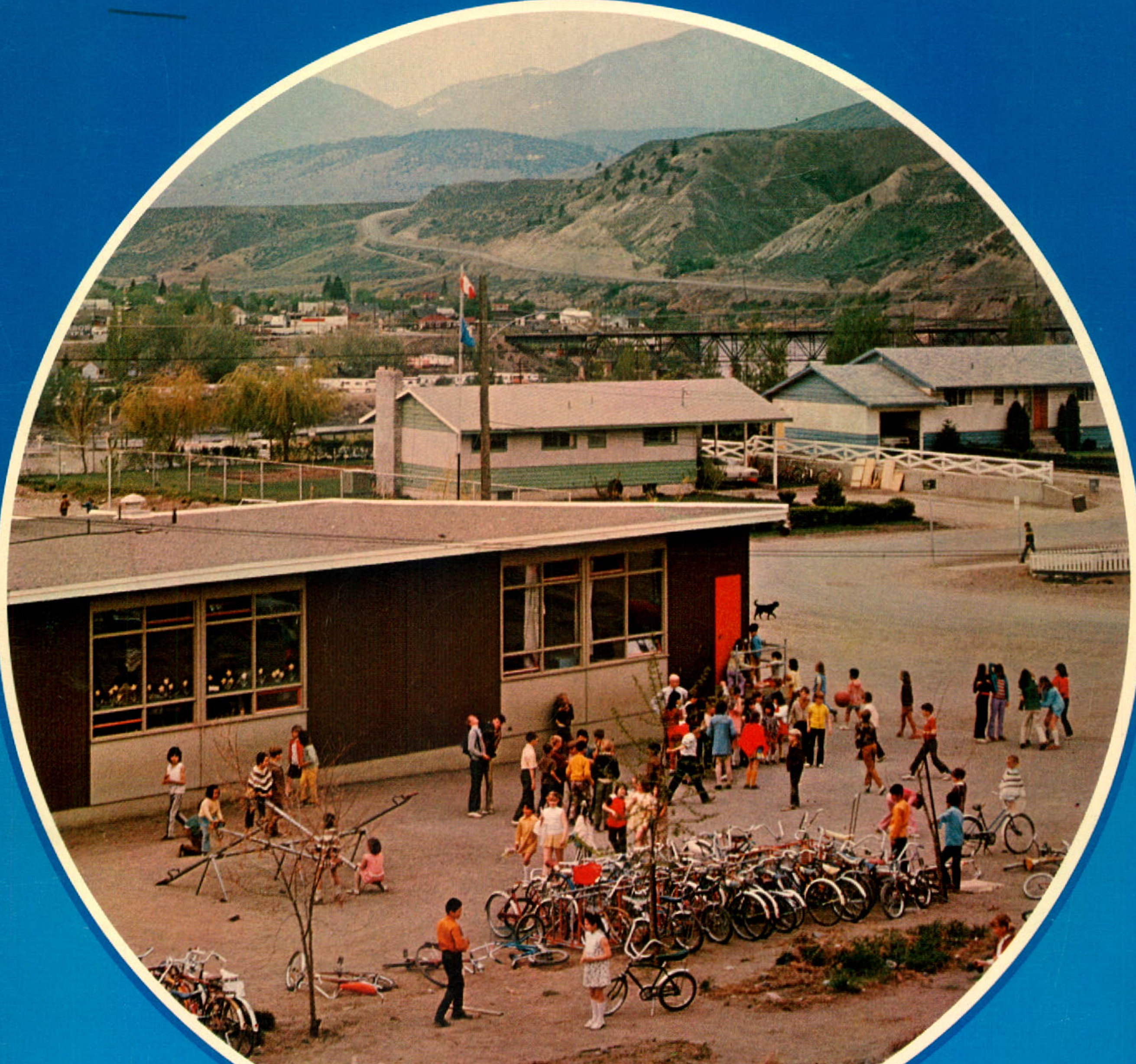
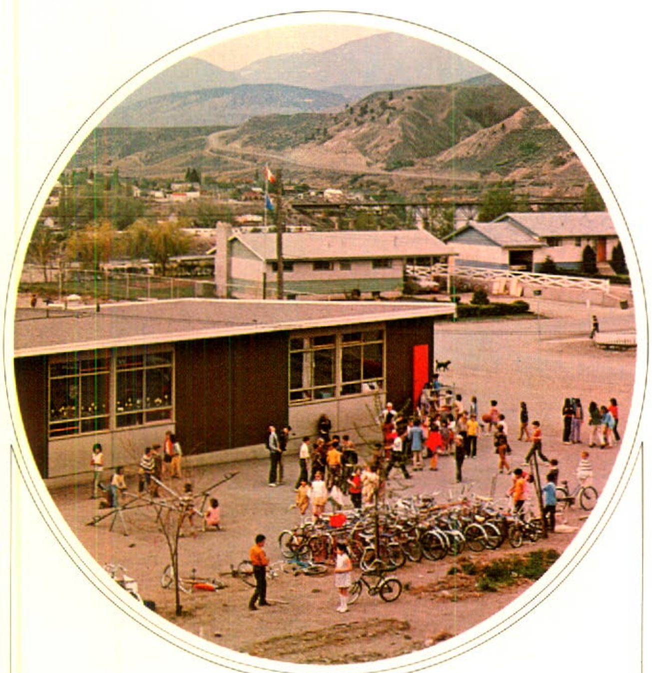
Annual Report 1973
Westcoast Transmission Company Limited



ANNUAL MEETING

The Annual Meeting of the Shareholders of Westcoast Transmission Company Limited will be held in the Vancouver Island Room, Hotel Vancouver, in the City of Vancouver, British Columbia, on Tuesday, April 23, 1974, at ten a.m.



Pipeline for People

Not only do Westcoast's operations provide jobs for many people, they also provide many school districts and communities with revenue from property and business taxes. In many cases, particularly where Company compressor stations or processing plants are located, Westcoast contributions are the major source of tax income for the small municipalities.

CONTENTS

Results in Brief

FINANCIAL	Year Ended December 31 1973	Year Ended December 31 1972
Total Revenues	$168,814,000	$139,748,000
Net Income	24,001,000	20,844,000
— per share	2.80	2.46
Cash Flow	42,082,000	37,931,000
— per share	4.91	4.48
Total Assets	614,217,000	571,584,000
Shareholders' Equity	174,332,000	156,508,000
— per share	20.34	18.50
Shares Outstanding — weighted average	8,571,769	8,459,402

OPERATING		
Total Gas Sales, Mcf	412,156,000	368,679,000
Daily Average Sales, Mcf	1,129,000	1,007,000
Maximum Day Sales, Mcf	1,285,000	1,251,000

The figures in this report include the operating results of the Company's Kingsgate system, under which Westcoast exports certain volumes of gas from southern Alberta to the United States. The Company has no investment in the Kingsgate system which operates on a cost basis with revenues exactly offset by gas purchase and operating costs. The Company makes no direct profit from this operation but does share in the profits accruing to Saratoga Processing Company Limited, which processes a small amount of the gas carried by this pipeline.

