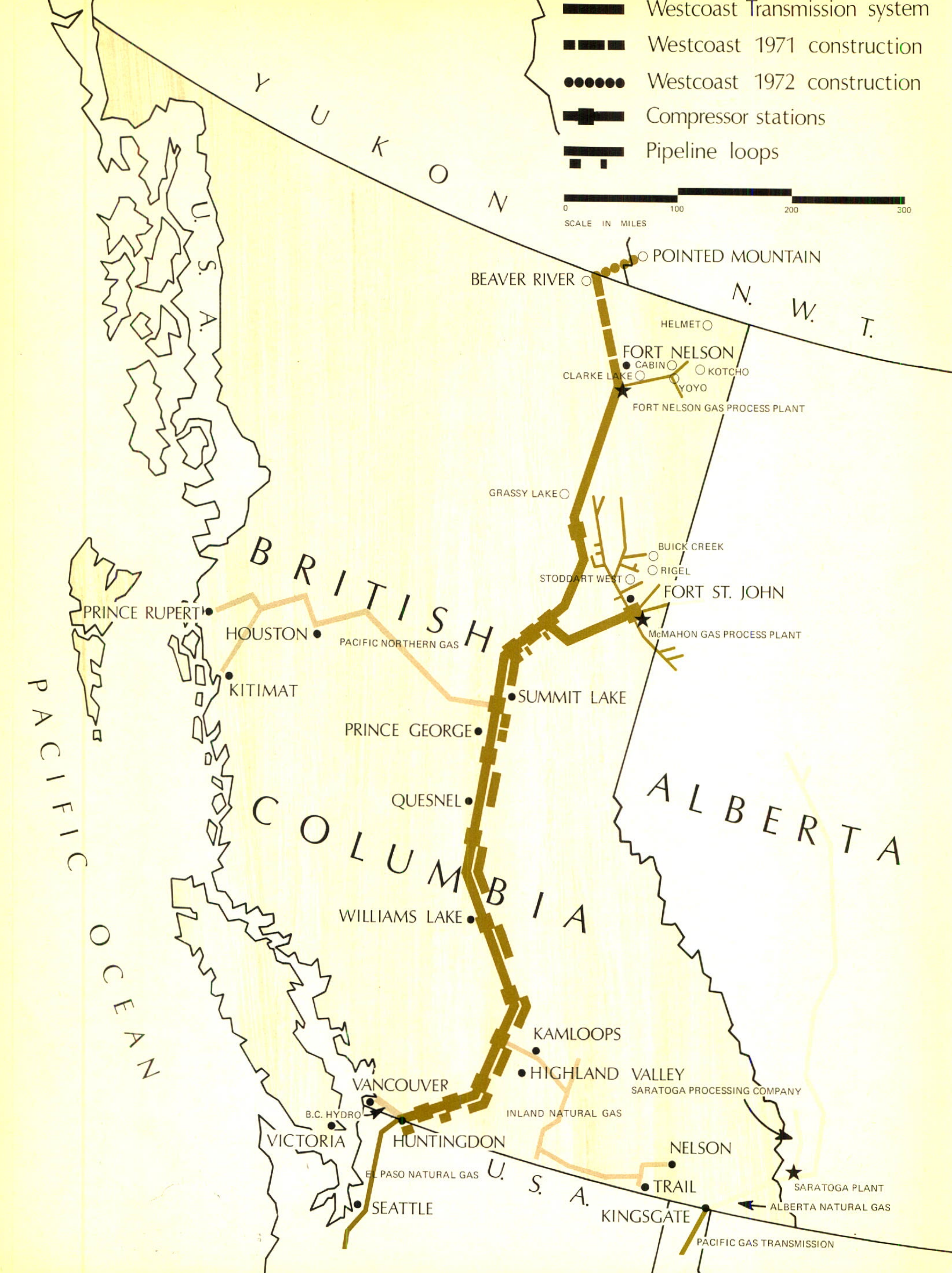
WESTCOAST TRANSMISSION COMPANY LIMITED

ANNUAL REPORT/For the nine months ended December 31, 1970


Westcoast Transmission system
Westcoast 1971 construction
Westcoast 1972 construction
Compressor stations
Pipeline loops
0
100
200
300
SCALE IN MILES
YUKON
N.W.T.
U.S.A.
BRITISH COLUMBIA
ALBERTA
PACIFIC OCEAN
U.S.A.
POINTED MOUNTAIN
BEAVER RIVER
HELMET
FORT NELSON
CABIN
KOTCHO
CLARKE LAKE
YOYO
FORT NELSON GAS PROCESS PLANT
GRASSY LAKE
BUICK CREEK
RIGEL
STODDART WEST
FORT ST. JOHN
McMAHON GAS PROCESS PLANT
PRINCE RUPERT
HOUSTON
PACIFIC NORTHERN GAS
KITIMAT
SUMMIT LAKE
PRINCE GEORGE
QUESNEL
WILLIAMS LAKE
KAMLOOPS
HIGHLAND VALLEY
SARATOGA PROCESSING COMPANY
VANCOUVER
B.C. HYDRO
INLAND NATURAL GAS
VICTORIA
HUNTINGDON
NELSON
EL PASO NATURAL GAS
TRAIL
SARATOGA PLANT
ALBERTA NATURAL GAS
SEATTLE
KINGSGATE
PACIFIC GAS TRANSMISSION

WESTCOAST TRANSMISSION COMPANY LIMITED

DIRECTORS

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

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

JOHN M. HOUCHIN
President, Phillips Petroleum Company
Bartlesville, Oklahoma

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

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

*E. C. PHILLIPS
Executive Vice President
Westcoast Transmission Company Limited
Vancouver, B.C.

HON. FRANK M. ROSS, C.M.G., M.C.,
K.St.J., LL.D., Industrialist
Vancouver, B.C.

