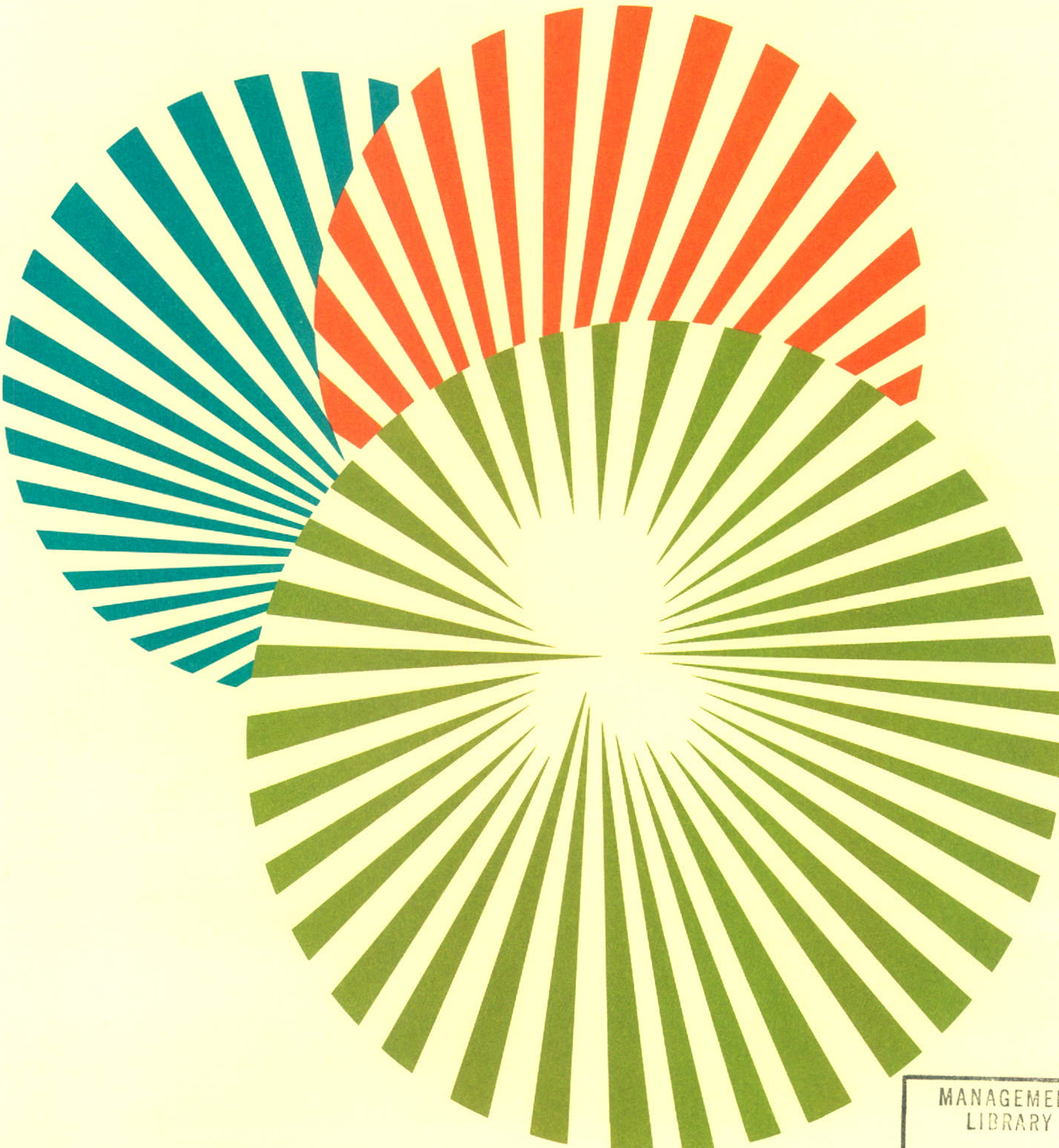
Westcoast Transmission Company Limited

Annual Report 1972



Westcoast Transmission Company Limited

DIRECTORS

*JOHN ANDERSON
Vice President, Treasurer and General Counsel
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.

*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.
Calgary, 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.

Member of Executive Committee

OFFICERS

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

EDWIN C. PHILLIPS
President

JOHN ANDERSON
Vice President, Treasurer and General Counsel

R. M. RUTHERFORD
Vice President

J. E. JOHNSON
Vice President

L. M. YOUELL
Secretary and Executive Assistant

D. O. HUNTER
Assistant Treasurer

C. D. WILLIAMS
Assistant Secretary

L. J. SMITH
Comptroller

THE COVER

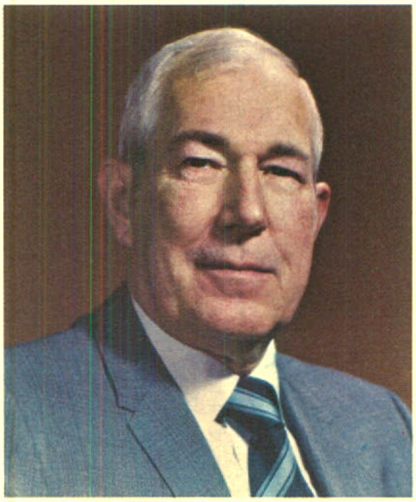
The cover illustration symbolizes energy and its multi-faceted nature. The graphs on page 4 and the comparisons with other forms of energy given on page 7 show quite dramatically the enormous amount of energy Westcoast Transmission carries through its unseen pipeline day in — day out; contributing in a silent but no less significant way to the welfare of British Columbia and its people.

