Westcoast Transmission 1975 Annual Report

HOWARD ROSS LIBRARY
OF MANAGEMENT
APR
McGILL UNIVERSITY

DIRECTORS

†*JOHN ANDERSON
Senior Vice President, Westcoast Transmission Company Limited, Vancouver, British Columbia

*KELLY H. GIBSON
Chairman of the Board and Chief Executive Officer Westcoast Transmission Company Limited Vancouver, British Columbia

J. TAYLOR KENNEDY
President and Chief Executive Officer, Canada Cement Lafarge Ltd., Montreal, Quebec

DOUGLAS P. McDONALD, Q.C.
Chairman, Mountain Pacific Pipeline Ltd. Calgary, Alberta

*EDWIN C. PHILLIPS
President, Westcoast Transmission Company Limited, Vancouver, British Columbia

J. ERNEST RICHARDSON
Chairman of the Board, British Columbia Telephone Company, Vancouver, British Columbia

WARREN A. ROBERTS
Executive Vice President, Phillips Petroleum Company, Bartlesville, Oklahoma

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

NORMAN R. WHITTALL
Financier, Vancouver, British Columbia

†CHARLES N. W. WOODWARD
Chairman of the Board, Woodward Stores Limited, Vancouver, British Columbia

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

OFFICERS

KELLY H. GIBSON
Chairman of the Board and Chief Executive Officer

EDWIN C. PHILLIPS
President

JOHN ANDERSON
Senior Vice President

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
General Counsel and Secretary

J. E. MAY
Comptroller

D. O. HUNTER
Assistant Treasurer

P. M. STEELE
Assistant Secretary

*Executive Committee Member
†Audit Committee Member

Results in brief

FINANCIAL	1975	1974
Total Operating Revenues	$416,677,000	$266,600,000
Net Income Applicable to Common Shares	29,619,000	25,172,000
— per share	2.97	2.90
Cash Flow	55,060,000	47,161,000
— per share	5.51	5.44
Total Assets	675,189,000	664,999,000
Common Shareholders' Equity	247,670,000	190,668,000
— per outstanding share	23.15	21.98
Common Shares — weighted average	9,983,720	8,673,100

OPERATING	1975	1974
Total Gas Sales, Mcf	353,200,000	362,257,000
Average Daily Sales, Mcf	968,000	992,000
Peak Day Sales, Mcf	1,174,000	1,189,000

The responsibility for gathering and processing natural gas for transmission to residential and industrial distributors in British Columbia and the U.S. Pacific Northwest lies with Westcoast Transmission Company Limited, a publicly-owned and federally-incorporated utility which began operations in 1957.

Those operations comprise a complex network of pipelines, meter stations, compressor stations and processing plants maintained by a staff of more than 500 men and women skilled in a variety of administrative and technical fields.

The Westcoast system, stretching from the Yukon and Northwest Territories to the international boundary near Vancouver, plays an important role in the social and economic development of the areas it serves.

ANNUAL MEETING

The Annual Meeting of the Shareholders of Westcoast Transmission Company Limited will be held in the Waddington Room, Hotel Vancouver, in the City of Vancouver, British Columbia, on Tuesday, April 20, 1976 at 10 a.m.

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The largest gas-processing plant of its type in North America is located at Fort Nelson, British Columbia. It is owned and operated by the Company.

To the shareholders

The Company again achieved record levels in revenue and income in 1975. Net Income amounted to $33,019,000 in 1975, a 23.5 percent increase over the $26,731,000 earned in 1974. After providing for preferred dividends the income available to common shareholders increased to $29,619,000 from the previous high of $25,172,000 in 1974. Due primarily to the conversion of the major part of the Company's 7½ percent Convertible Debentures during the year, the number of common shares outstanding increased from 8,673,400 at December 31, 1974, to 10,696,619 at the end of 1975. The per share earnings of the Company computed on the weighted average number of shares outstanding during the year increased from $2.90 per common share to $2.97 per common share. Cash flow increased to $55,060,000 from $47,161,000 in 1974, an increase of 16.7 percent. The cash flow per common share was $5.51, up from $5.44 per common share in the previous year.

Dividends paid on common shares increased to a total of $17,654,000 or $1.80 per share from $11,275,000 or $1.30 per share paid in the previous year. The dividend of $1.80 per common share was paid on a quarterly basis, a change from previous years when the dividend was paid semi-annually.

The federal Anti-Inflation Board has set down guidelines on dividends which allow the Company to continue to pay a dividend of $1.80 per common share but do not allow any increase in this rate unless authorized by the Anti-Inflation Board following its planned review in October 1976.

FEDERAL AND PROVINCIAL INQUIRIES CONDUCTED

Two reports of considerable significance to the natural gas industry were rendered in 1975. The first was that of the National Energy Board which had undertaken an exhaustive inquiry into the matter of supply, demand and deliverability of Canadian natural gas. The Board heard submissions and evidence from many segments of Canadian business and society in a series of public hearings across Canada from November 1974 to March 1975. The Company made a submission to the Board and officers of the Company appeared and gave evidence at the Board's hearings in Vancouver.

In its report in April 1975 the Board found that Canadian demand for natural gas, together with existing export commitments, are virtually certain to exceed the supply available until the connection of natural gas from frontier areas or from other major new sources of supply yet to be discovered. The Board noted that a supply shortage has existed on the Company's system since the winter heating season of 1973/74 and could occur on other Canadian systems as early as 1975/76.

In its summary the Board stated ". . . some volumes being exported pursuant to existing licences are clearly

KELLY H. GIBSON
Chairman and Chief Executive Officer

EDWIN C. PHILLIPS
President

not now surplus to Canadian requirements. We are in the position that long term export contracts running to some one trillion cubic feet a year, with a total of some 14 trillion cubic feet still committed to export, are in effect a first charge on our production while Canadian requirements have to be satisfied from what is left over. This situation, if allowed to prevail, reverses the priority for Canadian requirements as set out in the National Energy Board Act.

"A new approach to future exports is necessary. Tests of deliverability will be required not only prior to the issuance of licences, but periodically thereafter. If licences for additional exports are issued in the future, and this is conceivable if major discoveries are developed, they must be on a short term basis and conditioned so that Canadian requirements will have continuing priority."

The second report of equal significance to the Company was released in August by the British Columbia Energy Commission which had conducted public hearings enquiring into present levels of exploration and production in the natural gas industry in the province; the adequacy of field prices for natural gas in the province and particularly whether such prices represented fair compensation to the producers and constituted adequate incentive for exploration and development of natural gas within the province.

The Commission found that activity during the 1974/75 winter drilling season was essentially at a standstill. It further forecast that activity would remain at a very low level under prevailing conditions. The Commission accordingly found that higher prices for natural gas and increased netbacks to the industry on crude oil are necessary incentives justified in the public interest.

The Commission therefore recommended to the province of British Columbia that new prices be established for old and new gas within the Province. Old gas comes from fields which were producing up to October 31, 1974, and new gas comes from fields commencing to produce on and after November 1, 1974. The provincial cabinet subsequently adopted the Commission's findings and recommendations.

Higher field prices for natural gas went into effect November 1, 1975 and all reports indicate that exploratory activity within British Columbia will be much greater in 1976 than it has been since 1972.

