 construction program will have a buoyant effect on employment in construction and related supplier industries at a time when there is marked slackness in the Canadian economy.

Industrial Relations

Management and labour relations were satisfactory throughout the year and it is expected they will remain stable in 1978. One-year agreements were reached with the Oil, Chemical and Atomic Workers International Union at the Fort Nelson plant and with the Canadian Pipeline Employees Association on the transmission system. It was established that ten of the 12 employees at the Taylor sulphur plant, members of the Union of Operating Engineers, come under provincial jurisdiction, rather than federal. A 16-month agreement was signed with this bargaining unit.

Senior appointments during the year included W. R. Hough to Manager — Construction Division; A. F. Sanderson to Manager — Process Division; and C. L. Starr to Manager — Transmission Division.

The Company employed a total of 573 men and women as of December 31,1977.

Cost-Of-Service Contract

The Province of British Columbia is unique in Canada in the buying and selling of natural gas. As an agency of the government, B.C.P.C., purchases all natural gas produced in the province from the producers at the wellhead and resells it to the Company. The Company then gathers, processes, transports and sells the gas to B.C. distributors and to Northwest Pipeline Corporation. The B.C. gas is supplemented with supplies purchased from producers in the Yukon Territory, the Northwest Territories and Alberta. The Company gathers and processes the territories' gas. The sweet Alberta gas does not require processing.

After receiving the sales revenue each month, the Company retains a sum of money equal to the costs incurred in operating its pipeline facilities. These costs include operating, maintenance and administrative expenses as well as depreciation and taxes, including income taxes. The Company also retains at present an amount equal to 11 percent on its rate base, this percentage being subject to periodic negotiation with the B.C.P.C. It pays producers in the Yukon, Northwest Territories and Alberta directly for gas purchases. The remainder of the sales revenue is remitted to the B.C.P.C. as payment for gas produced in B.C. The arrangement is termed a cost-of-service contract. Income from subsidiary operations referred to at page 13 is in no way involved in the contract.

The rate of return on rate base was raised to 11 percent from 10½ percent, effective January 1, 1977, by a retroactive arbitration award of October 28, 1977. When negotiations with the B.C.P.C. for a rate increase failed to produce agreement, the Company and the Corporation jointly submitted the matter to arbitration. A sole arbitrator established the rate at 11 percent, which was the equivalent of 14.7 percent return on equity. The increased return generated approximately an additional $2.5 million in net income in 1977.

Financial

Operating revenues, income, cash flow and dividends again reached record levels in 1977. Operating revenues increased by 35 percent to $780,164,000. The higher revenues were the result of increased prices for gas in both export and domestic markets as well as increased throughput volumes for the year. The operating income increased by $7,048,000 over the 1976 level of $67,930,000, the improvement generally being attributable to the increase in the rate of return from 10.5 percent to 11 percent which became effective January 1, 1977.

Net income reached $42,850,000 which represents a 9 percent increase over the $39,459,000 realized in the previous year. Net income applicable to common shares amounted to $39,450,000 which is a 9 percent increase over 1976, and net earnings per common share were $3.56 compared with $3.34 per share in 1976. Earnings per share advanced despite the increase in the average number of common shares outstanding during 1977, the increase in the number of shares continuing to be the result of conversions of the Company's convertible debentures. At the end of 1977 there were $14,896,000 of debentures that are subject to conversion into 540,934 common shares of the Company, and share warrants exercisable into 1,799,280 common shares.

Alaska Highway Pipeline

High-level decisions taken in 1977 in both Canada and the United States conclusively selected the Alaska Highway Pipeline Project of Foothills Pipe Lines (Yukon) Ltd. as the carrier of Alaskan gas through Canada to American markets south of the 49th parallel. The Company is a principal participant in this massive industrial undertaking. On July 4 the National Energy Board of Canada recommended approval of this route. Prime Minister Trudeau and President Carter announced on September 8 that an Agreement in Principle had been reached on a joint project to transport Alaskan and Canadian gas. On September 22 President Carter approved the Northwest Alaskan-Foothills proposal in a report to Congress, and by joint resolution on November 2 the U.S. Senate and House of Representatives approved the presidential decision. Canadian legislation authorizing construction of the line received first reading in the House of Commons on February 3, 1978 and second reading on February 23, 1978.

The parent company in the enterprise, Foothills Pipe Lines (Yukon) Ltd., and five subsidiary companies will construct the separate segments of the line through Canada. The subsidiaries are Foothills Pipe Lines (South Yukon) Ltd., Foothills Pipe Lines (North B.C.) Ltd., Foothills Pipe Lines (South B.C.) Ltd., Foothills Pipe Lines (Alta.) Ltd. and Foothills Pipe Lines (Sask.) Ltd. The Company presently intends to hold a 40 percent equity interest in the parent company. Alberta Gas Trunk Line Co. Ltd. would hold an identical interest and it is anticipated that TransCanada PipeLines Ltd. will take a 20 percent interest.

The parent company will hold 100 percent interest in the South Yukon subsidiary and 51 percent interest in each of the other four subsidiaries. The Company will be responsible for construction and operation of the North B.C. segment and will hold the remaining 49 percent common equity interest in Foothills Pipe Lines (North B.C.) Ltd., the subsidiary company handling this phase of the project. The Company anticipates its equity requirements in the Foothills' companies will be approximately $350 million.

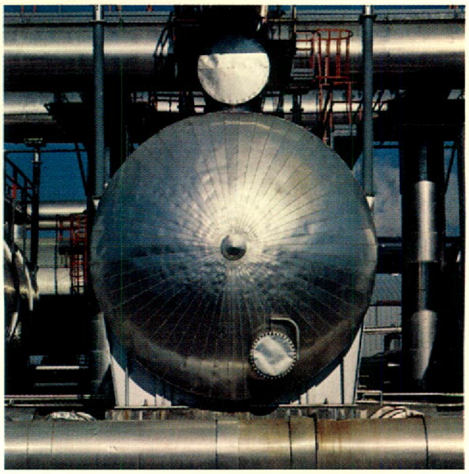
Estimated cost of the line to transport gas from Prudhoe Bay on the North Slope to U.S. markets was $10 billion, the Canadian portion accounting for about $4 billion of this total. With the selection of 56-inch diameter pipe the estimated cost of the project will be greater than these amounts. Definitive estimates are not yet available. The line will traverse 2,028 miles in Canada, 439 miles to be built and operated by the Company.

Important matters which remain to be resolved include: the pricing of gas at Prudhoe, which involves a decision by the U.S. Congress on energy policy; passage of the necessary legislation by Parliament; and financing of the project. Clarification of all these items is presently expected in time to enable a construction start in late 1980 or in early 1981.

Subsidiary Companies

Westcoast Petroleum Ltd. is primarily engaged in the exploration for, and the production of crude oil and natural gas. The Company held at year end 3,685,850 common shares of Westcoast Petroleum representing 61 percent, and 55 percent on a fully diluted basis. Owner and operator of a 505-mile, 12½-inch oil pipeline in British Columbia, this subsidiary is subject to the jurisdiction of the provincial Department of Energy, Transport and Communications in respect to the pipeline.