Results in Brief

	Year Ended December 31 1972	Year Ended December 31 1971
FINANCIAL		
Total Revenues	$121,127,000	$ 87,741,000
Net Income	15,538,000	7,398,000
— per share — weighted average	1.84	1.10
Cash Flow	31,669,000	19,593,000
— per share	3.70	2.90
Total Assets	536,571,000	499,834,000
Shareholders' Equity	151,601,000	96,859,000
— per share	17.70	14.33
Shares Outstanding — weighted average	8,459,402	6,754,974
OPERATING		
Total Gas Sales, Mcf	368,679,000	287,659,000
Daily Average Sales, Mcf	1,007,000	788,000
Maximum Day Sales, Mcf	1,251,000	1,123,000

The figures in the Consolidated Statement of Operations in this report include operating results of the Company's Kingsgate system, under which Westcoast exports certain volumes of gas from southern Alberta to the United States. However, in all other instances they are omitted from the financial and operating statistics. The Kingsgate system operates on a cost basis with revenues exactly offset by gas purchase and operating costs. Since these offsetting entries do not affect overall financial results they are omitted for the sake of clarity. Westcoast has no investment in the Kingsgate system. However, the Company receives dividends and a management fee from Saratoga Processing Company Limited, which treats a small amount of the gas carried by this pipeline.

To the Shareholders:



KELLY H. GIBSON
Chairman and Chief Executive Officer

The year 1972 was outstanding in every respect for the company. Records were established for revenue, throughput and net income, making the year the most successful in the company's history.

Net income per share was $1.84, compared with $1.10 for 1971. For the first time, total revenues exceeded one hundred million dollars and reached $121,127,000, up from $87,741,000 in 1971.

A record volume of 368.7 billion cubic feet of natural gas was transported through the company's system during the year. This represents a growth of 28 percent, and the first time in the company's history that sales averaged more than one billion cubic feet per day over an entire year. A new high peak day sale of 1.251 billion cubic feet was recorded during December, 1972, the previous record being 1.123 billion cubic feet set in 1971.

On November 1, 1972, export gas volumes increased by 76 million to 809 million cubic feet per day, up by 10 percent. During the year, nominations from the company's domestic customers rose by 59 million to 419 million cubic feet per day, an increase of 16 percent.

In order to supply these market demands, the company made further additions to its pipeline system during the year, increasing the rated sales capacity to 1.23 billion cubic feet per day.

Based upon firm commitments by its Canadian customers to increase their gas purchases by 18 percent commencing November 1, 1973, the company plans to spend $36 million this year on further system expansion.

During the past year there was considerable publicity and debate centering on the critical energy supply-demand balance in North America. The higher demand for all types of energy, coupled with increases in the prices of competing fuels and the need for cleaner burning fuels to meet the requirements of governmental pollution control regulations, has resulted in the demand for natural gas reaching record levels.

At the same time, much attention has been given to the field prices for natural gas being paid to the producers.

While natural gas reserves in the company's supply area are more than sufficient to meet its market commitments plus future requirements for many years, the company recognizes that reasonable incentives must be provided, through financial assistance and higher prices for new gas, so as to assure continued exploratory activity. This is clearly the best way of maintaining and increasing the supply of natural gas available to the company and its customers.

Reference was made in the 1972 interim reports to the redetermination of field prices under existing gas supply contracts in the Fort St. John area. Some 40 percent of the company's gas supply is involved. While the two completed arbitrations in this matter relate to only a small portion of the Fort St. John area gas supply, they are indicative of potential increases in gas costs both under existing contracts and for new gas purchases.

If the company is unable to track or pass on to its customers the increased gas costs, its earnings in

1973 and subsequent years will be materially reduced.

Recognizing, therefore, the impact such increases in gas costs would have on net earnings, the company is investigating all possible contractual, regulatory and negotiating means of achieving compensation for such increases.

It is expected that gas sales will continue to increase in 1973. We believe that a basis will be found for compensation to the company covering any reasonable increases in gas costs and expenses. The future prospects for the company and for the natural gas industry at large are considered excellent. We are confident that the level of earnings established over the past several years will continue in 1973.

Following the annual meeting of shareholders held on April 19, 1972, the directors made the following new executive appointments:

Mr. Edwin C. Phillips, who was executive vice president, was appointed president.

Mr. J. Edward Johnson, formerly director of transmission and engineering, was appointed a vice president.

Mr. Ronald M. Rutherford was appointed a vice president. He retains his position as president of Pacific Northern Gas Ltd.

Mr. Leonard M. Youell, secretary of the company, was given an additional appointment as executive assistant.

Mr. C. D. Williams, manager of the legal division, was appointed assistant secretary.

The death of Mr. Arthur F. Mayne on September 17, 1972 is recorded with profound regret. He had served as a director since 1961, and during his term of office made a substantial and lasting contribution to the success and growth of the company.

The 1972 expansion of the company's pipeline system was achieved with a minimal increase in personnel. This is clear indication of the way employees have responded to the challenges presented to them. In addition, operational efficiency in all divisions of the company made it possible to attain the substantial level of profitability recorded in 1972. The board of directors and management wish to record their sincere appreciation of the contribution made by employees to the outstanding achievements of the year.

