Annual Report 1971
Westcoast Transmission Company Limited

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, President and
Chief Executive Officer
Westcoast Transmission Company Limited
Vancouver, B.C.

ARTHUR F. MAYNE
Financial Consultant, Montreal, P.Q.

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

*EDWIN C. PHILLIPS
Executive Vice 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
Vice President and Treasurer
Pacific Petroleums Ltd.
Calgary, Alberta

NORMAN R. WHITTALL
Financier, Vancouver, B.C.

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

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

**Member of Executive Committee*

Officers and other executives

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

EDWIN C. PHILLIPS
Executive Vice President

JOHN ANDERSON
Vice President, Treasurer and General Counsel

L. M. YOUELL
Secretary

G. H. BOWMAN
Director of Gas Supply

H. L. ELLIS
Director of Process and Construction

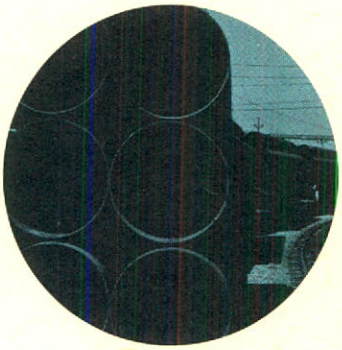
J. E. JOHNSON
Director of Transmission and Engineering

D. O. HUNTER
Assistant Treasurer

D. M. LAMONT
Assistant Secretary

JOHN PAYNE
Comptroller

C. D. WILLIAMS
Manager - Legal Division

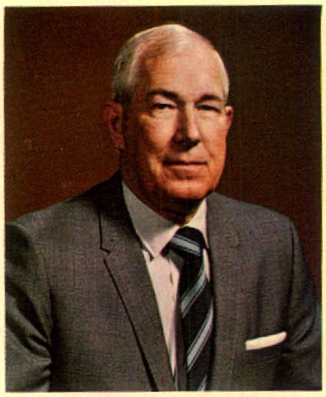


Pipe destined for installation in the gas-gathering system in the Yukon Territory and Northwest Territories starts first leg of journey by rail from Vancouver.

Results in Brief

Financial	12 Months Ended December 31 1971	12 Months Ended December 31 1970
Operating Revenues	$ 84,811,000	$ 77,739,000
Net Income	7,398,000	4,454,000
— per share	1.10	.66
Cash Flow	19,593,000	15,616,000
— per share	2.90	2.33
Total Assets	499,834,000	402,667,000
Shareholders' Equity	96,860,000	91,630,000
— per share	14.33	13.67
Shares Outstanding	6,760,341	6,703,817
Number of Shareholders	10,450	10,585
Operating		
Total Gas Sales, Mcf	287,659,000	269,546,000
Daily Average Sales, Mcf	788,106	738,483
Peak Day Sales, Mcf	1,122,791	886,679
Number of Employees	494	518

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.



Kelly H. Gibson
Chairman of the Board, President
and Chief Executive Officer

To the Shareholders

The year 1971 established records for revenue and throughput volume, and net income was up substantially over 1970 figures (as recast to reflect the change in the fiscal year). These and other factors combined to make 1971 one of the best years in the company's history.

On November 1, 1971, the new export contract became effective. This contract provided for an increase of export gas volume from 505 million to 733 million cubic feet per day.

Net income per share for 1971 was $1.10 compared to 66 cents for the full year 1970, representing a 66 percent increase. Operating revenues were $84,811,000 compared to $77,739,000 in 1970, and the volume of gas sold was 287 billion cubic feet, up from 269 billion in 1970.

A new high in peak-day sales of 1.123 billion cubic feet was established in December of 1971. The record set in the previous year was 887 million.

During the year, the company completed a $135,000,000 construction program, expanding the mainline mileage almost one quarter, and extending the gathering system another 110 miles to the north.

In April 1971, the company sold $90,000,000 of 8 percent first mortgage pipeline bonds. This was the largest corporate bond issue of its kind ever sold exclusively to the public of Canada. The proceeds were used for expansion of facilities.

In December 1971, an offering of 1,400,000 common shares was made to all shareholders on the basis of rights to purchase one share at $25 (Canadian) for each five shares held. In addition, under a secondary offering, holders of rights were entitled to offer to purchase, at the same price, any shares not subscribed for in the initial offering. The offering was over-subscribed.

