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TRANS-CANADA PIPE LINES LIMITED

Annual Report 1956

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1956

Annual Report

TRANS-CANADA PIPE LINES LIMITED

directors

Hon. Edouard Asselin, Q.C.	T. H. Atkinson	E. W. Bickle
R. C. Brown	Chas. S. Coates	John R. Fell
E. D. Loughney	J. K. McCausland	M. A. MacPherson, Q.C.
H. R. Milner, Q.C.	C. W. Murchison	A. Deane Nesbitt
G. P. Osler	Frank A. Schultz	Gardiner Symonds
N. E. Tanner	Jules R. Timmins	J. Ross Tolmie, Q.C.

officers

N. E. Tanner - President

Chas. S. Coates - - - - - - - - Executive Vice-President and General Manager

A. P. Craig - Vice-President

N. John McNeill, Q.C. - - - - - - - - - - - - - Vice-President and Secretary

Robert C. Berry, C.A. - - - - - - - - - - - - - Vice-President and Treasurer

head office	326 Ninth Avenue West, Calgary, Alberta
executive office	160 Bloor Street East, Toronto, Ontario
transfer agents—common shares	Montreal Trust Company - - - Montreal, Toronto, Winnipeg, Calgary and Vancouver The First National City Bank of New York - - - - - New York, N.Y., U.S.A.
registrars—common shares	National Trust Company, Limited - Montreal, Toronto, Winnipeg, Calgary and Vancouver Bankers Trust Company - - - - - - - - - - - - - New York, N.Y., U.S.A.
auditors	Peat, Marwick, Mitchell & Co.

Directors' Report

to the Shareholders:

Your Directors are pleased to present this first published Annual Report of your Company, including financial statements as at December 31, 1956, together with the auditors' report thereon.

successful completion of financing

Successful completion of financing was recently achieved by the sale to institutional investors of a total of $104 million principal amount of First Mortgage Pipe Line Bonds, by the negotiation of a bank loan with three United States banks amounting to $20 million and by the sale in Canada and in the United States of a total of $112½ million of Units of Subordinated Debentures and Common Shares of the Company in the amounts of $75 million principal amount of Debentures, together with 3,750,000 Common Shares.

Public offering of Units was made on February 14 and the proceeds from the sale of Units were received by the Company on February 26, 1957. Proceeds from the sale of First Mortgage Pipe Line Bonds and from the bank loan will be received in four instalments, as construction proceeds throughout the remainder of 1957 and through 1958. It is estimated, based on the existing structure of prices, that the funds raised by this financing will be sufficient to cover construction of the sections of the line to be initially owned by Trans-Canada.

It is expected that, within the first few years of full operation, it will be possible for the Company to finance the purchase of the Northern Ontario section, which initially will be leased with option to purchase from the Crown Corporation.

construction program

In June 1956, the Company began construction of its 586 mile 34-inch Western Section. Sufficient pipe was received to lay one hundred and twenty-two miles of line before a general strike in the steel industry in the United States delayed delivery of pipe. When pipe deliveries were again resumed in late September, a further 108 miles of line was completed before cold weather forced the Company to cease pipelaying operations.

Clearing and grading right-of-way in preparation for an early resumption of construction in 1957 has continued throughout the winter. Pipe deliveries have continued and sufficient pipe is on hand to complete the line to Winnipeg. Much of this pipe has been double jointed and strung on the right-of-way to speed construction operations.

Two major crossings of the Assiniboine River on the Western Section were completed during the winter and work is well along on the Red River Crossing south of Winnipeg.

In 1957 the Company will complete the Western Section and will construct the 85 mile 30-inch section from Winnipeg to the Manitoba-Ontario border. The Northern Ontario Pipe Line Crown Corporation will construct the 315 mile 30-inch section from the Manitoba-Ontario border to the Port Arthur-Ft. William area, providing a continuous pipeline from Alberta to the Lakehead to begin natural gas service in 1957.

In 1957 the Company will also construct 310 miles of 20-inch line from Toronto to Montreal and 33 miles of 24-inch line to connect with the terminus of the Niagara-Toronto line. Your Company's subsidiary, Western Pipe Lines, built the 76 mile 20-inch Niagara-Toronto line in 1954.