FRONTIER GAS

The hearings before the National Energy Board on the competitive applications by Foothills Pipe Lines Ltd., an affiliate of the Company, and Canadian Arctic Gas Pipeline Limited, for authorization to construct a pipeline to transport gas from the Beaufort Basin-Mackenzie Delta area for ultimate sale in southern Canada commenced in October and were continuing at year end. In addition to the principal applications, the Board will hear the application of the Company to extend its pipeline system 141 miles from Fort Nelson, British Columbia, into the Northwest Territories to connect with the pipeline of the successful applicant. In evidence presented to the Board to date the Company has demonstrated its immediate need for additional supplies of gas, which are not available from its present supply areas, to overcome the continuing shortage in deliveries to its export customer, Northwest Pipeline Corporation, and also to meet the growing needs of its Canadian customers. The Company's application, if approved, would involve the expenditure of approximately $350,000,000 for the connecting link and the necessary expansion of its mainline system required to transport up to 500 million cubic feet per day of Delta gas to its customers. To the extent that the increased exploratory activity now taking place in British Columbia results in additional supplies of gas becoming available to the Company, its requirement for Delta gas will be reduced accordingly.

It is anticipated that the hearings before the National Energy Board will continue well into 1976 with the possibility of a recommendation from the National Energy Board to the federal cabinet in late 1976 or early 1977.

INCREASED RETURN ON RATE BASE

Early in 1975 the Company completed negotiations with the British Columbia Petroleum Corporation whereby the Company's rate of return on rate base was increased from 9.5 percent to 10 percent effective January 1. This increase in return generated an additional $2,500,000 in operating income during the year and was agreed to by the British Columbia Petroleum Corporation because the Company's return on equity capital had fallen below levels being realized by other pipeline companies in Canada. While the negotiated increase initially permitted the Company to obtain a satisfactory return on equity, it must be noted that as the cost of the Company's borrowings increase due to inflationary pressures, a decrease in the return on equity inevitably follows. The Company's return on common shareholders' equity realized in 1975 had in fact begun to decline in the last quarter to less than satisfactory levels. The Company therefore opened negotiations with the British Columbia Petroleum Corporation at year end with a view to ensuring that its 1976 operating income will be sufficient to provide an adequate return to its shareholders. Any change in the rate of return must be filed with the National Energy Board.

CHANGE IN GOVERNMENT

On December 11, 1975, the New Democratic Party government was defeated in a provincial election by the Social Credit Party led by W.R. Bennett. Because the Company's cost of service contract was entered into with a separate Crown Corporation, the British Columbia Petroleum Corporation, the change in government will not affect the contractual arrangement.

LEGISLATION AFFECTING THE GAS INDUSTRY DURING 1975

The federal government proclaimed the Petroleum Administration Act in force pursuant to which the National Energy Board is given authority to regulate the price of gas moving into interprovincial or international markets. Complementary legislation, The Natural Gas Pricing Agreement Act, was passed by the Alberta legislature and agreement was reached between the Alberta government and the federal government on the pricing of gas moving out of Alberta both east and west. By virtue of this agreement, the Company is now required to pay a higher price for gas which it purchases from producers in the province of Alberta; however, the Company is empowered to recover the higher price it pays Alberta producers on the resale of the Alberta gas to its export customer. Similarly, the federal government has increased the price which the Company pays for gas produced in the Yukon and the Northwest Territories, which increase, the Company also recovers on resale to its export customer. Under these arrangements, all gas coming into the Company's system from outside the province of British Columbia is deemed to be sold in the export market.

EXECUTIVE APPOINTMENTS

In July 1975, the Board of Directors appointed

C. D. Williams, Secretary and in October 1975, appointed L. J. Smith, Vice President, Finance and Treasurer; J. A. Kavanagh, Vice President, Engineering; and A. J. Green, Vice President, Supply and Sales. In November 1975, J. E. May was promoted to Comptroller.

John Anderson, Senior Vice President, was appointed President of Pacific Northern Gas Ltd. and J. E. Johnson, Vice President, Operations, was appointed President of Saratoga Processing Company Limited.

During 1975 L. M. Youell resigned as Secretary of the Company and R. M. Rutherford, a Vice President, was granted leave of absence to accept a position with Foothills Pipe Lines Ltd. Both of these officers gave many years of valuable service to the Company and the directors and management wish them well in their future endeavours.

The success of the past year must be credited to the employees of the Company. The board of directors and management wish to thank these men and women for their continued high caliber of contribution which made possible the many accomplishments of the Company.