The proceeds of this $35,000,000 issue were used in part to retire short-term bank loans incurred in connection with the system expansion, and the balance will be utilized for part of the 1972 construction expenditures.

During September 1971, the amalgamation of two affiliates of the company, Western Pacific Products & Crude Oil Pipelines Ltd. and Westcoast Production Co. Ltd., became effective under the name Westcoast Petroleum Ltd. This merger created an integrated exploration, production and pipeline company with strong management and financial resources.

On October 28, 1971, Mr. John M. Houchin, Deputy Chairman of the Board of Directors of Phillips Petroleum Company, resigned as a director of the company. Mr. Houchin had served as a director of Westcoast since 1964, and we are grateful for his contributions to the company's business affairs. The vacancy was filled by the appointment of Mr. Warren A. Roberts, Executive Vice-President and Director of Phillips Petroleum Company.

The death of the Honourable Frank M. Ross, on December 11, 1971, is recorded with regret. A director since 1956, he was one of the leading industrialists in Canada and a former Lieutenant-Governor of the Province of British Columbia. His advice and counsel will be missed. Mr. J. Ernest Richardson was appointed to fill the vacancy on the board. Mr. Richardson is Chairman of the Board, President and Chief Executive Officer of the British Columbia Telephone Company.

The excellent results of 1971 operations were primarily due to the efficiency of operations in all divisions of the company. The skill and energy of our employees were essential in enabling the company to complete a large construction program, as well as attaining the improved level of profitability. The Board of Directors and management warmly acknowledge the contribution of the employees to the company's achievement during 1971.

Continued industrial expansion in the company's marketing area, and improvement of economic conditions in general are forecast for 1972. The result will be a continued increase in gas sales. We look forward with confidence to a higher level of earnings for 1972.

On behalf of the Board,

Kelly Gibson

The Year in Review

Construction

The 1971 construction program was a major one, by which 236 miles of 36-inch mainline looping were added to the system, bringing the mainline total to 1,202 miles. The gas-gathering network was increased to 679 miles by the construction of a 110-mile, 24-inch line to the Beaver River gas field. The year's construction thus increased mainline mileage by 24 percent, and gathering-system mileage by 19 percent. Two new compressor stations were installed on the Fort Nelson section of the mainline, as well as additional compressor units at existing stations. Total horsepower at the end of the year was 319,340, and the rated capacity of the system was 1.180 billion cubic feet per day, or 26 percent more than a year earlier.

Capacity of the Fort Nelson plant was increased by 60 percent during 1971, to 700 million cubic feet per day of sales gas.

The 1972 construction program will include 86 miles of 36-inch mainline looping, 34 miles of 20-inch gathering line to the Pointed Mountain field, 37,500 additional compression horsepower, including one new station, and two more gas treating units at the Fort Nelson plant. The program will increase the capacity of the Fort Nelson plant to 960 million cubic feet per day.

Upon completion of the construction program, the capacity of the pipeline system will be 1.320 billion cubic feet per day. Total estimated cost of the 1972 program is $73,000,000.

Sales and markets

Total gas sales in 1971 were up 7 percent over 1970, to 287 billion cubic feet, an average of 788 million cubic feet per day. The comparable 1970 average was 738 million.

On November 1, 1971, the new export contract with El Paso Natural Gas Company became effective, increasing the volume from 505 million to 733 million cubic feet per day. The old sales contract was terminated on that date, and the average price of all the natural gas delivered to El Paso was increased by 24 percent. This price increase applies to 70 percent of the total 1972 gas sales volume anticipated by the company.

Sales to customers in Canada increased by approximately 12 percent during the year, excluding sales to B.C. Hydro for thermal electric generation. There was a much lower thermal requirement because of additional power being available from the Peace River Dam. Other firm sales to B.C. Hydro were 16 percent more than in 1970, indicating a continuation of healthy growth rates.

Beginning November 1, 1972, a further 75 million cubic feet per day will be delivered to El Paso under the export contract. In addition, Canadian customers have nominated for 15 percent higher gas volumes in 1972.

The 1971 increase in sales to Inland Natural Gas Co. Ltd. was modest, as many pulp and paper mills operated below capacity due to poor markets for their products. However, prospects for 1972 are for a distinct improvement. The estimated increase in sales to Inland for 1972 is 21.5 percent, four times the increase of 1971 over 1970.