In 1958 the Northern Ontario Pipe Line Crown Corporation will construct 360 miles of 30-inch line from Port Arthur-Ft. William to Kapuskasing and the Company will construct 491 miles of 30-inch line from Kapuskasing to Toronto. Thus it is planned that, by November 1, 1958, there will be a completed gas pipeline from Alberta to Montreal providing gas service all along the system.

In 1958 the Company will construct 4 compressor stations totalling 27,700 horsepower and the Crown Corporation will build one station of 5,000 horsepower. This program will result in an initial system capable of delivering 300,000,000 cubic feet per day.

financial statements

This report contains on the following pages a consolidated balance sheet of Trans-Canada Pipe Lines Limited and subsidiary companies as at December 31, 1956, with comparative figures at December 31, 1955, consolidated statements of operations and deficit and of capital surplus for the two years ended December 31, 1956, together with the report of the Company's auditors. The statement of operations reflects the results of leasing the Niagara-Toronto line, owned by the Company's subsidiary, Western Pipe Lines.

The financial statements included in this report are somewhat condensed as compared to the more detailed financial statements and notes thereto which were included in the Company's Canadian and United States Prospectuses, which were circulated to all purchasers at the time of our recent public offering of securities. Financial statements included in the Prospectus contained sufficient detail to satisfy all the technical requirements of the various Securities Commissions, under whose jurisdiction our Prospectuses were filed.

outlook for the future

The immediate outlook is one of urgency and desire to proceed with the job of constructing the world's longest natural gas pipeline. Under the program outlined above the initial system will be approximately 60% complete by the end of the 1957 construction season and 100% complete by the end of the 1958 construction season.

The long term outlook is extremely bright and it is evident that this view is shared by approximately 35,000 Canadians and approximately 6,000 United States residents, who enthusiastically purchased the securities of this Company recently offered for public sale. The prospect of availability of natural gas across four important Provinces of Canada means that the long term future prospects for your Company are exceedingly good.

The design of the pipeline system is such that by the installation on the initial system of additional compressor horsepower, together with the opening of the Company's proposed market to the United States near Emerson, Manitoba, the system will become capable of delivering 780,000,000 cubic feet of gas per day. It is planned that such horsepower will be added as the build up of the Company's present and proposed markets warrants.

organization

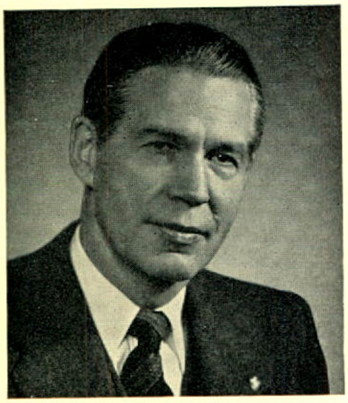
Your Directors wish to place on record their appreciation of the loyalty and efficient service of the employees at all levels, who have served your Company through a very difficult period and who stand ready to continue to serve through the busy period of construction.

March 29, 1957

On behalf of The Board of Directors,

N. E. Tanner

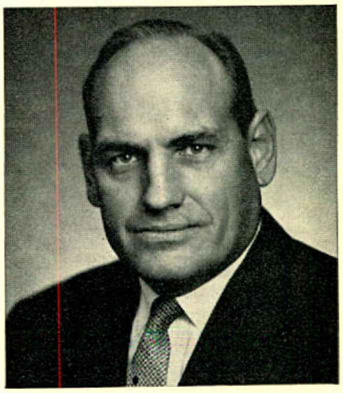
President.



N. E. TANNER

N. E. Tanner has been president of your Company since March, 1954, at which time he resigned as president of Merrill Petroleums Limited and Sturdie Propane Limited, which positions he had held since 1952. Prior to that time he was Minister of Lands and Forests and Minister of Mines and Minerals for the Province of Alberta, which positions he had held for approximately 15 years. He is a director of National Trust Company, Limited, The Toronto-Dominion Bank, Inland Cement Co. Ltd. and The Alberta Gas Trunk Line Company Limited.

