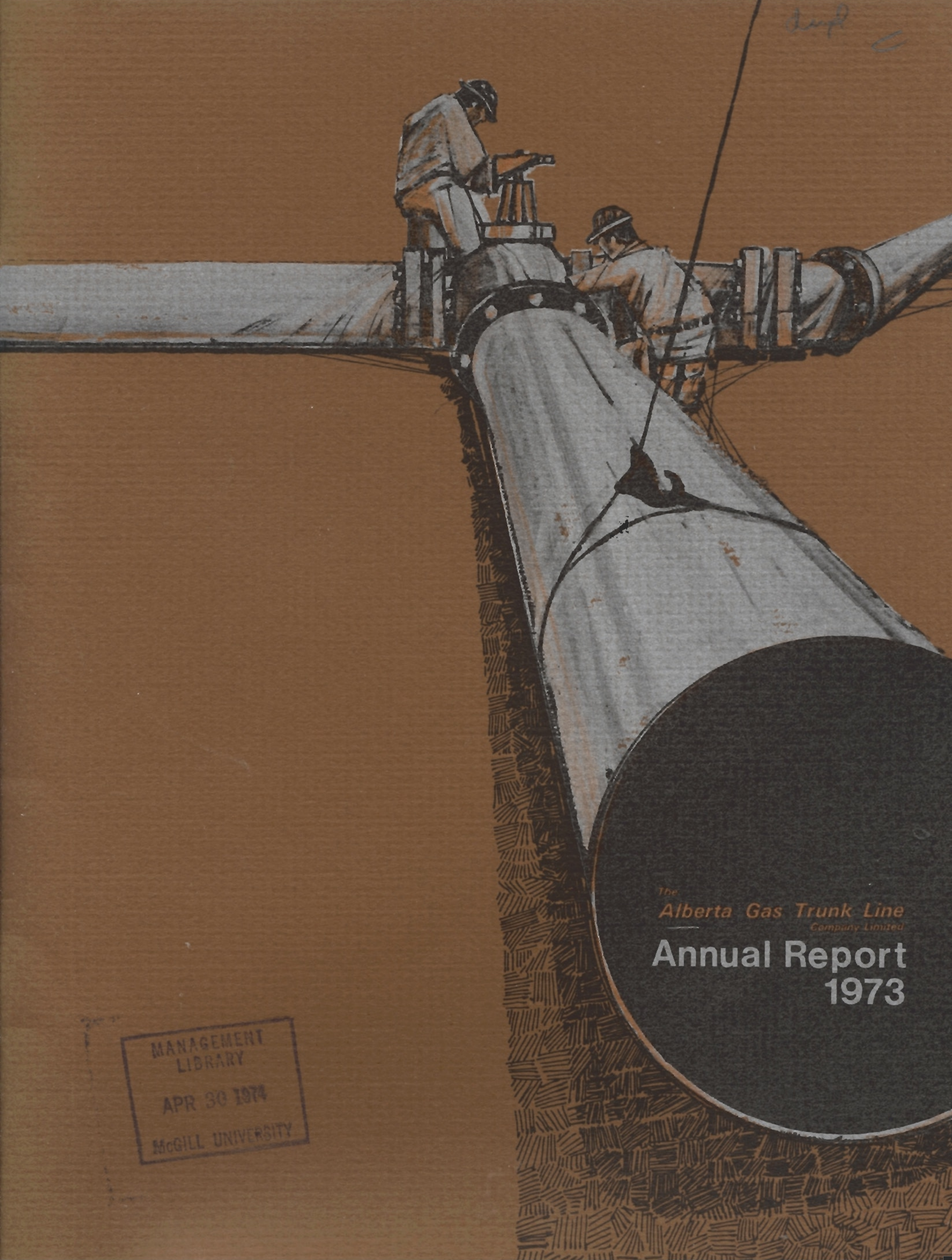


The
Alberta Gas Trunk Line
Company Limited

Annual Report 1973

Head Office
505 - 2nd Street S.W.
P.O. Box 2535
Calgary, Alberta T2P 2N6

Edmonton Office
9945 - 108 Street
Edmonton, Alberta T5K 1G8

Calgary Service Centre
7210 Blackfoot Trail S.E.
Calgary, Alberta T2H 1M5

Calgary Works Department
2611 - 58th Avenue S.E.
Calgary, Alberta T2C 0B4

Edmonton Service Centre
15810 - 114 Avenue
Box 3240, Station "D"
Edmonton, Alberta T5L 4J1