Pacific Northern Gas Ltd. was the fastest growing customer in the past year, as sales to that company increased by 28 percent.

Proposals to build a pipeline to Vancouver Island will be considered by the Public Utilities Commission of the Province of British Columbia in May, 1972, with a decision expected by the end of July. This proposed pipeline will provide an important new sales outlet for the company. Present estimates are that deliveries could commence in November, 1974, at an initial rate of 25 billion cubic feet per year, or a maximum day of approximately 90 million cubic feet.

Gas supply

Exploratory activity and rate of discovery in the company's supply area continued in the past year at a satisfactory level. During 1971, 177 wells were drilled, 95 being exploratory. Out of the total, 29 wells found gas and 42 found oil. Discoveries included 15 of natural gas and 3 of oil, compared to 20 gas and 3 oil discoveries in 1970. Toward the end of the year, there was a distinct increase in drilling activity. This is an indication that the downward trend of the past few years may be reversed in 1972.


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
EVERETT
SEATTLE
WASHINGTON
WESTCOAST TRANSMISSION MAINLINE
WESTCOAST TRANSMISSION GATHERING LINES
PACIFIC NORTHERN GAS
PROPOSED VANCOUVER ISLAND PIPELINE
INLAND NATURAL GAS
B.C. HYDRO
EL PASO
MAJOR GAS FIELD

During the year, the gathering line from Fort Nelson to the Beaver River field was completed, making available an additional 200 million cubic feet of gas per day. In the Fort St. John area, additional fields and newly contracted gas were connected to the company's gathering system. The additional gas being received will offset the normal deliverability decline in some other connected fields in the area.

In early 1972, the National Energy Board approved the 1972 expansion program, including 86 miles of mainline looping, and a 34-mile extension of the gathering system from Beaver River to Pointed Mountain in the Northwest Territories, near the junction of the Yukon and British Columbia boundaries. Deliveries of approximately 125 million cubic feet per day from the Pointed Mountain field will commence this year. Construction of the necessary field gathering and dehydration facilities has already begun.

Administration

Emphasis on the program for closer cost control and greater efficiency in company operations, inaugurated in 1970, continued throughout the year. Office and field supervisors attended separate courses on principles of supervision, and this program will be continued in 1972.

The major improvement in net earnings and cash flow for the year is evidence of the excellent results obtained through the effort and co-operation of the employees. Despite a maior construction program and increased activity in other areas of company operations, expenses in several important categories were lower than in the previous year.

During the year, the company improved the employee retirement plan, which will become non-contributory, effective January 1, 1973. In addition, a savings plan was instituted on November 1, 1971, in which 80 percent of the eligible employees participated. Of these, 64 percent elected to have their total contribution invested in the purchase of company shares.

Financial

The revenue from sales of gas and by-products for 1971 was $84,435,000, compared to $77,005,000 in 1970. Net income was $7,398,000 compared to $4,454,000 in the corresponding twelve-month period. Cash flow increased to $19,593,000 or $2.90 per share, from $15,616,000 or $2.33 in the previous year.

Investment and other income for 1971 totalled $2,507,653, compared to $1,297,107 in 1970. The increase was principally due to the investment of funds not immediately required for capital expenditures. The share of interest income and income of unconsolidated subsidiaries recorded in the company earnings, amounted to $422,680 in 1971, compared to $87,935 in 1970.

In April, 1971, the company successfully issued $90 million of first mortgage pipeline bonds, 8%, Series "G", together with warrants entitling the holders to purchase shares of the company at $26 per share prior to May 15, 1976 and at $29 per share thereafter up to May 15, 1981. This was the largest single bond issue of its type ever placed by a company in Canada and was fully subscribed by Canadian investors. The proceeds of this issue were used for capital expenditures in connection with the facilities expansion.

An offering of 1,400,000 common shares was made to all shareholders of record on December 13, 1971, on the basis of rights to purchase one common share at $25 (Canadian) for each five shares held. In addition, under a secondary offering, holders of rights were entitled to subscribe, at the same price, for shares not subscribed for in the initial offering.

The offering expired on January 14, 1972. By that date, 1,311,700 shares had been subscribed for under the initial one-for-five offering. Accordingly, only 88,300 shares were available for the secondary offering in which rights holders requested 204,100 shares. Because of this over-subscription, a pro-rata distribution of 43 percent was required. The $35,000,000 proceeds were used in part to retire short-term bank loans incurred in connection with the system expansion, and the balance will be utilized for part of the 1972 construction expenditures.