Charles S. Coates has been executive vice-president and general manager of your Company since August 1, 1954. Prior to that time he was senior vice-president of Tennessee Gas Transmission Company with which he had been associated since the inception of that company in 1943, during which time he acted as general superintendent of construction and has specialized in pipeline engineering, construction and operation.



CHARLES S. COATES

TRANS-CANADA PI

AND SUBSIDIA

Consolidated

DECEMBER

(With comparative figure

assets

	December 31, 1956	December 31, 1955
Plant, Property and Equipment—at cost (Note 1):		
Niagara Section—gas plant leased to others	$ 5,345,342.54	$ 5,349,580.60
Less accumulated depreciation (Note 2)	405,575.82	218,340.50
	$ 4,939,766.72	$ 5,131,240.10
Main line—Alberta-Saskatchewan border to Montreal, Quebec:		
Construction costs of main line beginning June 8, 1956	$46,838,468.39	—
Preliminary surveys and engineering and other costs	4,980,694.19	$ 4,519,303.34
Construction management contract—costs including land rights acquired prior to June 8, 1956	3,492,206.93	3,390,000.00
	$55,311,369.51	$ 7,909,303.34
Equipment—furniture and fixtures and automobiles	$ 249,736.24	$ 232,188.39
Less accumulated depreciation (Note 2)	82,980.07	34,869.59
	$ 166,756.17	$ 197,318.80
	$60,417,892.40	$13,237,862.24
Investment—at cost:		
The Alberta Gas Trunk Line Company Limited shares	$ 3,825.00	$ 3,825.00
Current Assets:		
Cash on hand and in banks	7,182,113.48	209,794.38
Cash on deposit with trust company for payment of debenture interest	45,212.66	—
	$ 7,227,326.14	$ 209,794.38
Government of Canada treasury bills—at cost	897,441.00	—
Remission of customs duty receivable	1,698,114.83	—
	$ 9,822,881.97	$ 209,794.38
Deferred non-construction items (Note 1)	$ 455,487.61	—
Organization expenses	36,067.60	$ 36,067.60
	$70,736,154.58	$13,487,549.22

Balance Sheet

31, 1956
s at December 31, 1955)

liabilities

	December 31, 1956	December 31, 1955
SHAREHOLDERS' EQUITY:		
Capital stock (Note 3):		
Preferred—Authorized 1,000,000 non-voting shares of a par value of $50.00 per share		
Common—Authorized 10,000,000 shares of a par value of $1.00 per share		
—Issued and outstanding: 1956, 1,928,184 shares and 1955, 1,024,594 shares	$ 1,928,184.00	$ 1,024,594.00
Premium on issue of common shares	13,483,279.88	7,158,149.88
	$15,411,463.88	$ 8,182,743.88
Less deficit—per consolidated Statement of Operations and Deficit	316,875.77	199,037.02
	$15,094,588.11	$ 7,983,706.86
Capital surplus (Note 4)	204,885.42	24,981.27
Shareholders' equity	$15,299,473.53	$ 8,008,688.13
FUNDED DEBT (Note 5):		
5% First Mortgage bonds	$43,750,000.00	—
4¾% Sinking Fund debentures	5,350,000.00	—
	$49,100,000.00	—
CURRENT LIABILITIES:		
Due to banks—demand loans payable	—	$ 5,240,000.00
Accounts payable	$ 5,773,673.46	238,861.09
Interest accrued on bonds and debentures	563,007.59	—
	$ 6,336,681.05	$ 5,478,861.09
COMMITMENTS (NOTES 7 AND 8).		
	$70,736,154.58	$13,487,549.22

APPROVED ON BEHALF OF THE BOARD:

CHAS. S. COATES, *Director*
JOHN R. FELL, *Director*

See accompanying notes to financial statements.