Interests total 9,292,081 gross acres (2,531,471 net acres) of prospective oil and gas lands in western Canada, the Northwest Territories and the Arctic Islands. Westcoast Petroleum conducted an active exploration and development program last year, participating in the drilling of 123 wells which resulted in 40 gas completions and 35 oil com-



pletions. Higher wellhead prices in B.C. and Alberta yielded very favourable increases in revenue from natural gas and crude oil sales during the year. Net income available to common shareholders amounted to $6,618,000 or $1.10 per common share, an increase of 55 percent from the 71 cents per common share earned in 1976.

Pacific Northern Gas Ltd. is a gas transmission and distribution utility operating in west-central British Columbia. The Company owns 45 percent of the common shares of Pacific Northern and 100 percent of the voting shares. The sales volume was 9.47 billion cubic feet during 1977 compared with 12.95 billion cubic feet in the previous year. Total sales revenue was $13,739,000 as against $13,429,000 in 1976. Net earnings applicable to common shares after providing for preferred dividends was $1,097,458.

Saratoga Processing Company Limited owns and operates a gas gathering and processing system and a sulphur extraction plant in southwestern Alberta. The Company owns 25 percent of Saratoga's common shares, including all of the voting shares. Net income for the year was $322,000 or 64 cents per common share compared to $307,000 or 61 cents per share in 1976. The present capacity of this processing facility is 52 MMcf of raw gas per day.

Massive block of sulphur removed from sour natural gas at the Fort Nelson sulphur recovery plant. The sulphur is poured when molten into movable aluminum forms which shape it into blocks. Substantial tonnages have been stored at Fort Nelson for two years due to weak market prices. A recent strengthening in price suggests it may soon become economically practical to transport it to outside markets.

Consolidated Balance Sheet

as at December 31

Assets

		1977	Restated 1976 (Note 1)
		(in thousands)	
Plant, property and equipment — at cost (Note 2)		$932,821	$882,394
	Less accumulated depreciation and depletion	254,218	227,669
		678,603	654,725
Current assets:	Temporary cash investments	18,652	24,717
	Deposits with trustees	4,830	5,553
	Accounts receivable	91,990	59,311
	Materials and supplies — at cost	4,681	4,886
	Line pack gas — at cost	4,356	2,642
	Prepayments	874	1,349
		125,383	98,458
Deferred charges:	Debt discount, premium and expense	4,955	5,473
	Abandoned pipeline	1,145	1,527
	Capital stock expense	941	1,178
	Northern pipeline projects (Note 3)	10,014	4,315
	Other	1,725	1,480
		18,780	13,973
Excess of cost of investment in subsidiary over book value at date of acquisition		523	684
		$823,289	$767,840

(The accompanying accounting policies and notes are integral parts of these financial statements)

Westcoast Transmission Company Limited
(Incorporated under the laws of Canada)

Shareholders' Equity

		1977	Restated 1976 (Note 1)
		(in thousands)	
Capital stock (Note 4):	Authorized — 5,000,000 preferred shares without nominal or par value		
	— 25,000,000 common shares without nominal or par value		
	Issued — 800,000 $4.25 cumulative redeemable preferred shares series A	$ 40,000	$ 40,000
	— 11,217,015 common shares (1976 — 10,868,217 common shares)	166,299	156,561
		206,299	196,561
Contributed surplus		470	370
Retained earnings		129,718	111,942
		336,487	308,873

Liabilities

		1977	Restated 1976 (Note 1)
Long term debt (Note 7)		310,456	317,275
Deferred income taxes (Note 1)		20,012	15,441
Current liabilities:	Bank indebtedness	2,258	1,656
	Accounts payable	84,383	48,732
	Sundry taxes	2,382	2,084
	Interest on debt	4,784	4,448
	Long term debt due within one year	12,489	18,378
		106,296	75,298
Minority interest in subsidiary companies:	Preferred shares	13,903	22,933
	Common shares	36,135	28,020
		50,038	50,953
		$823,289	$767,840

On behalf of the Board:

E. Phillips Director

John Anderson Director

Consolidated Statement of Operations

for the years ended December 31

		1977	Restated 1976 (Note 1)
		(in thousands)	
Operating revenues:	Gas and by-product sales	$768,699	$567,807
	Other	11,465	11,469
		780,164	579,276
Operating revenue deductions:	Cost of gas sold	607,576	428,175
	Operation and maintenance	52,865	41,032
	Depreciation and depletion	29,052	27,663
	Taxes — other than income taxes	15,693	14,476
		705,186	511,346
Operating income		74,978	67,930
Other income:	Allowance for funds used during construction	751	1,595
	Investment and other income	3,881	3,000
		79,610	72,525
Income deductions:	Interest on long term debt	26,864	23,443
	Debt discount, premium and expense	534	502
	Other interest and amortization	463	931
		27,861	24,876
Income before minority interest and income taxes		51,749	47,649
Minority interest		3,932	4,016
Income before income taxes		47,817	43,633
Income taxes:	Current	317	474
	Deferred (Note 1)	4,650	3,700
		4,967	4,174
Net income		42,850	39,459
Provision for dividends on preferred shares		3,400	3,400
Net income applicable to common shares		$ 39,450	$ 36,059
Per common share			
— weighted average		$3.56	$3.34
— fully diluted		$3.38	$3.12
Dividends per common share		$1.958	$1.836

(The accompanying accounting policies and notes are integral parts of these financial statements)

Consolidated Statement of Retained Earnings

for the years ended December 31

		1977	Restated 1976 (Note 1)
		(in thousands)	
Unappropriated retained earnings:	Balance, beginning of year	$ 91,942	$ 83,681
	Net income	42,850	39,459
		134,792	123,140
	Deduct dividends paid:		
	Preferred shares	3,400	3,400
	Common shares	21,674	19,798
		25,074	23,198
		109,718	99,942
	Transferred to appropriated retained earnings	8,000	8,000
	Balance, end of year	101,718	91,942
Appropriated retained earnings (Note 5):	Reserve for redemption of preferred shares		
	Balance, beginning of year	20,000	12,000
	Transferred from unappropriated retained earnings	8,000	8,000
	Balance, end of year	28,000	20,000
Retained earnings, end of year		$129,718	$111,942

Consolidated Statement of Contributed Surplus

for the years ended December 31

	1977	1976
	(in thousands)	
Balance, beginning of year	$ 370	$ 329
Contributions in aid of construction	100	41
Balance, end of year	$ 470	$ 370

(The accompanying accounting policies and notes are integral parts of these financial statements)

Consolidated Statement of Changes in Financial Position

for the years ended December 31

		1977	Restated 1976 (Note 1)
		(in thousands)	
Funds derived from:	Operations —		
	Net income	$ 42,850	$ 39,459
	Add items not involving a flow of funds:		
	Minority interest	3,932	4,016
	Deferred income taxes	4,650	3,700
	Depreciation, depletion and amortization	29,453	28,190
	Debt discount, premium and expense	534	502
		81,419	75,867
	Common shares issued	9,738	4,901
	Sale of investments	—	1,265
	Additional long term debt (net of financing costs)	19,647	29,033
	Conversion of Westcoast Petroleum Ltd. preferred shares (Note 1)	15,000	—
	Increase in working capital because of consolidation of Westcoast Petroleum Ltd.	—	9,218
		$125,804	$120,284
Funds used for:	Additions to plant, property and equipment	$ 50,540	$ 38,740
	Long term debt retirement (net of exchange)	16,758	21,532
	Long term debt converted to common shares	9,724	4,863
	Dividends	25,074	23,198
	Dividends paid by subsidiaries to minority interests	469	1,571
	Investment in Westcoast Petroleum Ltd. (Note 1)	21,296	—
	Northern pipeline projects	5,699	2,985
	Other	317	(241)
	Working capital increase (decrease)	(4073)	27,636
		$125,804	$120,284
Changes in working capital components:	Westcoast Petroleum Ltd. working capital	$ —	$ 4,381
	Temporary cash investments	(6,065)	17,709
	Deposits with trustees	(723)	178
	Accounts receivable	32,679	8,126
	Materials and supplies	(205)	(37)
	Line pack gas	1,714	253
	Prepayments	(475)	685
	Bank indebtedness	(602)	1,061
	Accounts payable	(35,651)	(3,922)
	Sundry taxes	(298)	52
	Interest on debt	(336)	(428)
	Long term debt due within one year	5,889	(422)
	Working capital increase (decrease)	$ (4,073)	$ 27,636