After travelling over a thousand miles, gas leaves Westcoast's meter station at Huntingdon, British Columbia, for El Paso's receiving facilities (background) at Sumas, Washington.

Subsidiary and associated companies

WESTCOAST PETROLEUM LTD. (41.4%) On September 21, 1971, the amalgamation of Westcoast Production Co. Ltd. and Western Pacific Products & Crude Oil Pipelines Ltd. became effective under the name Westcoast Petroleum Ltd. This merger created an integrated exploration, production and pipeline company with strong management and financial resources.

This company has interests in 11, 573,480 acres gross (4,371,371 net) of prospective oil and gas lands in western and northern Canada. During the past year, the company carried out a substantial exploration and development program, resulting in 8 oil and 14 gas wells out of 51 wells drilled.

Drilling of the first exploratory well in the company's Arctic acreage commenced in 1972 on Graham Island. The company will have an 8¾ percent interest in the farmout acreage after the drilling of the earning well.

During the year, the company negotiated a farmout to Gulf Oil Canada Ltd. on part of its acreage in the Greely Fiord area of Ellesmere Island. Gulf will conduct a 100-mile seismic survey and drill one well to earn a 50 percent interest in 185,000 acres, and has the option to earn a 50 percent interest on 272,000 additional acres in return for doing additional seismic work and drilling another well. The company's interest in the acreage will decrease from the present 77 percent to 38.5 percent upon completion of Gulf's commitments.

Throughput of the company's pipeline averaged 61,700 barrels per day of crude oil and liquids for the year compared to 62,300 in 1970. Operating income was approximately the same as the year before.

SARATOGA PROCESSING COMPANY LIMITED (25%) This company, which owns and operates a gas-gathering and processing system in southern Alberta, contributed dividends of $43,750 to Westcoast Transmission during 1971.

PACIFIC NORTHERN GAS LTD. (26.7%) This gas-transmission and distribution company continued to increase its sales in 1971. Total sales volume was 11.6 billion cubic feet, representing an increase of 28 percent over the total of 9 billion the previous year. Total sales revenue was $5,300,000 compared to $4,000,000 in 1970.

Pacific Northern Gas is one of the applicants for permission to construct and operate a gas pipeline to Vancouver Island, including distribution in the communities not already franchised. Hearings before the Public Utilities Commission are scheduled to commence in May, 1972, for a decision by the end of July.

Westcoast's plant, near Fort Nelson, British Columbia, is the northernmost operation of its kind in the world, and is one of the largest gas-processing facilities in North America.

Consolidated Statement of Operations

for the twelve months ended December 31, 1971
(with comparative figures for the nine months ended December 31, 1970)

		1971 (12 months)	1970 (9 months)
OPERATING REVENUES:			
Gas sales - Mainline		$ 82,496,000	$ 55,192,000
Gas sales - Kingsgate *(Note 7)*		13,384,000	9,611,000
By-product sales		1,939,000	1,359,000
Miscellaneous		376,000	502,000
		98,195,000	66,664,000
OPERATING REVENUE DEDUCTIONS:			
Gas purchases - Mainline		32,289,000	22,066,000
Gas purchases - Kingsgate *(Note 7)*	$9,599,000		
Cost of service - Kingsgate *(Note 7)*	3,785,000	13,384,000	9,611,000
Operating and maintenance		10,627,000	8,599,000
Administrative and general		3,067,000	1,923,000
Depreciation		10,947,000	8,309,000
Taxes - other than income taxes		3,329,000	2,658,000
		73,643,000	53,166,000
OPERATING INCOME		24,552,000	13,498,000
INTEREST INCOME FROM UNCONSOLIDATED SUBSIDIARIES		264,000	11,000
SHARE OF INCOME OF UNCONSOLIDATED SUBSIDIARIES		159,000	123,000
INVESTMENT AND OTHER INCOME		2,507,000	864,000
		27,482,000	14,496,000
INCOME DEDUCTIONS:			
Interest on long term debt		22,935,000	10,608,000
Interest on other loans		220,000	1,269,000
Interest charged to construction (credit)		(4,649,000)	(816,000)
Amortization *(Note 1)*		600,000	124,000
Debt discount, premium and expense		360,000	165,000
Exchange cost re:			
Operations	$ 227,000		
Redemption of long term debt	(73,000)	154,000	319,000
Other income deductions		386,000	—
		20,006,000	11,669,000
INCOME BEFORE SPECIAL ITEM		7,476,000	2,827,000
Loss on sale of subsidiary		78,000	—
NET INCOME FOR THE PERIOD *(Note 9)*		$ 7,398,000	$ 2,827,000
Earnings per share *(Note 11)*: Weighted average		$1.10	$ .42
Fully diluted		$1.10	$ .42