On behalf of the Board,

Kelly Gibson

KELLY H. GIBSON
Chairman and Chief Executive Officer

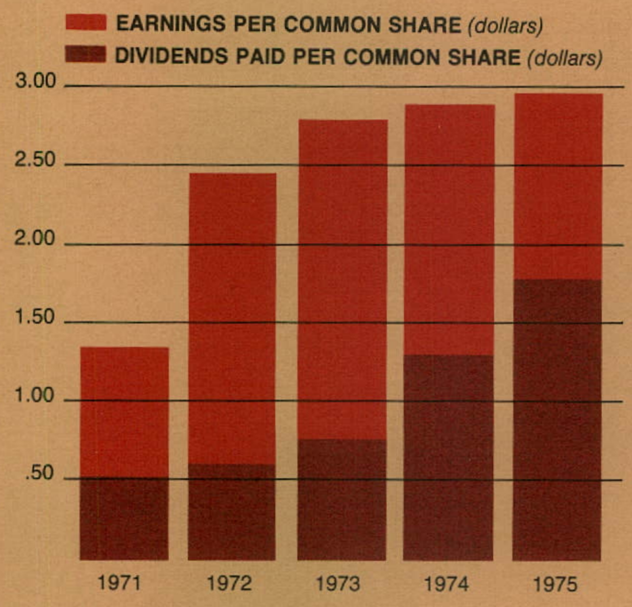
E. Phillips

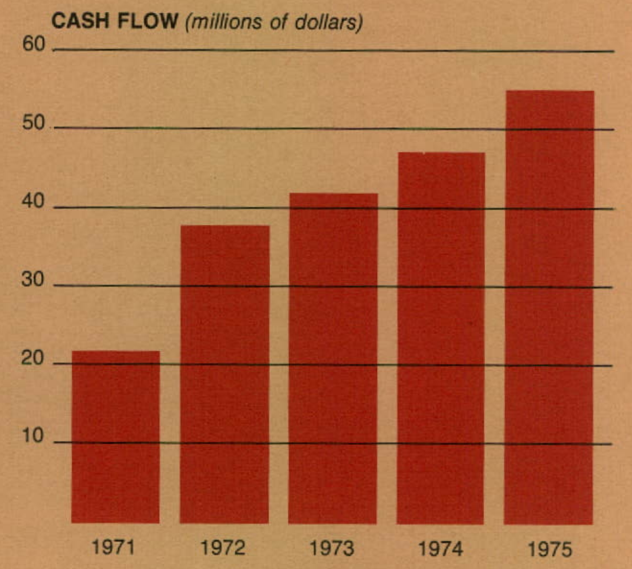
EDWIN C. PHILLIPS
President

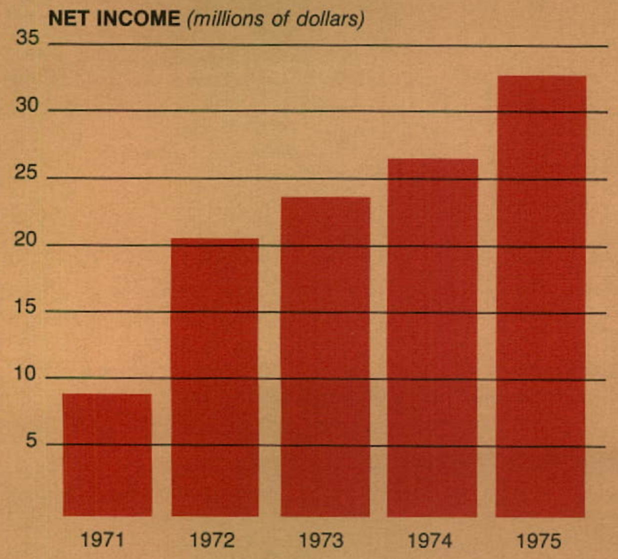
Vancouver, Canada
March 12, 1976

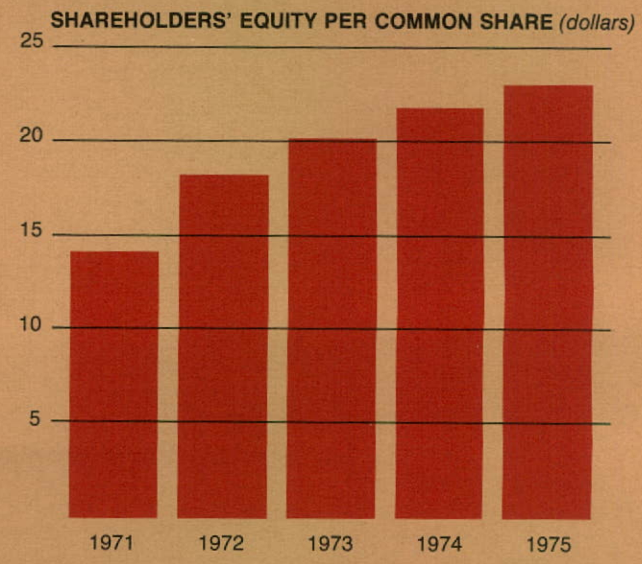
Westcoast expands its system each year to gather, process and deliver more natural gas as new discoveries are made and as deliverability is increased from presently producing gas fields.

1975 financial statements for Westcoast Transmission Company Limited









Consolidated statement of operations

for the years ended December 31, 1975 and 1974	1975	1974
	(in thousands)	
Operating revenues:		
Gas and by-product sales	$416,012	$266,105
Other	665	495
	416,677	266,600
Operating revenue deductions:		
Cost of gas sold	296,481	157,890
Operation and maintenance	32,595	25,587
Depreciation	20,341	18,941
Taxes — other than income taxes	12,893	13,901
Income taxes	454	307
	362,764	216,626
Operating income	53,913	49,974
Other income:		
Equity in earnings of Westcoast Petroleum Ltd.	1,040	407
Allowance for funds used during construction	2,106	933
Investment and other income	3,464	4,620
	60,523	55,934
Income deductions:		
Interest on long term debt	24,633	27,202
Debt discount, premium and expense	1,301	478
Other interest and amortization	581	428
	26,515	28,108
Income before minority interest	34,008	27,826
Minority interest	989	1,095
Net income	$ 33,019	$ 26,731
For common shares:		
Net income	$ 33,019	$ 26,731
Provision for dividends on preferred shares	3,400	1,559
Net income applicable to common shares	$ 29,619	$ 25,172
Per common share — weighted average	$2.97	$2.90
— fully diluted	$2.71	$2.48
Dividends per common share	$1.80	$1.30

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

Consolidated statement of retained earnings

for the years ended December 31, 1975 and 1974	1975	1974
	(in thousands)	
Unappropriated retained earnings:		
Balance, beginning of year	$ 79,716	$ 69,536
Net income	33,019	26,731
	112,735	96,267
Deduct dividends paid:		
Preferred shares	3,400	1,276
Common shares	17,654	11,275
	21,054	12,551
	91,681	83,716
Transferred to appropriated retained earnings	8,000	4,000
Balance, end of year	83,681	79,716
Appropriated retained earnings (Note 3):		
Reserve for redemption of preferred shares		
Balance, beginning of year	4,000	—
Transferred from unappropriated retained earnings	8,000	4,000
Balance, end of year	12,000	4,000
Retained earnings, end of year	$ 95,681	$ 83,716

Consolidated statement of contributed surplus

for the years ended December 31, 1975 and 1974	1975	1974
	(in thousands)	
Balance, beginning of year	$ 253	$ 248
Contributions in aid of construction	76	5
Balance, end of year	$ 329	$ 253

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

Consolidated balance sheet *as at December 31, 1975 and 1974*

ASSETS	1975	1974
	(in thousands)	
Plant, property and equipment — at cost (Note 1)	$736,752	$699,954
Less accumulated depreciation	167,632	149,212
	569,120	550,742
Investments:		
Westcoast Petroleum Ltd.	31,022	28,159
Other — at cost (market value 1975 — $1,113,000; 1974 — $988,000)	1,265	1,320
	32,287	29,479
Current assets:		
Temporary cash investments	1,208	24,249
Deposits with trustees	5,375	5,108
Accounts receivable	47,386	34,951
Materials and supplies — at cost	4,923	4,311
Line pack gas — at cost	2,389	1,962
Prepayments	607	1,745
	61,888	72,326
Deferred charges:		
Unamortized debt discount, premium and expense	5,377	6,446
Unamortized cost of abandoned pipeline	1,909	2,291
Unamortized capital stock expense	1,414	1,655
Foothills Pipe Lines Ltd.	1,330	180
Other	1,019	874
	11,049	11,446
Excess of cost of investment in subsidiary over book value at date of acquisition	845	1,006
	$675,189	$664,999

(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	1975	1974
	(in thousands)	
Capital stock (Note 2):		
Authorized — 2,000,000 preferred shares with par value of $50 each		
— 25,000,000 common shares without nominal or par value		
Issued — 800,000 8½% cumulative redeemable preferred shares series A	$ 40,000	$ 40,000
— 10,696,619 common shares (1974 — 8,673,400 common shares)	151,660	106,699
	191,660	146,699
Contributed surplus	329	253
Retained earnings	95,681	83,716
	287,670	230,668
LIABILITIES		
Long term debt (Note 5)	308,037	367,105
Current liabilities:		
Bank indebtedness	1,688	1,747
Accounts payable	41,431	29,756
Sundry taxes	2,106	987
Interest on debt	4,020	5,700
Long term debt due within one year	17,119	16,180
	66,364	54,370
Minority interest in subsidiary companies:		
Preferred shares	5,000	5,269
Common shares	8,118	7,587
	13,118	12,856
	$675,189	$664,999

On behalf of the Board:

E. Phillips Director

John Anderson Director

Consolidated statement of changes in financial position

for the years ended December 31, 1975 and 1974	**1975**	**1974**
	(in thousands)	
Funds derived from:		
Operations —		
Income before minority interest	$ 34,008	$ 27,826
Add items not involving a flow of funds:		
Depreciation and amortization	20,791	19,265
Equity in earnings of Westcoast Petroleum Ltd.	(1,040)	(407)
Debt discount, premium and expense	1,301	477
	55,060	47,161
Common shares issued	44,961	2,151
Preferred shares issued (net of issuing costs)	—	38,818
Additional long term debt (net of financing costs)	5,768	—
Working capital decrease	22,432	—
	$128,221	$ 88,130
Funds used for:		
Additions to plant, property and equipment	$ 38,337	$ 47,904
Long term debt retirement (net of exchange)	20,110	17,705
Long term debt converted to common shares	44,958	2,151
Dividends	21,054	12,551
Dividends paid by subsidiaries to minority interests	738	469
Investment in Westcoast Petroleum Ltd.	1,823	—
Foothills Pipe Lines Ltd.	1,150	180
Other	51	346
Working capital increase	—	6,824
	$128,221	$ 88,130
Changes in working capital components:		
Temporary cash investments	$ (23,041)	$ 12,285
Deposits with trustees	267	64
Accounts receivable	12,435	8,891
Materials and supplies	612	957
Line pack gas	427	1,294
Prepayments	(1,138)	(3,452)
Bank indebtedness	59	(1,296)
Accounts payable	(11,675)	(11,725)
Sundry taxes	(1,119)	(405)
Interest on debt	1,680	247
Long term debt due within one year	(939)	(36)
Working capital increase (decrease)	$ (22,432)	$ 6,824

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

Accounting policies *December 31, 1975 and 1974*

PRINCIPLES OF CONSOLIDATION:

The consolidated statements include the accounts of the Company and the following wholly-owned subsidiaries: Westcoast Transmission Company (Alberta) Ltd., Westcoast Transmission Housing Ltd., Westcoast Transmission Company, Inc. and Vancal Properties Ltd. The consolidated statements also include the following partially-owned subsidiaries: Gas Trunk Line of British Columbia Ltd. (99.9% owned), Saratoga Processing Company Limited (25% owned, including 100% of the voting shares) and Pacific Northern Gas Ltd. (26.7% owned, including 100% of the voting shares).