(The accompanying accounting policies and notes are integral parts of these financial statements)

Accounting Policies

December 31, 1977 and 1976

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and the following subsidiaries:

Westcoast Transmission Company (Alberta) Ltd. (100% owned)
Westcoast Transmission Housing Ltd. (100% owned)
Vancal Properties Ltd. (100% owned)
Gas Trunk Line of British Columbia Ltd. (99.9% owned)
Saratoga Processing Company Limited (25% owned, including 100% of the voting shares)
Pacific Northern Gas Ltd. (45% owned, including 100% of the voting shares)
Westcoast Petroleum Ltd. (December 31, 1977 — 57.6% owned, December 31, 1976 — 48.2% owned) — see Note 1.

Cost of Service:

The Company and its utility subsidiaries (Westcoast Transmission Company (Alberta) Ltd., Westcoast Transmission Housing Ltd. and Gas Trunk Line of British Columbia Ltd.) operate under a cost of service agreement with the British Columbia Petroleum Corporation. Under this agreement the Company is reimbursed for costs associated with the operation of the utility system including expenses for operating, maintenance, administration, depreciation and taxes including income taxes and receives a return on its utility rate base (primarily the undepreciated portion of the investment in gas plant facilities). The rate of return for the year ended December 31, 1977 was 11% (for the year ended December 31, 1976 — 10½%).

Regulation:

The Company is subject to the National Energy Board Act and to the jurisdiction of the Board created thereby. That Board regulates accounting matters, export of gas, construction and operation of gas pipelines and rates, tolls and charges of the Company.

Anti-Inflation Guidelines:

Under federal government anti-inflation legislation the Company is subject to mandatory compliance with controls on profits, dividends and employee compensation. Management is of the opinion that the Company is in compliance with the requirements of the Anti-Inflation Act.

Translation of United States Funds:

The Company's United States funds on deposit with banks and trustees and current liabilities payable in United States funds, with the exception of long term debt due within one year, have been translated to Canadian dollars at the exchange rates prevailing at the end of the fiscal years. Long term debt and capital stock issued in United States funds have been translated at the exchange rates prevailing at the respective dates of issue.

Depreciation and Depletion:

Depreciation is calculated using rates determined on the economic and physical life of the assets in service at the commencement of the fiscal years.

Depletion is calculated using the full cost method of accounting wherein all costs related to the acquisition, exploration for and development of oil and gas reserves are capitalized and depleted by a composite unit-of-production method based on total estimated proven reserves.

Capitalization and Maintenance:

Maintenance and repairs are charged to expense accounts when incurred and betterments which extend the useful life of properties are capitalized. Upon retirement or sale of items of property, the original cost of such items is charged against the applicable accumulated depreciation accounts and the net proceeds of disposal are credited to accumulated depreciation.

Allowance for funds Used During Construction:

An allowance for funds used during construction was charged to plant, property and equipment at a rate of 10½% for the year ended December 31, 1977 (for the year ended December 31, 1976 — 10¾%).

Income taxes:

The companies except Westcoast Petroleum Ltd. provide for income taxes on the taxes payable basis under which no provision is made for income taxes deferred through claiming capital cost and other allowances in excess of amounts recorded in the accounts. As explained in Note 1 Westcoast Petroleum Ltd. provides for income taxes by the tax allocation basis.

If all the companies had used the tax allocation basis to provide for income taxes, the additional provision for the year would have been $19,800,000 (for the year ended December 31, 1976 — $19,000,000) and the additional accumulated provision to December 31, 1977 would have been $124,300,000 (December 31, 1976 — $104,500,000).

Debt Discount, Premium and Expense:

Debt discount, premium and expense is being amortized over the life of the respective debt issues.

Abandoned Pipeline:

Unrecovered costs of an abandoned gathering pipeline are being amortized over the ten year period ending December 31, 1980.

Capital Stock Expense:

Capital stock expense includes the unamortized portion of issue costs for the preferred shares which is being amortized over the five year period ending December 31, 1979.

Excess of Cost of Investment in Subsidiary:

The excess of the cost of investment in Gas Trunk Line of British Columbia Ltd. over the net book value at date of acquisition is being amortized over the remaining life of the Gas Transportation Contract between the Company and Gas Trunk which expires in December 1981.

Pension Plan:

The companies have a non-contributory pension plan covering substantially all employees and contribute amounts necessary to provide normal retirement income for the participants. The companies contributed and charged to operations $1,018,000 during the year ended December 31, 1977 (during the year ended December 31, 1976 — $875,000). Based on an actuarial evaluation dated January 1, 1977, there is no unfunded liability.

Earnings Per Common Share:

Fully diluted earnings per common share calculations assume the conversion of the convertible bonds, debentures and subordinate debentures and the exercise of share purchase options and warrants. Funds derived from the exercise of options and warrants were assumed to have been invested to produce an annual return of 10% for each of the years ended December 31, 1977 and December 31, 1976.

Notes to the Consolidated Financial Statements

1. Consolidation of Westcoast Petroleum Ltd.:

During 1977, the Company converted its holdings of 600,000 voting preferred shares of Westcoast Petroleum Ltd. into 1,200,000 common shares of that company and purchased on the open market an additional 468,300 common shares for $5,600,000. At December 31, 1977, the Company held 3,685,850 common shares of Westcoast Petroleum Ltd., representing 61.0% of the total common shares outstanding and 57.6% of the total voting shares outstanding. Because the Company has acquired voting control of Westcoast Petroleum Ltd., it has fully consolidated the accounts of that company effective January 1, 1977 and has, for comparative purposes, restated the 1976 financial statements. There is no material difference between the Company's cost and the value of its share of the underlying net assets of Westcoast Petroleum Ltd.

Westcoast Petroleum Ltd. accounts for income taxes by the tax allocation basis, whereby income tax expense is determined as the amount that would be payable if statutory tax deductions for drilling, exploration and property acquisition costs and for capital cost allowances did not exceed the related depletion and depreciation provisions charged against income. The excess of income tax expense over income tax actually payable is reported as deferred income tax expense. If this policy, which Westcoast Petroleum Ltd. adopted on January 1, 1974, had been applied on a retroactive basis, the cumulative provision for deferred income taxes would have been increased by approximately $8,100,000.