To the Shareholders

In 1973 the Company recorded another year of improved performance as revenue and net income reached new high levels.

Net income per share was $2.80, compared with $2.46 in 1972. Total revenues were $168,814,000 compared with $139,748,000 last year. The foregoing figures reflect changes in accounting policies, details of which are outlined elsewhere in this report.

A record volume of 412 billion cubic feet of natural gas was transported through the Company's system during the year, 12 percent more than the previous high in 1972. A new peak day sale of 1.285 billion cubic feet was established in February, 1973.

B.C. ENERGY COMMISSION HEARINGS

During the year the Company's role in the natural gas industry of British Columbia underwent a significant change.

The government of British Columbia made a number of dramatic moves of substantial impact on the natural gas industry. The British Columbia Energy Commission was established early in 1973 by the B.C. Legislature. The Commission immediately held a public hearing for the purpose of investigating the natural gas industry of the province. The hearing lasted for seven weeks and received evidence from 34 intervenors. The main point of interest during the hearing was the prominent influence of Westcoast Transmission in all sectors of the natural gas industry.

The findings of the Commission, as a result of the exhaustive hearing, were that the price of gas to the distributors should immediately be increased to its competitive energy value, that a Crown Agency should be established with the objective that the province would have more control over the purchase and resale of this valuable natural resource, and that the province would benefit from an accelerated exploration and development program in gas-prone areas.

The government responded to these recommendations by establishing the British Columbia Petroleum Corporation. It was granted virtually unlimited powers to function in all sectors of the oil and natural gas industry in the province. The Petroleum Corporation promptly opened negotiations with Westcoast Transmission for the purpose of determining a way to participate in the natural gas industry to an extent that would meet the objectives of the government and be acceptable to Westcoast.

BRITISH COLUMBIA PETROLEUM CORPORATION AGREEMENT

In November of 1973, the Company entered into an Agreement with the Petroleum Corporation. Under the Agreement, the Company assigned to the Petroleum Corporation all of its gas purchase contracts with its producers effective as of November 1, 1973. The Petroleum Corporation from such date purchases the gas from the producers and resells it to the Company. The Company continues its functions of gathering, processing, transporting and selling the natural gas. The Agreement provides that the price to be paid by the Company to the Petroleum Corporation for the gas purchased shall be an amount equal to the gross revenue received by the Company upon the resale of the gas to its Canadian customers and its export customer, after retaining out of such revenues the Company's total cost of service incurred by it in the functions it continues to perform. The Agreement further provides that included in the cost of service will be an amount equal to a 9.5 percent return on the Company's rate base.

The Agreement, therefore, provides the Company with an assured return on its investment at a level commensurate with the rate of return received by other similar pipeline operations in Canada.

As a result of the Agreement entered into with the Petroleum Corporation, it was not necessary for the Company to proceed with the application it had filed with the National Energy Board of Canada requesting a 9.5 percent return on its rate base and the application has been withdrawn. The revenue which is now assured will permit the Company to diversify into other profitable ventures in the energy field. A corporate development department headed by a Vice President, has been established, the function of which will be to investigate and recommend other investment opportunities.

EFFECT OF PETROLEUM CORPORATION AGREEMENT

The contract with the Petroleum Corporation fully preserves the interest of the Company's suppliers, distributing customers, shareholders and employees. As a matter of considerable importance, Westcoast Transmission remains as a company conducting both interprovincial and international business, under the jurisdiction of the National Energy Board of the federal government.

Further, it is not restricted in any way as to its future growth and from undertaking additional non-utility or non-regulated activities.

GAS PURCHASE CONTRACT ARBITRATIONS

One of the provisions contained in gas purchase contracts requires the Company and the producer to negotiate new prices to be paid for gas at certain intervals. If the Company and the producer are unable to agree as to the price to be paid, then either party may refer the matter to binding arbitration. During the year, three such arbitrations were conducted or became effective. Two awards related to gas produced from a field in the province of British Columbia and the other to gas produced from a field in the province of Alberta. The decision of the Arbitration Board in the first of the arbitrations resulted in an increase in price to the producer of three cents per Mcf, which was followed by an eight-cent per Mcf increase in the same field awarded to another producer by the second arbitration. The remaining arbitration was held in the province of Alberta and the Arbitration Board awarded the producer an increase of twenty cents per Mcf. The Company has commenced an action in the courts of Alberta to have the latter arbitration award set aside on a number of legal grounds.

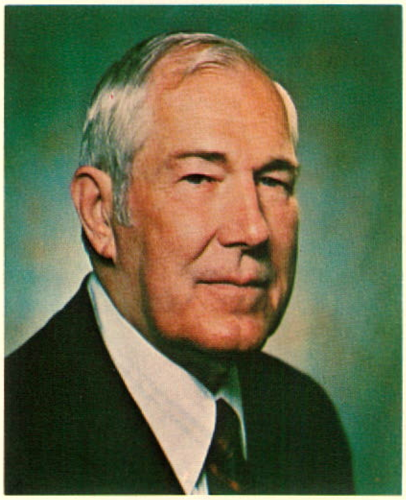
As a result of the Agreement entered into with the Petroleum Corporation, the increased prices to be paid for gas resulting from these arbitrations will be borne by the Petroleum Corporation as purchaser of the gas at the wellhead.

PETROLEUM CORPORATION OFFER TO PRODUCERS

For its part, the Petroleum Corporation has publicly indicated its determination to provide incentives for massive natural gas exploration in Westcoast supply areas of British Columbia, Alberta, the Yukon and The Northwest Territories. This will be done by substantially increasing the price paid to the producers for natural gas at the well-head, recognizing the competitive attraction for gas exploration dollars elsewhere on this continent, off-shore and abroad. The Petroleum Corporation's offer to the producers increased the wellhead price an average of 82 percent, amounting to additional wellhead payments of $41,000,000 net of royalty on an annual basis. The offer also included guaranteed escalation of field prices annually for six years.

PURCHASE OF COMPANY'S SHARES BY PROVINCIAL GOVERNMENT

On January 17, 1974, the government of the province of British Columbia purchased 1,157,125 shares of Westcoast stock, representing 13.5 percent of the total outstanding. This block of shares, previously owned by El Paso Natural Gas Company, became available as the result of the U.S. District Court order for the divestiture by El Paso of its pipeline operation in the Pacific northwest of the United States. As



KELLY H. GIBSON
Chairman and Chief Executive Officer

EDWIN C. PHILLIPS
President

one of the provisions of that order, El Paso was required to sell all of its Westcoast shares in a manner acceptable to the Court.

Although Westcoast was not involved in any way in this transaction, it is viewed simply as the replacement of the largest customer shareholder by the largest supplier shareholder.

The Company considers this event, together with the new B.C. Petroleum Corporation Agreement, will have a beneficial effect on the affairs of the Company and on the natural gas industry of British Columbia.