The Company owns 2,017,550 (50.1%) of the common shares of Westcoast Petroleum Ltd. (December 31, 1974 — 1,616,875 (40.2%) of the common shares) and carries this investment at its equity in the underlying net assets and includes in income its share of that company's earnings. The Company also owns 600,000 (44.8%) of the voting preferred shares of Westcoast Petroleum Ltd. and recorded as investment income $900,000 of dividends received for each of the years ended December 31, 1975 and December 31, 1974. The investments, which represent 48.8% of the voting securities at December 31, 1975 (December 31, 1974 — 41.3%), have a market value at December 31, 1975 of $16,496,000 (December 31, 1974 — $9,684,000).

COST OF SERVICE:

Since November 1, 1973 the Company and its utility subsidiaries (Westcoast Transmission Company (Alberta) Ltd., Westcoast Transmission Housing Ltd. and Gas Trunk Line of British Columbia Ltd.) have operated under a cost of service arrangement with the British Columbia Petroleum Corporation. Under this arrangement the Company receives a return on its utility rate base and is reimbursed for costs incurred in the operation of the facilities required for gathering, processing and transmitting gas. Included in cost of service are operating, maintenance and administrative expenses, depreciation of facilities, and taxes including income taxes as they become payable. The difference between the operating revenue and the cost of service including the return on rate base is recorded as cost of gas. The rate of return for the year ended December 31, 1975 was 10% (for the year ended December 31, 1974 — 9½%).

As a result of operating on a cost of service basis, increases in the sales price of gas do not affect the net income of the Company. Although the National Energy Board directs from time to time that the sales price of gas exported to the United States be increased, the net income of the Company is not affected because the increase in the cost of gas, pursuant to the cost of service arrangement, is equal to the increase in the gas sales revenue of the Company.

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 employee compensation and dividends. The Company is allowed to pay dividends at an annual rate of $1.80 per common share but is not allowed to increase this rate unless authorized by the Anti-Inflation Board following its planned review in October 1976.

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. Accounts receivable due in United States funds have been translated to Canadian dollars at the average exchange rates prevailing during the months in which the sales were made. 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:

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

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION:

An allowance for funds used during construction is charged to plant, property and equipment. A rate of 10% was used for each of the years ended December 31, 1975 and December 31, 1974.

INCOME TAXES:

The companies 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. Under the terms of the Company's gas purchase contract with the British Columbia Petroleum Corporation, payments on account of income taxes are recoverable as a part of cost of service. If the tax allocation basis had been used to provide for income taxes, the provision for the year ended December 31, 1975 would have been $15,700,000 (for the year ended December 31, 1974 — $13,800,000) and the accumulated provision to December 31, 1975 would have been $77,400,000 (December 31, 1974 — $61,700,000).

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. As shareholders have the right to tender these shares to the Company for redemption at par value during 1979, the Company is amortizing the issue costs over the period ending December 31, 1979.

FOOTHILLS PIPE LINES LTD.:

The Company owns 20% of the outstanding shares of Foothills Pipe Lines Ltd., a company that has 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. The natural gas from the Beaufort Basin-Mackenzie Delta area would be transported to markets in southern Canada. The Company's ownership in Foothills is recorded as an investment and advances made to Foothills are recorded as deferred charges until such time as a decision is received from the National Energy Board regarding the construction of that pipeline.

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 Company and its subsidiaries 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 $633,784 during the year ended December 31, 1975 (during the year ended December 31, 1974 — $537,050).

EARNINGS PER SHARE:

Fully diluted earnings per 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 the year ended December 31, 1975 (for the year ended December 31, 1974 — 9½%).

1. PLANT, PROPERTY AND EQUIPMENT:

	1975	1974
	(in thousands)	
Gathering plant	$130,426	$112,671
Products extraction plant	94,871	90,952
Transmission plant	451,053	448,352
Distribution plant	5,833	4,957
Miscellaneous plant and equipment	22,430	20,621
	704,613	677,553
Construction in progress	32,139	22,401
	$736,752	$699,954

2. CAPITAL STOCK:

(a) During 1975 the Company issued:

(i) 1,947,385 common shares on conversion of 7½% Convertible Debentures, First Series at a conversion rate of $22.00 per share, increasing capital stock by $42,842,470.

(ii) 165 common shares on conversion of 5¾% Convertible First Mortgage Pipe Line Bonds, Series D and Series E at a conversion rate of $30.15 per share, increasing capital stock by $4,975.

(iii) 74,669 common shares on conversion of 5½% Subordinate Debentures, Series C at various conversion rates from $29.15 (U.S.) to $29.45 (U.S.) per share, increasing capital stock by $2,093,941.

(iv) 1,000 common shares on options exercised by an officer at an option price of $19.375 per share, increasing capital stock by $19,375.

(b) During 1974 the Company issued:

(i) 800,000 8½% Cumulative Redeemable Preferred Shares Series A with a par value of $50 each, increasing capital stock by $40,000,000. The preferred shares are redeemable at the option of the Company after December 31, 1979 at various prices from $54.25 to $50.50. Also, the shares may be tendered, at the option of the shareholder, to the Company for redemption at par value during specified periods in 1979 and 1984.

(ii) 1,200 common shares on conversion of 5½% Subordinate Debentures, Series C at a conversion rate of $29.15 (U.S.) per share, increasing capital stock by $34,008.

(iii) 96,223 common shares on conversion of 7½% Convertible Debentures, First Series at a conversion rate of $22.00 per share, increasing capital stock by $2,116,906.

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

(i) Included in the common shares reserved for outstanding options, as set out below, are 26,500 common shares optioned to directors and officers (December 31, 1974 — 29,000 common shares).

Expiry date	Option price per share	Number of shares at December 31, 1975	1974
July 26, 1980	$16.875	4,000	4,000
October 16, 1983	$15.50	15,000	15,000
July 29, 1984	$19.375	12,500	15,000

(ii) 2,875 common shares are reserved for options which have not yet been allocated (December 31, 1974 — 1,375 common shares).

(iii) 770,254 common shares are reserved for conversion of the 5½% Subordinate Debentures, Series C (December 31, 1974 — 852,936 common shares).

(iv) 1,244,603 common shares are reserved for conversion of the First Mortgage Pipe Line Bonds, 5¾% Convertible Series D and Series E (December 31, 1974 — 1,405,838 common shares).

(v) 262,320 common shares are reserved for conversion of the 7½% Convertible Debentures, First Series (December 31, 1974 — 2,246,186 common shares).

(vi) 1,800,000 common shares are reserved for issuance upon the exercising of Share Purchase Warrants outstanding (December 31, 1974 — 1,800,000 common shares). The warrants may be exercised at $26 per share to May 15, 1976 and thereafter at $29 per share until May 15, 1981.