Consolidated Statement of Operations and Deficit

YEAR ENDED DECEMBER 31, 1956 (NOTE 1)

(With comparative figures for the year ended December 31, 1955)

	Year ended December 31, 1956	Year ended December 31, 1955
REVENUES:		
Revenue from gas plant leased to others	$251,750.00	$220,362.36
Interest revenue	71,398.26	—
	$323,148.26	$220,362.36
EXPENSES:		
Interest on funded debt	$212,931.22	—
Bank interest	40,574.14	$236,123.04
Other expenses	246.33	269.16
Depreciation (Note 2)	187,235.32	183,007.18
	$440,987.01	$419,399.38
Net loss for the year	$117,838.75	$199,037.02
Deficit at beginning of year	199,037.02	—
Deficit at end of year	$316,875.77	$199,037.02

NOTE:
Apart from interest of $68,221.00 received on short-term investments of Trans-Canada Pipe Lines Limited, the revenues and expenses shown in the above statement relate to the Niagara Section owned by Western Pipe Lines.

Consolidated Statement of Capital Surplus

YEAR ENDED DECEMBER 31, 1956 (NOTE 4)

(With comparative figures for the year ended December 31, 1955)

	Year ended December 31, 1956	Year ended December 31, 1955
Balance at beginning of year	$ 24,981.27	$ 24,981.27
Excess of interest charged to construction over interest expense	179,904.15	—
Balance at end of year	$204,885.42	$ 24,981.27

See accompanying notes to financial statements.

TRANS-CANADA PIPE LINES LIMITED

AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

DECEMBER 31, 1956

1. Principles of Consolidation and of Accounting:

The consolidated balance sheet includes (after elimination of intercompany balances) the accounts of Trans-Canada Pipe Lines Limited and its wholly owned subsidiaries, Western Pipe Lines, Trans-Canada Grid of Alberta Ltd. and Alberta Inter-Field Gas Lines Limited, the latter two being non-operating companies.

All expenditures relative to the construction of the various sections of the pipe line system presently being or to be constructed by Trans-Canada have been capitalized. The preliminary surveys and engineering and other costs together with the construction management contract costs accumulated to June 7, 1956 are considered to be capital costs chargeable to separate sections of the pipe line system. Beginning June 8, 1956, the day after arrangements were completed for the borrowing from Northern Ontario Pipeline Crown Corporation, non-construction items such as the expenses of the gas purchase and gas sales departments have been treated as deferred charges and carried under the heading "deferred non-construction items."

The Niagara Section was constructed by Western Pipe Lines and is presently leased to others as outlined in Note 6 hereafter.

2. Depreciation Policies:

Provisions for depreciation of the Niagara Section, aggregating $405,575.82 at December 31, 1956, have been computed at 3½% on a straight-line basis and have been charged to operations as follows:

Fiscal year	Amount
1954	$ 35,333.32
1955	183,007.18
1956	187,235.32
	$405,575.82

Provisions for depreciation of equipment have been computed on a straight-line basis at rates of 30% for automobiles and 20% for other equipment and have been charged as follows:

Plant, property and equipment: Main line	$10,880.13
Preliminary surveys and engineering and other costs	50,625.50
Deferred non-construction items	21,927.34
	$83,432.97

There have been no charges for maintenance, repairs, renewals and betterments. There have been only minor disposals of equipment; the excess of cost over proceeds received amounted to $452.90, which has been charged against accumulated depreciation. Maintenance of the Niagara Section is borne by the lessee.

3. Capital Stock:

Since the inception of Trans-Canada the following Common Shares have been issued:

	Credited to capital stock	Credited to premium on issue of Common Shares
Issued prior to December 31, 1955:		
1,002 shares for a cash consideration	$ 1,002.00	—
608,129 shares issued in settlement of cash advances	608,129.00	$ 4,249,903.00
415,463 shares in settlement of amounts due to shareholders which included amounts expended for incorporation and preliminary costs	415,463.00	2,908,246.88
	$1,024,594.00	$ 7,158,149.88
Issued in the year ended December 31, 1956:		
903,590 shares for a cash consideration	903,590.00	6,325,130.00
	$1,928,184.00	$13,483,279.88

On May 28, 1956 Trans-Canada accepted a subscription for the purchase of 40,000 Common Shares at a price of $8.00 per share. The subscription provided that the Common Shares covered thereby would be issued against payment contemporaneously with the initial financing of the Company's pipe line system.