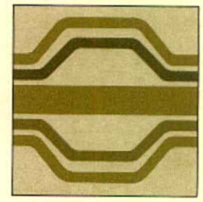
W. H. TYE
Vice President and Treasurer
Pacific Petroleums Ltd.
Calgary, Alberta

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

C. 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



ON THE COVER

The design symbolizes the growing complex of pipelines formed by the Westcoast system, the gathering lines to its suppliers and the distribution lines of its customers.

OFFICERS AND OTHER EXECUTIVES

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

E. C. PHILLIPS
Executive Vice President

JOHN ANDERSON
Vice President & Treasurer

P. R. KUTNEY
Vice President -
Gas Supply & Gas Sales

R. C. MORDAN
Vice President -
Operations & Engineering

L. M. YOUELL
Secretary

DAVID O. HUNTER
Assistant Treasurer

M. E. KILIK
Assistant Secretary

DONALD M. LAMONT
Assistant Secretary

JOHN PAYNE
Comptroller

C. D. WILLIAMS
Manager - Legal Division

DIRECTORATE AND EXECUTIVE CHANGES

At the Annual Meeting of the Shareholders on July 27, 1970, W. H. Tye, of Calgary, and C. N. Woodward, of Vancouver, were elected as new Directors of the Company.

On October 26, 1970, Frank M. McMahon, founder of the Company, was appointed Chairman Emeritus of the Board.

Douglas Owen resigned as President, Treasurer and as a Director on October 26, 1970.

Kelly H. Gibson was appointed to fill the vacated presidency, while continuing his functions as Chairman of the Board and Chief Executive Officer.

John Anderson, of Calgary, formerly Vice President and General Counsel and a Director of Pacific Petroleums Ltd., was appointed Vice President, Treasurer and a Director of Westcoast.

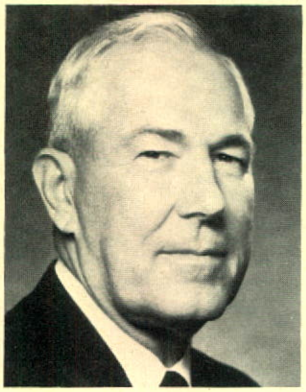
Douglas P. McDonald, Q.C., resigned as Senior Vice President of the Company to become Chairman of the Board of Mountain Pacific Pipeline Ltd. Mr. McDonald continues as a Director of Westcoast and, as a consultant to the Company, he serves as General Counsel.

Edwin C. Phillips, a Vice President of the Company and a member of the Board of Directors since October, 1969, was appointed Executive Vice President effective January 1, 1971.

RESULTS IN BRIEF

	9 Months Ended December 31, 1970	9 Months Ended December 31, 1969
FINANCIAL		
Operating Revenues	$ 57,053,000	$ 57,050,000
Net Income	$ 2,827,000	$ 3,542,000
— per share	$ .42	$ .53
Cash Flow	$ 11,302,000	$ 11,931,000
— per share	$ 1.68	$ 1.78
Total Assets	$402,771,000	$371,607,000
Shareholders' Equity	$ 91,734,000	$ 90,671,000
— per share	$ 13.68	$ 13.53
Shares Outstanding	6,703,817	6,699,817
No. of Shareholders	10,585	10,183
OPERATING		
Total Gas Sales, Mcf	197,384,000	186,723,000
Daily Av. Sales, Mcf	717,759	678,994
Peak Day Sales, Mcf	886,679	852,896
No. of Employees	518	531

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 President

At a meeting on October 26, 1970, the Board of Directors voted to have the fiscal year of the Company coincide with the calendar year. Due to this change, which was made in order to conform with general practice of the pipeline industry, the fiscal year which began on April 1, 1970, was terminated at the calendar year-end on December 31, 1970. This Annual Report covers nine months instead of a full year.

The financial results for the nine months ended December 31, 1970, are summarized on the opposite page and detailed in the financial statements elsewhere in this report. It will be noted that in this fiscal period the consolidated net earnings of the Company were $2,827,000, or 42c per share, compared to $3,542,000, or 53c per share, in the April-December period of 1969. This decline in earnings occurred despite an increase of nearly 6% in the volume of gas sales and it was primarily due to the unpegging of the Canadian dollar in May, 1970. This reduced the Company's revenues from export sales by $1,351,000.

In other respects, this abbreviated fiscal period was a most progressive one for Westcoast, highlighted by the following developments which will have significant and beneficial effects on the Company in the future:

- The larger and more profitable new export contract with El Paso Natural Gas Company was given final approval by all Canadian and United States regulatory bodies and will come into effect on November 1, 1971.
- A two-year expansion program was begun to increase the throughput capacity of the Westcoast system from 933 million to 1.28 billion cubic feet per day.
- A $60,000,000 issue of convertible debentures, one of the largest of its kind ever to be offered exclusively to Canadian investors, was oversubscribed prior to its issue date.
- An intensive program was initiated to ensure maximum efficiency and economy in the Company's expanding operations.
- The Company's 40%-owned subsidiary, Westcoast Production Co. Ltd., completed plans for the first exploratory well on its large acreage holdings in the Canadian Arctic. The well, to be drilled by a major international company, will be spudded in August, 1971.

The foregoing developments and other results of the 1970 period are discussed in the Review of Operations on the following pages:

REVIEW OF OPERATIONS

FINANCIAL

As a result of the foreign exchange losses already referred to, the Company's revenues, net income and cash flow were adversely affected in the nine-month period ended December 31, 1970. Revenues in this period totalled $57,053,000, remaining almost unchanged from the previous year despite a 6% increase in gas sales volumes. Net income in April-December, 1970, was $2,827,000 compared to $3,542,000 in the corresponding period of 1969. Cash flow declined to $11,302,000, or $1.68 per share, from the comparable 1969 figure of $11,931,000, or $1.78 per share.