3. 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 par value of the outstanding preferred shares until July 1, 1979 when the appropriation will amount to 100% of the outstanding shares.

4. 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 on common shares (other than stock dividends). Under the most restrictive provision, the amount available for dividends at December 31, 1975 is $40,000,000 (December 31, 1974 — $37,000,000).

5. LONG TERM DEBT:

	1975 United States Dollars	1975 Canadian Dollars	1974 Canadian Dollars
		(in thousands)	
Westcoast Transmission Company Limited			
First Mortgage Pipe Line Bonds			
4⅜% Series A, due 1977	$12,200	$ 11,810	$ 17,522
6% Series C, due 1980	1,270	1,366	1,645
5¾% Convertible Series D, due 1984 (a)		27,592	30,651
5¾% Convertible Series E, due 1984 (a)		10,580	11,735
7% Series F, due 1988	51,194	55,166	59,563
8% Series G, due 1991		90,000	90,000
Less purchased in advance of repayment requirements		(1,991)	—
Debentures			
7½% Convertible, First Series, due 1991 (b)		6,558	49,416
8½% Debentures, 1993 Series, due 1993		50,000	50,000
Subordinate Debentures			
5½% Series A, due 1988	17,220	17,141	17,753
Less purchased in advance of repayment requirements	(870)	(866)	(789)
5½% Series B, due 1988	2,604	2,495	2,584
Less purchased in advance of repayment requirements	(196)	(188)	(60)
5½% Series C, due 1988 (c)	22,684	21,805	23,900
Gas Trunk Line of British Columbia Ltd.			
First Mortgage Sinking Fund Bonds			
6% Series A, due 1979	1,848	1,883	2,369
Subordinate Debentures			
6% Series A, due 1981		1,680	1,755
Less purchased in advance of repayment requirements		(8)	(15)
Westcoast Transmission Housing Ltd.			
Housing Mortgages, 7% and 8¾%		581	592
Vancal Properties Ltd.			
7½% Secured Notes, due 1994	4,481	4,807	4,918
Saratoga Processing Company Limited			
First Mortgage Sinking Fund Bonds			
6¼% Series A, due 1979	1,450	1,490	1,901
Subordinated Debentures			
6% Series A, due 1981		824	900
Less purchased in advance of repayment requirements		(11)	(34)
8½% Promissory Note, due 1981		220	260
Pacific Northern Gas Ltd.			
First Mortgage Pipe Line Bonds			
7¾% Series A, due 1988	12,488	13,424	13,921
9¼% Series B, due 1991 (d)	2,775	2,798	2,798
Debentures			
11½% 1975 Series, due 1980		6,000	—
		325,156	383,285
Deduct long term debt due within one year		17,119	16,180
		$308,037	$367,105

Long term debt payments required in the five years ending December 31 are:
1976 — $17,119,000; 1977 — $21,141,000; 1978 — $16,232,000; 1979 — $19,253,000; 1980 — $26,659,000.

(a) Convertible into common shares at various rates from $30.67 to $31.20 per share until November 1, 1976.

(b) Convertible into common shares at $25 per share until December 31, 1980.

(c) Convertible into common shares at $29.45 (U.S.) per share to July 15, 1978.

(d) Includes detachable warrants to purchase 50,000 Class A common shares of Pacific Northern at $5 per share until maturity.

The Company has a revolving credit arrangement with a limit of $50,000,000 and will be charged interest at the bank's prime rate plus ½% on any amount borrowed. 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 403,600 preferred shares of Westcoast Petroleum Ltd. and by a first floating charge on its other assets and its undertakings.

6. REMUNERATION OF DIRECTORS AND OFFICERS OF THE COMPANY:

For the year ended December 31, 1975

(a) Seven directors in their capacity as directors were paid $38,100 (for the year ended December 31, 1974, seven directors were paid $37,950).

(b) Fourteen officers, including five past officers, in their capacity as officers were paid $520,345 (for the year ended December 31, 1974, ten officers, including three past officers, were paid $450,637).

(c) Four officers, including one past officer, served as directors (for the year ended December 31, 1974, four officers, including one past officer, served as directors).

(d) One director and four officers, including two past officers, in their capacity as directors of Pacific Northern Gas Ltd., were paid $5,100 (for the year ended December 31, 1974, one director and four officers, including one past officer, were paid $6,000). Three officers, including one past officer, in their capacity as directors of Saratoga Processing Company Limited, were paid $3,600 for each of the years ended December 31, 1975 and December 31, 1974.

7. SUBSEQUENT EVENT:

On February 11, 1976 the Company declared a dividend of 45¢ per common share, payable on March 31, 1976 to shareholders of record on February 27, 1976.

Auditors' report

TO THE SHAREHOLDERS OF WESTCOAST TRANSMISSION COMPANY LIMITED:

We have examined the consolidated balance sheet of Westcoast Transmission Company Limited and its subsidiaries as at December 31, 1975 and 1974 and the consolidated statements of operations, retained earnings, contributed surplus and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the period.

In accordance with the provisions of the Companies Act (British Columbia) we report that due provision has been made for minority interests in these financial statements.

Vancouver, Canada,
February 11, 1976.

CLARKSON, GORDON & CO.
Chartered Accountants.

Summary of operations

	1975	1974	1973	1972	1971
			(in thousands)		
Operating revenue	$416,677	$266,600	$168,764	$139,492	$101,575
Operating revenue deductions	362,764	216,626	121,671	96,682	74,910
Operating income	53,913	49,974	47,093	42,810	26,665
Other income and income deductions					
Investment and other income	4,504	5,027	4,798	3,622	3,981
Allowance for funds used during construction	2,106	933	948	2,201	4,649
Income deductions	(581)	(428)	(245)	(322)	(1,104)
	6,029	5,532	5,501	5,501	7,526
Income before financial charges, minority interest and special items	59,942	55,506	52,594	48,311	34,191
Financial charges					
Interest on long term debt	24,633	27,202	27,601	25,575	24,566
Debt discount, premium and expense	1,301	478	461	614	394
	25,934	27,680	28,062	26,189	24,960
Income before minority interest and special items	34,008	27,826	24,532	22,122	9,231
Minority interest	989	1,095	531	808	815
Income before special items	33,019	26,731	24,001	21,314	8,416
Loss on sale of subsidiary	—	—	—	—	(78)
Loss on investment	—	—	—	(470)	—
Gain on amalgamation of affiliated companies	—	—	—	—	892
Net income	33,019	26,731	24,001	20,844	9,230
Provision for dividends on preferred shares	3,400	1,559	—	—	—
Net income applicable to common shares	$ 29,619	$ 25,172	$ 24,001	$ 20,844	$ 9,230
Outstanding common shares (weighted average)	9,984	8,673	8,572	8,459	6,731
Earnings per common share	$ 2.97	$ 2.90	$ 2.80	$ 2.46	$ 1.37

MANAGEMENT'S DISCUSSION OF THE SUMMARY OF OPERATIONS

Year Ended December 31, 1975

Substantial increases in operating revenue and operating revenue deductions over 1974 resulted from increases in prices charged for gas exported to the United States. The net income of the Company, however, was not affected as the Company's income from utility operations is based on the cost of service agreement with the Petroleum Corporation.

Operating income increased because of additional plant in service and because of the increase in the return on rate base. Effective January 1, 1975, the return on rate base was increased from 9½% to 10%.

Investment and other income is derived from interest income on short term investments and deposits with trustees together with the Company's share of equity in earnings of a less than majority owned affiliate. The fluctuations in this income from year to year primarily results from the amount of cash available for temporary investments.

Allowance for funds used during construction increased relative to 1974 because of the increase in construction activity.