AVAILABILITY OF NATURAL GAS

In the fall of 1973, Amoco Canada Petroleum Company Ltd. notified the Company that gas deliveries from their Beaver River-Pointed Mountain gas fields would be reduced because of a sudden unexpected increase in water production from the gas wells in these fields. Consequently, the residue gas deliverability was reduced from 332 million cubic feet per day to 130 million cubic feet per day in order to prevent possible permanent reservoir damage.

The unforeseen curtailment of 202 million cubic feet per day in the Company's gas supply from the largest single supplier in the area resulted in a shortage of gas available for sales during the winter heating season of 1973-74. Some additional supplies were obtained from other fields, but the net gas sales shortage of approximately 130 million cubic feet per day was allocated to the export customer at the Sumas delivery point. Canadian customers were advised that deliveries would be maintained at a level sufficient to meet their sales requirements up to their nominated contract demands.

Amoco Canada advise that geological and production studies are underway to develop new long term production techniques. In addition, remedial work is being conducted on existing wells and additional infill drilling is proceeding to increase field deliverability. Results of this work and the new drilling will not be known for at least a year and, consequently, there is no assurance at this time that such measures will result in the restoration of full deliverability. The information available indicates no reduction in reserves in the Beaver River-Pointed Mountain gas fields.

The Company has accelerated plans to connect additional sources of gas to alleviate the gas shortage. Gas supply contracts have been negotiated with producers in the Petitot River-Cabin-Louise gas field areas, northeast of the Fort Nelson gas plant, and approval has been received from the National Energy Board to construct gathering pipeline facilities during the winter of 1973-74 to connect this gas.

These facilities will be completed before the spring thaw in 1974 and it is estimated that an additional 107 million cubic feet per day of gas from the Fort Nelson area will become available during the year. This new gas, together with 88 million cubic feet per day from the Fort St. John area to be connected during 1975 and forecast improvements to the Beaver River-Pointed Mountain field deliverability, will alleviate the gas supply shortage by the fall of 1975 so that gas sales requirements can once again be met.

EXECUTIVE APPOINTMENTS

On September 1, 1973, the Company realigned the responsibilities of the three vice-presidents. John Anderson, formerly Vice President, Treasurer and General Counsel, was appointed Vice President, Supply and Sales. J. E. Johnson, Vice President, Operations and Engineering, was given the additional responsibility of Industrial Relations. R. M. Rutherford, formerly Vice President, Supply and Sales, was appointed Vice President, Corporate Development. L. J. Smith, formerly Comptroller, was appointed Treasurer and Comptroller. Other appointments were C. D. Williams as General Counsel and A. J. Green, Group Manager, Supply and Sales.

The board of directors and management wish to acknowledge the outstanding performance of the employees in making possible the accomplishments recorded during the year.

On behalf of the Board,

Kelly Gibson

Chairman and Chief Executive Officer

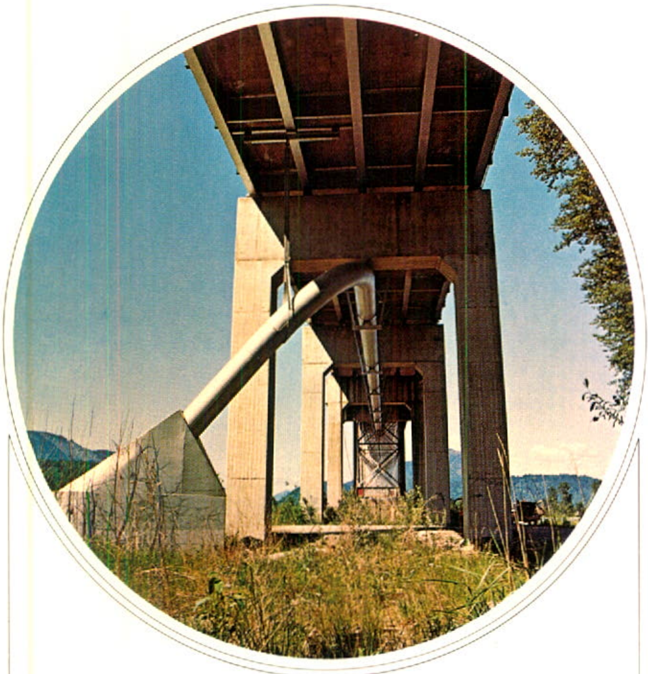
E. Phillips

President

Vancouver, B.C., February 28, 1974.


YUKON
NORTHWEST TERRITORIES
POINTED MOUNTAIN
BEAVER RIVER
FORT NELSON
BRITISH COLUMBIA
ALBERTA
FORT ST. JOHN
DAWSON CREEK
PRINCE RUPERT
TERRACE
SMITHERS
HOUSTON
KITIMAT
BURNS LAKE
ENDAKO
FRASER LAKE
VANDERHOOF
FORT ST. JAMES
SUMMIT LAKE
PRINCE GEORGE
QUESNEL
WILLIAMS LAKE
PACIFIC OCEAN
SAVONA
KAMLOOPS
VERNON
MERRITT
KELOWNA
PENTICTON
NELSON
TRAIL
POWELL RIVER
VANCOUVER
HOPE
CHILLIWACK
NANAIMO
VICTORIA
ANACORTES
WASHINGTON
EVERETT
SEATTLE
WESTCOAST TRANSMISSION MAINLINE
WESTCOAST TRANSMISSION GATHERING LINE
PACIFIC NORTHERN GAS
PROPOSED VANCOUVER ISLAND PIPELINE
INLAND NATURAL GAS
B.C. HYDRO
EL PASO
MAJOR GAS FIELD
COMPRESSOR STATION
NEW CONSTRUCTION

The Year in Review



Pipeline to People

Sources of energy are vital to the growth and health of the economy of the province of British Columbia. The construction and operation of the Westcoast pipeline has meant that the people in the province have had a supply of clean and economical fuel for the past seventeen years and are assured of a continuing supply for many years to come. Sales of natural gas to the distributing utilities in the province have increased steadily. The gathering, processing and transmission of this valuable natural resource have provided and will continue to assure a major source of needed energy for the benefit of the people of the province.

SALES AND MARKETS

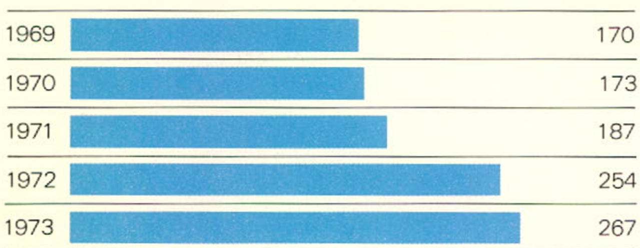
Total gas sales in 1973 were 412.2 billion cubic feet, 12 percent higher than in 1972. On a daily basis, sales averaged 1,129 million cubic feet, compared with 1,007 million cubic feet last year. The increased sales in 1973 were attributable to both an increase in export sales and a strong growth in Canadian volumes. The increased export sales were a result of a full year of deliveries to El Paso Natural Gas Company under the new contract which commenced on November 1, 1972. Sales to Canadian customers grew by nearly 28 percent in 1973. Deliveries to B.C. Hydro and Power Authority increased by 39 percent due primarily to additional requirements at its Burrard thermal generating plant. Inland Natural Gas Co. Ltd. purchases were up approximately 19 percent over last year while Pacific Northern Gas Ltd. purchases were down three percent due principally to plant shutdowns caused by strikes in its market area. Nominations by Canadian customers indicate that peak sales to these domestic customers will increase an additional 17 percent, commencing November 1, 1974.