Consolidated Statement of Retained Earnings

for the twelve months ended December 31, 1971
(with comparative figures for the nine months ended December 31, 1970)

	1971 (12 months)	1970 (9 months)
BALANCE, BEGINNING OF PERIOD		
As previously reported	$ 32,711,000	$ 33,235,000
Adjustments of a subsidiary's prior years' income taxes	104,000	104,000
As restated	32,607,000	33,131,000
ADD: net income for the period	7,398,000	2,827,000
	40,005,000	35,958,000
DEDUCT: dividends	3,368,000	3,351,000
BALANCE, END OF PERIOD	$ 36,637,000	$ 32,607,000

(See accompanying notes to the consolidated financial statements)

Consolidated Balance Sheet

December 31, 1971 (with comparative figures at December 31, 1970)

ASSETS	1971	1970
PLANT, PROPERTY AND EQUIPMENT - at cost *(Note 2)*	$520,662,000	$419,282,000
Less accumulated depreciation	94,566,000	85,450,000
	426,096,000	333,832,000
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES:		
Shares *(Note 1)*	2,302,000	2,165,000
Other - at cost	2,000,000	2,000,000
	4,302,000	4,165,000
INVESTMENTS - at cost *(Note 3)* (market value 1971 - $35,765,000, 1970 - $29,625,000)	27,279,000	27,049,000
CURRENT ASSETS:		
Cash	746,000	1,446,000
Temporary cash investments	2,506,000	6,500,000
Deposits with trustee for payment of interest and principal on long term debt	4,382,000	4,803,000
Due from unconsolidated subsidiaries	2,579,000	2,723,000
Accounts receivable	12,428,000	8,664,000
Inventories - at cost	2,169,000	2,831,000
Prepaid expenses *(Note 4)*	5,786,000	2,229,000
	30,596,000	29,196,000
DEFERRED CHARGES:		
Unamortized debt discount, premium and expense	6,296,000	4,474,000
Unamortized unrecovered cost of abandoned pipeline *(Note 1)*	3,436,000	—
Capital stock expense and organization expense	217,000	53,000
Other	123,000	2,152,000
	10,072,000	6,679,000
EXCESS OF COST OF INVESTMENT IN SUBSIDIARIES OVER BOOK VALUE AT DATE OF ACQUISITION *(Note 1)*	1,489,000	1,746,000
	$499,834,000	$402,667,000

(See accompanying notes to the consolidated financial statements)

SHAREHOLDERS' EQUITY	1971	1970
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 — 6,760,341 common shares (1970 - 6,703,817 common shares	$ 60,010,000	$ 58,882,000
PAID-IN-SURPLUS	212,000	141,000
RETAINED EARNINGS	36,637,000	32,607,000
	96,859,000	91,630,000
LIABILITIES		
LONG TERM DEBT *(Note 6)*	356,825,000	283,353,000
BANK LOANS AND INTERIM FINANCING *(Note 12)*	16,841,000	—
CURRENT LIABILITIES:		
Bank loans	—	78,000
Accounts payable	8,337,000	13,241,000
Property and sundry taxes	128,000	247,000
Interest on debt	5,543,000	2,729,000
Long term debt due within one year	15,301,000	11,389,000
	29,309,000	27,684,000
	$499,834,000	$402,667,000

On behalf of the Board:

E. Phillips Director

John Anderson Director

Consolidated Statement of Source and Application of Funds

for the twelve months ended December 31, 1971
(with comparative figures for the nine months ended December 31, 1970)