With the Canadian dollar remaining close to par at the present time, Westcoast continues to suffer losses in foreign exchange on its export sales. However, the situation will be corrected in November, 1971, when the new El Paso contract comes into effect. This contract provides that the Company is to be compensated by El Paso for losses suffered by the Company when the buying rate of the Canadian dollar exceeds $0.925 (U.S.).

INVESTMENT AND OTHER INCOME: Dividends of $562,500 were received from Western Pacific Products & Crude Oil Pipelines Ltd., and various other investments provided income of $301,340. The Company changed to the equity accounting method in respect to its unconsolidated subsidiaries, Saratoga Processing Company Limited and Pacific Northern Gas Ltd., and has included $123,729 in its income as Westcoast's share of their earnings.

PLANT, PROPERTY AND EQUIPMENT: The Company increased its investment in Plant, Property and Equipment by $31 million during the period ended December 31, 1970. Of this amount, $1 million was spent on improvements to the main pipeline, and $2 million in general plant improvements throughout the system. A further sum of $28 million was spent on the first phase of the system expansion which is scheduled to be completed in 1971.

DIVIDENDS: The dividend rate in the 1970 calendar year was maintained at the level of the two previous years, with semi-annual payments of 25c per share being made in June and December.

NEW EL PASO CONTRACT

This new export contract, which covers nearly two-thirds of the Company's total gas sales, places Westcoast on a much sounder economic foundation than at any time since it began operations in 1957. When the agreement comes into effect on November 1, 1971, it will terminate the existing contracts under which Westcoast sells El Paso a maximum of 505 million cubic feet of gas per day at an average price of 26.31c (Canadian) per Mcf. The new contract will immediately raise the border price by 24% to 33c per Mcf and this price will escalate to 37c per Mcf over the 20-year contract period. The volume of exports to El Paso will increase 60% to 809 million cubic feet per day by November 1, 1972.

Besides the scheduled price escalation, the contract contains the provision mentioned above that Westcoast's financial position will not be adversely affected by variations in foreign exchange rates. There is a further condition in the contract that the selling price will not at any time be less than 105% of the comparable price to Canadian customers in the area of British Columbia adjacent to the point where gas is exported to El Paso.

SYSTEM EXPANSION

A $190 million expansion program of the pipeline system is now under way to provide the additional capacity required for the new El Paso contract, as well as for anticipated growth of its British Columbia market. The program, which is scheduled to be completed in the fall of 1972, is designed to increase the present pipeline capacity of 933 million cubic feet a day to 1.28 billion cubic feet daily.

Capital expenditures on this program during 1970 totalled $28 million, most of which consisted of outlays for pipe and material to be used in the 1971 phase of the expansion. The 1971 program, costing an additional $102 million, will include construction of 110 miles of 24-inch gathering line from Fort Nelson to the Beaver River field on the northern border of British Columbia. Capacity will be increased 60% at the Fort Nelson gas processing plant with the installation of two new processing units. This will raise the plant's capacity by 260 million cubic feet per day to a total of 700 million cubic feet per day. The main line of the Westcoast system will be expanded by looping 235 miles of the original 30-inch pipeline with 36-inch pipe. Two new compressor stations will be built and two existing ones will be expanded to add a total of 55,900 horsepower to the system's compression.

Projected for 1972, and subject to approval by the National Energy Board of Canada, are expenditures totalling $59 million for another 63 miles of looping, and an additional 36 miles of 20-inch gathering line north from Beaver River to the Pointed Mountain area in the Northwest Territories. One compressor station will be built and an existing one will be enlarged to increase total compressor capacity by 37,500 horsepower. The 1972 schedule also calls for two more units to be added to the Fort Nelson plant. This will increase its processing capacity to 960 million cubic feet per day and will make the Westcoast plant one of the largest of its kind in the world.

FINANCING OF EXPANSION PROGRAM

In December, 1970, the Company issued $60 million in 7½% convertible debentures to mature in 1991. This issue, which was offered only in Canada, was favorably received by Canadian investors and was oversubscribed prior to its issuance. The proceeds of this financing were used to repay short term bank loans and to pay, in part, the cost of additional capital expenditures in the Company's expansion program.

Further financing in the form of first mortgage bonds with warrants is presently planned and a preliminary prospectus has been filed with the Securities Commissions of the various Canadian provinces. The terms of these bonds and the aggregate amount of the issue have not yet been determined.

GAS SUPPLY

The Company's gas supply position was strengthened during the past year by the favorable exploratory and development drilling results achieved by the industry in northeastern British Columbia. New discoveries and the enlargement of existing reserves by further development drilling increased the established reserves in the Westcoast supply area by an estimated 900 billion cubic feet. After deduction of the gas produced in the area during the year, there was a net increase of 593 billion cubic feet in the remaining established reserves available to the Westcoast system.

Eight new gas discoveries were reported in northeastern British Columbia during 1970, the most significant of which were those in the Grassy Lake and Helmet areas. Successful stepout wells were completed in the Buick Creek, Stoddart West, Rigel, Clarke Lake, Yoyo, Kotcho, Cabin, Beaver River and Pointed Mountain fields. All the latter fields except Beaver River and Pointed Mountain are connected to the Westcoast system. A 24-inch gathering line will be completed this year to the Beaver River field and is scheduled to be extended in 1972 to the Pointed Mountain field, near the junction of the British Columbia, Yukon and Northwest Territories boundaries.

The reserves in Westcoast's supply area now are considerably in excess of 11 trillion cubic feet. Approximately 90% of these reserves are under contract to the Company. This volume of gas is sufficient to meet projected requirements of the Canadian markets served by Westcoast for the next 25 years as well as to fulfill all Westcoast's increased export commitments.