2. Plant, Property and Equipment:

	1977 (in thousands)	**1976**
Gathering plant	$153,368	$147,918
Products extraction plant	117,488	115,524
Transmission plant	505,310	492,053
Oil and gas properties	102,979	85,301
Distribution plant	7,428	6,570
Miscellaneous plant and equipment	24,459	23,580
	911,032	870,946
Construction in progress	21,789	11,448
	932,821	882,394
Deduct:		
Accumulated depreciation	238,475	214,083
Accumulated depletion	15,743	13,586
	254,218	227,669
	$678,603	$654,725

3. Northern Pipeline Projects:

The Company owns 30% of the outstanding common shares of Foothills Pipe Lines Ltd. and 50% of the outstanding common shares of Foothills Pipe Lines (Yukon) Ltd.

Foothills Pipe Lines (Yukon) Ltd., in a decision delivered by the National Energy Board on July 4, 1977, has been given the responsibility for coordinating and directing the Canadian portion of the Alaska Highway Pipeline Project which has as its objectives the transportation of Alaskan natural gas from the Alaska-Yukon border to Monchy, Saskatchewan and Kingsgate, British Columbia at the Canadian-United States border and for preparing and filing an application for the authorization to construct a pipeline in the Yukon and Northwest Territories for the transportation of Canadian natural gas from the Beaufort Basin-Mackenzie Delta area to markets in southern Canada.

Foothills Pipe Lines Ltd. applied to the National Energy Board for authorization to construct a pipeline to transport natural gas from the Beaufort Basin-Mackenzie Delta area to a point near the Alberta-Northwest Territories border. This application was rejected by the National Energy Board.

The Company's ownership in these companies is recorded as an investment and the advances to these companies, which are based on the Company's percentage participation in these projects, are recorded as deferred charges.

4. Capital Stock:

(a) During 1977 the Company issued:

(i) 76,080 common shares on conversion of 7½% Convertible Debentures, First Series at a conversion rate of $25.00 per share, increasing capital stock by $1,902,000.

(ii) 272,015 common shares on conversion of 5½% Subordinate Debentures, Series C at a conversion rate of $29.89 (U.S.) per share, increasing capital stock by $7,816,000.

(iii) 720 common shares on Share Purchase Warrants exercised at a price of $28.31 per share, increasing capital stock by $20,000.

(iv) 17 common shares issued at a price of $10.00 per share were cancelled, decreasing capital stock by $170.

(b) During 1976 the Company issued:

(i) 36,140 common shares on conversion of First Mortgage Pipe Line Bonds, 5¾% Convertible Series D and Series E at conversion rates of $30.67 and $31.07 per share, increasing capital stock by $1,122,000.

(ii) 14,960 common shares on conversion of 7½% Convertible Debentures, First Series at a conversion rate of $25.00 per share, increasing capital stock by $374,000.

(iii) 117,998 common shares on conversion of 5½% Subordinate Debentures, Series C at conversion rates of $29.45 (U.S.) and $29.89 (U.S.) per share, increasing capital stock by $3,366,000.

(iv) 2,500 common shares on options exercised by an officer at an option price of $15.50 per share, increasing capital stock by $39,000.

(c) Common share reservations and options are as follows:

(i) Included in the common shares reserved for outstanding options, as set out below are 74,000 common shares optioned to directors and officers (December 31 ,1976 — 74,000 common shares).

Expiry date	Option price per share	Number of shares at December 31 1977	1976
July 26, 1980	$16.875	4,000	4,000
Oct. 16, 1983	$15.50	12,500	12,500
July 29, 1984	$19.375	12,500	12,500
April 20, 1986	$23.625	50,000	50,000

(ii) 202,875 common shares are reserved for options which have not yet been allocated (December 31, 1976 — 202,875 common shares).

(iii) 171,280 common shares are reserved for conversion of the 7½% Convertible Debentures, First Series (December 31, 1976 — 247,360 common shares).

(iv) 369,654 common shares are reserved for conversion of the 5½% Subordinate Debentures, Series C (December 31, 1976 — 641,669 common shares).

(v) 1,799,280 common shares are reserved for issuance upon the exercising of Share Purchase Warrants which may be exercised at $28.31 per share until May 15,1981(December 31,1976 — 1,800,000 common shares).

5. Appropriated Retained Earnings:

The Company is required to provide for a Retraction Purchase Fund through an appropriation of retained earnings at an annual rate of 20% of the aggregate value of the outstanding preferred shares until July 1, 1979 when the appropriation will amount to 100% of the value of the outstanding shares.

6. Dividend Restriction:

The First Mortgage and the indentures relating to the Company's long term debt and preferred shares contain restrictions as to the declaration or payment of dividends (other than stock dividends) on common shares. Under the most restrictive provision, the amount available for dividends at December 31, 1977 is $49,000,000 (December 31, 1976 — $36,000,000).

7. Long Term Debt:

	1977		1976
	United States Dollars	Canadian Dollars (in thousands)	Canadian Dollars
Westcoast Transmission Company Limited			
First Mortgage Pipe Line Bonds			
4⅜% Series A, due 1977	$ —	$ —	$ 6,098
6% Series C, due 1980	750	807	1,086
5¾% Series D, due 1984		21,107	24,105
5¾% Series E, due 1984		7,677	8,739
7% Series F, due 1988	43,032	46,370	50,768
8% Series G, due 1991		86,150	90,000
Less purchased in advance of repayment requirements		(4,177)	(5,001)
9¾% Series H, due 1996	50,000	49,229	29,566
Debentures			
7½% Convertible, First Series, due 1991 (a)		4,282	6,184
8½% Debentures, 1993 Series, due 1993		50,000	50,000
Subordinate Debentures			
5½% Series A, due 1988	15,984	15,910	16,529
Less purchased in advance of repayment requirements	(925)	(921)	(724)
5½% Series B, due 1988	2,418	2,317	2,406
Less purchased in advance of repayment requirements	(12)	(11)	(99)
5½% Series C, due 1988 (b)	11,042	10,614	18,436
Gas Trunk Line of British Columbia Ltd.			
First Mortgage Sinking Fund Bonds			
6% Series A, due 1979	896	912	1,398
Subordinate Debentures			
6% Series A, due 1981		1,410	1,590
Less purchased in advance of repayment requirements		(9)	(1)
Westcoast Transmission Housing Ltd.			
Housing Mortgages, 7% and 8¾%		68	556
Vancal Properties Ltd.			
7½% Secured Notes, due 1994	4,249	4,559	4,687
Westcoast Petroleum Ltd.			
Subordinated Debentures			
6½% Series A, due 1981		3,070	3,962
Term cash loan, due 1980		1,992	2,092
Saratoga Processing Company Limited			
First Mortgage Sinking Fund Bonds			
6¼% Series A, due 1979	650	667	1,078
Subordinated Debentures			
6% Series A, due 1981		750	810
Less purchased in advance of repayment requirements		(14)	(19)
8½% Promissory Note, due 1981		140	180
Pacific Northern Gas Ltd.			
First Mortgage Pipe Line Bonds			
7¾% Series A, due 1988	10,638	11,435	12,430
9¼% Series B, due 1991 (c)	2,590	2,611	2,797
Debentures			
11½% 1975 Series, due 1980		6,000	6,000
		322,945	335,653
Deduct long term debt due within one year		12,489	18,378
		$310,456	$317,275

Long term debt payments required in the five years ending December 31 are: 1978 — $12,489,000; 1979 — $19,869,000; 1980 — $30,426,000; 1981 — $22,849,000; 1982 — $21,180,000.