On behalf of the Board

Kelly Gibson

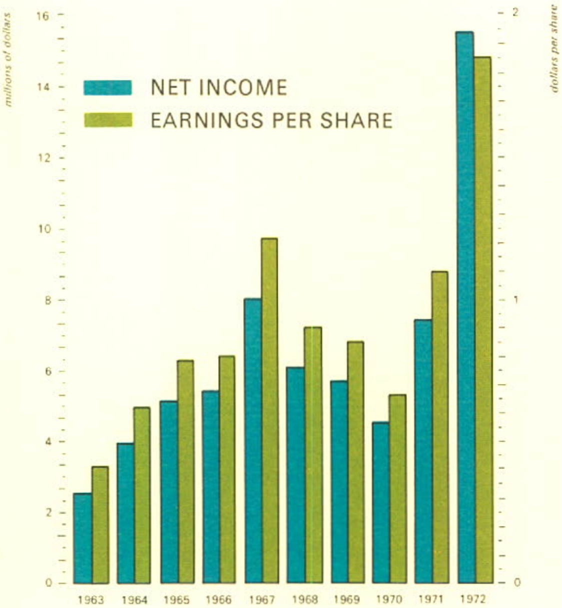
Chairman and Chief Executive Officer

E. Phillips

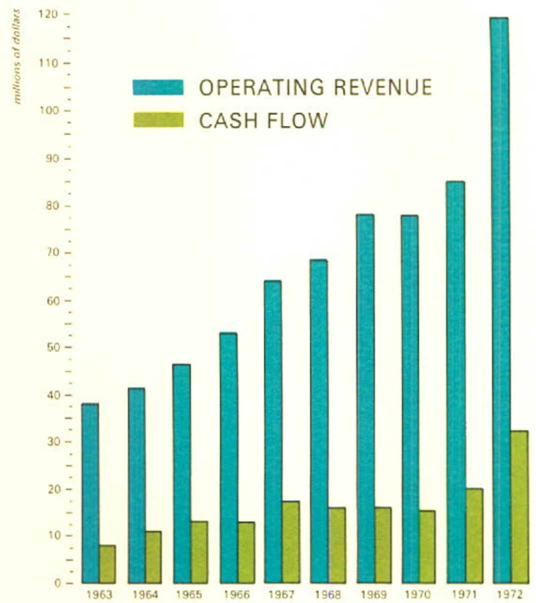
President

Vancouver, B.C., March 23, 1973.

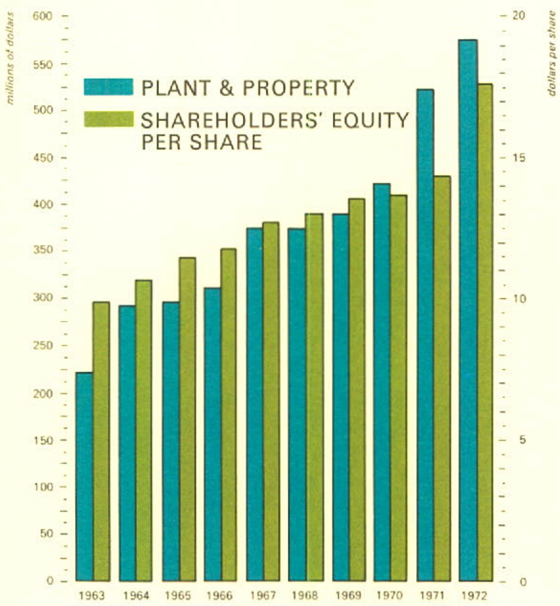
EDWIN C. PHILLIPS
President



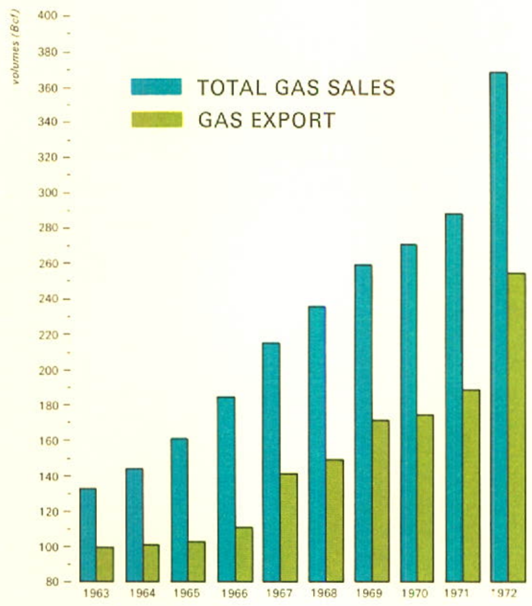
NET INCOME
EARNINGS PER SHARE
millions of dollars
dollars per share



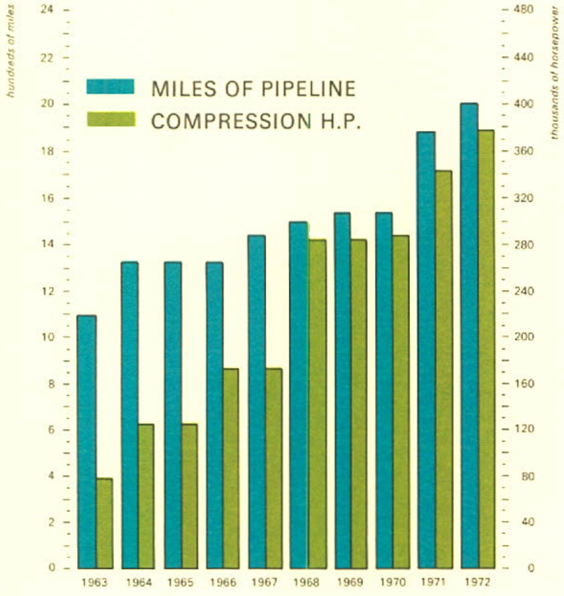
OPERATING REVENUE
CASH FLOW
millions of dollars



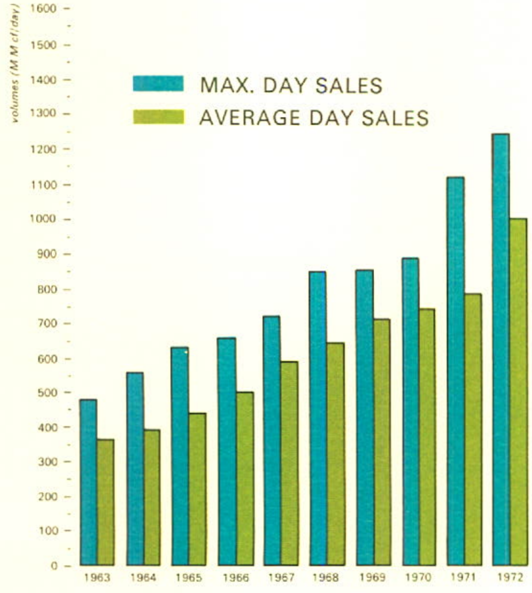
PLANT & PROPERTY
SHAREHOLDERS' EQUITY PER SHARE
millions of dollars
dollars per share