	1971 (12 months)	1970 (9 months)
SOURCE OF FUNDS:		
Operations—		
Net income for the period	$ 7,398,000	$ 2,827,000
Add non cash items:		
Depreciation and amortization	11,547,000	8,432,000
Other (net)	648,000	86,000
	19,593,000	11,345,000
Capital stock issued	1,128,000	45,000
Additional long term debt (net of financing costs)	88,334,000	58,843,000
Bank loans and other interim financing	16,841,000	27,172,000
Contributions in aid of construction	71,000	—
Settlement of legal action *(Note 1)*	6,850,000	—
	132,817,000	97,405,000
APPLICATION OF FUNDS:		
Additions to plant, property and equipment *(Note 1)*	112,025,000	30,547,000
Long term debt retirement (net of exchange)	17,045,000	11,752,000
Retirement of bank loans and other interim financing	—	27,171,000
Dividends	3,368,000	3,351,000
Purchase of note of unconsolidated subsidiary	—	2,000,000
Increase in investments	260,000	54,000
Deferred charges related to legal action	165,000	818,000
Increase (decrease) in other deferred charges and miscellaneous items	179,000	(343,000)
	133,042,000	75,350,000
INCREASE (DECREASE) IN WORKING CAPITAL DURING THE PERIOD	(225,000)	22,055,000
WORKING CAPITAL (DEFICIT), BEGINNING OF PERIOD	1,512,000	(20,543,000)
WORKING CAPITAL, END OF PERIOD	$ 1,287,000	$ 1,512,000

Consolidated Statement of Paid-In Surplus

for the twelve months ended December 31, 1971
(with comparative figures for the nine months ended December 31, 1970)

	1971 (12 months)	1970 (9 months)
BALANCE, BEGINNING OF PERIOD	$ 141,000	$ 141,000
ADD contributions in aid of construction	71,000	—
BALANCE, END OF PERIOD	$ 212,000	$ 141,000

(See accompanying notes to the consolidated financial statements)

Notes to the Consolidated Financial Statements

December 31, 1971

1. ACCOUNTING POLICIES:

(a) Principles of Consolidation:

(i) The consolidated statements at December 31, 1971 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, 1971 the unamortized balance was $1,489,237 (December 31, 1970 - $1,650,241).

(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) Interest During Construction:

Interest during construction was charged to plant, property and equipment at a rate of 10% for the year ended December 31, 1971 (nine months ended December 31, 1970 - 10%).

(d) Debt Discount, Premium and Expense:

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

(e) Amortization:

During the year the Company agreed to an out-of-Court settlement of $6,850,000 in an action against a pipe manufacturer for recovery of costs and consequential damages incurred in the construction, testing and subsequent abandonment of the original 24" Yoyo gathering line. On the direction of The National Energy Board the unrecovered costs of $3,817,515, previously set up in Plant, Property and Equipment, are now carried as a deferred charge and are being written off over a ten year period which commenced January 1, 1971.

2. PLANT, PROPERTY AND EQUIPMENT:

	December 31 1971	December 31 1970
Gathering plant	$ 82,399,425	$ 58,166,892
Products extraction plant	67,988,886	48,922,949
Transmission plant	342,600,985	260,077,870
Miscellaneous plant and equipment	16,407,895	17,310,717
	509,397,191	384,478,428
Construction in progress	11,264,811	34,803,370
	$520,662,002	$419,281,798

3. INVESTMENTS:

During the year Western Pacific Products & Crude Oil Pipelines Ltd. and Westcoast Production Co. Ltd. amalgamated as Westcoast Petroleum Ltd. The Company received 1,616,875 shares (40.25%) of the common stock and 600,000 shares (44.78%) of the $1.50 Exchangeable (Convertible) Redeemable Voting Preferred, $25.00 par value, shares of the amalgamated company in exchange for the previous holdings of 1,616,875 shares of common stock of Westcoast Production and 3,000,000 shares of the common stock of Western Pacific Products. The Company's equity in the net assets of Westcoast Petroleum Ltd. was $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, 1971 is an amount of $5,566,674 (December 31, 1970 $2,058,953) representing prepayment against future gas deliveries from the Beaver River and Pointed Mountain gas fields and deferred interest related to these prepayments. The Company completed construction of a pipeline to connect the Beaver River gas field with the Fort Nelson processing plant during 1971.

5. CAPITAL STOCK:

(a) During the year the Company issued 12,400 shares for a cash consideration of $157,435 upon the exercise of employee stock options. 44,124 shares were issued on the conversion of 7½% Convertible Debentures, First Series at a conversion rate of $22 per share increasing share capital by $970,728.