GAS SALES

The volume of gas sales in the nine-month period under review was 6% greater than in the corresponding period of 1969. Deliveries in the 1970 period averaged 718 million cubic feet per day, compared to 679 million cubic feet per day a year ago. Because of the delays in obtaining authorization of the additional exports to El Paso, sales to that company — which is Westcoast's largest customer — remained at virtually the same level as in the previous year, increasing only .5% from 466 million cubic feet to 468 million cubic feet per day. Sales to our largest Canadian customer, British Columbia Hydro and Power Authority, increased 24% from 137 million to 170 million, and an impressive 16% gain was shown by Pacific Northern Gas Ltd. In contrast to the sales record of these Canadian distributors, however, Inland Natural Gas Co. Ltd. recorded a .8% drop in its sales volume. This was largely attributable to the number of strikes in its service area, which kept many industries out of operation for long periods in the summer of 1970.

The market outlook for Westcoast customers is discussed below:

EL PASO NATURAL GAS COMPANY. The market outlook for this major Westcoast customer is indicated in the new contract which El Paso negotiated with Westcoast in 1969 and which will come into effect in November, 1971. This contract calls for a 60% increase in current maximum deliveries to El Paso of 505 million cubic feet per day, increasing the volume to 809 million cubic feet per day by November 1, 1972. El Paso and Westcoast have agreed to a further increase of 50 million cubic feet per day in 1973, provided authorization can be obtained from Canadian and United States regulatory bodies.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY. The sales prospects of Westcoast's major Canadian customer are enhanced by the intensive growth now under way in the City of Vancouver and its surrounding area which form the B.C. Hydro market. At present, midtown Vancouver is undergoing major redevelopment with three skyscraper complexes, all to be heated with natural gas, under construction at a cost of more than $145 million. With the recent decline in mortgage interest rates, an upsurge in housing construction is anticipated in 1971.

In order to keep pace with the increased demand expected in the near future, B.C. Hydro has constructed a natural gas liquefaction plant south of

Vancouver. With this facility, the Authority can make more efficient use of the Westcoast supply system and will have larger supplies of gas on hand to meet the demands of its markets at peak periods.

INLAND NATURAL GAS CO. LTD. This company, which serves the central and southern interior of British Columbia, has good prospects for major sales growth in the immediate future. Industrial projects costing more than $650 million are now under way in Inland's market area. These include a $131 million copper mine development by Lornex Mining Corp. Ltd., at Highland Valley, B.C., which is expected to become the largest non-ferrous mining operation in Canada. Three major pulp mills and a cement plant are also scheduled to be built in the area. With these opportunities for increased industrial sales, Inland's throughput is expected to show an increase of more than 25% in 1971 to an average of more than 63 million cubic feet per day.

PACIFIC NORTHERN GAS LTD. This company, which began operations in 1969, achieved excellent sales growth in 1970 as its system was extended to more communities and industries. Substantial sales improvement is expected to continue in 1971 and subsequently, because of the many new industrial developments coming into operation in the Pacific Northern service area. These include the new Eurocan Pulp and Paper Company's forestry complex at Kitimat and the major additions to the Bulkley Valley Forest Industries' plants at Houston. The facilities of the Aluminum Company of Canada at Kitimat are being converted to utilize natural gas instead of fuel oil and this is expected to result in a significant addition to Pacific Northern's deliveries to the Kitimat area.

GAS PURCHASE COSTS AND SELLING PRICES

The cost of gas during the 1970 period averaged 11.07c per Mcf as compared to 11.06c per Mcf in the 1969 period. Contractual escalations of field prices came into effect in many fields in the Fort St. John area but the impact of these increases was minimized by the purchase of a larger percentage of the total gas supply from the Fort Nelson area. Current average field prices in the Fort Nelson area are 10c per Mcf, while those in the Fort St. John area average 12.5c per Mcf.

Westcoast realized 26.3c per Mcf on its sales to El Paso, as compared with 27.1c in 1969, the reduction being caused by the loss on foreign exchange referred to earlier. Sales realization also was reduced on deliveries to our major Canadian customer, British Columbia Hydro and Power Authority, with an average price of 33.1c per Mcf, compared to 39.0c per Mcf in the previous year. The reduction was due in part to contractual rate changes and also to the fact that the 1969 selling price was above average because of the severe winter and resulting high demand charges in that year. There was no significant change in selling prices to other Canadian customers.

The overall result of the price fluctuations in the past year was that the Company realized 28c per Mcf on its sales in the nine-month period of 1970, compared to 29.5c in the corresponding period of 1969.

YOYO PIPELINE LAWSUIT

Since 1969, the Company has been involved in a lawsuit against Canadian Phoenix Steel & Pipe Ltd., claiming costs and damages arising from the installation of defective pipe in a gathering line to the Yoyo gas field in northeastern British Columbia. The pipeline, which was constructed with steel pipe manufactured by Canadian Phoenix, had to be abandoned and replaced by a new line which was put into service in April, 1969. In January, 1971, Westcoast agreed to an out-of-court settlement in the amount of $6,850,000. Since this payment was received subsequent to the fiscal year-end, it does not appear in the financial accounts in this report but is referred to in the Notes to the Financial Statements.

SUBSIDIARY AND ASSOCIATE COMPANIES

WESTCOAST PRODUCTION CO. LTD. (40.25%). This former wholly-owned subsidiary, which became a public company in 1969, has interests in more than 10 million acres (3.5 million net) of prospective oil and gas acreage in western and northern Canada. In the past year, the company made significant natural gas discoveries in the Stanmore and Glendon districts of Alberta. In August, 1971, an exploratory well will be drilled by a major international company on Westcoast Production acreage on Graham Island in the Eastern Arctic. The full cost of this $4,000,000 venture will be borne by the other company in return for an interest in the property.