District No. 1 Headquarters
Calgary Service Centre

District No. 2 Headquarters
Brooks
P.O. Box 819 T0J 0J0

District No. 3 Headquarters
Edson
P.O. Box 1239 T0E 0P0

The
Alberta Gas Trunk Line
Company Limited

Incorporated by Special Act under the Laws of Alberta

Annual Meeting

The Annual Meeting of the shareholders of the Company will be held at the Calgary Inn, Calgary, Alberta on May 1, 1974 at 10:30 a.m.

Les personnes désirant des exemplaires en français du présent rapport sont priées de s'adresser au secrétaire adjoint de la Compagnie, P.O. Box 2535, CALGARY, ALBERTA.

Contents

Highlights

FINANCIAL	1973	1972	Increase Per Cent
Operating revenues	$ 78,715,000	$ 64,666,000	21.7
Operating profit	$ 37,455,000	$ 33,775,000	10.9
Net income	$ 14,868,000	$ 14,067,000	5.7
Dividends on preferred shares	$ 1,524,000	$ 1,611,000	
Net income applicable to common shares	$ 13,344,000	$ 12,456,000	7.1
Net income per common share			
On average shares outstanding	$ .79	$ .75	5.3
On fully-diluted basis	$ .77	$ .74	4.1
Dividends paid per common share	$ .42	$ .39¾	5.6
Average common shares outstanding	16,793,000	16,530,000	1.6
Additions to plant	$ 26,804,000	$ 44,604,000	
Investment in plant (cost)	$535,009,000	$507,903,000	5.3
Investment in plant (net)	$446,396,000	$432,000,000	3.3
Average rate base	$416,167,000	$386,000,000	7.8
Average rate of return	9.00%	8.75%	2.9
OPERATING			
Miles of pipeline in system	4,113	4,030	2.1
Compression horsepower	420,535	365,635	15.0
Total system receipts (MMcf)	1,720,637	1,595,465	7.8
Maximum day receipts (MMcf)	5,573	5,131	8.6
Average day receipts (MMcf)	4,714	4,371	7.8

To our shareholders:

Our Company is an independent, Canadian-owned and Alberta-based company whose scope covers a number of operations, each directed toward use of Alberta's natural gas supply in economically attractive projects.

In this period when there is particular sensitivity about the identity of equity owners who will gain from development of Canada and about management control in our petroleum industry, we are fortunate to give the following account:

Our 16,800,000 Class "A" common shares are held

- —as to 45% by some 22,000 individual Canadian investors, of whom 15,000 are resident in Alberta;
- —as to 53% by Canadian institutional investors, whose beneficial or nominee holdings we estimate to be over 90% (we believe 93%) by or for Canadian owners;
- —as to 2% by foreign investors;

making, in total, equity ownership by Canadians of about 98% (shareholder register) or 95% (nominee holdings considered).

Our only other common shares, which are 1,700 Class "B" shares, are owned largely by some 90 gas producing or marketing companies operating in Alberta which elect three directors to our board of eleven. Also three of these Class "B" shares qualify on our board three leaders in private business, who are appointed by the Government of Alberta.

The presence of these six directors is symbolic of our close tie with the companies in the Alberta gas industry at large and with the public of Alberta.

NATURAL GAS SUPPLY

Expansion of the Company's gas plant facilities during 1973 added $27 million in capital cost. After recording depreciation of $13 million, the increase to net investment in plant on which the Company's gas transmission charges are calculated was $14 million. This increased the net investment in plant at December 31, 1973 to $446 million.

In this respect 1973 growth was much smaller than that in each of the previous four years and was also much smaller than that annual growth which the Company expects to obtain from transporting natural gas from Alberta fields and from a new Mackenzie Valley gas pipeline system in the 1980's.

The total of all natural gas produced and consumed since 1901 from all Alberta sources has been about 20 trillion cubic feet.

About 50 trillion cubic feet more remains proven in Alberta in the reservoirs and available for future production.

How much more will develop in the future from extensions of known gas fields and from fields still to be discovered within Alberta remains open.