The year 1973 was marked by several substantial revisions in Westcoast's gas sales prices. On November 13, 1973 B.C. Hydro and Power Authority and Westcoast signed a letter agreement which increased the price payable by B.C. Hydro to 58 cents per thousand cubic feet, an increase of approximately 28 cents per thousand cubic feet. Both by reason of the export license and the export sales contract, the border price must always be at least 105 percent of the Canadian price. Accordingly, the export price automatically became 61 cents per thousand cubic feet. Inland Natural Gas Co. Ltd. and Pacific Northern Gas Ltd. signed amended agreements in late 1973 which increased prices payable by them, beginning February 1, 1974, to approximately 51 cents per thousand cubic feet and 44 cents per thousand cubic feet respectively. Reduced from B.C. Hydro's rate at the end of the pipeline, these are zone rates, at 100 percent load factor.

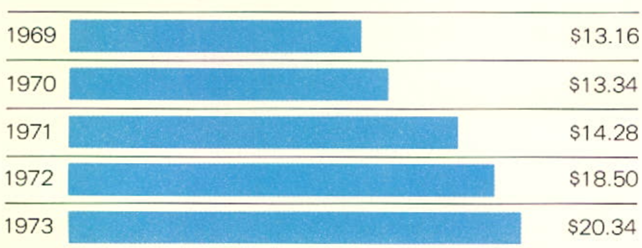
During 1973 Westcoast made an agreement with El Paso Natural Gas Company enabling Westcoast to charge El Paso any arbitrated price increase for natural gas which may be required to be paid to the producers. The Agreement also provides, by means of an advance payment program, funds for further exploration and development in return for a "best

TOTAL GAS SALES *(B.c.f. — billions of cubic feet)*

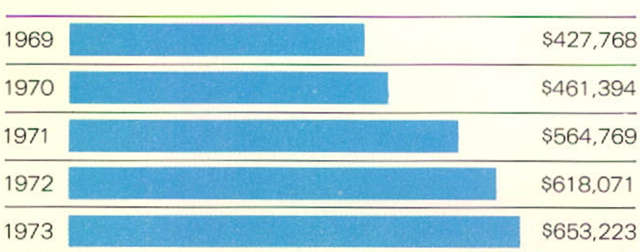
GAS EXPORT *(B.c.f. — billions of cubic feet)*



SHAREHOLDERS' EQUITY PER SHARE



PLANT AND PROPERTY *(thousands of dollars)*



Pipeline amidst People

A gas pipeline through your garden? This was the problem faced by Westcoast recently when a quarter mile of high pressure 36" diameter pipe had to be laid through a residential subdivision. One important problem was solved by hiring a professional landscape gardener who removed and replaced all the gardens involved. Another major problem was solved when all the residents were relocated for 48 hours while the new line was being tested. Satisfactory results are shown in the above photograph which was taken after the work was completed.

efforts" endeavour by the Company to provide more natural gas for export. This agreement has been endorsed by Northwest Pipeline Corporation, the successor in ownership to El Paso's Northwest Pipeline division, accepted by the National Energy Board of Canada and now awaits the approval of the United States Federal Power Commission to become operative.

GAS SUPPLY

A total of 198 wells was drilled in the Company's supply area, of which 59 found gas and 24 found oil. The total included 81 exploratory wells, of which 18 were natural gas discoveries and two were oil. This compares with 20 gas and three oil discoveries in the previous year.

CONSTRUCTION

During the year, the construction program involved the installation of 44.5 miles of 36-inch looping on the Fort Nelson section of the main transmission line and 40.1 miles of 36-inch looping on the Taylor-to-Huntingdon section of the main transmission line. Rated sales capacity of the Company's system was increased by 75 million to 1.306 billion cubic feet per day.

As indicated previously, gathering pipeline facilities are to be constructed early in 1974 to connect additional gas supplies. Construction of a sulphur recovery plant at Fort Nelson is also to be undertaken as well as additional compression on the Fort Nelson gathering system. Estimated cost of this program is $40,000,000.

FINANCIAL

Revenue from sales of gas and associated products for 1973 was $168,313,000, compared with $139,275,000 in 1972. Net income was $24,001,000, or $2.80 per share, compared with $20,844,000, or $2.46 per share, the previous year. Cash flow increased to $42,082,000 or $4.91 per share, from $37,931,000 or $4.48 per share.

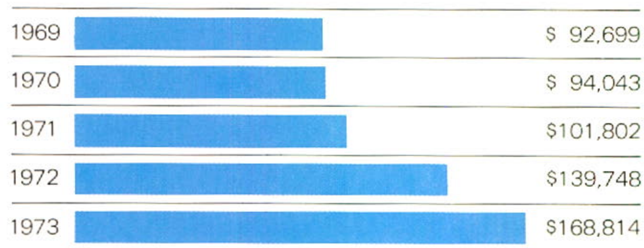
The results for 1972 have been restated to reflect the Company's share in the net earnings of Westcoast Petroleum Ltd. for that year, and for the reversal of a $4,000,000 provision for gas cost increases set up during 1972.

Investment and other income for 1973 totalled $2,867,000 compared to $1,678,000 the previous year. The increase was primarily due to more funds being available for short-term investment and to the higher interest rates that prevailed.

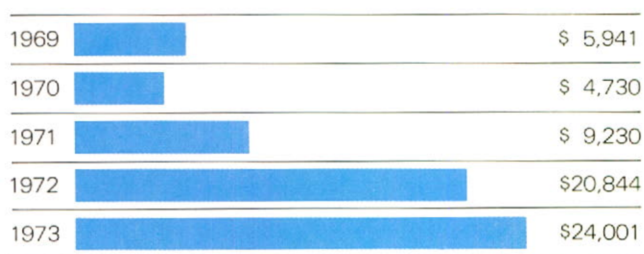
Dividends paid to shareholders totalled $6,429,000, compared with $5,112,000 in 1972. The 1973 dividend was 75 cents per share, compared with 60 cents per share in the previous year.