Trans-Canada has granted, to its senior officials, the following options covering Common Shares of a par value of $1.00 per share:

(a) 60,000 shares within a period of five years from March 9, 1954 at a price of $8.00 per share. Since December 31, 1956 this option has been exercised with respect to 55,000 shares.

(b) 50,000 shares within a period of five years from August 1, 1954 at a price being the lesser of the then fair market value or $8.00 per share. Since December 31, 1956, this option has been exercised in full at $8.00 per share.

(c) 12,500 shares within a period of two years from July 12, 1956 at a price of $8.00 per share.

(d) 5,000 shares exercisable on or before August 31, 1957 or an earlier date in the event of release of certain escrowed stock, at a price of $8.00 per share.

(e) 7,500 shares exercisable within a period of two years from February 11, 1957 at a price of $10.00 per share. This option was granted on February 11, 1957.

In addition, Trans-Canada has set aside 42,500 of its Common Shares for the purpose of granting options from time to time to its key officials and employees. As of this date no options have been granted from these shares.

Under the terms of an agreement, known as the "Note Purchase Agreement", to be executed in connection with the new financing referred to in Note 9 hereafter, certain shareholders of the Company will, under certain circumstances, be obligated to purchase from the Company its 5½% Subordinated Convertible Income Notes up to a maximum principal amount of $21,000,000 and in any event will have the right to purchase such notes up to a principal amount of $7,000,000. The notes will be convertible at any time after July 1, 1964 into Common Shares at a conversion price of $15.00 per share or at such adjustment of that price as required to provide protection against dilution. If the shareholders were obligated to purchase the maximum principal amount of notes, 1,400,000 Common Shares would initially be required to be set aside to satisfy the conversion privilege. If the shareholders exercise their right to purchase $7,000,000 principal amount of notes, 466,667 Common Shares would initially be required to be set aside to satisfy the conversion privilege.

4. Capital Surplus:

Interest has been charged to construction of the pipe line system at the rate of 7% on the average monthly balances appearing in the construction accounts. Similarly, interest was charged to construction of the Niagara Section prior to its completion at the rate of 7% on the average monthly balances of the progress payments made to the contractor. The excess of interest so charged over the interest expense incurred has been credited to capital surplus.

5. Funded Debt:

TRANS-CANADA PIPE LINES LIMITED:

By an indenture dated June 7, 1956 between Trans-Canada and the Crown Corporation, an issue of $80,000,000.00 of 5% First Mortgage Bonds has been created. Such bonds, which are to be redeemed from the proceeds of the present financing, are payable both as to principal and interest on April 2, 1957 subject to extensions due to *force majeure* and may be redeemed at the option of Trans-Canada prior to their maturity without premium or penalty at the face value thereof. Trans-Canada had among other things, covenanted under the indenture that, subject to any delay due to *force majeure* (as defined in the indenture), it was to have completed by December 31, 1956 the construction of the western section of the pipe line, defined as being from a point at or near the Alberta-Saskatchewan border to a point in the vicinity of Winnipeg, Manitoba. The Crown Corporation is aware that a delay in the completion of the western section by December 31, 1956 by reason of *force majeure* has occurred. These bonds are secured on the real and other property of Trans-Canada including all the shares (other than directors' qualifying shares) of the subsidiary companies.

Under the terms of this indenture Trans-Canada may from time to time request the Crown Corporation to purchase 5% First Mortgage Bonds at 100% of the principal amount thereof in an amount not in excess of 90% of the cost of the construction of the western section or $80,000,000.00, whichever is the lesser.

At December 31, 1956 $43,750,000.00 principal amount of the 5% First Mortgage Bonds of Trans-Canada was outstanding and during the period from December 31, 1956 through February 11, 1957 further bonds aggregating $6,000,000.00 were issued and cash received of a like amount.

WESTERN PIPE LINES:

Under a Deed of Trust and Mortgage dated November 1, 1954 Western Pipe Lines created 4¾% Sinking Fund Debentures of an authorized principal amount of $7,500,000.00 dated November 1, 1954 and maturing November 1, 1959 and redeemable on 30 days' notice at their face value. At December 31, 1956 $5,350,000.00 principal amount of these debentures was outstanding.

The Niagara Section upon which these debentures are secured is leased to others (See Note 6).