There have been various estimates published on the additional reserves which remain undiscovered in the province. These estimates range from about 20 trillion cubic feet which can be calculated from papers published on behalf of the Geological Survey of Canada in 1973, to 44 trillion cubic feet as estimated by the Energy Resources Conservation Board of Alberta in 1974, or to much larger numbers forecast by some firms engaged in petroleum exploration. The higher of these estimates suppose that our reserve quantities will be augmented further by increased natural gas field values and by conjecture of some new geological theories which will be tested.

The immediate growth of gas production from Alberta sources will depend upon continuing reappraisal of ultimate reserve potential for the province. If more cautious thinking prevails, there may be little growth in delivery past a near date in the late 1970's. Such growth would then ease off because of increasing gas requirement of the province plus insufficient assurance that new gas fields be discovered to supply the province's long-term needs.

Alternatively, if more optimistic attitude influences industry thinking and regulatory opinion, there could be continuous growth of deliveries of Alberta gas into the 1980's.

This would be greatly supported by the existence of a Mackenzie gas pipeline which would relieve the presently intense analysis of sufficiency of the Alberta sources to supply all Canadian markets 25 and 30 years into the future.

Our professional staff conducts studies of all the major trends. In our view it is too early to reach final conclusions regarding the future potential of new gas sources within Alberta and regarding the ability of Alberta to continue to increase gas supply to the rest of Canada and our export markets.

We do feel that we need strong industry incentive to explore and develop new fields for supply of willing markets, combined with a degree of regulatory caution to ensure that there is no profligate waste or seriously premature marketing of this resource. We believe that these policies are being provided by the Government of Alberta and the Energy Resources Conservation Board of Alberta.

It is vitally important to all of Canada that this climate exist in Alberta, of all places, because during the remainder of the 1970's this is the only resource area in Canada which can be counted on for growth in the continuing supply for hydrocarbon energy to the rest of Canada.

Alberta must be seen as the "breadbasket" of natural gas supply, as well as oil supply, to the remainder of Canada through this century. Any other assessment would be fanciful.

Awareness of this responsibility has made our Company involved in various projects which are intended to assist in maintaining incentive for gas exploration and in extending the gas gathering and transmission systems which will be needed to collect Alberta's gas for future marketing.

GAS MARKETING INVOLVEMENT

Pan-Alberta Gas Ltd. made progress during 1973 which we are sure will produce results in 1974. Pan-Alberta will henceforth be owned jointly with the Alberta Energy Company.

The first purpose of Pan-Alberta in 1972 was to sell excess Alberta gas productive capability on a short-term and high-price basis to the then-available and willing buyers which were major United States utility companies. From the proceeds, Pan-Alberta would be funded as an independent new Canadian company which could be an energetic force in development of additional energy supply.

This original Pan-Alberta project was advanced in 1973 by entering of gas purchase contracts with over 100 producer companies and covering over 200 gas pools and areas in Alberta. Export gas sale was contracted for sale to Pacific Interstate Transmission Company for a six-year term to commence November 1, 1974 and at a suitable price at the international boundary. A hearing of Pan-Alberta's application before the Energy Resources Conservation Board was conducted in May and was reopened in October. The favorable decision of the board was received on March 4, 1974.

In November 1973, Pan-Alberta also filed the necessary corresponding application with the National Energy Board of Canada. Public hearings are expected in the second quarter of 1974.

While we are in a period of unusual concern in Canada about the justification of sale of gas to United States markets, we believe that special merit in this short-term and high-price export project, arising from its uniquely high "Canadian content," may earn its authorization.

One result of that initial proposal would be to help pave the way for three additional ventures which Pan-Alberta started in 1973 under the leadership of Reginald J. Gibbs, Q.C., Pan-Alberta's chief executive officer. Mr. Gibbs is a widely experienced counsel in matters including natural gas regulatory proceedings. He is backed by David B. Smith, P. Eng., who as vice-president and general manager is a seasoned senior utility executive, and by other professional staff sharing long gas supply experience.

The first of these additional proposals by Pan-Alberta was to backstop any deficiency of gas supply which could be experienced in 1973 or 1974 by British Columbia sources. For this purpose, Pan-Alberta has stood ready from November 1973 to promptly deliver 50 million cubic feet per day initially, and 100 million cubic feet per day later, through a lateral extension for which Alberta Gas Trunk has obtained the right-of-way, a construction permit and bought the pipe. We expect that this auxiliary supply arrangement will certainly be called on in 1974.