Under the agreement with the British Columbia Petroleum Corporation, the utility system, which is

OPERATING REVENUE *(thousands of dollars)*



NET INCOME *(thousands of dollars)*



CASH FLOW *(thousands of dollars)*

EARNINGS PER SHARE

the base on which the Company earns its rate of return, consists of the utility operations of the Company, Westcoast Transmission Company (Alberta) Ltd., Westcoast Transmission Housing Ltd., and Gas Trunk Line of British Columbia Ltd. The utility rate base includes the actual original investment in gas plant in service less accumulated depreciation, plus an allowance for working capital. The utility cost of service includes operating and maintenance expenses, administrative and general expenses, depreciation of utility facilities, taxes, including income taxes as they are payable and a return on the utility rate base. Although the rate of return is currently 9½ percent, the agreement provides for alteration of this rate, as circumstances dictate, to ensure an adequate return to the Company's shareholders.

In April of 1973, the Company issued $50 million in 8½% debentures to mature in 1993. This issue was well received by Canadian investors and was fully subscribed. The proceeds from the sale, together with funds generated from operations, were used to repay bank loans resulting from the 1972 construction program and to finance the 1973 construction program. At the end of 1973, approximately $11 million remained in temporary cash investments and will be applied to the cost of the 1974 construction program.

SUBSIDIARY AND ASSOCIATED COMPANIES

Westcoast Petroleum Ltd. is a company engaged in the exploration for and production of crude oil and natural gas, and owns and operates an oil pipe line in northeastern British Columbia. It has interests in 11,375,000 gross acres (4,236,000 net) of prospective oil and gas lands in western Canada, the Northwest Territories and the Arctic islands. This company's exploration and development program during 1973 resulted in the completion of two oil and 19 gas wells. Throughput of its oil pipeline averaged 54,500 barrels per day of crude oil and other liquids, down from 58,000 barrels the previous year. The reduction was due to normal decline in production in certain British Columbia oil fields. Net profits before provision for preferred dividends was $5,463,000, compared to $5,258,000 in 1972.

Pacific Northern Gas Ltd. is a gas transmission and distribution company in north-central British Columbia. It had a sales volume of 11.96 billion cubic feet during 1973 compared to 12.72 billion cubic feet in 1972. Total sales revenue was $6,779,000, compared to $6,230,000 the previous year. Net profit before provision for preferred dividends was $400,000 compared to $707,000 in 1972.

Saratoga Processing Company Limited owns and operates a gas gathering, processing and sulphur extraction system in southern Alberta. Net profit for the year was $236,000 compared to $232,000 in 1972.

Pipeline and People

Westcoast is proud of its people, particularly its people who have been and still are involved in the quality of life in the communities along the pipeline. While Westcoast has set the example and aided the establishment of schools, hospitals and recreational centres, it is the people who have given their time to serve on local councils, boards and committees. The above picture was taken at the Recreational Centre, and illustrates one of the many activities participated in by members of the Fort Nelson community.

CONSOLIDATED STATEMENT OF

Operations

for the year ended December 31, 1973

(with comparative figures for 1972)

		1973	1972
Operating revenues:			
Gas sales *(Note 1)*		$166,048,000	$137,449,000
By-product sales		2,265,000	1,826,000
Miscellaneous		501,000	473,000
		168,814,000	139,748,000
Operating revenue deductions:			
Gas purchases *(Notes 1 and 2)*		73,974,000	54,752,000
Operating and maintenance		19,976,000	16,583,000
Administrative and general		3,217,000	3,669,000
Depreciation		18,185,000	16,183,000
Taxes — other than income taxes		5,859,000	4,869,000
Income taxes		460,000	626,000
		121,671,000	96,682,000
Operating income		47,143,000	43,066,000
Share of earnings of Westcoast Petroleum Ltd. *(Note 1)*		1,300,000	1,306,000
Investment and other income		2,867,000	1,678,000
		51,310,000	46,050,000
Income deductions:			
Interest on long term debt		27,601,000	25,362,000
Other interest		(432,000)	(103,000)
Allowance for funds used during construction *(Note 1)*		(948,000)	(2,201,000)
Amortization		204,000	203,000
Debt discount, premium and expense		461,000	614,000
Exchange cost (gain) re:			
Operations	$ 50,000		
Redemption of long term debt	(158,000)	(108,000)	(62,000)
Other		—	115,000
		26,778,000	23,928,000
Income before minority interest and special item		24,532,000	22,122,000
Minority interest		531,000	808,000
Income before special item		24,001,000	21,314,000
Loss on investment		—	470,000
Net income *(Note 8)*		$ 24,001,000	$ 20,844,000

		1973	1972
Earnings per share *(Note 10)*:			
Weighted average:	Income before special item	$2.80	$2.52
	Net income	$2.80	$2.46
Fully diluted:	Income before special item	$2.41	$2.31
	Net income	$2.41	$2.28

(See accompanying notes)

CONSOLIDATED STATEMENT OF

Retained Earnings

for the year ended December 31, 1973

(with comparative figures for 1972)

	1973	1972
Balance, beginning of year		
As previously reported	$ 47,063,000	$ 36,637,000
Prior year adjustment of provision for anticipated increased gas costs *(Note 1)*	4,000,000	—
Change in carrying value of Westcoast Petroleum Ltd. *(Note 1)*	901,000	(405,000)
As restated	51,964,000	36,232,000
Add net income	24,001,000	20,844,000
	75,965,000	57,076,000
Deduct dividends	6,429,000	5,112,000
Balance, end of year	$ 69,536,000	$ 51,964,000

CONSOLIDATED STATEMENT OF

Contributed Surplus

for the year ended December 31, 1973

(with comparative figures for 1972)

	1973	1972
Balance, beginning of year	$ 216,000	$ 217,000
Contributions in aid of construction	32,000	(1,000)
Balance, end of year	$ 248,000	$ 216,000

(See accompanying notes)

Westcoast Transmission Company Limited

(Incorporated under the laws of Canada)

and Subsidiary Companies

ASSETS	1973	1972
Plant, property and equipment — at cost *(Note 3)*	$653,223,000	$618,071,000
Less accumulated depreciation	131,826,000	115,262,000
	521,397,000	502,809,000
Investments:		
Westcoast Petroleum Ltd. *(Note 1)*	27,751,000	26,451,000
Other — at cost (market value 1973 — $1,276,984; 1972 — $1,294,129)	1,391,000	1,441,000
	29,142,000	27,892,000
Current assets:		
Cash and temporary cash investments	11,513,000	448,000
Deposits with trustee for payment of principal and interest on long term debt	5,044,000	5,175,000
Accounts receivable	26,060,000	14,635,000
Inventories — at cost	4,022,000	2,634,000
Prepaid expenses *(Note 4)*	5,197,000	6,308,000
	51,836,000	29,200,000
Deferred charges:		
Unamortized debt discount, premium and expense	6,924,000	6,270,000
Unamortized unrecovered cost of abandoned pipeline *(Note 1)*	2,672,000	3,054,000
Capital stock expense	591,000	612,000
Other	488,000	419,000
	10,675,000	10,355,000
Excess of cost of investment in subsidiary over book value at date of acquisition *(Note 1)*	1,167,000	1,328,000
	$614,217,000	$571,584,000

(See accompanying notes)