The Deed of Trust and Mortgage securing the 4¾% Sinking Fund Debentures provides that Western Pipe Lines will create a sinking fund and will pay thereinto on or before October 31 in each of the years 1955 to 1958 inclusive an amount equal to that portion of the revenue (rental) measured by depreciation of the year then ended. The sinking fund contributions have been waived by the debenture holders for the period to October 31, 1956 as the original rental agreement did not provide for rent attributable to depreciation to that date. Trans-Canada will have to provide for the sinking fund contribution for the year to October 31, 1957 approximating $160,000.00 since, as set out in Note 6 hereafter, the rent to be received up to October 31, 1957 will not include depreciation.

The Deed of Trust and Mortgage securing the 4¾% Sinking Fund Debentures places a restriction on the payment of dividends by Western Pipe Lines so long as any of the debentures are outstanding.

6. Niagara Section Rental Agreement:

The Niagara Section constructed by Western Pipe Lines, is leased to a gas transmission company for a period of five years from November 1, 1954; the rent payable will be approximately equal to the interest charges sustained by the Company from November 1, 1954 to October 31, 1957 and thereafter the rent will be increased to also cover approximately the depreciation charge. If Alberta gas has not been made available to The Consumers' Gas Company of Toronto and to other customers of the lessee prior to September 1, 1959 in quantities sufficient to meet the requirements of that company and other customers, then the lessee may up to October 31, 1959 purchase the Niagara Section for an amount equal to the cost of the line less depreciation included in the rental payments referred to in the previous sentence.

7. Commitments:

Trans-Canada plans to construct a pipe line system, referred to in the balance sheet as "Main line", to transport gas from Alberta through Saskatchewan and Manitoba to the principal industrial areas of Ontario and Quebec.

Under agreements, as amended, the Crown Corporation is to construct, at a cost presently estimated at approximately $120,000,000, a section of the pipe line system, described as the "Northern Ontario Section", from the Manitoba-Ontario border to a point at or near the Town of Kapuskasing, Ontario and to lease the Northern Ontario Section to Trans-Canada for a period of 25 years. The agreement also provides that Trans-Canada shall purchase the Northern Ontario Section of the pipe line system from the Crown Corporation as soon as it can arrange the necessary finances.

The 25-year lease which the Company and the Crown Corporation have agreed to execute is to provide that the Company will bear all operating and maintenance expenses of the Northern Ontario Section and pay rent to the Crown Corporation for the use of the Northern Ontario Section, as follows:

(a) During the term of the lease, the monthly rental is to be equal to the number of Mcf of natural gas actually transmitted through the Northern Ontario Section in the preceding month multiplied by the transportation cost per Mcf; the transportation cost is to be the amount per Mcf which if the Northern Ontario Section were operated at two-thirds of its initially designed capacity, would yield an amount in that year equal to 4½% of the capital cost to the Crown Corporation of the Northern Ontario Section when constructed to its initially designed capacity; and

(b) Commencing in the fourth full calendar year of the term of the lease, an additional annual rental equal to the amount by which the revenues of the Company in such calendar year exceed its operating expenses (including the cost of operating and maintaining the Northern Ontario Section), the interest on the Bonds, Debentures and other outstanding debts and obligations, and depreciation at 3½% of the cost of the Company's depreciable assets; such additional annual rental is in no event to exceed 1% of the capital cost of the Northern Ontario Section and is payable only to the extent necessary to bring the accumulated total of all payments of rent to the Crown Corporation to an amount equal to 7% per annum of the total capital cost of the Northern Ontario Section to the Crown Corporation, together with interest accumulated at 3½% per annum compounded annually on the net deficiencies below 7% per annum of any preceding year.

The agreement dated November 21, 1955 provides that the Company shall purchase the Northern Ontario Section as soon as the Company can arrange the necessary financing. Such purchase may be made by the Company at any time during the term of the lease, by giving three months' written notice prior to the proposed date of sale, at a price equal to the total capital cost of the Northern Ontario Section as of the date of sale, minus all rental payments made to the Crown Corporation which are in excess of the amount necessary to give the Crown Corporation an annual return of 3½%, from the date of completion of such section, on the amount of its invested capital and outstanding capital obligations in respect of the Northern Ontario Section and provided that the purchase price shall not in any event be less than the amortized capital cost of such section (amortized at 3½% per annum plus interest at the rate of 3½% compounded annually) or 70% of the cost of the Northern Ontario Section, whichever is higher.