The second venture was the backstopping of gas supply which our affiliate company, Alberta Gas Chemicals Ltd., could require for some of its new petrochemical manufacture within Alberta. That particular backstopping was also supported early in 1974 by purchase of gas reserves in place by Algas Resources Ltd., a new wholly-owned subsidiary of Alberta Gas Trunk.

Pan-Alberta's third 1973 project, and a very important one, was its entering of a preliminary gas sale commitment with Gaz Metropolitain, inc. Gaz Metropolitain is the company which serves Montreal with natural gas at present and which is following aggressively a directive of the Government of Quebec that natural gas service be extended throughout that province.

We are convinced that the supply of Alberta-produced natural gas (backed up in due course by Mackenzie Valley-produced natural gas) to Quebec markets which previously depended for hydrocarbon energy supply on imported crude oil makes unusual good sense. The early cost of this gas to Gaz Metropolitain will be somewhat higher than it or any other eastern utility has been accustomed to historically but we believe that will prove to be a necessary adjustment becoming recognized in 1974 by utility consumers who wish to continue to grow in their businesses.

We respected the decisiveness of Gaz Metropolitain in assessing this situation in 1973 and in moving ahead as it has done. As Canadian as well as Albertan companies, Pan-Alberta and our Company will do everything we can to get supply of western and Arctic natural gas delivered into Quebec markets as and when needed.

From this kind of a start many Canadian projects can be based and economic unity can be advanced to the mutual advantage of our producing and consuming provinces and of our companies.

SUPPLY FROM NEW WESTERN ARCTIC SOURCES

Since 1969 our Company has been in the forefront in planning, expenditure, staffing and all other commitment to see that new western Arctic gas sources will be connected to the supply of Canadian gas markets as quickly as possible and with optimum Canadian content.

As the first sponsor of the original Gas Arctic Systems Study Group and as an individual company which provided experienced personnel to the international grouping called Canadian Arctic Gas Study Limited, we have pressed on with our effort to support whatever pipeline project will be best.

"Study groups," a phenomenon associated with pipeline studies in the 1970's, are interesting forums in which we have had opportunity to compare the merits and the disadvantages of various alternative approaches, and usefully to share the costs of some most expensive preliminary studies.

DIVERSIFIED INVESTMENTS

While we are going to do everything that we can to build into our corporate growth the major business of gathering and moving natural gas within and across Alberta; our Company also faces three clear circumstances:

1) This gas transmission business is finite in its extent, in this century or in the next, but still nevertheless finite;
2) The company which holds a big and lucrative franchise in a province of Canada should do everything it can to advance the economy and the interests of the province by industrial diversification or otherwise as led by provincial government policy; and
3) This is a great time of opportunity for Canadian companies which can move aggressively and independently, especially in the energy field.

This thinking has led to our investment in manufacture of methanol and other commodities through Alberta Gas Chemicals Ltd. and to our sponsorship of a world-scale-plus complex which can manufacture a wide variety of ethylene derivatives in Alberta and to other diversified projects.

Our ground rules for this activity include that the forecast return be greater than that which we presently receive from our gas transmission operations and also that each venture have the potential of contributing substantial and early return to the Company's earnings on a pre-tax, consolidated accounting basis. With such self-imposed guidelines, we believe that such diversification will be advantageous to our share-holders at the same time as strengthening the broader industrial base of Alberta and of Canada.

RELIEF OF RESTRICTIONS FROM SENIOR FINANCING CONDITIONS

Our Company was most appreciative that in general meetings convened in October 1973, very large majorities of the holders of our outstanding mortgage bonds, debentures and preferred shares agreed to permit the Company henceforth to use subsidiaries which can be financed separately, can be co-owned with others, and can be used for purposes varying when desirable from the operations and businesses in which the Company itself engages.

OUR CORPORATE TEAM

We salute the arrival in 1973, as a director of our Company, of Daryl K. Seaman (51), the chief executive leader of the Bow Valley group of independent exploration and service companies which are prominent in petroleum development.

New vigor for negotiations and business development has been received by the recruiting of Robert L. Pierce Q.C. (44) who was formerly the senior partner of a law firm in Regina and is well equipped to add leadership in natural gas and other industrial development of western Canada; and of James D. Kadlec (43) who was formerly the chairman and chief executive of the Pan-Pacific corporate group and who is an expert in acquisition and other investment assessments.