(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. Options on 2,375 shares and 25,000 shares remain to be allocated from these respective share reservations. The Directors may from time to time grant options at an option price of not less than 90% of the closing price of the Common Shares of the Company on The Toronto Stock Exchange on the day any such option is granted. The options are exercisable generally at the cumulative rate of 20% per year.

Details as to options outstanding at December 31, 1971, 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	22,000

(ii) 857,632 shares are reserved for conversion of the 5½% Subordinate Debentures, Series C, at the conversion rate as adjusted in accordance with the terms of the Subordinate Debenture Indenture.

(iii) 1,951,432 shares are reserved for the conversion of the First Mortgage Pipe Line Bonds, 5¾% Convertible Series (Series D) and (Series E) at the conversion rate as adjusted in accordance with the terms of the First Mortgage.

(iv) 2,683,149 shares are reserved for conversion of the 7½% Convertible Debentures, First Series at a conversion rate of $22 per share. At December 31, 1971, 44,124 shares had been issued upon conversion of $971,000 principal amount of Debentures.

(v) 1,800,000 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.

(vi) 1,400,000 shares were reserved for issuance on the exercise of Rights granted to shareholders of record on December 13, 1971. The offer to shareholders expired on January 14, 1972 (See also Note 12).

(c) Authorized Capital:

The Company was granted Letters Patent dated August 16, 1971 continuing it as a company under Part 1 of the Canada Corporations Act. Such Letters Patent provide for an increase in the authorized capital of the Company by the creation of 2,000,000 Preferred Shares of the par value of $50 each.

(d) 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 capital stock (other than stock dividends). Under the most restrictive provision the amount available for dividends at December 31, 1971 was $9,900,000. (December 31, 1970 - $10,000,000).

6. LONG TERM DEBT:

	December 31 1971 (a)	December 31 1970 (a)
Westcoast Transmission Company Limited		
First Mortgage Pipe Line Bonds		
4⅜% Series A, due 1977 (1971 - $35,800,000 U.S., 1970 - $41,700,000 U.S.)	$ 34,656,045	$ 40,367,516
6% Series C, due 1980 (1971 - $2,310,000 U.S., 1970 - $2,570,000 U.S.)	2,484,513	2,764,156
5¾% Convertible Series D, due 1984 (b)	40,000,000	40,000,000
5¾% Convertible Series E, due 1984 (b)	15,850,000	15,850,000
7% Series F, due 1988 (1971 - $67,518,800 U.S., 1970 - $71,600,000 U.S.)	72,756,755	77,154,562
8% Series G, due 1991	90,000,000	—
Debentures		
7½% Convertible First Series, due 1991 (c)	59,029,000	60,000,000
Subordinate Debentures		
5½% Series A, due 1988 (1971 - $19,270,000 U.S., 1970 - $19,680,000 U.S.)	19,181,327	19,589,440
5½% Series B, due 1988 (1971 - $2,914,000 U.S., 1970 - $2,976,000 U.S.)	2,791,976	2,851,380
Less purchased by Company in advance of repayment requirement (1971 - $596,000 U.S., 1970 - $174,500 U.S.)	(588,598)	(171,572)
5½% Series C, due 1988 (d) (1971 - $25,000,000 U.S., 1970 - $25,000,000 U.S.)	24,031,250	24,031,250
Gas Trunk Line of British Columbia Ltd.		
First Mortgage Sinking Fund Bonds		
6% Series A, due 1979 (1971 - $3,752,000 U.S., 1970 - $4,228,000 U.S.)	3,825,436	4,310,904
Subordinated Debentures		
6% Series A, due 1981	2,280,000	2,445,000
Less purchased by Gas Trunk in advance of repayment requirements	(5,500)	(56,000)
Westcoast Transmission Housing Ltd.		
Housing Mortgages, 5¼% to 8¾%	627,683	213,740
Vancal Properties Ltd.		
7½% Secured Notes, due 1994 (1971 - $4,851,882 U.S., 1970 - $4,928,691 U.S.)	5,205,159	5,287,561
Westcoast Helicopters Ltd.		
Finance contracts at various rates	—	20,955
Demand Note	—	83,334
	372,125,046	294,742,226
Deduct long term debt due within one year shown as a current liability	15,300,595	11,389,322
	$356,824,451	$283,352,904

Long term debt payments required in the five years ending December 31 are: 1972 - $15,300,000; 1973 - $15,735,000; 1974 - $16,083,000; 1975 - $16,093,000; 1976 - $16,556,000.