During the year, significant amounts of some of the Company's convertible bonds and debentures were converted into common shares. As a result of these conversions, outstanding common shares have increased, the unamortized debt discount, premium and expense related to the debt converted has been written off against income, and interest on long term debt has therefore decreased.

In July 1974, the Company issued preferred shares and accordingly the 1975 provision for dividends on preferred shares is greater than in 1974.

Year Ended December 31, 1974

Substantial increases in operating revenue and operating revenue deductions over 1973 resulted from increases in prices charged to both domestic and export customers.

Year Ended December 31, 1973

The increase in operating revenue over 1972 resulted primarily from additional export sales, higher domestic volumes and higher sales prices in the latter part of the year. The increase in net income over 1972 resulted primarily from the increased sales volumes.

Year Ended December 31, 1972

The increase in operating revenue and net income over the previous year was attributable to additional volumes sold under a new export sales contract, as well as an increase in the sales price of all export volumes. Increases in outstanding shares resulted from a rights issue of 1,400,000 shares in January 1972 and from conversions of some of the Company's convertible bonds and debentures.

Annual review

GAS SUPPLY

The Company continued to experience a shortage in its gas supply during 1975. The inability of the Company to meet the demands of its customers first arose in the fall of 1973 when one of its principal producer suppliers reduced deliveries from the Beaver River and Pointed Mountain fields by more than 200 million cubic feet per day because of water intrusion into the producing wells. This curtailment of deliveries from these fields continued through 1975 with little possibility of improvement in the future.

Further, a reduction in available supply has occurred as the result of normal decline in deliverability from some of the older fields in the Company's supply area. Deliveries into the system in 1975 totalled 366 billion cubic feet, compared with 377 billion cubic feet in 1974.

While some additional gas has been tied into the Company's pipeline through the extension of its gathering system and short term supply arrangements have been made with Alberta and Southern Gas Co. Ltd. and Pan-Alberta Gas Ltd., the volume of gas available to the Company continues to be less than that required to meet the demands of its customers.

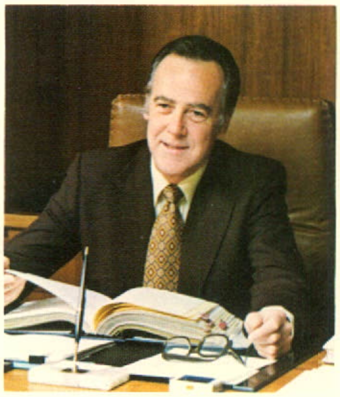
The Company requires approximately 90 million cubic feet per day of new gas to be tied into its system this year to offset normal decline. Since 1972, exploration activity in the province has been dropping with the result that the new sources of supply, that might otherwise have become available, have not been developed. In 1975 there was a further reduction in British Columbia drilling activity. A total of 76 wells were drilled in the year compared with the 143 wells in 1974. Included in the 1975 total were 29 gas wells, 1 oil well and 46 abandoned.

In the late fall of 1975 the British Columbia Petroleum Corporation announced higher field prices for gas, coupled with a plan to indemnify the producers from increased federal income taxes. As a result, exploration activity this winter drilling season is at its highest level in several years.

The volumes of new gas which will be available as a result of the increased exploration cannot be determined at this time. However, if the producers have reasonable success in their exploratory programs, significant additional supplies could be attached to the Company's system in future years.

For the substantial volumes required in the future to meet the current supply shortage and the growing requirements of the Company's Canadian customers, the Beaufort Basin-Mackenzie Delta area offers the most likely prospect for a new supply of gas. Large reserves of gas have been discovered there, some of which will be made available to the Company's customers when the necessary pipeline facilities are constructed.

John Anderson
Senior Vice President



Operating Committee (from left): W. R. Hough; C. D. Williams (Secretary); K. S. P. Charman; L. J. Smith (Chairman); J. A. Kavanagh; R. Littledale; A. J. Green.

Two competitive applications to bring this gas to southern Canada are presently before the National Energy Board for authorization, one proposed by Foothills Pipe Lines Ltd. and the other by Canadian Arctic Gas Pipeline Limited. The Foothills plan is sponsored by Alberta Gas Trunk Line and Westcoast. This plan, familiarly known as the Maple Leaf Project, proposes the construction of 817 miles of 42-inch transmission line from the Beaufort Basin-Mackenzie Delta area to a point near the intersection of the 60th parallel with the common boundary of Alberta and British Columbia. At this point it would connect with a 141-mile extension of Westcoast's existing system and with the pipeline of Alberta Gas Trunk Line (Canada) Ltd., a new federal company, which extends across the 60th parallel to connect into the existing Alberta Gas Trunk Line system. The volume of gas transported by this system would reach 800 million cubic feet per day by 1980, the first full year of operation, rising to 2,400 million cubic feet per day in 1983.

The rival plan being proposed by Arctic Gas is much larger in scale. It proposes to transport U.S.A. gas from the Prudhoe Bay area of Alaska to the lower 48 states comingled with Canadian gas from the Beaufort Basin-Mackenzie Delta area which would be delivered to markets in Canada. This plan is presently estimated to cost in the order of $7 to $8 billion for that part of the facilities required in Canada, at least double the estimate for the Maple Leaf Project.

The Maple Leaf Project will supply Canadian gas to Canadian markets through Canadian facilities controlled entirely by Canadian corporations and under the jurisdiction of Canadian regulatory authorities. The Arctic Gas project on the other hand gives priority attention to the trans-shipment of Alaska gas to the lower 48 states with only debatable net benefit to Canada.

The Mackenzie Valley Pipeline Hearing commenced before the National Energy Board on October 27, 1975 and is estimated to continue for at least a year. All aspects of the respective plans — the reserves, deliverability, engineering, environmental impact and economic factors — will be thoroughly reviewed.

The Company has filed a companion application with the National Energy Board seeking authorization to construct 141 miles of pipeline to link its present pipeline system with the Foothills line, or the Arctic Gas line, whichever is the successful applicant, together with 175 miles of loops to its present mainline.

The Company does not have contracts to purchase gas produced from these reserves, but it is anticipated that in the public interest of Canada, sufficient gas to meet the growing requirements of Canadian customers will be made available to the Company by governmental order if necessary.

GAS SALES

A total of 353 billion cubic feet of natural gas was delivered to the Company's customers during 1975, 2.5 percent less than the previous year. On a daily basis, deliveries averaged 968 million cubic feet compared with 992 million cubic feet in 1974. This reduction is a direct result of the curtailment in deliveries from the Beaver River and Pointed Mountain fields and the decline in the deliverability experienced in other areas.

It has been and is the continuing policy of the Company that its contractual obligation to its Canadian customers under their current contracts must be fully met. If there is a deficiency in supply, the whole of that deficiency will be borne by the export customer. As a result, export deliveries to Northwest Pipeline Corporation in 1975 of 212 billion cubic feet were 23 percent less than the volume requested.

It is also the Company's policy not to provide additional gas to its present Canadian customers in excess of the volumes presently contracted nor to accept contracts with new customers, until the export-contract deficiency has been overcome.

Deliveries to British Columbia Hydro and Power Authority, the Company's largest Canadian customer, were 95 Bcf, up 27 percent over 1974 due principally to the large volumes of gas burned by Hydro in its Burrard thermal generating plant during the summer and fall of 1975. There was also an increase in their sales to both their firm and interruptible customers.

Deliveries to Inland Natural Gas Company Limited were 33.7 Bcf, approximately the same as those of 1974. Deliveries to the Company's other major Canadian customer, Pacific Northern Gas Ltd., were 11 Bcf, down 17 percent from 13.3 Bcf in 1974 as a result of a prolonged strike in the pulp and paper industry in the summer of 1975.