We observe promotion of D. Howard Hushion (50), innovative head of our engineering and construction division, which has consistently led the North American and in one notable instance the world pipeline industry in the application of new mechanisms for pipeline services.

Raised to officer status during the year were Dianne I. Narvik (31) and Barry E. Harper (30).

We record the retirement of Walter J. Hopson (60) who gave conscientious attention to the protection of the Company's interest during his fifteen years of service.

And finally and of top importance, we pay respect to the long hours, high spirit and earnest commitment of the first-rate professional, administrative and operating staff teams which are making our Company go ahead.

J. Lemaire

Chairman of the Board

J. R. Blair

President and Chief Executive Officer

Calgary, Alberta
March 6, 1974

General Operations

The gas transmission group continued its program of integrating field district operations. Each of the three districts — based in Calgary, Brooks and Edson — is becoming increasingly autonomous from an operational standpoint as technical support personnel are moved into field bases as required. For example, each district has an engineer, a landman and a complement of technicians. Greater operational efficiency and economy are the objectives of the integration program.

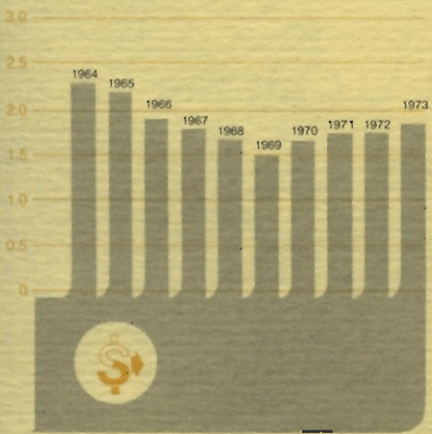
The Company's off-line sales group provided specific areas of engineering and technical expertise to the provincial government in the preparation of long-range policies aimed at expanding substantially the coverage of natural gas service in Alberta.

The group subsequently was active in providing natural gas transmission service to newly formed co-operative distribution systems in rural Alberta. Three such co-ops had gone into service by year-end and a further 20 will go into service in 1974. The co-ops served have memberships ranging from 20 to 800 consumers.

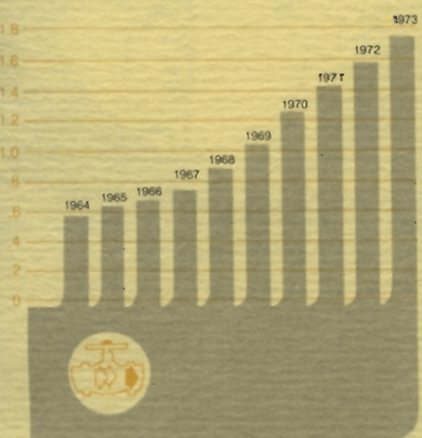
Public and Employee Affairs

As the Company continues to grow and diversify in Alberta, developing leadership and investment opportunities for Albertans, it is continually reviewing and assessing its place in Alberta's social and economic communities.

AVERAGE TRANSPORTATION COSTS
Cents/MCF/100 Miles



TOTAL SYSTEM RECEIPTS
(Trillions of cubic feet)



Increasingly, the Company has recognized the importance of telling its story to the residents of the communities close to the pipeline system as well as employees, shareholders, customers and the public at large.