PACIFIC NORTHERN GAS LTD. (26.7%). A substantial sales increase in 1970 enabled Pacific Northern Gas to show a marked improvement in its financial results. Revenues in the year ended December 31, 1970, totalled $4,029,000, compared with $2,417,000 during the 10-month operating period of 1969. During 1970, the company had a net income of $589,000, compared to a net loss of $49,690 in 1969.

WESTERN PACIFIC PRODUCTS & CRUDE OIL PIPELINES LTD. (44.7%). This company, which was initially sponsored by Westcoast, operates a 505-mile pipeline delivering crude oil and liquids from northeastern to southern British Columbia. Western Pacific's 1970 earnings were $2,515,000, or 38c per share, compared to $2,222,000, or 33c per share, in 1969.

SARATOGA PROCESSING COMPANY LIMITED (25%). This company contributed dividends of $43,750 to Westcoast in the nine months ended December 31, 1970, from a gas gathering and processing system it owns and operates in southern Alberta.

MOUNTAIN PACIFIC PIPELINE LTD. (35%). This company is the sponsor of a $1.8 billion pipeline project to transport gas from the North Slope of Alaska and intermediate areas of northern Canada to markets in eastern Canada and the western and mid-continental areas of the United States. The proposed line will originate in the Prudhoe Bay area of Alaska and will extend approximately 1,100 miles southeastward to a bifurcation point in the Northwest Territories. At this point, the 48-inch pipeline will be divided into two segments. One segment will extend approximately 950 miles southward to serve U.S. Pacific Coast markets and the other will be built eastward to serve markets in eastern Canada and the U.S. Midwest. Westcoast is associated in this venture with Canadian Bechtel Limited, El Paso Natural Gas Company, Southern California Edison Company and Pacific Lighting Corporation.

COST EFFICIENCY PROGRAM

During the past year, the Company inaugurated an intensive program for closer cost control and greater efficiency in its operations. The first major step in this program was a decentralization of responsibility and authority within the Company. In this reorganization, the field operations were divided into three distinct and independent districts, headquartered in Prince George, Fort St. John and Fort Nelson, B.C. The district manager at each location was given maximum autonomy in making decisions within management guidelines.

As a result of this new arrangement, fewer management and supervisory personnel are required and there has been a reduction in expenditures of time and money devoted to travel and communications between Vancouver and the field. Space requirements of the Vancouver office have been reduced 20%. Despite the increased activity in all areas of the Company, as well as the continuing pressure of inflation, administrative and general expenses during the nine-month period of 1970 were below those of the comparable period of 1969.

ORGANIZATION

Various directorate and executive changes made during the past year are listed on Page 1 of this Report. Two executive changes which warrant particular attention are the promotion of Edwin C. Phillips to the position of Executive Vice President, and the appointment of John Anderson as Vice President and Treasurer and as a Director of the Company. Both Mr. Phillips and Mr. Anderson possess broad business experience, having had highly successful careers with other major companies before joining Westcoast.

The Directors express appreciation to shareholders and customers for their continued support and to employees for their diligent efforts in the past year.

Looking to the future, it is clear that 1971 will be a much improved year for the Company. On November 1, 1971, with the first phase of our system expansion program completed, the increased sales volumes and higher prices of the new El Paso contract will take effect. Westcoast will then enter a significant new cycle of its corporate development in which the revenues and earnings of the Company will be on a substantially higher scale than was attainable in the past.

For the Board of Directors,

Kelly Gibson

Chairman of the Board, President
and Chief Executive Officer.

Consolidated Balance Sheet

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

ASSETS

	December 31, 1970	March 31, 1970
PLANT, PROPERTY AND EQUIPMENT — at cost (Note 2)	$ 419,282,000	$ 389,058,000
Less accumulated depreciation	85,450,000	77,465,000
	333,832,000	311,593,000
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES:		
Shares (Note 1)	2,165,000	2,085,000
Other — at cost	2,000,000	—
	4,165,000	2,085,000
INVESTMENTS — at cost (Note 3) (market value December 31, 1970 - $29,625,000; March 31, 1970 - $28,407,000)	27,049,000	26,995,000
CURRENT ASSETS:		
Cash	1,446,000	3,400,000
Temporary cash investments	6,500,000	—
Deposits with trustees for payment of interest and principal on long term debt	4,803,000	8,821,000
Due from unconsolidated subsidiaries	2,724,000	1,130,000
Accounts receivable	8,611,000	8,350,000
Inventories — at cost	2,831,000	3,112,000
Prepaid expenses (Note 4)	2,228,000	946,000
	29,143,000	25,759,000
DEFERRED CHARGES:		
Unamortized debt discount, premium and expense	4,474,000	3,327,000
Organization expense	53,000	54,000
Other	2,309,000	1,782,000
	6,836,000	5,163,000
EXCESS OF COST OF INVESTMENT IN SUBSIDIARIES OVER BOOK VALUE AT DATE OF ACQUISITION (Note 1)	1,746,000	1,870,000
	$ 402,771,000	$ 373,465,000

See accompanying notes to the consolidated financial statements.