CONSOLIDATED

Balance Sheet

December 31, 1973

(with comparative figures at December 31, 1972)

SHAREHOLDERS' EQUITY	1973	1972
Capital stock *(Note 5)*:		
Authorized — 2,000,000 preferred shares with par value of $50 each		
— 25,000,000 common shares without nominal or par value		
Issued — 8,575,977 common shares (1972 — 8,562,943 common shares)	$104,548,000	$104,328,000
Contributed surplus	248,000	216,000
Retained earnings	69,536,000	51,964,000
	174,332,000	156,508,000
LIABILITIES		
Long term debt *(Note 6)*	386,960,000	371,098,000
Current liabilities:		
Accounts payable	18,031,000	10,584,000
Sundry taxes	582,000	295,000
Interest on debt	5,947,000	5,264,000
Long term debt due within one year	16,144,000	15,718,000
	40,704,000	31,861,000
Minority interest in subsidiary companies:		
Preferred shares	5,269,000	5,269,000
Common shares	6,952,000	6,848,000
	12,221,000	12,117,000
	$614,217,000	$571,584,000

On behalf of the Board:

E. Phillips Director

John Anderson Director

CONSOLIDATED STATEMENT OF

Source and Application of Funds

for the year ended December 31, 1973

(with comparative figures for 1972)

	1973	1972
Funds derived from:		
Operations —		
Income before minority interest and special item	$ 24,532,000	$ 22,122,000
Add non cash items:		
Depreciation and amortization	18,389,000	16,386,000
Share of earnings of Westcoast Petroleum Ltd. *(Note 1)*	(1,300,000)	(1,306,000)
Other	461,000	729,000
	42,082,000	37,931,000
Capital stock issued	220,000	44,318,000
Additional long term debt (net of financing costs)	48,885,000	17,000,000
	$ 91,187,000	$ 99,249,000
Funds used for:		
Additions to plant, property and equipment	$ 36,392,000	$ 54,079,000
Long term debt retirement (net of exchange)	34,138,000	24,613,000
Retirement of bank loan and other interim financing	—	16,840,000
Dividends	6,429,000	5,112,000
Dividends paid by subsidiaries to minority shareholders	469,000	569,000
Sundry items	(34,000)	260,000
Working capital increase (decrease)	13,793,000	(2,224,000)
	$ 91,187,000	$ 99,249,000

(See accompanying notes)

Notes

TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1973

1. ACCOUNTING POLICIES:

(a) Principles of Consolidation:

(i) The consolidated statements at December 31, 1973 include the accounts of the Company and the following subsidiaries: Westcoast Transmission Company (Alberta) Ltd., Westcoast Transmission Housing Ltd., Westcoast Transmission Company, Inc., Gas Trunk Line of British Columbia Ltd., Vancal Properties Ltd., Saratoga Processing Company Limited, and Pacific Northern Gas Ltd.

(ii) Prior to January 1, 1973, the Company carried its investment in Saratoga Processing (25% owned) and Pacific Northern (26.7% owned) at its equity in their underlying net assets and included in income its share of their earnings. Effective January 1, 1973, the Company changed its accounting practice so as to include in the consolidated statements the accounts of these subsidiaries. The comparative figures for 1972 have been restated to reflect this change in accounting practice.

(iii) The Company owns 1,616,875 shares (40.19%) of the common shares and 600,000 shares (44.78%) of the preferred shares of Westcoast Petroleum Ltd. (Westpete) (Market value at December 31, 1973 — $19,536,484; December 31, 1972 — $32,858,203). Prior to January 1, 1973, the Company carried its investment in Westpete at cost, and included Westpete's earnings in its accounts only to the extent of dividends received. Effective January 1, 1973, the Company changed its accounting practice so as to carry its investment in this company at its equity in the underlying net assets and to include in income its share of Westpete's earnings. The consolidated statement of operations for the year ended December 31, 1972 has been restated to include the Company's share of these earnings and the balance of consolidated retained earnings as at January 1, 1972 has been restated to reflect the results of prior years' operations. 403, 600 preferred shares of Westpete are mortgaged as security for the First Mortgage Pipe Line Bonds.

In accordance with general practice in the oil and gas industry, Westpete does not follow tax allocation accounting with respect to drilling, exploration and property acquisition costs. If the tax allocation basis had been followed for timing differences related to these costs, the Company's share of the income of Westpete would have been reduced by $1,100,000 ($.13 per share) in both 1973 and 1972; and the Company's equity in Westpete would have been reduced by approximately $3,300,000 at December 31, 1973.

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

(b) 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 the current portion of the long term debt, have been translated to Canadian dollars at the exchange rates prevailing at the end of the fiscal period. 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 sold in United States funds have been translated at the exchange rates prevailing at the respective dates of sale.

(c) 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 period. Depreciation of Saratoga Processing facilities is calculated on a straight line basis over the life of its Gas Transportation Contract with the Company.

(d) Allowance for Funds Used During Construction:
An allowance for funds used during construction was charged to plant, property and equipment at a rate of 9½% for the year ended December 31, 1973 (for the year ended December 31, 1972 — 10%).

(e) Prepaid Gas and Related Deferred Interest:
As volumes of gas are delivered that relate to previous prepayments, a proportionate share of the prepayments and related deferred interest are charged to operations as gas purchase costs.

(f) Debt Discount, Premium and Expense:
Debt discount, premium and expense is being amortized over the terms of the respective issues.

(g) Unrecovered Cost of Abandoned Pipeline:
Unrecovered costs of an abandoned gathering pipeline are being written off over the ten year period ending December 31, 1980.

(h) Prior Year Adjustment:
The accounting policy established in 1972 with respect to normalization of gas purchase increases has been discontinued as the Company has now assigned the relative gas purchase contracts (see Note 2). Accordingly, the 1972 provision of $4,000,000 has been reversed and the 1972 figures restated.

(i) Gas Exported Near Kingsgate, British Columbia:
Included in the statement of operations are revenues of $18,507,118 and expenses of $18,448,003 associated with the deliveries of gas in southern Alberta, southern British Columbia and near Kingsgate for export to the United States. The excess of revenues over expenses represents the Company's share of Saratoga Processing's net income.

2. GAS PURCHASE AGREEMENT:

Pursuant to an agreement with the British Columbia Petroleum Corporation (the Corporation), effective November 1, 1973, the Company has assigned gas purchase contracts to the Corporation and is purchasing gas from the Corporation at a cost equal to gross operating revenues less total cost of service of its utility system. The cost of service includes a 9½% return on rate base. The agreement provides that if all required consents and authorizations have not been obtained by May 12, 1974, the agreement may be terminated and the gas purchase contracts reassigned to the Company.

3. PLANT, PROPERTY AND EQUIPMENT:

	1973	1972
Gathering plant	$ 96,469,096	$ 95,588,273
Products extraction plant	90,090,671	89,454,150
Transmission plant	440,992,932	408,428,418
Distribution plant	4,561,384	4,775,533
Miscellaneous plant and equipment	19,252,540	18,838,024
	651,366,623	617,084,398
Construction in progress	1,856,607	986,773
	$653,223,230	$618,071,171

4. PREPAID EXPENSES:

Included in prepaid expenses at December 31, 1973 is $5,086,357 (December 31, 1972—$6,212,878) representing prepayment against future gas deliveries and deferred interest related to these prepayments.