TOTAL GAS SALES
GAS EXPORT
volumes (Bcf)



MILES OF PIPELINE
COMPRESSION H.P.
hundreds of miles
thousands of horsepower



MAX. DAY SALES
AVERAGE DAY SALES
volumes (M M cf/day)

The Year in Review

SALES AND MARKETS

Gas sales in 1972 were 28 percent higher than in 1971. Total sales were 368.7 billion cubic feet, an average of 1,007 million cubic feet per day, compared with 1971 sales of 287.7 billion cubic feet or 788 million cubic feet per day.

The increased sales volumes were, in large part, the result of a full year of export sales under the new contract with El Paso Natural Gas Company. This contract increased export volumes from a maximum of 505 million cubic feet per day to 733 million cubic feet per day on November 1, 1971. In addition, a 76 million cubic feet per day increment was added to the export volumes on November 1, 1972. On an annual basis, this resulted in a 35 percent increase in export sales over the previous year, and higher sales prices under the new export contract produced a 58 percent increase in export sales revenue to $82,445,000, compared with $52,034,000 in 1971.

Sales to customers in Canada continued to grow, increasing in 1972 by approximately 15 percent. Deliveries to Inland Natural Gas Co. Ltd. were up 37 percent over the previous year, due principally to increases in Inland's industrial loads and to improvements in the pulp and paper markets. Sales to B.C. Hydro and Power Authority increased by approximately nine percent, and to Pacific Northern Gas Ltd. by seven percent. It is estimated that peak sales to Canadian customers will increase a further 17 percent in 1973.

Proposals to build a natural gas pipeline to Vancouver Island, for which the company would act as a supplier of gas, were considered by the Public Utilities Commission of British Columbia at hearings in May and June, 1972. A decision has not yet been announced.

GAS SUPPLY

Drilling activity in the company's supply area increased during 1972. A total of 208 wells were drilled, of which 59 found gas and 37 found oil. The total included 82 exploratory wells, of which 20 were natural gas discoveries and three were oil discoveries. This compares with 15 gas discoveries and three oil discoveries in the previous year.

In August, 1972, deliveries were commenced from the Pointed Mountain gas field in the Northwest Territories, through the recently completed 34-mile extension of the company's gathering line from the Beaver River field in British Columbia.

Access to market and the success ratio in both wildcat and development drilling in the company's supply area will provide incentive for continuing exploration.

With the early prospect of a market for every cubic foot of gas discovered, there has been a steady increase in drilling for natural gas in several parts of Canada, and the trend is expected to continue for at least some years. In British Columbia, however, exploration has not been as concentrated as in other areas. The Canadian Petroleum Association noted recently that in northeastern British Columbia only one wildcat well per 116 cubic miles of sedimentary rock had been drilled, compared with one well per 23 cubic miles in Alberta, and one per eight cubic miles in the United States. There still is, therefore, a great potential in B.C. for the discovery and development of sizeable reserves of gas and oil.

CONSTRUCTION

In order to provide for the additional export sales volumes commencing November 1, 1972, and for the increases in domestic sales expected during the early part of 1973, the company carried out the following construction program, at a cost of $60 million:

- 34.2 miles of 20-inch gathering line from the Beaver River field to the Pointed Mountain field.
- 87.6 miles of 36-inch mainline looping.
- 37,500 additional compression horsepower on the Fort Nelson portion of the mainline.
- Two additional gas treating units at the Fort Nelson plant, increasing its design capacity to 960 million cubic feet per day.

The 1973 construction program, designed to accommodate continuing increases in domestic demand, will include 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. On completion of this program, the rated sales capacity of the company's system will be 1.305 billion cubic feet per day. Estimated cost of the program is $36,000,000.

ADMINISTRATION

During the year, courses were conducted at various locations on the company's system in order to improve the skills of its field supervisors. In addition, the company embarked on a reclassification and apprenticeship program with the objective of upgrading pipeline employee skills. This program is under the auspices of the British Columbia Department of Labor.

In June, 1972, an agreement was signed with the Oil, Chemical and Atomic Workers International Union, which was certified as the bargaining agent for 81 employees at the Fort Nelson gas processing plant.

Effective January 1, 1973, the company assumed the full cost of


YUKON
NORTHWEST TERRITORIES
POINTED MOUNTAIN
BEAVER RIVER
FORT NELSON
BRITISH COLUMBIA
ALBERTA
FORT ST. JOHN
DAWSON CREEK
PRINCE RUPERT
TERRACE
SMITHERS
KITIMAT
HOUSTON
BURNS LAKE
ENDAKO
FRASER LAKE
VANDERHOOF
FORT ST. JAMES
SUMMIT LAKE
PRINCE GEORGE
QUESNEL
WILLIAMS LAKE
PACIFIC OCEAN
SAVONA
KAMLOOPS
VERNON
MERRITT
KELOWNA
POWELL RIVER
PENTICTON
NELSON
TRAIL
HOPE
CHILLIWACK
VANCOUVER
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

the employee retirement plan, and a provision for early retirement at age 62 was implemented. During 1972, participation in the employee savings plan rose to 82 percent of eligible employees. Those who participated directed that 70 percent of their contributions be used to purchase company shares.