SHAREHOLDERS' EQUITY

	December 31, 1970	March 31, 1970
CAPITAL STOCK (Note 5):		
Authorized — 25,000,000 shares without nominal or par value		
Issued — 6,703,817 shares (March 31, 1970 - 6,699,817 shares)	$ 58,882,000	$ 58,837,000
PAID-IN-SURPLUS	141,000	141,000
RETAINED EARNINGS	32,711,000	33,235,000
	91,734,000	92,213,000

LIABILITIES

	December 31, 1970	March 31, 1970
LONG TERM DEBT (Note 6)	283,353,000	234,950,000
CURRENT LIABILITIES:		
Bank loans	78,000	25,449,000
Accounts payable	13,241,000	6,621,000
Property and sundry taxes	247,000	1,054,000
Interest on debt	2,729,000	6,539,000
Long term debt due within one year	11,389,000	6,639,000
	27,684,000	46,302,000

ON BEHALF OF THE BOARD:

E. Phillips Director

John Anderson Director

	$ 402,771,000	$ 373,465,000

Consolidated Statement of Operations

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

		December 31, 1970 (9 months)	March 31, 1970 (12 months)
OPERATING REVENUES:			
Gas sales — Mainline		$ 55,192,000	$ 74,990,000
Gas sales — Kingsgate (Note 7)		9,611,000	13,422,000
By-product sales		1,359,000	2,236,000
Miscellaneous		502,000	511,000
		66,664,000	91,159,000
OPERATING REVENUE DEDUCTIONS:			
Gas purchases — Mainline		22,066,000	29,029,000
Gas purchases — Kingsgate (Note 7)	$ 6,918,000		
Cost of service — Kingsgate (Note 7)	2,693,000	9,611,000	13,422,000
Operating and maintenance		8,599,000	10,913,000
Administrative and general		1,923,000	2,836,000
Depreciation		8,309,000	10,603,000
Taxes — other than income taxes		2,658,000	3,568,000
		53,166,000	70,371,000
OPERATING INCOME		13,498,000	20,788,000
INTEREST INCOME FROM UNCONSOLIDATED SUBSIDIARIES		11,000	72,000
SHARE OF INCOME (LOSS) OF UNCONSOLIDATED SUBSIDIARIES		123,000	(46,000)
INVESTMENT AND OTHER INCOME		864,000	1,336,000
		14,496,000	22,150,000
INCOME DEDUCTIONS:			
Interest on long term debt		10,608,000	14,754,000
Interest on other loans		1,269,000	1,398,000
Interest charged to construction (credit)		(816,000)	(270,000)
Amortization		124,000	161,000
Debt discount, premium and expense		165,000	221,000
Exchange cost re:			
Operations	$ (89,000)		
Redemption of long term debt	408,000	319,000	802,000
		11,669,000	17,066,000
NET INCOME FOR THE PERIOD (Note 9)		$ 2,827,000	$ 5,084,000
Earnings per share (Note 11): Weighted average		42c	76c
Fully diluted		42c	76c

Consolidated Statement of Retained Earnings

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

	December 31, 1970 (9 months)	March 31, 1970 (12 months)
BALANCE, BEGINNING OF PERIOD		
As previously reported	$ 33,000,000	$ 31,178,000
Add increase in carrying value of unconsolidated subsidiaries (Note 1)	235,000	322,000
As restated	33,235,000	31,500,000
ADD: Net income for the period	2,827,000	5,084,000
	36,062,000	36,584,000
DEDUCT: Dividends	3,351,000	3,349,000
BALANCE, END OF PERIOD	$ 32,711,000	$ 33,235,000

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Source and Application of Funds

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

	December 31, 1970 (9 months)	March 31, 1970 (12 months)
SOURCE OF FUNDS:		
Operations:		
Net income for the period	$ 2,827,000	$ 5,084,000
Add (deduct) non cash items:		
Depreciation and amortization	8,433,000	10,764,000
Debt discount, premium and expense	165,000	221,000
Share of (income) loss of unconsolidated subsidiaries (Note 1)	(123,000)	46,000
	11,302,000	16,115,000
Capital stock issued	45,000	125,000
Additional long term debt (net of financing costs)	58,843,000	13,000
Bank loans and other interim financing	27,171,000	—
Dividends from unconsolidated subsidiaries (Note 1)	43,000	41,000
	97,404,000	16,294,000
APPLICATION OF FUNDS:		
Additions to plant, property and equipment	30,547,000	9,553,000
Dividends	3,351,000	3,349,000
Long term debt retirement (net of exchange costs)	11,752,000	7,208,000
Retirement of bank loans and other interim financing	27,171,000	—
Purchase of note of unconsolidated subsidiary	2,000,000	—
Increase in investments	54,000	235,000
Deferred charges related to legal action (Note 2)	818,000	921,000
Increase (decrease) in other deferred charges and miscellaneous items	(291,000)	483,000
	75,402,000	21,749,000
INCREASE (DECREASE) IN WORKING CAPITAL DURING THE PERIOD	22,002,000	(5,455,000)
WORKING CAPITAL (DEFICIT), BEGINNING OF PERIOD	(20,543,000)	(15,088,000)
WORKING CAPITAL (DEFICIT), END OF PERIOD	$ 1,459,000	$ (20,543,000)

See accompanying notes to the consolidated financial statements.

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, 1970 and the consolidated statements of operations, retained earnings and source and application of funds for the period 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, 1970 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, after giving retroactive effect to the change in accounting practice, with which we concur, as described in note 1 to the consolidated financial statements.

Vancouver, Canada.
February 9, 1971.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Notes to Consolidated Financial Statements

DECEMBER 31, 1970

1. ACCOUNTING POLICIES:

(a) Principles of consolidation:

(i) The consolidated statements 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., Alimak Aviation Alberta Ltd., Vancal Properties Ltd., and Westcoast Helicopters Ltd. On April 1, 1970, the fiscal year-ends of the Company and its consolidated subsidiaries were changed from March 31 to December 31.

(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 interest amounts to only 25% and 26.7% respectively.

Prior to December 31, 1970 the Company carried its investments in Saratoga and Pacific Northern at cost, and included their earnings in its accounts only to the extent of dividends received. Effective April 1, 1970, the Company changed its accounting practice so as to carry its investments in these companies at its equity in their underlying net assets and to include in income its share of their earnings. The consolidated statement of operations for the year ended March 31, 1970 has been recast to show theCompany's share of these earnings and the balance of consolidated retained earnings as at April 1, 1969 has been increased by $322,-397 to reflect the results of prior years operations.