5. CAPITAL STOCK:

(a) During the year the Company issued:

(i) 13,000 common shares for a cash consideration of $219,375 upon exercise of employee stock options.

(ii) 34 common shares on conversion of 5¾% First Mortgage Pipe Line Bonds Convertible Series E at a conversion rate of $29.14 per share increasing capital stock by $991.

(b) Share reservations and options:

(i) Details as to options outstanding at December 31, 1973, all of which are optioned to directors and officers of the Company are as follows:

Date Granted	Expiry Date	Option price per share	Number of shares
July 27, 1970	July 26, 1980	$16.875	4,000
October 16, 1973	October 16, 1983	$15.50	15,000

There are also 16,375 common shares reserved for options which have not yet been allocated.

(ii) 854,136 common shares are reserved for conversion of the 5½% Subordinate Debentures, Series C.

(iii) 1,571,004 common shares are reserved for the conversion of the First Mortgage Pipe Line Bonds, 5¾% Convertible Series (Series D and Series E).

(iv) 2,342,409 common shares are reserved for conversion of the 7½% Convertible Debentures, First Series.

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

(c) Dividend Restriction:

The First Mortgage and the indentures relating to the Company's long term debt 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, 1973 was $30,500,000 (December 31, 1972—$19,500,000).

6. LONG TERM DEBT:

	1973 United States Dollars	1973 Canadian Dollars (a)	1972 Canadian Dollars (a)
Westcoast Transmission Company Limited			
First Mortgage Pipe Line Bonds			
4⅜% Series A, due 1977	$ 24,000,000	$ 23,233,102	$ 28,944,574
6% Series C, due 1980	1,790,000	1,925,229	2,204,871
5¾% Convertible Series D, due 1984 (b)		33,707,000	36,763,000
5¾% Convertible Series E, due 1984 (b)		12,889,000	14,043,000
7% Series F, due 1988	59,356,400	63,961,141	68,358,948
8% Series G, due 1991		90,000,000	90,000,000
Bank Loan			
Unsecured Notes, due 1981 (c)		—	17,000,000
Debentures			
7½% Convertible, First Series, due 1991 (d)		51,533,000	51,533,000
8½% Debentures, 1993 Series, due 1993		50,000,000	—
Subordinate Debentures			
5½% Series A, due 1988	18,450,000	18,365,100	18,773,214
5½% Series B, due 1988	2,790,000	2,673,169	2,732,573
Less purchased in advance of repayment requirements	(786,500)	(779,060)	(386,915)
5½% Series C, due 1988 (e)	24,898,000	23,933,202	23,933,202
Gas Trunk Line of British Columbia Ltd.			
First Mortgage Sinking Fund Bonds			
6% Series A, due 1979	2,800,000	2,854,499	3,339,968
Subordinate Debentures			
6% Series A, due 1981		1,960,000	2,055,000
Less purchased in advance of repayment requirements		(31,000)	(19,500)
Westcoast Transmission Housing Ltd.			
Housing Mortgages, 7% and 8¾%		602,237	611,510
Vancal Properties Ltd.			
7½% Secured Notes, due 1994	4,680,032	5,020,796	5,116,402
Saratoga Processing Company Limited			
First Mortgage Sinking Fund Bonds			
6¼% Series A, due 1979	2,250,000	2,312,563	2,723,937
Subordinate Debentures			
6% Series A, due 1981		960,000	1,050,000
Less purchased in advance of repayment requirements		(28,000)	(14,000)
8½% Promissory Note due 1981		300,010	340,006
Pacific Northern Gas Ltd.			
First Mortgage Pipe Line Bonds			
7¾% Series A, due 1988	13,875,000	14,915,625	14,915,625
9½% Series B, due 1991 (f)	2,775,000	2,797,547	2,797,547
		403,105,160	386,815,962
Deduct long term debt due within one year shown as a current liability		16,144,770	15,717,593
		$386,960,390	$371,098,369

Long term debt payments required in the five years ending December 31 are:
1974—$16,145,000; 1975—$17,345,000; 1976—$18,004,000; 1977—$21,970,000; 1978—$16,603,000.

(a) Long term debt payable in United States funds and the portion due within one year have been translated at the exchange rate prevailing at the respective dates of sale.

(b) Convertible into common shares at various rates from $29.66 to $31.98 per share until November 1, 1976.

(c) Revolving credit arrangement with a limit of $50,000,000 and interest at the bank's prime rate plus 1%.

(d) Convertible into common shares at $22 per share until December 31, 1975 and thereafter at $25 per share until December 31, 1980.

(e) Convertible into common shares at $29.15 (U.S.) per share to July 15, 1978.

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

The Company's First Mortgage Pipe Line Bonds are secured by a specific first mortgage of substantially all of the Company's fixed assets and its gas purchase and gas sale contracts and by a first floating charge on its other assets and its undertakings. The Company is in the process of substituting the recent agreement with the British Columbia Petroleum Corporation (see Note 2) for the gas purchase contracts.

7. REMUNERATION OF DIRECTORS AND OFFICERS OF THE COMPANY:

For the year ended December 31, 1973:

(a) Seven directors in their capacity as directors were paid $35,550 (for the year ended December 31, 1972 seven directors were paid $36,800).

(b) Eleven officers in their capacity as officers, including four past officers, were paid $425,931 (for the year ended December 31, 1972 eleven officers, including four past officers, were paid $376,615).

(c) Four officers, including one past officer, served as directors (for the year ended December 31, 1972 four officers, including one past officer, served as directors).

8. 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 agreement (see Note 2), payments on account of income taxes are recoverable as a part of cost of service. If the tax allocation basis had been used for providing for income taxes, the provision for the year ended December 31, 1973 would have been $11,000,000 (for the year ended December 31, 1972—$7,800,000) and the accumulated provision to December 31, 1973 would have been $47,900,000.

9. CONTINGENCIES AND COMMITMENTS:

(a) The Company has made no allowance for the possible application of the B.C. Coloured Gasoline Tax Act on natural gas used as pipeline compressor fuel as it believes, on the advice of counsel, that the Act does not apply to the Company's operations. Any amounts paid under the Act will become part of the cost of service (see Note 2) and will not affect net income of the Company. If it is determined that the Act does apply, the tax at December 31, 1973 would be approximately $4,000,000.

(b) An action has been commenced against the Company in the Supreme Court of British Columbia by gas suppliers alleging a breach of contract by the Company in failing to pay for gas not taken by the Company because of delay caused by pipe failure in completing the Company's Yoyo gathering line. The Company has denied liability and believes, on the advice of counsel, that the action will be successfully defended.