(a) Convertible into common shares at $25 per share until December 31, 1980.
(b) Convertible into common shares at $29.89 (U.S.) per share until July 15, 1978.
(c) Includes detachable warrants to purchase 50,000 Class A common shares of Pacific Northern at $5 per share until maturity.

If the companies' long term debt payable in United States funds was translated at the foreign exchange rate prevailing at the end of the fiscal years, the long term debt including the portion due within one year would have been $333,097,000 (December 31, 1976 — $333,528,000) and net income for the year would have decreased by $12,278,000 (for the year ended December 31, 1976 increased by $260,000).

The Company has a credit arrangement with a Canadian chartered bank to a limit of $50,000,000 and is charged a standby fee of ¼% per annum on amounts not borrowed. This line of credit is available until August 31, 1981 and amounts borrowed will bear interest at the bank's prime rate plus ½%.

The Company's First Mortgage Pipe Line Bonds are secured by a specific First Mortgage of substantially all of the Company's fixed assets, its gas purchase contracts, its gas sales contracts and 807,200 common shares of Westcoast Petroleum Ltd. and by a first floating charge on its assets and its undertakings.

8. Remuneration of Directors and Senior Officers of the Company:

The aggregate remuneration paid to directors and senior officers in their capacity as directors or officers for the year ended December 31, 1977 was $610,000 (for the year ended December 31, 1976 — $591,000).

9. Commitments

(a) The Company has received approval from the National Energy Board for two major construction projects which will cost approximately $150,000,000 and has filed an application with the National Energy Board requesting approval of another construction project that will cost approximately $81,000,000. Of these amounts $9,000,000 has been included in the accounts at December 31, 1977 and an additional $15,000,000 has been committed.

(b) Westcoast Petroleum Ltd. has completed a private placement for $20,000,000 (Cdn.) principal amount of 15 year 10% Sinking Fund Debentures First Series maturing December 1, 1993 in connection with the expansion of its oil and gas exploration and development program.

10. Selected Quarterly Data (unaudited) (in thousands):

	1977 for the three months ended			
	Mar. 31	**June 30**	**Sept. 30**	**Dec. 31**
Operating revenues	$180,248	$181,122	$158,485	$260,309
Operating revenue deductions	161,503	162,446	140,396	240,841
Operating income	18,745	18,676	18,089	19,468
Other	7,006	6,590	6,472	7,093
Net income before income taxes	11,739	12,086	11,617	12,375
Provision for income taxes	1,119	1,471	1,256	1,121
Net income	10,620	10,615	10,361	11,254
Provision for preferred dividends	850	850	850	850
Net income applicable to common shares	$ 9,770	$ 9,765	$ 9,511	$ 10,404
Per common share:				
weighted average	$.90	$.88	$.86	$.92
fully diluted	$.84	$.83	$.81	$.88

	Restated 1976 (Note1) for the three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
Operating revenues	$137,831	$148,930	$121,751	$170,764
Operating revenue deductions	121,223	131,978	105,300	152,846
Operating income	16,608	16,952	16,451	17,918
Other	6,034	5,780	6,006	6,477
Net income before income taxes	10,574	11,172	10,445	11,441
Provision for income taxes	990	1,088	863	1,232
Net income	9,584	10,084	9,582	10,209
Provision for preferred dividends	850	850	850	850
Net income applicable to common shares	$ 8,734	$ 9,234	$ 8,732	$ 9,359
Per common share:				
weighted average	$.82	$.85	$.81	$.86
fully diluted	$.74	$.76	$.74	$.81

In October, 1977 the rate of return on rate base increased from 10½% to 11%, effective January 1, 1977. The 1977 quarterly information has been restated to reflect the retroactive adjustment of this return and to reflect the consolidation of Westcoast Petroleum Ltd. as described in Note 1. The consolidation of that company had no effect on the quarterly net income previously reported but the revised return on rate base increased net income as follows:

Three months ended March 31, 1977	$ 666,000
Three months ended June 30, 1977	662,000
Three months ended September 30, 1977	660,000
	$1,988,000

11. Replacement Cost Data (unaudited):

In compliance with rules of the Securities and Exchange Commission of the United States, the Company has estimated certain replacement cost data with respect to plant investment and related accumulated depreciation, cost of gas sold, and depreciation expense. The results are explained and quantified in the Company's Form 10-K filed with the Commission and show that a significant increase in capital investment would be necessary to replace existing service capacity. The disclosure of this data is to comply with the Commission's rules and does not indicate a change in the Company's replacement policy.

The Company is under the jurisdiction of the National Energy Board of Canada and operates under a cost of service agreement with the British Columbia Petroleum Corporation. This agreement allows for the recovery of the Company's cost of service, including the cost of gas sold, depreciation based upon the historical plant cost, and a return on a rate base which includes net plant based upon historical cost. The National Energy Board presently does not recognize replacement cost for accounting purposes or rate determinations.

Auditors' Report

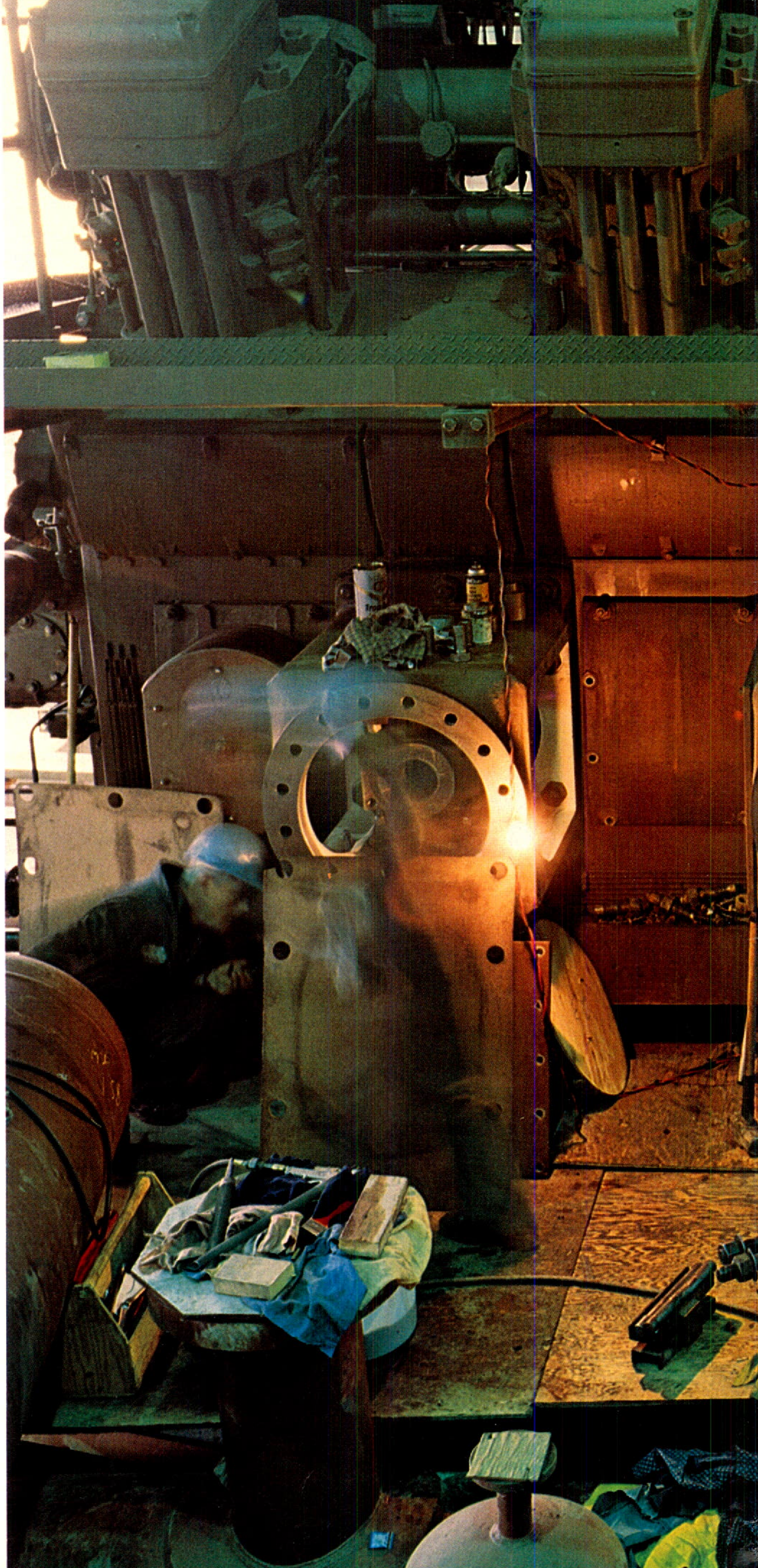
To the Shareholders of
Westcoast Transmission Company Limited:

We have examined the consolidated balance sheet of Westcoast Transmission Company Limited as at December 31, 1977 and 1976 and the consolidated statements of operations, retained earnings, contributed surplus and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

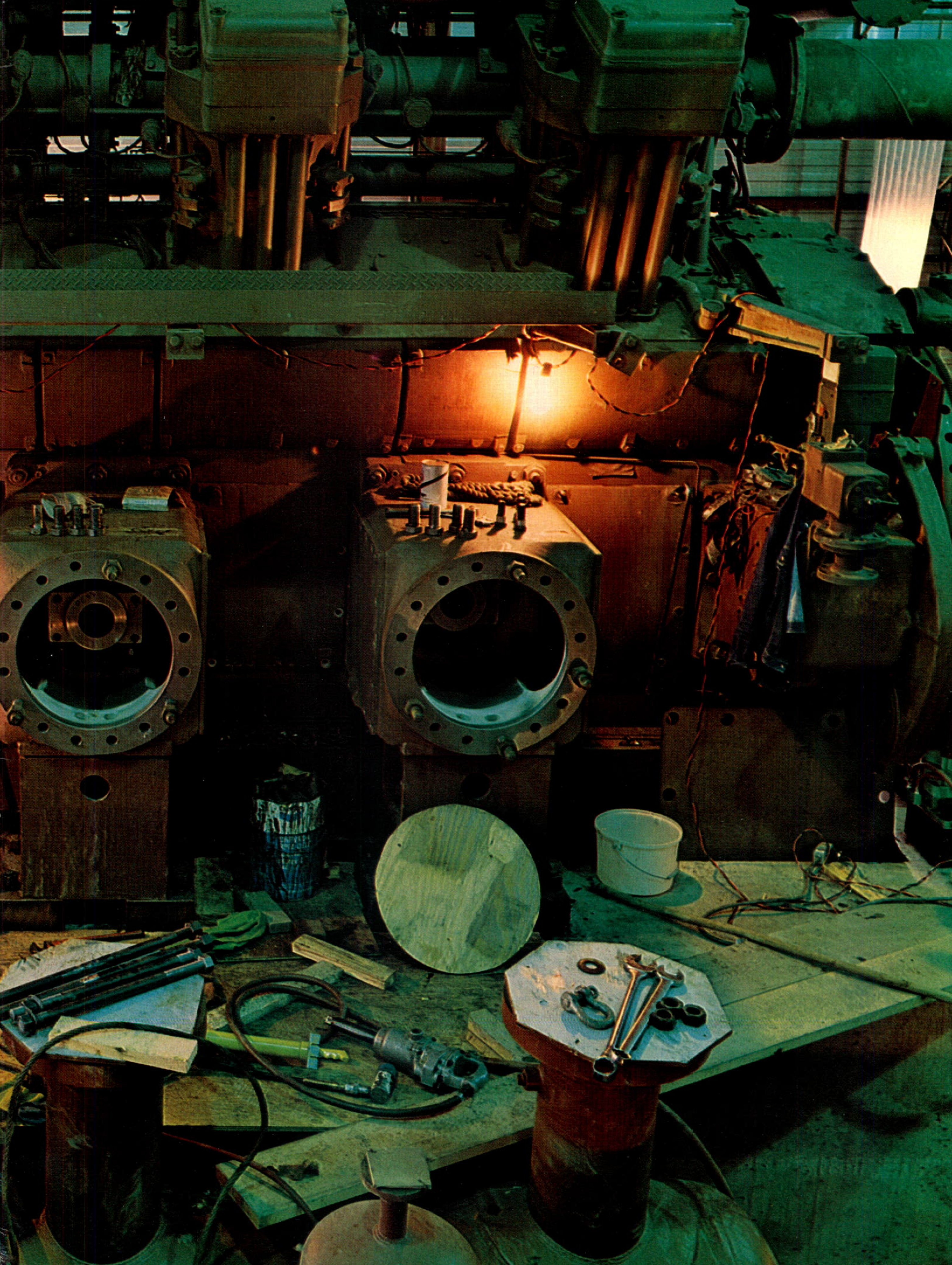
In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis during the period.

Vancouver, Canada
February 6, 1978

CLARKSON, GORDON & CO.
Chartered Accountants



One of two compressor units under construction at Booster Station No. 1 near Taylor. The three portals in foreground are connecting links between one of two 3,000 horsepower engines and the compressor cylinders. Natural gas from newly-attached reserve fields is placed under pressures of 980 pounds per square inch and driven into the main pipeline and on to market. The two compressors were part of the Company's 1977 construction program.



Management's Discussion of Operations

The Company's Ten Year Review on page 32 presents financial data which provide the basis for the following discussion of operations.

Year ended December 31, 1977

Substantial increases in operating revenue and operating revenue deductions over 1976 resulted from an increase of 28% in average price for gas sold and from an increase of 7% in volumes of gas sold. The net income of the Company, however, was not appreciably affected as the Company's income from utility operations is based on the cost of service agreement with the B.C. Petroleum Corporation.

Operation and maintenance increased over 1976 as a result of increases in maintenance, insurance and cost of fuel consumed in operations.

Increases in depreciation and depletion over 1976 resulted primarily from increases in depletion charged by Westcoast Petroleum Ltd.

Operating income increased because of an increased average utility rate base (2.5%) and because, effective January 1, 1977, the rate of return on rate base was increased from 10½% to 11%. Operating income also increased by $2,803,000 with respect to Westcoast Petroleum's operations.

Investment and other income increased over 1976 because proceeds from the 9¾%, Series H bond issue provided interest income on amounts available for temporary cash investments. Interest income on temporary cash investments increased income over 1976 by $2,000,000 and foreign exchange on debt repayments reduced income over 1976 by $1,200,000.