(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 capital stock at various rates from $28.62 to $31.98 per share until November 1, 1976.

(c) Convertible into capital stock at $22 per share until December 31, 1975 and thereafter at $25 per share until December 31, 1980.

(d) Convertible into capital stock 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 undertakings.

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, 1971:

(a) Seven directors in their capacity as directors were paid $23,657 (for the nine months ended December 31, 1970, seven directors were paid $17,635).

(b) Ten officers in their capacity as officers (including four past officers) were paid $380,233 (for the nine months ended Decem- 31, 1970, thirteen officers (including seven past officers) were paid $301,741).

(c) Four officers (including one past officer) served as directors (in the nine months ended December 31, 1970, nine officers (including five past officers) 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, 1971 would have been $3,500,000 (for nine months ended December 31, 1970 - $1,500,000) and the accumulated provision to December 31, 1971 would have been $27,200,000.

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 practise 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, 1971 (December 31, 1970 - $13,875,000 (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) A major construction program which is estimated to cost approximately $55,000,000 is expected to be completed during 1972. Of this amount, $9,000,000 has been included in the accounts at December 31, 1971, and an additional $11,000,000 has been committed.

11. EARNINGS PER SHARES:

Earnings per share have been calculated on the weighted average number of shares outstanding during the period. Earnings per share on a fully diluted basis were calculated after assuming conversion of the convertible bonds and debentures and exercise of share purchase warrants and stock options.

12. NEW FINANCING:

Subsequent to December 31, 1971, the Company issued 1,400,000 common shares at a price of $25.00 per share pursuant to a rights offering to shareholders. The proceeds from the issue, which were approximately $35,000,000, were partly applied to repay bank loans obtained in connection with major construction projects.

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, 1971 and the consolidated statements of operations, retained earnings, paid-in-surplus, and source and application of funds for the twelve months 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, 1971 and the results of their operations and the source and application of their funds for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Vancouver, Canada,
February 9, 1972.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Ten Year Financial and Statistical Review

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

	Year Ended Dec. 31	Nine Months Ended Dec. 31				Years Ended March 31				
FINANCIAL	**1971**	**1970**	**1970**	**1969**	**1968**	**1967**	**1966**	**1965**	**1964**	**1963**
Operating Revenues	$ 84,811	$ 57,053	$ 77,737	$ 71,685	$ 65,013	$ 55,633	$ 49,048	$ 42,130	$ 39,284	$ 34,480
Net Income	7,398	2,827	5,084	5,946	8,659	5,549	2,320	5,126	3,706	1,372
— per share	1.10	.42	.76	.88	1.29	.83	.34	.77	.57	.22
Cash Flow	19,593	11,345	16,115	15,681	17,675	13,942	11,163	11,059	9,852	8,706
— per share	2.90	1.69	2.40	2.34	2.64	2.09	1.67	1.67	1.53	1.40
Total Assets	499,834	402,667	373,465	373,766	344,153	309,969	279,011	284,397	240,209	215,886
Long Term Debt	356,824	283,353	234,950	242,144	168,092	175,889	186,069	194,154	148,083	144,705
Plant, Property and Equipment	520,662	419,282	389,058	380,055	351,726	335,097	293,675	294,152	238,416	217,437
Accumulated Depreciation & Depletion	94,566	85,450	77,465	67,412	58,126	56,053	48,373	40,394	34,076	27,087
Shareholders' Equity	96,860	91,630	92,213	90,353	86,032	78,729	74,764	71,848	64,243	57,481
— per share	14.33	13.67	13.76	13.49	12.85	11.81	11.22	10.86	10.00	9.26
STATISTICAL										
Total Gas Sales— Millions of Cubic Feet	287,659	197,384	258,887	248,095	217,300	191,040	169,848	146,834	136,755	132,487
Daily Average Sales— Thousands of Cubic Feet	788,106	717,759	709,279	679,709	593,714	523,397	465,337	402,287	373,648	362,978
Peak Day Sales— Thousands of Cubic Feet	1,122,791	886,679	866,935	854,074	719,348	685,236	645,991	556,801	475,024	480,569
Shares Outstanding	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	6,206,725
Number of Shareholders	10,450	10,585	10,183	10,765	11,560	11,822	12,650	14,500	14,773	16,658
Number of Employees	494	518	526	514	471	402	330	324	298	274

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

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.

Petroleum Building,
Calgary, Alberta

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