On November 30, 1970 Pacific Northern was authorized by the Public Utilities Commission of British Columbia to record depreciation for its current fiscal period ended December 31, 1970 at a rate lower than the standard established by the Commission. This adjustment, which was made after receiving the above authorization, will be picked up in later years by means of accelerated depreciation. If standard rates had been applied, the Company's share in the net income of Pacific Northern for the twelve months ended December 31, 1970, which has been reflected in the accounts of the Company for the nine months ended December 31, 1970, would have been reduced by approximately $147,000.

(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, 1970 the unamortized balance was $1,650,241 (March 31, 1970 - $1,770,994).

(b) Depreciation:

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

(c) Interest During Construction:

Up to March 31, 1970 interest during construction was charged to plant, property and equipment at rates varying from 6% to 7½% per annum. From April 1, 1970, the rate charged by the Company was 10% per annum.

(d) Debt Discount, Premium and Expense:

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

2. PLANT, PROPERTY AND EQUIPMENT:

	December 31, 1970	March 31, 1970
Gathering plant	$ 58,166,892	$ 54,165,638
Products extraction plant	48,922,949	48,478,815
Transmission plant	260,077,870	258,238,899
Miscellaneous plant and equipment	17,310,717	11,052,934
	384,478,428	371,936,286
Construction in progress	34,803,370	17,121,816
	$419,281,798	$389,058,102

Included in construction in progress at December 31, 1970 is an amount of $9,003,699 (March 31, 1970 - $8,879,672) being the cost of constructing and testing the original 24" Yoyo Gathering Line which, due to defects in the pipe, was not approved for service and was ultimately abandoned. A replacement line was placed in service on April 1, 1969.

During 1969, the Company commenced an action in the Supreme Court of British Columbia against the pipe manufacturer claiming recovery of costs and consequential damages, including interest. In addition to the costs included in construction in progress, interest and other expenses arising from this action are being carried as a deferred charge totalling $1,738,865 (March 31, 1970 - $920,820).

Subsequent to December 31, 1970 the Company agreed to an out-of-Court settlement of $6,850,000. This will be applied, firstly, against the deferred charges, and secondly, against the cost carried in construction in progress, the unrecovered balance being transferred to the plant account as a cost of the Yoyo gathering system.

3. INVESTMENTS:

The Company's investments include 3,000,000 shares (44.78%) of the common stock of Western Pacific Products & Crude Oil Pipelines Ltd. and 1,616,875 shares (40.25%) of the common stock of Westcoast Production Co. Ltd. Of these, 982,000 shares of Western Pacific and 1,600,000 shares of Westcoast Production are mortgaged and pledged as collateral security for bank letters of credit relative to purchase of pipe by the Company. The remaining 2,018,-000 shares of Western Pacific are mortgaged and pledged as security for the First Mortgage Pipe Line Bonds.

4. PREPAID EXPENSES:

Included in prepaid expenses at December 31, 1970 is an amount of $2,058,953 (March 31, 1970 - $543,600) representing prepayment against future gas deliveries from the Beaver River and Pointed Mountain gas fields and deferred interest related to these prepayments. The Company expects to complete construction of a pipeline to connect the Beaver River gas field with the Fort Nelson processing plant early in 1971.

5. CAPITAL STOCK:

(a) During the nine months ended December 31, 1970 the Company issued 4,000 shares for a cash consideration of $45,000 upon the exercise of employee stock options.

(b) Share reservations and options:

(i) As at April 1, 1970, 100,000 shares were reserved for sale to officers and employees. Options on 97,625 shares have been allocated and 2,375 shares remain unallocated; options on 13,400 shares had not been exercised. During the nine months ended December 31, 1970, options on 4,000 shares were exercised leaving options on 9,400 shares outstanding under this reservation, of which 9,000 have been allocated at a price of $11.25 per share exercisable from time to time to December 31, 1973 and 400 at a price of $13.90 per share exercisable from time to time to December 31, 1971.

During the nine months ended December 31, 1970, 50,000 shares were reserved for sale to officers and employees at prices not lower than 10% below the closing price of the Company's shares on The Toronto Stock Exchange on the day on which any such option is granted. At December 31, 1970, under this reservation, options were outstanding for 25,000 shares allocated to officers at a price of $16.875 per share exercisable from time to time to July 26, 1980 and 25,000 shares remain unallocated.

(ii) 822,910 shares have been reserved for conversion of the 5½% Subordinate Debentures, Series C, at the conversion rate as adjusted in accordance with the terms of the Indenture.

(iii) 1,926,527 shares have been 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) 2,727,273 shares have been reserved for conversion of the 7½% Convertible Debentures, First Series at a conversion rate of $22 per share.

(c) 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 of retained earnings available for dividends at December 31, 1970 was $10,000,000. (March 31, 1970 - $12,800,000).