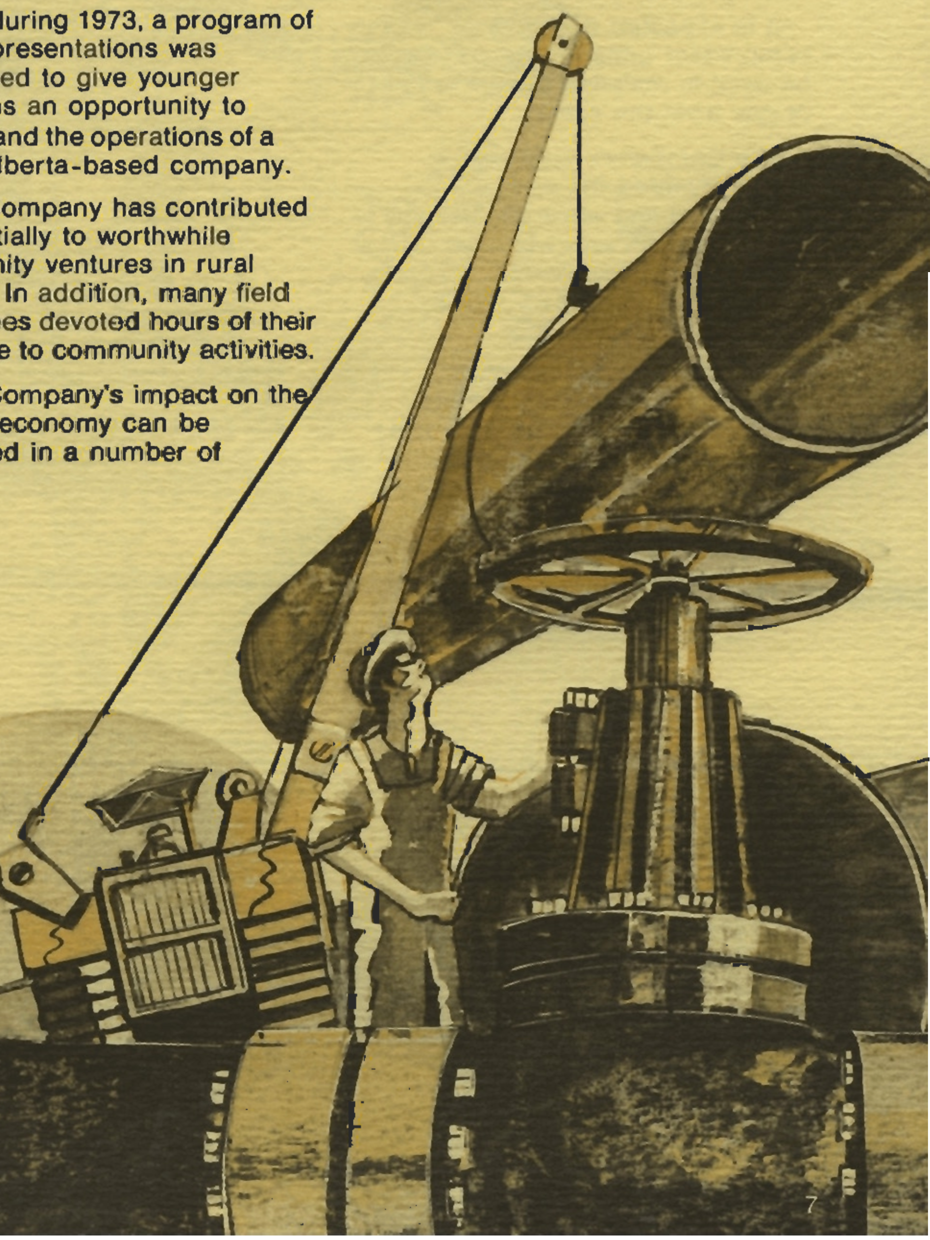
During 1973, the program of informational meetings in Alberta communities was accelerated. Sixteen meetings were held to discuss the Company's operations — traditional as well as new — with the owners of land traversed by the pipeline system, and with others.

Also during 1973, a program of school presentations was introduced to give younger Albertans an opportunity to understand the operations of a large, Alberta-based company.

The Company has contributed substantially to worthwhile community ventures in rural Alberta. In addition, many field employees devoted hours of their own time to community activities.

The Company's impact on the Alberta economy can be illustrated in a number of meaningful ways. In 1973, the Company paid $4.2 million in municipal taxes. Of total Company spending on goods and services in 1973, 72% or almost $30 million was spent in Alberta.

The Company began a comprehensive program of supervisory training for employees during 1973 and along with other formal courses for employees wishing to broaden their horizons it will be stepped up in 1974. A sound illustration of this emphasis is the fact that more than 600 employees took part in training courses in 1973.