FINANCIAL

Revenue from sales of gas and associated products for 1972 was $118,686,000 compared with $84,435,000 in 1971. Net income, after deduction of a special item, was $15,538,000, compared with $7,398,000 in the previous year. Cash flow increased to $31,669,000, or $3.70 per share, from $19,593,000, or $2.90 per share.

Investment and other income for 1972 totalled $1,628,000, compared with $2,507,000 in 1971. The decrease was principally due to the relatively limited availability of funds for short-term investment. Interest income and income from unconsolidated subsidiaries totalled $396,000, compared with $422,000 in 1971.

A rights offering to the shareholders covering 1,400,000 common shares was fully subscribed and completed during January, 1972. The number of issued and outstanding shares rose during the year by 1,802,602, to 8,562,943 at December 31. The increase was accounted for by the common shares rights offering already mentioned, together with shares issued on conversion of the company's Series D and E First Mortgage Pipe Line Bonds, First Series Debentures, and Series C Subordinate Debentures.

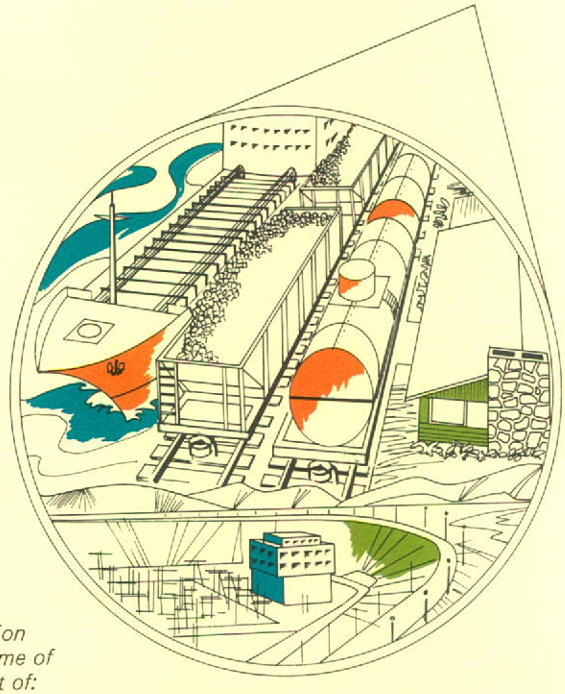
SUBSIDIARY AND ASSOCIATED COMPANIES

WESTCOAST PETROLEUM LTD. (41.3%) is an integrated exploration, production and oil pipeline company. It has interests in 11,490,000 gross acres (4,392,000 net) of prospective oil and gas lands in western and northern Canada. During 1972, the company carried out a substantial exploration and development program, resulting in the completion of three oil and 18 gas wells. Throughput of the oil pipeline averaged 59,050 barrels per day of crude oil and other liquids, compared with 61,700 in 1971.

Total revenue was $12,058,000 in 1972, down slightly from $12,069,000 in 1971. Net profit before provision for preferred dividends was $5,258,000, compared with $4,279,000 in 1971. It contributed dividends of $900,000 to the company in 1972.

SARATOGA PROCESSING COMPANY LIMITED (25%) owns and operates a gas-gathering, processing and sulphur extraction system in southern Alberta. It contributed dividends of $44,000 to the company in 1972.

PACIFIC NORTHERN GAS LTD. (26.7%), a gas transmission and distribution company, had a sales volume of 12.72 billion cubic feet during 1972, up from 11.6 billion in 1971. Total sales revenue was $6,230,000, compared with $5,300,000 for the previous year. Net profit before provision for preferred dividends was $707,000, compared with $754,000 in 1971.



PIPING ENERGY

A pipeline, and the clean, invisible natural gas it carries, seems rather unspectacular—buried safely underground. The gas supply is so continuous and reliable, it is hardly realized how far this source of energy must be transported, and how much of it is demanded daily by residential, commercial and industrial users.

Through nearly 2,000 miles of pipeline, Westcoast Transmission carries every single day a volume of gas with the energy equivalent of:

- *692 rail gondola cars with 75 tons of anthracite coal each, or*
- *853 rail tank cars with 8,500 gallons of Bunker C oil each, or*
- *the crude oil cargo of 1¾ typical T2 tankers of 18,000 tons size (210,000 barrels), or*
- *one third of the cargo carried by a 100,000 ton super tanker, or*
- *three W. A. C. Bennett hydro dams at their ultimate capacity.*

The total daily gas volume transported could provide enough energy to heat 2,265,000 homes in our coastal climate during an average winter day. Piping energy is quite spectacular after all.

Consolidated Statement of Operations

for the year ended December 31, 1972
(with comparative figures for 1971)

		1972	1971
Operating revenues:			
Gas sales — Mainline		$116,859,000	$82,496,000
Gas sales — Kingsgate *(Note 7)*		16,621,000	13,384,000
By-products sales		1,827,000	1,939,000
Miscellaneous		417,000	376,000
		135,724,000	98,195,000
Operating revenue deductions:			
Gas purchases — Mainline *(Note 1)*		47,014,000	32,289,000
Gas purchases — Kingsgate *(Note 7)*	$11,834,000		
Cost of service — Kingsgate *(Note 7)*	4,787,000	16,621,000	13,384,000
Operating and maintenance		13,096,000	10,627,000
Administrative and general		3,341,000	3,067,000
Depreciation		14,516,000	10,947,000
Taxes — other than income taxes		4,504,000	3,329,000
		99,092,000	73,643,000
Operating income		36,632,000	24,552,000
Interest income from unconsolidated subsidiaries		265,000	264,000
Share of income of unconsolidated subsidiaries *(Note 1)*		131,000	159,000
Investment and other income		1,628,000	2,507,000
		38,656,000	27,482,000
Income deductions:			
Interest on long term debt		23,773,000	22,935,000
Interest on other loans		(105,000)	220,000
Allowance for funds used during construction *(Note 1)*		(2,201,000)	(4,649,000)
Amortization		543,000	600,000
Debt discount, premium and expense *(Note 1)*		574,000	360,000
Exchange cost (gain) re:			
Operations	$ 256,000		
Redemption of long term debt	(307,000)	(51,000)	154,000
Other income deductions		115,000	386,000
		22,648,000	20,006,000
Income before special item		16,008,000	7,476,000
Loss on sale of subsidiary		—	78,000
Loss on investment		470,000	—
Net income for the year *(Note 9)*		$ 15,538,000	$ 7,398,000
Earnings per share *(Note 11)*:			
Weighted average: Income before special item		$1.89	$1.11
Net income		$1.84	$1.10
Fully diluted: Income before special item		$1.80	$1.11
Net income		$1.77	$1.10