On June 8, 1956 Trans-Canada commenced construction of the pipe line system.

The estimated cost of construction of the entire pipe line system to completion at its Eastern terminus near Montreal, Quebec, excluding the Northern Ontario Section to be constructed by Crown Corporation, is $228,100,000 (exclusive of any allowance for contingencies). As at December 31, 1956 $55,311,369.51 had been expended on the Main line and commitments had been made for expenditures on pipe and other requirements aggregating approximately $122,000,000, including $35,000,000 in respect of the Northern Ontario Section.

Trans-Canada has entered into lease and sublease agreements for office premises in Calgary, Toronto and Winnipeg for periods up to four years, from December 31, 1956.

Trans-Canada has entered into agreements whereby if certain certificates, licences and permits are obtained from the United States and Canadian Governments, it undertakes to enter into a contract for the transportation of natural gas through the Niagara Section which is leased to others. Under the terms of this transportation contract Trans-Canada would pay a charge of $250,000 a year for three years commencing November 1, 1957 providing that should no deliveries be made during the first contract year the charge shall be $75,000. Such contract could be terminated by Trans-Canada effective any time after November 1, 1958 upon 90 days' notice. In the event of termination the rental shall be as follows:

If terminated effective prior to January 1 the charge shall be an amount that bears the same proportion to $250,000.00 as the portion of the contract year elapsed bears to a full year.

If terminated effective on or after January 1 the charge shall be $250,000.00.

Trans-Canada has signed a large number of long term contracts for the purchase of gas in Alberta. These contracts extend for a period of 25 years and provide for the purchase of volumes of gas related to the present design of and construction plans for the proposed pipe line system.

8. Dividend Restrictions:

Upon completion of the new financing referred to in Note 9 hereafter, the payment of dividends will be restricted as provided for in the Deed of Trust and Mortgage for the First Mortgage Pipe Line Bonds and the Indenture for the Subordinated Debentures.

9. New Financing:

The capitalization of the Company will be affected by the new financing program as follows:

(a) The Company has entered into underwriting agreements dated February 12, 1957 covering the issue and sale of $75,000,000 Subordinated Debentures due 1987 and 3,750,000 Common Shares at a price of $10 per share.

(b) The Company intends to enter into bond purchase agreements with a group of institutional investors for the sale of $104,000,000 principal amount of its First Mortgage Pipe Line Bonds due 1978. In addition, the Company proposes to borrow an aggregate of $20,000,000 from three United States banks which loans are to be secured by $20,000,000 principal amount of the First Mortgage Pipe Line Bonds of the Company. The proceeds from the sale of the Bonds and from the bank loans will be available to the Company, following the sale of the Subordinated Debentures and Common Shares referred to in (a) above, in accordance with the provisions of the bond purchase agreements and the Deed of Trust and Mortgage, securing the First Mortgage Pipe Line Bonds, as the Company's construction programme progresses during 1957 and 1958.

(c) The net proceeds from the sale of Subordinated Debentures and Common Shares will be used in part (1) to redeem without premium the presently outstanding 5% First Mortgage Bonds of the Company, which since December 31, 1956 have been increased to $49,750,000, and (2) to advance $5,350,000 to Western Pipe Lines, a wholly owned subsidiary of the Company, which amount will be used by that company to redeem its outstanding 4¾% Sinking Fund Debentures.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Trans-Canada Pipe Lines Limited and its subsidiary companies as of December 31, 1956, and the consolidated statements of operations, deficit and capital surplus for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated balance sheet and consolidated statements of operations, deficit and capital surplus present fairly the consolidated financial position of Trans-Canada Pipe Lines Limited and subsidiary companies at December 31, 1956, and the results of their operations for the year ended on that date, all in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Chartered Accountants.

TORONTO, ONTARIO,
February 12, 1957

PRINTED IN CANADA