Interest on long term debt increased over 1976 due to the issuance of 9¾%, Series H bonds and foreign exchange on interest on debt payable in U.S. funds offset by reduced debt due to conversions of certain debt securities and scheduled repayments.

Deferred income taxes, applicable to Westcoast Petroleum Ltd., increased in relation to that Company's increased net income before income taxes.

Year ended December 31, 1976

Substantial increases in operating revenue and operating revenue deductions over 1975 resulted from increases in prices charged for gas sold to both domestic and export customers.

Operating income increased because of an increased utility rate base (3.5%) and because effective January 1, 1976, the rate of return on rate base was increased from 10% to 10½%.

The following tables reflect the effects of operations of Westcoast Petroleum Ltd. on the Consolidated Statements of Operations for 1977 and 1976.

	Westcoast Without Westcoast Petroleum Ltd.	Westcoast Petroleum Ltd.	Consolidated
		(in thousands)	
1977			
Operating revenues	$758,728	$21,436	$780,164
Operating revenue deductions	695,108	10,078	705,186
Net operating income	63,620	11,358	74,978
Other income	4,239	393	4,632
	67,859	11,751	79,610
Income deductions	27,378	483	27,861
	40,481	11,268	51,749
Income taxes	317	4,650	4,967
	40,164	6,618	46,782
Minority interest	1,155	2,777	3,932
Net income	39,009	3,841	42,850
Provision for preferred dividends	3,400	—	3,400
Net income available to common shareholders	$ 35,609	$ 3,841	$ 39,450
1976			
Operating revenues	$562,372	$16,904	$579,276
Operating revenue deductions	502,997	8,349	511,346
Net operating income	59,375	8,555	67,930
Other income	3,969	626	4,595
	63,344	9,181	72,525
Income deductions	24,299	577	24,876
	39,045	8,604	47,649
Income taxes	474	3,700	4,174
	38,571	4,904	43,475
Minority interest	1,457	2,559	4,016
Net income	37,114	2,345	39,459
Provision for preferred dividends	3,400	—	3,400
Net income available to common shareholders	$ 33,714	$ 2,345	$ 36,059

Corporate Information

Registrars

Common Shares

CANADA TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Toronto, Ont., Montreal, P.Q.

CHEMICAL BANK New York, N.Y.

Preferred Shares

CANADA PERMANENT TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

Bonds

MONTREAL TRUST COMPANY — Vancouver. B.C.

Debentures

Subordinate Debentures:

CITIBANK, N.A. — New York, N.Y.

MONTREAL TRUST COMPANY (co-registrar) — Vancouver, B.C., Calgary, Alta., Toronto, Ont., Montreal, P.Q.

First Series Debentures: CANADA PERMANENT TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

1993 Series Debentures: CANADA TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

Auditors

Clarkson, Gordon & Co.
P.O. Box 10101
Pacific Centre
700 West Georgia Street
Vancouver, B.C.

Transfer Agents

Common Shares, Bonds, Subordinate Debentures

MONTREAL TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Toronto, Ont., Montreal, P.Q.

CITIBANK, N.A. — New York, N.Y. *(Series E Bonds are transferable at the Montreal Trust Company branch in Winnipeg, Man., and Common Shares are transferable at the Montreal Trust Company branch in Regina, Sask.)*

First Series Debentures

CANADA PERMANENT TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

1993 Series Debentures

CANADA TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

Preferred Shares

CANADA TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

Stock Exchanges

Listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada and the New York and Pacific Coast Stock Exchanges in the United States.

Stock Symbol — WTC

Offices

1333 West Georgia Street, Vancouver, B.C. V6E 3K9
1212-One Palliser Square, Calgary, Alberta T2G 0P6

Stock Market Price Ranges

Common Shares

	New York		Toronto	
	Low	High	Low	High
January-March 1976	21¾	25	22⅛	25½
April-June 1976	24	25	22¾	24¾
July-September 1976	24½	27¼	24	26¾
October-December 1976	23	27	23¾	28
January-March 1977	26¼	27½	26½	28⅜
April-June 1977	26½	29⅞	28	31¼
July-September 1977	28½	31¼	30½	33⅛
October-December 1977	28⅝	32	31¾	35⅜

Dividends Paid

Common Shares	1977	1976
January-March	$0.486	$0.45
April-June	0.486	0.45
July-September	0.486	0.45
October-December	0.50	0.486
	$1.958	$1.836

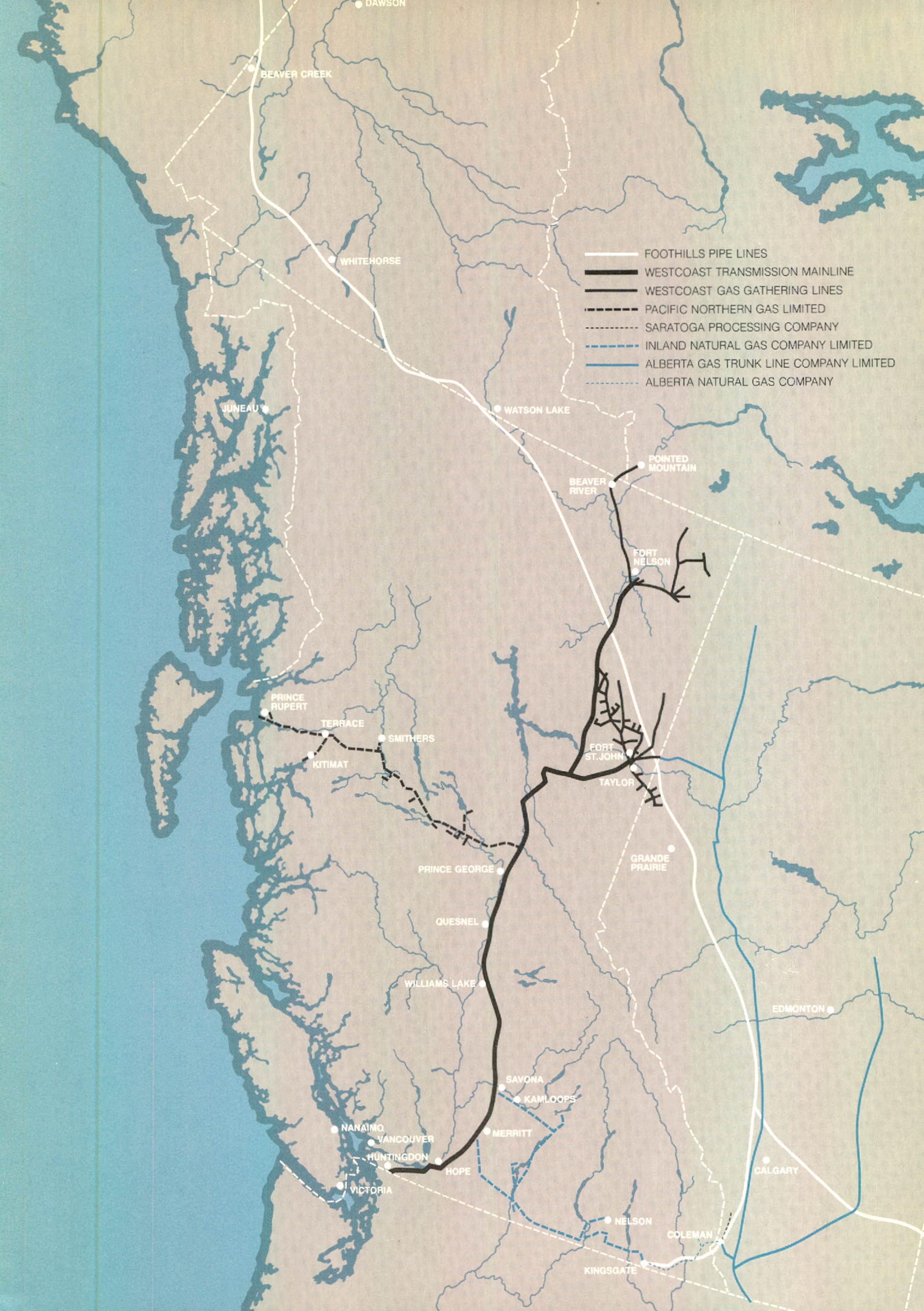
Ten Year Review

(Dollar amounts are in thousands, except per share figures)