(See accompanying notes to the consolidated financial statements)

Consolidated Statement of Retained Earnings
for the year ended December 31, 1972
(with comparative figures for 1971)

	1972	1971
Balance, beginning of year	$36,637,000	$32,607,000
Add net income for the year	15,538,000	7,398,000
	52,175,000	40,005,000
Deduct dividends	5,112,000	3,368,000
Balance, end of year	$47,063,000	$36,637,000

Consolidated Statement of Paid-in-Surplus
for the year ended December 31, 1972
(with comparative figures for 1971)

	1972	1971
Balance, beginning of year	$ 212,000	$ 141,000
Contributions in aid of construction	(2,000)	71,000
Balance, end of year	$ 210,000	$ 212,000

(See accompanying notes to the consolidated financial statements)

Consolidated Balance Sheet December 31, 1972 *(with comparative figures at December 31, 1971)*

ASSETS	1972	1971
Plant, property and equipment — at cost *(Note 2)*	$572,923,000	$520,662,000
Less accumulated depreciation	108,415,000	94,566,000
	464,508,000	426,096,000
Investments in unconsolidated subsidiaries:		
Shares *(Note 1)*	2,389,000	2,302,000
Other — at cost	2,000,000	2,000,000
	4,389,000	4,302,000
Investments — at cost *(Note 3)* (market value 1972: $34,133,000; 1971: $35,765,000)	26,972,000	27,279,000
Current assets:		
Cash	—	746,000
Temporary cash investments	—	2,506,000
Deposits with trustee for payment of principal and interest on long term debt	5,002,000	4,382,000
Due from unconsolidated subsidiaries	3,229,000	2,579,000
Accounts receivable	13,109,000	12,428,000
Inventories — at cost	2,557,000	2,169,000
Prepaid expenses *(Note 4)*	6,267,000	5,786,000
	30,164,000	30,596,000
Deferred charges:		
Unamortized debt discount, premium and expense	5,722,000	6,296,000
Unamortized unrecovered cost of abandoned pipeline *(Note 1)*	3,054,000	3,436,000
Capital stock expense and organization expense	280,000	217,000
Other	154,000	123,000
	9,210,000	10,072,000
Excess of cost of investment in subsidiary over book value at date of acquisition *(Note 1)*	1,328,000	1,489,000
	$536,571,000	$499,834,000

(See accompanying notes to the consolidated financial statements)

SHAREHOLDERS' EQUITY	1972	1971
Capital stock *(Note 5)*:		
Authorized — 2,000,000 preferred shares with a par value of $50 each — 25,000,000 common shares without nominal or par value		
Issued — 8,562,943 common shares (1971—6,760,341 common shares)	$104,328,000	$ 60,010,000
Paid-in-surplus	210,000	212,000
Retained earnings	47,063,000	36,637,000
	151,601,000	96,859,000

LIABILITIES	1972	1971
Long term debt *(Note 6)*	349,736,000	356,825,000
Bank loans and interim financing	—	16,841,000
Current liabilities:		
Bank overdraft	166,000	—
Accounts payable	14,479,000	8,337,000
Sundry taxes	216,000	128,000
Interest on debt	5,107,000	5,543,000
Long term debt due within one year	15,266,000	15,301,000
	35,234,000	29,309,000
	$536,571,000	$499,834,000

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, 1972
(with comparative figures for 1971)

	1972	1971
Source of funds:		
Operations —		
Net income for the year	$15,538,000	$ 7,398,000
Add non cash items:		
Depreciation and amortization	15,059,000	11,547,000
Other (net)	1,072,000	648,000
	31,669,000	19,593,000
Capital stock issued *(Note 5)*	44,318,000	1,128,000
Additional long term debt (net of financing costs)	17,000,000	88,334,000
Bank loans and other interim financing	—	16,841,000
Contributions in aid of construction	—	71,000
Settlement of legal action	—	6,850,000
	92,987,000	132,817,000
Application of funds:		
Additions to plant, property and equipment	52,991,000	112,025,000
Long term debt retirement (net of exchange)	24,088,000	17,045,000
Retirement of bank loans and other interim financing	16,841,000	—
Dividends	5,112,000	3,368,000
Increase in investments	163,000	260,000
Increase in deferred charges and miscellaneous items	149,000	344,000
	99,344,000	133,042,000
Decrease in working capital during the year	6,357,000	225,000
Working capital, beginning of year	1,287,000	1,512,000
Working capital (deficit), end of year	$(5,070,000)	$ 1,287,000

(See accompanying notes to the consolidated financial statements)

Notes to the Consolidated Financial Statements *December 31, 1972*

1. ACCOUNTING POLICIES:

(a) Principles of Consolidation:

(i) The consolidated statements at December 31, 1972 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., and Vancal Properties Ltd.