In 1975 the price for Canadian gas exported to the U.S.A. was increased from $1.00 to $1.40 per thousand cubic feet effective August 1; and to $1.60 per thousand cubic feet, effective November 1.

CONSTRUCTION

During the year major construction projects totalling some $20,000,000 were completed along the Company's pipeline system. These include projects increasing the gathering capacity in both the Fort Nelson and Fort St. John supply areas and the addition of a 4,000 horsepower compressor station at Boundary Lake and a submerged mainline crossing of the Fraser River.

The Boundary Lake compressor station will permit the delivery of an additional 58 million cubic feet per day of natural gas from Alberta. This volume is purchased from Pan-Alberta Gas Ltd. for export to Northwest Pipeline Corporation under a short term contract to alleviate, in part, the gas shortage being suffered by that company.

The underwater crossing supplementing the original overhead crossing of the Fraser River will provide an important safety factor for continuity of service to the lower mainland.

At year end, work was proceeding on the sulphur recovery plant adjacent to the Fort Nelson gas processing plant. This pollution control project, costing some $17,000,000, will be capable of producing approximately 400 long tons of sulphur per day. The sulphur will be stored in non-perishable solid form until market prices justify its transportation to market.

J. E. Johnson
Vice President, Operations

The ongoing construction program includes approximately 37 miles of pipeline in the Cecil Lake, Oak, Cache Creek and North Rigel areas of the province. These extensions to the Fort St. John gathering system, at an estimated cost of $7,000,000, increase the gathering capacity by approximately 75 million cubic feet per day. Additionally, the National Energy Board has authorized 47.6 miles of gathering pipeline to the Helmet area of northeast British Columbia. This $11,000,000 pipeline system will be operational early in 1976 with a capacity of 95 million cubic feet per day.

COST-OF-SERVICE CONTRACT

Under agreements with the British Columbia Petroleum Corporation, a provincial Crown agency, all of the natural gas produced in B.C. is sold by the producers to that body. The Corporation, in turn, sells the gas to Westcoast. This gas is re-sold by the Company to distributors in British Columbia and to the Northwest Pipeline Corporation in the United States at prices determined or approved by the National Energy Board, an agency of the federal government.

From the resultant sales revenue, the Company retains the cost incurred in purchasing gas from sources other than the Petroleum Corporation, together with the costs of gathering, processing, transmitting and selling all gas moved through its system. These costs, referred to as "cost-of-service", include operating, maintenance and administrative expenses, depreciation of facilities, taxes including income taxes, and an amount equal to 10 percent return on rate base. The balance is remitted to the Petroleum Corporation in payment for the gas purchased.

Because operating income is generated by a return on rate base, the net income of the Company is not affected by fluctuations in the price or volume of gas delivered through its pipeline system. Any expansion of the Company's facilities will increase the rate base and the consequent dollar return. The percentage rate of return is subject to renegotiation from time to time as conditions warrant.

FINANCIAL

Revenues received during 1975 from the sale of gas and associated products was $416,677,000, an increase of 56.3 percent from the 1974 total of $266,600,000. The rise was the result of substantial price increases for gas exported to the United States implemented late in 1974 and on two occasions in 1975.

Operating income in 1975 was $53,913,000, an increase of 7.9 percent over 1974. This was largely due to an increase in the rate of return to 10 percent from 9½ percent effective January 1, 1975 as a result of negotiation with the British Columbia Petroleum Corporation. Income from non-utility operations not affected by the cost-of-service contract decreased by $523,000 to $4,504,000. The decline in non-utility income was largely the result of lower returns realized on short term investments.

Allowance for interest on funds used during construction increased to $2,106,000 from the 1974 amount of $933,000. Income deductions which consist mainly of interest charges were down $1,593,000 to $26,515,000 as a result of a substantial amount of convertible debentures being converted to common shares.

Net income increased 23.5 percent to $33,019,000 in 1975 from the $26,731,000 earned in 1974. Net income applicable to common shares, after provision for preferred share dividends of $3,400,000 increased to $29,619,000 or $2.97 per share from the 1974 level of $25,172,000 or $2.90 per share. The weighted average number of common shares outstanding during 1975 was 9,983,720 compared to 8,673,100 in 1974.

SUBSIDIARY COMPANIES

The Company holds 2,017,550 common shares and 600,000 preferred shares of Westcoast Petroleum Ltd., representing 50.1 percent and 44.8 percent, respectively, of the outstanding shares. This company is engaged in the exploration for, and production of crude oil and natural gas. It also owns and operates a 505-mile, 12½-inch oil pipeline in northeast British Columbia. It has interests in 11,251,000 gross acres (3,819,000 net acres) of prospective oil and gas lands in western Canada, the Northwest Territories, the arctic islands and east coast offshore.

Westcoast Petroleum's program during 1975 resulted in the completion of 28 oil and gas wells. Throughput of the oil pipeline averaged 34,800 barrels per day of crude oil and other liquids, down from 47,000 barrels per day the previous year. The reduction was in part due to normal decline in production in certain British Columbia oil fields.

Net income to common shareholders, after provision for preferred dividends amounted to $1,845,000 or 46 cents per common share in 1975, an increase of 69 percent compared to $1,094,000 or 27 cents per common share in 1974.

Pacific Northern Gas Ltd., is a gas transmission and distribution company in west-central British Columbia. The Company owns 26.7 percent of the common shares of Pacific Northern, including all of the voting shares. The sales volume was 10.65 billion cubic feet during 1975 compared to 12.88 billion cubic feet in 1974. Total sales revenue was $10,070,000 compared to $10,477,000 the previous year. Net earnings applicable to common shares, after provision for preferred dividends of $337,500 in each year were $572,000 in 1975, a decrease of 26 percent from 1974. The reduction in sales volumes, revenue and earnings was due to a 92-day strike in the forest industry.

Saratoga Processing Company Limited owns and operates a gas gathering and processing system and a sulphur extraction plant in southwest Alberta. The Company owns 25% of Saratoga Processing's common shares, including all of the voting shares. Net income for the year was $319,000 compared to $254,000 in 1974.

GOVERNMENT INQUIRIES

During the year Westcoast participated in two major government inquiries related to the supply of natural gas; one conducted by the National Energy Board and the other by the British Columbia Energy Commission. Westcoast did not participate in the third major inquiry being conducted by Mr. Justice Thomas Berger.

The federal inquiry concerned the expected availability and demand for natural gas in Canada through 1995. The Board in its report published in April 1975, found that deliverability from conventional reserves (a term which excludes frontier reserves in the Beaufort Basin-Mackenzie Delta and high Arctic) was not adequate to fulfill total Canadian future requirements and current export obligations. To overcome this shortage, the Board recommended that (a) the domestic prices of natural gas be progressively increased to the commodity value equivalent of crude oil at Toronto; (b) a program of conservation be undertaken by federal and provincial governments; (c) legislation be enacted to provide for powers of allocation of available supplies of gas; (d) existing export licences be made conditional upon approved Canadian requirements being met on an annual and daily basis; and (e) a committee or council with representatives from all sectors of the gas industry and provincial and federal governments be formed to advise upon means to reduce the impact of the impending gas shortage and to study means of best using the surge of natural gas expected from frontier reserves.

The British Columbia Energy Commission inquiry was called to inquire into the present level of exploration and production in the natural gas industry within British Columbia.

The Commission published its interim report in August and its final report late in December. It stated that current natural gas production was below the level considered to be in the best interests of the province and that such levels would further decline without the acceleration of activity in the industry. It recommended that higher prices be paid for both old and new gas production and that a portion of the increased price on old gas should be predicated upon the producers spending exploration dollars within British Columbia.