(c) The Company has filed applications with the National Energy Board with respect to a major construction program which is estimated to cost approximately $40,000,000 and is expected to be completed during 1974. The Company has recorded $1,300,000 relating to this construction program to December 31, 1973 and an amount of $5,000,000 has been committed.

(d) The contract covering the sale of gas by the Company to El Paso Natural Gas Company has been amended effective March 1, 1973, subject to approval by the Federal Power Commission of the United States. Subject to the approval being received, the Company offered to increase the price of gas paid to producers in the Fort St. John area effective March 1, 1973. If approval is granted, the revenue from gas sales and the cost of gas in 1973 will increase by $8,600,000 and $8,200,000 respectively and the net income for the year will increase by $400,000.

(e) The Company has commenced a legal action in the Supreme Court of Alberta to set aside a 1973 award by an arbitration board to increase the price of gas produced from a field in northwestern Alberta. As the Company believes, on the advice of counsel, that it will be successful in such action, no allowance has been made for the possible payment of the price increase which would have amounted to approximately $1,500,000 at December 31, 1973. If any amounts are ultimately paid pursuant to the award, they will become part of the cost of service (see Note 2) and will not affect net income of the Company.

10. EARNINGS PER SHARE:

Fully diluted earnings per share calculations assume the conversion of the convertible bonds, debentures and subordinate debentures; the exercise of share purchase options; and the exercise of share purchase warrants. Funds derived from the exercise of options and warrants were assumed to have been invested to produce an annual return of 9½%.

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, 1973 and the consolidated statements of operations, retained earnings, contributed surplus and source and application of funds for the year 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, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting practices described in Note 1(a) to the consolidated financial statements, on a basis consistent with that of the preceding year.

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 18, 1974.

CLARKSON, GORDON & CO.,
Chartered Accountants.

REGISTRARS

SHARES

Canada Trust Company
Montreal, P.Q., Toronto, Ont.,
Regina, Sask., Calgary, Alta.,
Vancouver, B.C.

Chemical Bank
New York Trust Company
New York, N.Y.

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

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.)

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.

OFFICES

1333 West Georgia Street,
Vancouver, B.C. V6E 3K5

1212 - One Palliser Square
Calgary, Alberta T2G 0P6

FINANCIAL	
Operating Revenues....................	
Net Income...........................	
—per share..........................	
Cash Flow...........................	
—per share..........................	
Total Assets..........................	
Long Term Debt.......................	
Plant, Property and Equipment.........	
Accumulated Depreciation and Depletion.	
Shareholders' Equity..................	
—per share..........................	
STATISTICAL	
Total Gas Sales— Millions of Cubic Feet...............	
Daily Average Sales— Thousands of Cubic Feet............	
Peak Day Sales— Thousands of Cubic Feet............	
System Sales Capacity— Thousands of Cubic Feet per Day.....	
Miles of Transmission Lines...........	
Miles of Gathering Lines..............	
Compressor Horsepower................	
Shares Outstanding—Year End.........	
Number of Shareholders..............	
Number of Employees................	

Ten Year Financial and Statistical Review

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

Years Ended December 31			Nine Months Ended December 31	Years Ended March 31					
1973	1972	1971	1970	1970	1969	1968	1967	1966	1965
$168,814	$139,748	$101,802	$ 69,501	$ 92,767	$ 84,550	$ 77,736	$ 67,939	$ 60,895	$ 54,134
24,001	20,844	9,230	3,103	5,319	2,409	8,812	6,033	2,350	4,809
2.80	2.46	1.37	.46	.79	.36	1.32	.91	.35	.74
42,082	37,931	21,836	12,799	16,845	16,033	18,420	14,692	11,924	11,809
4.91	4.48	3.23	1.91	2.51	2.40	2.76	2.20	1.80	1.82
614,217	571,584	533,836	437,154	410,079	408,041	352,766	317,920	287,501	293,477
386,960	371,098	378,712	305,518	257,580	262,268	174,702	182,028	192,728	201,358
653,223	618,071	564,769	461,394	429,486	413,966	388,540	345,105	303,684	304,189
131,826	115,262	100,175	89,839	81,238	70,681	67,064	58,305	50,111	41,633
174,332	156,508	96,459	89,396	89,700	87,604	86,819	79,364	74,914	71,969
20.34	18.50	14.28	13.34	13.39	13.09	12.99	11.91	11.30	11.07
412,156	368,679	287,659	197,384	258,887	248,095	217,300	191,040	169,848	146,834
1,129,194	1,007,319	788,106	717,759	709,279	679,709	593,714	523,397	465,337	402,287
1,284,742	1,251,035	1,122,791	886,679	866,935	854,074	719,348	685,236	645,991	556,801
1,306,000	1,231,000	1,102,000	864,000	864,000	864,000	864,000	698,000	637,000	637,000
1,374.0	1,289.5	1,201.9	966.0	966.0	966.0	966.0	908.4	867.4	867.4
715.3	712.8	678.6	567.7	567.7	564.1	531.9	526.9	462.1	458.8
382,220	381,220	343,720	287,820	287,820	283,220	283,220	172,820	172,820	123,800
8,575,977	8,562,943	6,760,341	6,703,817	6,699,817	6,695,264	6,691,694	6,665,084	6,657,784	6,610,104
10,225	10,630	10,450	10,585	10,183	10,765	11,560	11,822	12,650	14,500
515	502	494	518	526	514	471	402	330	324

NOTE: Figures for 1972 and prior years have been restated to reflect subsequent changes in accounting policies.

Westcoast Transmission Company Limited

DIRECTORS

*JOHN ANDERSON
Vice President
Westcoast Transmission Company Limited
Vancouver, B.C.

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

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

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

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

J. ERNEST RICHARDSON
Chairman and President
British Columbia Telephone Company
Vancouver, B.C.

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

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

NORMAN R. WHITTALL
Financier
Vancouver, B.C.

CHARLES N. WOODWARD
Chairman of the Board
Woodward Stores Limited
Vancouver, B.C.

Chairman Emeritus of the Board
FRANK M. McMAHON
Vancouver, B.C.

OFFICERS

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

EDWIN C. PHILLIPS
President

JOHN ANDERSON
Vice President, Supply and Sales

J. E. JOHNSON
Vice President, Operations and Engineering

R. M. RUTHERFORD
Vice President, Corporate Development

L. J. SMITH
Treasurer and Comptroller

C. D. WILLIAMS
General Counsel and Assistant Secretary

L. M. YOUELL
Secretary and Executive Assistant

D. O. HUNTER
Assistant Treasurer

**Member of Executive Committee*

Pipeline Environment and People

No company is more aware than Westcoast that the environment is precious and must be protected. The Company has initiated an extensive air, water and noise pollution control program throughout the pipeline system that will not only meet, but in some cases exceed, the requirements of the Pollution Control Act of British Columbia. The program, involving current commitments of more than $15 million, is an on-going one. These measures, together with technological advances in pollution control, will ensure that these high standards are maintained.

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AGENCY PRESS LIMITED