(ii) The Company owns all the voting shares of Saratoga Processing Company Limited and Pacific Northern Gas Ltd. The accounts of these companies have not been included in the consolidated statements because the Company's beneficial interests in these companies amount to only 25% and 26.7% respectively. The costs of these investments were $250,000 and $1,600,000 respectively. The Company carries its investments in these companies at its equity in their underlying net assets and includes in income its share of their earnings.

(iii) 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. At December 31, 1972 the unamortized balance was $1,328,233 (December 31, 1971—$1,489,237).

(b) Depreciation:
Depreciation is calculated on straight line rates determined using the economic and physical life of the assets in service at the commencement of the fiscal period.

(c) Allowance for Funds Used During Construction:
An allowance for funds used during construction was charged to plant, property and equipment at a rate of 10% for the year ended December 31, 1972 (for the year ended December 31, 1971—10%).

(d) Debt Discount, Premium and Expense:
Debt discount, premium and expense is being amortized over the terms of the respective issues. During 1972, a significant amount of debt was converted into common shares of the Company *(Note 5)*. The unamortized debt discount and expense related to the converted debentures, amounting to $180,303, was written off against 1972 income.

(e) Unrecovered Cost of Abandoned Pipeline:
Unrecovered costs of the abandoned original 24" Yoyo gathering line are being written off over the ten year period ending December 31, 1980.

(f) Gas Purchases:
Gas purchase prices under existing contracts with several suppliers in the Fort St. John area are currently being redetermined by arbitration or negotiation. The Company intends to normalize any costs resulting from the redetermined prices over the period from January 1, 1972 until the prices are again open for redetermination on January 1, 1976. Accordingly, the accounts at December 31, 1972 include a provision for increased gas costs which may result from these arbitrations or negotiations. As gas price increases are determined, any material adjustment to the Company's estimates will be recorded as an adjustment of prior period earnings.

2. PLANT, PROPERTY AND EQUIPMENT:

	December 31 1972	December 31 1971
Gathering plant	$ 90,554,228	$ 82,399,425
Products extraction plant	83,990,779	67,988,886
Transmission plant	379,848,376	342,600,985
Miscellaneous plant and equipment	17,786,312	16,407,895
	572,179,695	509,397,191
Construction in progress	743,387	11,264,811
	$572,923,082	$520,662,002

3. INVESTMENTS:

The Company's investments include 1,616,875 shares (40.2%) of the common shares and 600,000 shares (44.8%) of the preferred shares of Westcoast Petroleum Ltd. The Company's equity in the net assets of Westcoast Petroleum Ltd. was $26,500,000 at December 31, 1972 ($25,200,000 at December 31, 1971). 403,600 preferred shares of Westcoast Petroleum Ltd. are mortgaged as security for the First Mortgage Pipe Line Bonds.

4. PREPAID EXPENSES:

Included in prepaid expenses at December 31, 1972 is $6,219,878 (December 31, 1971—$5,566,674) representing prepayment against future gas deliveries and deferred interest related to these prepayments. As the volumes of gas related to the prepayments are delivered in future years, a proportionate share of the prepayment and related deferred interest will be charged to operations as gas purchase costs.

5. CAPITAL STOCK:

(a) During the year the Company issued:

(i) 1,400,000 common shares for a cash consideration of $35,062,373 pursuant to a rights offering to shareholders.

(ii) 1,000 common shares for a cash consideration of $16,875 upon exercise of employee stock options.

(iii) 340,692 common shares on the conversion of 7½% Convertible Debentures, First Series at a conversion rate of $22 per share increasing capital stock by $7,495,224.

(iv) 27,407 common shares on the conversion of 5¾% First Mortgage Pipe Line Bonds Convertible Series D at a conversion rate of $28.62 per share increasing capital stock by $784,388.

(v) 30,007 common shares on conversion of 5¾% First Mortgage Pipe Line Bonds Convertible Series E at a conversion rate of $28.62 per share increasing capital stock by $858,800.

(vi) 3,496 common shares on the conversion of 5½% Subordinate Debenture Series C at a conversion rate of $29.15 (U.S.) increasing capital stock by $100,029.

(b) Share reservations and options:

(i) By resolutions dated July 24, 1957 and October 21, 1969 the Board of Directors reserved 100,000 and 50,000 common shares, respectively, for employee options. During the year options on 4,000 shares were cancelled and may now be reallocated. Options on 2,375 shares and 29,000 shares remain to be allocated from these respective share reservations.

Details as to options outstanding at December 31, 1972, 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, 1975	$16.875	7,500
July 27, 1970	July 26, 1980	$16.875	9,500

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

(iii) 1,743,514 common shares are reserved for the conversion of the First Mortgage Pipe Line Bonds, 5¾% Convertible Series (Series D and Series E).

(iv) 2,342,457 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, 1972 was $15,400,000 (December 31, 1971—$9,900,000).

6. LONG TERM DEBT:

	December 31, 1972 (a)	December 31, 1971 (a)
Westcoast Transmission Company Limited		
First Mortgage Pipe Line Bonds		
4⅝% Series A, due 1977—$29,900,000 U.S.	$ 28,944,574	$ 34,656,045
6% Series C, due 1980—$2,050,000 U.S.	2,204,871	2,484,513
5¾% Convertible Series D, due 1984 (b)	36,763,000	40,000,000
5¾% Convertible Series E, due 1984 (b)	14,043,000	15,850,000
7% Series F, due 1988—$63,437,600 U.S.	68,358,948	72,756,755
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	59,029,000
Subordinate Debentures		
5½% Series A, due 1988—$18,860,000 U.S.	18,773,214	19,181,327
5½% Series B, due 1988—$2,852,000 U.S.	2,732,573	2,791,976
Less purchased by Company in advance of repayment requirements—$391,100 U.S.	(386,915)	(588,598)
5½% Series C, due 1988 (e)—$24,898,000 U.S.	23,933,202	24,031,250
Gas Trunk Line of British Columbia Ltd.		
First Mortgage Sinking Fund Bonds		
6% Series A, due 1979—$3,276,000 U.S.	3,339,968	3,825,436
Subordinated Debentures		
6% Series A, due 1981	2,055,000	2,280,000
Less purchased by Gas Trunk in advance of repayment requirements	(19,500)	(5,500)
Westcoast Transmission Housing Ltd.		
Housing Mortgages, 7% and 8¾%	611,510	627,683
Vancal Properties Ltd.		
7½% Secured Notes, due 1994—$4,680,032 U.S.	5,116,402	5,205,159
	365,002,847	372,125,046
Deduct long term debt due within one year shown as a current liability	15,266,437	15,300,595
	$349,736,410	$356,824,451