	1977	Restated 1976**	1975
Financial			
Operations:			
Operating revenue	$ 780,164	$ 579,276	$ 416,677
Operating income	74,978	67,930	53,913
Financial charges	27,398	23,945	25,934
Income before special items	42,850	39,459	33,019
Special items	—	—	—
Net income	42,850	39,459	33,019
Provision for dividends on preferred shares	3,400	3,400	3,400
Net income applicable to common shares	39,450	36,059	29,619
Cash flow	81,419	75,867	55,060
Per Common Share:			
Net income — weighted average	3.56	3.34	2.97
— fully diluted	3.38	3.12	2.71
Dividends	1.958	1.836	1.80
Dividend payout ratio	55%	55%	61%
Cash flow	7.34	7.03	5.51
Assets:			
Plant, property and equipment	932,821	882,394	736,752
Accumulated depreciation and depletion	254,218	227,669	167,632
Net plant, property and equipment	678,603	654,725	569,120
Net additions to plant	50,547	36,977	36,798
Total assets	823,289	767,840	675,189
Rate Base and Return:*			
Average utility rate base	529,758	516,738	499,092
Average return on rate base	11.0%	10.5%	10.0%
Capitalization:			
Long term debt	310,456	317,275	308,037
Preferred shareholders' equity	40,000	40,000	40,000
Common shareholders' equity	296,487	268,873	247,670
— per common share	26.43	24.74	23.15
Return on average common shareholders' equity	14.0%	14.0%	13.5%
Capitalization Ratios:			
Long term debt	48.0%	50.7%	51.7%
Preferred shareholders' equity	6.2%	6.4%	6.7%
Common shareholders' equity	45.8%	42.9%	41.6%
Statistical			
Total gas sales —			
Millions of cubic feet	369,508	345,649	353,200
Average daily sales —			
Thousands of cubic feet	1,012,273	944,397	967,671
Peak day sales —			
Thousands of cubic feet	1,320,089	1,163,955	1,174,312
System sales capacity —			
Thousands of cubic feet per day	1,357,000	1,306,000	1,306,000
Miles of transmission lines	1,400	1,376	1,376
Miles of gathering lines	990	962	867
Compressor horsepower	447,220	447,220	447,220
Shares outstanding — year end	11,217,015	10,868,217	10,696,619
Number of common shareholders	9,870	9,677	9,768
Number of employees	573	508	514

*The nature of the Company's utility operations changed significantly in November 1973 at which time it commenced operating on a cost-of-service basis whereby utility operating costs are recovered and the Company receives a return on its utility investment.

**Restated to include the consolidation of Westcoast Petroleum Ltd.



FOOTHILLS PIPE LINES
WESTCOAST TRANSMISSION MAINLINE
WESTCOAST GAS GATHERING LINES
PACIFIC NORTHERN GAS LIMITED
SARATOGA PROCESSING COMPANY
INLAND NATURAL GAS COMPANY LIMITED
ALBERTA GAS TRUNK LINE COMPANY LIMITED
ALBERTA NATURAL GAS COMPANY
DAWSON
BEAVER CREEK
WHITEHORSE
JUNEAU
WATSON LAKE
POINTED MOUNTAIN
BEAVER RIVER
FORT NELSON
PRINCE RUPERT
TERRACE
SMITHERS
KITIMAT
FORT ST. JOHN
TAYLOR
GRANDE PRAIRIE
PRINCE GEORGE
QUESNEL
WILLIAMS LAKE
EDMONTON
SAVONA
KAMLOOPS
MERRITT
NANAIMO
VANCOUVER
HUNTINGDON
HOPE
VICTORIA
CALGARY
NELSON
COLEMAN
KINGSGATE

Years Ended December 31				Nine Months Ended December 31	Years Ended March 31	
1974	1973	1972	1971	1970	1970	1969
$ 266,600	$ 168,764	$ 139,492	$ 101,575	$ 69,684	$ 92,837	$ 84,675
49,974	47,093	42,810	26,665	16,254	22,415	19,666
27,680	28,062	26,189	24,960	14,597	18,854	16,115
26,731	24,001	21,314	8,416	3,103	5,319	5,982
—	—	(470)	814	—	—	(3,573)
26,731	24,001	20,844	9,230	3,103	5,319	2,409
1,559	—	—	—	—	—	—
25,172	24,001	20,844	9,230	3,103	5,319	2,409
47,161	42,082	37,931	21,836	12,779	16,845	16,033
2.90	2.80	2.46	1.37	.46	.79	.36
2.48	2.41	2.28	1.37	.46	.79	.36
1.30	.75	.60	.50	.50	.50	.25
45%	27%	24%	36%	109%	63%	69%
5.44	4.91	4.48	3.23	1.91	2.51	2.40
699,954	653,223	618,071	564,769	461,394	429,486	414,334
149,212	131,826	115,262	100,175	89,839	81,238	70,681
550,742	521,397	502,809	464,594	371,555	348,248	343,653
46,731	35,152	53,302	103,375	31,908	15,152	25,794
664,999	614,217	571,584	533,836	437,154	410,079	408,041
493,404	—	—	—	—	—	—
9.5%	—	—	—	—	—	—
367,105	386,960	371,098	378,712	305,518	257,580	262,268
40,000	—	—	—	—	—	—
190,668	174,332	156,508	96,459	89,396	89,700	87,604
21.98	20.33	18.28	14.27	13.34	13.39	13.08
13.8%	14.5%	16.5%	9.9%	3.5%	5.9%	2.7%
61.4%	68.9%	70.3%	79.7%	77.4%	74.2%	74.9%
6.7%	—	—	—	—	—	—
31.9%	31.1%	29.7%	20.3%	22.6%	25.8%	25.1%
362,257	412,156	368,679	287,659	197,384	258,887	248,095
992,484	1,129,194	1,007,319	788,106	717,759	709,279	679,709
1,188,996	1,284,742	1,251,035	1,122,791	886,679	866,935	854,074
1,306,000	1,306,000	1,231,000	1,102,000	864,000	864,000	864,000
1,374	1,374	1,290	1,202	966	966	966
794	715	713	679	568	568	564
441,220	382,220	381,220	343,720	287,820	287,820	283,220
8,673,400	8,575,977	8,562,943	6,760,341	6,703,817	6,699,817	6,695,264
9,525	10,225	10,630	10,450	10,585	10,183	10,765
519	515	502	494	518	526	514

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