The new pricing system which went into effect November 1, 1975, provides for an additional 15 cents per Mcf for old gas and an additional 20 cents per Mcf for new gas, bringing the wellhead prices to 35 cents and 55 cents per Mcf respectively, both free of royalty. The 15-cent increase on old gas will be issued as a transferable credit redeemable for each 20 cents per Mcf the producer spends in exploration and development in the province.

As a result of the new prices being offered beginning November 1, 1975, there was a substantial increase in activity in the province during the 1975/76 drilling season. The incentives granted to the producers will undoubtedly assist the Company in reducing its continued supply deficiency. However, the full benefit will not be felt for a few years because of the industry's loss of momentum and the time lag between the discovery of new gas reserves and the connection of the wells to the Company's system.

The federal government, through the commission headed by Mr. Justice Thomas Berger of the Supreme Court of British Columbia, is conducting an exhaustive inquiry into the social, environmental and economic impact of petroleum and natural gas pipeline projects on northern Canada and its native peoples. The Company is not participating in this inquiry because its planned extension penetrates only a very short distance into the Territories and would have little impact on the environment.

EMPLOYEES

At the end of 1975, the Company had 514 employees, 74 of whom have served continuously since the operations of the Company commenced. Of the 514 employees 125 reside in Fort Nelson, 111 in Fort St. John (the northern district operating headquarters), 16 in Prince George (the southern district operating headquarters) and 157 in Vancouver (the Company's head office). The remaining 105 employees reside in numerous locations along the Company's pipeline system and in Calgary, Alberta (the Company's gas supply headquarters). The employees receive a full range of benefits including a savings plan and a non-contributory pension plan.

Corporate information

REGISTRARS

Common Shares

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

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:

FIRST NATIONAL CITY BANK — New York, N.Y.

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

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.

TRANSFER AGENTS

Common Shares, Bonds, Subordinate Debentures

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

FIRST NATIONAL CITY BANK — New York, N.Y.

(Series E Bonds are transferable at the Montreal Trust Company branch in Winnipeg, Man., and 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

AUDITORS

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

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 1974	21¼	25¼	21	25
April-June 1974	19½	23¼	18½	22⅞
July-September 1974	15¼	19⅝	15	19⅝
October-December 1974	15	19	14½	19¼
January-March 1975	18⅜	23	18½	23¼
April-June 1975	21⅛	22⅝	21⅜	23
July-September 1975	19	22⅝	20	22½
October-December 1975	21	22½	21¼	23

DIVIDENDS PAID Common Shares

January-March 1974	—
April-June 1974	$0.60
July-September 1974	—
October-December 1974	$0.70
	$1.30
January-March 1975	$0.45
April-June 1975	$0.45
July-September 1975	$0.45
October-December 1975	$0.45
	$1.80

Ten year review

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

FINANCIAL	**1975**
Operations:	
Operating revenue	$ 416,677
Operating income	53,913
Financial charges	25,934
Provision for dividends on preferred shares	3,400
Net income applicable to common shares	29,619
Cash flow	55,060
Per Common Share:	
Net income—weighted average	2.97
—fully diluted	2.71
Dividends	1.80
Dividend payout ratio	61%
Cash flow	5.51
Assets:	
Plant, property and equipment	736,752
Accumulated depreciation	167,632
Net plant, property and equipment	569,120
Net additions to plant	36,798
Total assets	675,189
Rate Base and Return:*	
Average utility rate base	499,092
Average return on rate base	10.0%
Capitalization:	
Long term debt	308,037
Preferred shareholders' equity	40,000
Common shareholders' equity	247,670
—per common share	23.15
Return on average common shareholders' equity	13.5%
Capitalization Ratios:	
Long term debt	51.7%
Preferred shareholders' equity	6.7%
Common shareholders' equity	41.6%
STATISTICAL	
Total Gas Sales—	
Millions of cubic feet	353,200
Average daily sales—	
Thousands of cubic feet	967,671
Peak day sales—	
Thousands of cubic feet	1,174,312
System sales capacity—	
Thousands of cubic feet per day	1,306,000
Miles of transmission lines	1,376
Miles of gathering lines	867
Compressor horsepower	447,220
Shares outstanding—year end	10,696,619
Number of common shareholders	9,768
Number of employees	514

	Years Ended December 31			Nine Months Ended December 31	Years Ended March 31			
1974	**1973**	**1972**	**1971**	**1970**	**1970**	**1969**	**1968**	**1967**
$ 266,600	$ 168,764	$ 139,492	$ 101,575	$ 69,684	$ 92,837	$ 84,675	$ 77,736	$ 67,939
49,974	47,093	42,810	26,665	16,254	22,415	19,666	19,738	16,714
27,680	28,062	26,189	24,960	14,597	18,854	16,115	10,533	11,110
1,559	—	—	—	—	—	—	—	—
25,172	24,001	20,844	9,230	3,103	5,319	2,409	8,812	6,033
47,161	42,082	37,931	21,836	12,779	16,845	16,033	18,420	14,692
2.90	2.80	2.46	1.37	.46	.79	.36	1.32	.91
2.48	2.41	2.28	1.37	.46	.79	.36	1.32	.91
1.30	.75	.60	.50	.50	.50	.25	.25	.25
45%	27%	24%	36%	109%	63%	69%	19%	27%
5.44	4.91	4.48	3.23	1.91	2.51	2.40	2.76	2.20
699,954	653,223	618,071	564,769	461,394	429,486	414,334	388,540	345,105
149,212	131,826	115,262	100,175	89,839	81,238	70,681	67,064	58,305
550,742	521,397	502,809	464,594	371,555	348,248	343,653	321,476	286,800
46,731	35,152	53,302	103,375	31,908	15,152	25,794	43,435	41,421
664,999	614,217	571,584	533,836	437,154	410,079	408,041	352,766	317,920
493,404	—	—	—	—	—	—	—	—
9.5%	—	—	—	—	—	—	—	—
367,105	386,960	371,098	378,712	305,518	257,580	262,268	174,702	182,028
40,000	—	—	—	—	—	—	—	—
190,668	174,332	156,508	96,459	89,396	89,700	87,604	86,819	79,364
21.98	20.33	18.28	14.27	13.34	13.39	13.08	12.97	11.91
13.8%	14.5%	16.5%	9.9%	3.5%	5.9%	2.7%	10.6%	7.8%
61.4%	68.9%	70.3%	79.7%	77.4%	74.2%	74.9%	66.8%	69.6%
6.7%	—	—	—	—	—	—	—	—
31.9%	31.1%	29.7%	20.3%	22.6%	25.8%	25.1%	33.2%	30.4%
362,257	412,156	368,679	287,659	197,384	258,887	248,095	217,300	191,040
992,484	1,129,194	1,007,319	788,106	717,759	709,279	679,709	593,714	523,397
1,188,996	1,284,742	1,251,035	1,122,791	886,679	866,935	854,074	719,348	685,236
1,306,000	1,306,000	1,231,000	1,102,000	864,000	864,000	864,000	864,000	698,000
1,374	1,374	1,290	1,202	966	966	966	966	908
794	715	713	679	568	568	564	532	527
441,220	382,220	381,220	343,720	287,820	287,820	283,220	283,220	172,820
8,673,400	8,575,977	8,562,943	6,760,341	6,703,817	6,699,817	6,695,264	6,691,694	6,665,084
9,525	10,225	10,630	10,450	10,585	10,183	10,765	11,560	11,822
519	515	502	494	518	526	514	471	402

*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.

Westcoast Transmission Company Limited
1333 West Georgia Street, Vancouver, B.C., Canada V6E 3K9