Long term debt payments required in the five years ending December 31 are:
1973—$15,266,000; 1974—$15,955,000; 1975—$16,028,000; 1976—$16,500,000; 1977—$20,281,000.

(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 $29.14 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.

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 undertaking.

7. GAS EXPORTED NEAR KINGSGATE, BRITISH COLUMBIA:

Included in the operating accounts are the revenues and expenses associated with deliveries of gas in southern Alberta, southern British Columbia and near Kingsgate for export to the United States. Under the terms of the sales agreements, the sales price of the gas delivered is equivalent to the cost of the gas to the Company.

8. REMUNERATION OF DIRECTORS AND OFFICERS:

For the year ended December 31, 1972:

(a) Seven directors in their capacity as directors were paid $36,800 (for the year ended December 31, 1971 seven directors were paid $23,657).

(b) Eleven officers in their capacity as officers, including four past officers, were paid $376,615 (for the year ended December 31, 1971 ten officers, including four past officers, were paid $380,233).

(c) Four officers, including one past officer, served as directors (for the year ended December 31, 1971 four officers, including one past officer, served as directors).

9. 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. If the tax allocation basis had been used for providing for income taxes, the provision for the year ended December 31, 1972 would have been $7,600,000 (for the year ended December 31, 1971—$3,500,000) and the accumulated provision to December 31, 1972 would have been $34,800,000.

The Company uses the taxes payable basis which is followed by other companies in the pipeline industry and which it considers to be appropriate to the revenues to be derived from present and anticipated gas sales contracts.

The Company has informed the National Energy Board that it proposes to continue to follow the practice of recording only income taxes currently payable and has been instructed by the National Energy Board that no change should be made in this procedure without its approval.

10. CONTINGENCIES AND COMMITMENTS:

(a) The Company has undertaken to pay the amount of the deficiencies, if any, incurred by an unconsolidated subsidiary with respect to the payments due from time to time on that company's First Mortgage Bonds which totalled $16,650,000 (U.S.) at December 31, 1972 (December 31, 1971—$16,650,000 (U.S.)).

(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 an application with the National Energy Board with respect to a major construction program which is estimated to cost approximately $36,000,000 and is expected to be commenced and completed during 1973. The Company has not incurred any costs relating to this construction program to December 31, 1972 but an amount of $7,000,000 has been committed.

11. 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 8%.

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, 1972 and the consolidated statements of operations, retained earnings, paid-in-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, subject to such adjustments as may result from the redetermination of gas prices referred to in Note 1, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 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 on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Vancouver, Canada,
February 7, 1973.

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.

TRANSFER AGENTS

SHARES, BONDS, 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 5, B.C.

1212 - One Palliser Square
Calgary, Alberta

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 Dec. 31	Years Ended March 31						
	1972	1971	1970	1970	1969	1968	1967	1966	1965	1964
	$119,103	$ 84,811	$ 57,053	$ 77,737	$ 71,685	$ 65,013	$ 55,633	$ 49,048	$ 42,130	$ 39,284
	15,538	7,398	2,827	5,084	5,946	8,659	5,549	2,320	5,126	3,706
	1.84	1.10	.42	.76	.89	1.29	.83	.34	.77	.57
	31,669	19,593	11,345	16,115	15,681	17,675	13,942	11,163	11,059	9,852
	3.70	2.90	1.69	2.40	2.34	2.64	2.09	1.67	1.67	1.53
	536,571	499,834	402,667	373,465	373,766	344,153	309,969	279,011	284,397	240,209
	349,736	356,825	283,353	234,950	242,144	168,092	175,889	186,069	194,154	148,083
	572,923	520,662	419,282	389,058	380,055	351,726	335,097	293,675	294,152	238,416
	108,415	94,566	85,450	77,465	67,412	58,126	56,053	48,373	40,394	34,076
	151,601	96,859	91,630	92,213	90,353	86,032	78,729	74,764	71,848	64,243
	17.70	14.33	13.67	13.76	13.49	12.85	11.81	11.22	10.86	10.00
	368,679	287,659	197,384	258,887	248,095	217,300	191,040	169,848	146,834	136,755
	1,007,319	788,106	717,759	709,279	679,709	593,714	523,397	465,337	402,287	373,648
	1,251,035	1,122,791	886,679	866,935	854,074	719,348	685,236	645,991	556,801	475,024
	1,231,000	1,102,000	864,000	864,000	864,000	864,000	698,000	637,000	637,000	571,000
	1289.5	1201.9	966.0	966.0	966.0	966.0	908.4	867.4	867.4	867.4
	712.8	678.6	567.7	567.7	564.1	531.9	526.9	462.1	458.8	458.8
	381,220	343,720	287,820	287,820	283,220	283,220	172,820	172,820	123,800	123,800
	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	6,424,145
	10,630	10,450	10,585	10,183	10,765	11,560	11,822	12,650	14,500	14,773
	502	494	518	526	514	471	402	330	324	298

NOTE: Figures have been changed from those previously reported to reflect subsequent changes in accounting policies.

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