6. LONG TERM DEBT:

	December 31, 1970 United States Dollars	December 31, 1970 Canadian Dollars (a)	March 31, 1970 Canadian Dollars (a)
Westcoast Transmission Company Limited			
First Mortgage Pipe Line Bonds			
4⅜% Series A, due 1977	$41,700,000	$ 40,367,516	$ 46,078,986
6% Series C, due 1980	2,570,000	2,764,156	3,043,798
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	71,600,000	77,154,562	77,154,562
Debentures			
7½% Convertible First Series, due 1991 (c)		60,000,000	—
Subordinate Debentures			
5½% Series A, due 1988	19,680,000	19,589,440	19,997,554
5½% Series B, due 1988	2,976,000	2,851,380	2,910,784
5½% Series C, due 1988 (d)	25,000,000	24,031,250	24,031,250
Less purchased by Company in advance of repayment requirements	(174,500)	(171,572)	(491,643)
Gas Trunk Line of British Columbia Ltd.			
First Mortgage Sinking Fund Bonds			
6% Series A, due 1979	4,228,000	4,310,904	4,794,005
Subordinated Debentures			
6% Series A, due 1981		2,445,000	2,470,000
Less purchased by Gas Trunk in advance of repayment requirements		(56,000)	(26,000)
Westcoast Transmission Housing Ltd.			
Housing Mortgages, 5¼% and 7%		213,740	235,827
Vancal Properties Ltd.			
7½% Secured Notes, due 1994	4,928,691	5,287,561	5,345,467
Alimak Aviation Alberta Ltd.			
6½% Demand Note		—	149,990
Westcoast Helicopters Ltd.			
Finance contracts at various rates		20,955	43,924
Demand Note		83,334	—
		294,742,226	241,588,504
Deduct long term debt due within one year shown as a current liability		11,389,322	6,638,876
		$283,352,904	$234,949,628

Long term debt payments (a) required in the five years ending December 31 are:
1971 - $11,389,000; 1972 - $15,925,000; 1973 - $15,842,000; 1974 - $16,078,000; 1975 - $16,086,000.

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

(b) Convertible into capital stock at various rates from $28.99 to $33.69 per share to 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 $30.38 (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:

For the nine months ended December 31, 1970:

(a) Seven directors in their capacity as directors were paid $17,635 (for the year ended March 31, 1970, seven directors were paid $24,920).

(b) Thirteen officers in their capacity as officers were paid $301,741 (for the year ended March 31, 1970, ten officers were paid $381,020).

(c) Nine officers served as directors (in the year ended March 31, 1970, seven 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. The Canadian Institute of Chartered Accountants has recommended the tax allocation basis for providing for income taxes except in the case of regulated utility companies which are allowed as a cost element in setting rates only the amount of taxes currently payable.

In the absence of a ruling by a regulatory authority having jurisdiction in the matter, 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.

Had the tax allocation basis been used instead of the taxes payable basis for the determination of income taxes, the tax provision for the period would have been approximately $1,500,000 (for year ended March 31, 1970 $2,700,000) and the accumulated provision to December 31, 1970 would have approximated $23,700,000.

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 $13,875,000 (U.S.) at December 31, 1970 and March 31, 1970.

(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. (See also note 2). The Company has denied liability, as in the opinion of Counsel, the action will be successfully defended.

(c) In 1971 the Company expects to complete a major construction program commenced in 1970 estimated to cost approximately $130,000,000. Of this amount, $31,000,000 has been included in the accounts at December 31, 1970, and an additional $32,000,000 has been committed.

11. EARNINGS PER SHARE:

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 was calculated after assuming conversion of the convertible bonds and debentures and exercise of stock options.

12. SUBSEQUENT EVENT:

The Company is negotiating with underwriters for additional public financing, the proceeds of which will be applied against the cost of the current construction program.

10 Year Financial and Statistical Review

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

FINANCIAL

	Nine Months Ended Dec. 31 1970	Years Ended March 31 1970	1969	1968	1967	1966	1965	1964	1963	1962
Operating Revenues $	57,053	77,737	71,685	65,013	55,633	49,048	42,130	39,284	34,480	33,238
Net Income	2,827	5,084	5,946	8,659	5,549	2,320	5,126	3,706	1,372	2,171
— per share	.42	.76	.88	1.29	.83	.34	.77	.57	.22	.35
Cash Flow	11,302	16,115	15,599	17,675	13,942	11,163	11,059	9,852	8,706	7,893
— per share	1.68	2.40	2.32	2.64	2.09	1.67	1.67	1.53	1.40	1.27
Total Assets	402,771	373,465	373,766	344,153	309,969	279,011	284,397	240,209	215,886	218,934
Long Term Debt	283,353	234,950	242,144	168,092	175,889	186,069	194,154	148,083	144,705	141,815
Plant, Property and Equipment	419,282	389,058	380,055	351,726	335,097	293,675	294,152	238,416	217,437	215,896
Accumulated Depreciation and Depletion	85,450	77,465	67,412	58,126	56,053	48,373	40,394	34,076	27,087	21,485
Shareholders' Equity	91,734	92,213	90,353	86,032	78,729	74,764	71,848	64,243	57,481	56,076
— per share	13.68	13.76	13.49	12.85	11.81	11.22	10.86	10.00	9.26	9.04

STATISTICAL

	Nine Months Ended Dec. 31 1970	1970	1969	1968	1967	1966	1965	1964	1963	1962
Total Gas Sales — Millions of Cubic Feet	197,384	258,887	248,095	217,300	191,040	169,848	146,834	136,755	132,487	118,752
Daily Average Sales — Thousands of Cubic Feet	717,759	709,279	679,709	593,714	523,397	465,337	402,287	373,648	362,978	325,348
Peak Day Sales — Thousands of Cubic Feet	886,679	866,935	854,074	719,348	685,236	645,991	556,801	475,024	480,569	444,080
Shares Outstanding	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	6,202,575
Number of Shareholders	10,585	10,183	10,765	11,560	11,822	12,650	14,500	14,773	16,658	16,840
Number of Employees	518	526	514	471	402	330	324	298	274	264

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
Calgary, Alta.
(Series A, Series B, Series C, Series D, Series E, Series F)

DEBENTURES

First National City Bank
New York, N.Y.
Montreal Trust Company (co-registrar)
Montreal, P.Q., Toronto, Ont.,
Calgary, Alta., Vancouver, B.C.
Canada Permanent Trust Company
Vancouver, B.C., Calgary, Alta., Regina, Sask.,
Winnipeg, Man., Toronto, Ont., Montreal, P.Q.
(First Series Debentures)

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

WESTCOAST TRANSMISSION COMPANY LIMITED/ANNUAL REPORT

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