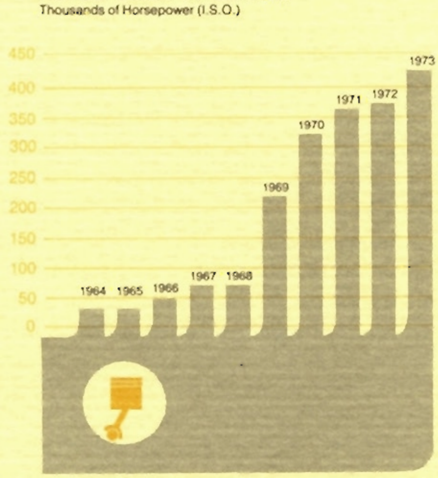
Engineering and Construction

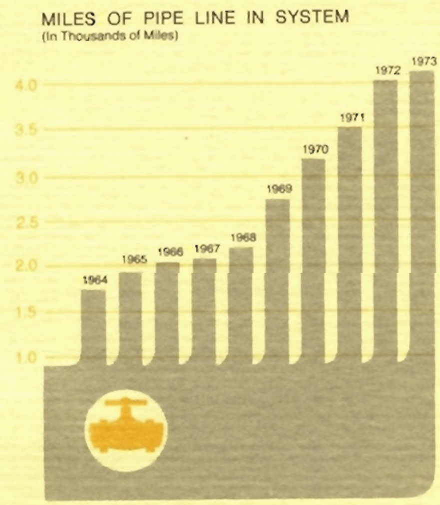
The most significant feature of the Company's 1973 system expansion program was installation of a 35,500-horsepower turbine compressor unit at the Princess station. The unit is the largest ever to have been installed in the world for natural gas transmission service. It has ultimate capacity of 4.5 billion cubic feet per day. This is 1.1 billion cubic feet greater than the average daily consumption of natural gas in all of Canada.

It is expected that turbine compressor units of this size will be used in mainline transmission of gas from the Arctic.

The Company's engineering group provided the civil, mechanical and electrical design for the project, and was also responsible for construction inspection and start-up of the unit.

The gas turbine was manufactured in Montreal by United Aircraft Company of Canada. The gas generator and power turbine are Pratt-Whitney units.





This was a $3.9 million project and brought to nine the number of compressor units at the Princess station.

Total system expansion during 1973 cost $27 million. Pipeline and measurement facilities accounted for $17 million of the total with compression additions taking up the balance.

Pipeline construction totalled 83 miles in diameters ranging from 6 inches to 42 inches.

Compression facility construction included a 15,400-horsepower unit at McLeod River and a 4,000-horsepower unit at Red Willow as well as the addition at Princess.

A small computer was installed at the Empress meter station to achieve automatic, unattended monitoring of gas analysis from seven streams. The installation yields component data at the site and transmits data to central gas control in Calgary.

The engineering and construction division for the most part will carry out the conversion to natural gas from oil transmission of the 171-mile Mitsue pipeline purchased by the Company late in 1973. The 8-inch and 10-inch line runs from the Utikuma Lake to Redwater and has been in use as a part of the Rainbow crude oil

pipeline system. A portion of the line has been resold for wet gas transmission and another portion will be leased for continued use in oil transmission service.

New Corporate Directions

The Company is actively pursuing with prospective partners the development of a world-scale petrochemical industry in Alberta based on the ethane component of natural gas.

The project envisions extraction of ethane from the gas stream, conversion into ethylene and ultimate manufacture of a variety of products using ethylene as the feedstock — all in Alberta. Ownership control of the project would be Canadian, with management and headquarters in Alberta.

The major centre of the production of ethylene and its derivatives in North America has been in the southern United States. Now Alberta finds itself with a unique opportunity to develop an integrated petrochemical industry.

Initial elements of the complex would include facilities to extract in the order of 1.3 billion pounds of ethane a year and convert it to 1 billion pounds of ethylene annually.

ALBERTA GAS CHEMICALS LTD.

In February 1973, Alberta Gas Trunk joined Allarco Developments Ltd. of Edmonton in the establishment of a $19 million methanol plant in Medicine Hat to be operated by a jointly-owned corporation, Alberta Gas Chemicals Ltd. It is the first world-scale methanol plant in Canada.

The plant, which is to have a capacity of 600 tons per day, is under construction and scheduled to go into production in August 1974. A major U.S. forest products group has contracted to purchase one-third of the output capacity per year for up to 10 years.

Methanol is used in natural gas pipelines as a dehydrating agent and in the manufacture of other important chemical products.

At year-end, markets and other favorable economic factors indicated that development of a second plant at Medicine Hat may be feasible during 1974.

Alberta Gas Chemicals also has under active study the feasibility of ammonia and urea manufacture.

GAS ARCTIC-NORTHWEST PROJECT STUDY GROUP

During 1973, the company, with the other 26 members of the study group, continued to support assessment of the development of a large-diameter pipeline system to transport natural gas from the Arctic to markets in the south.

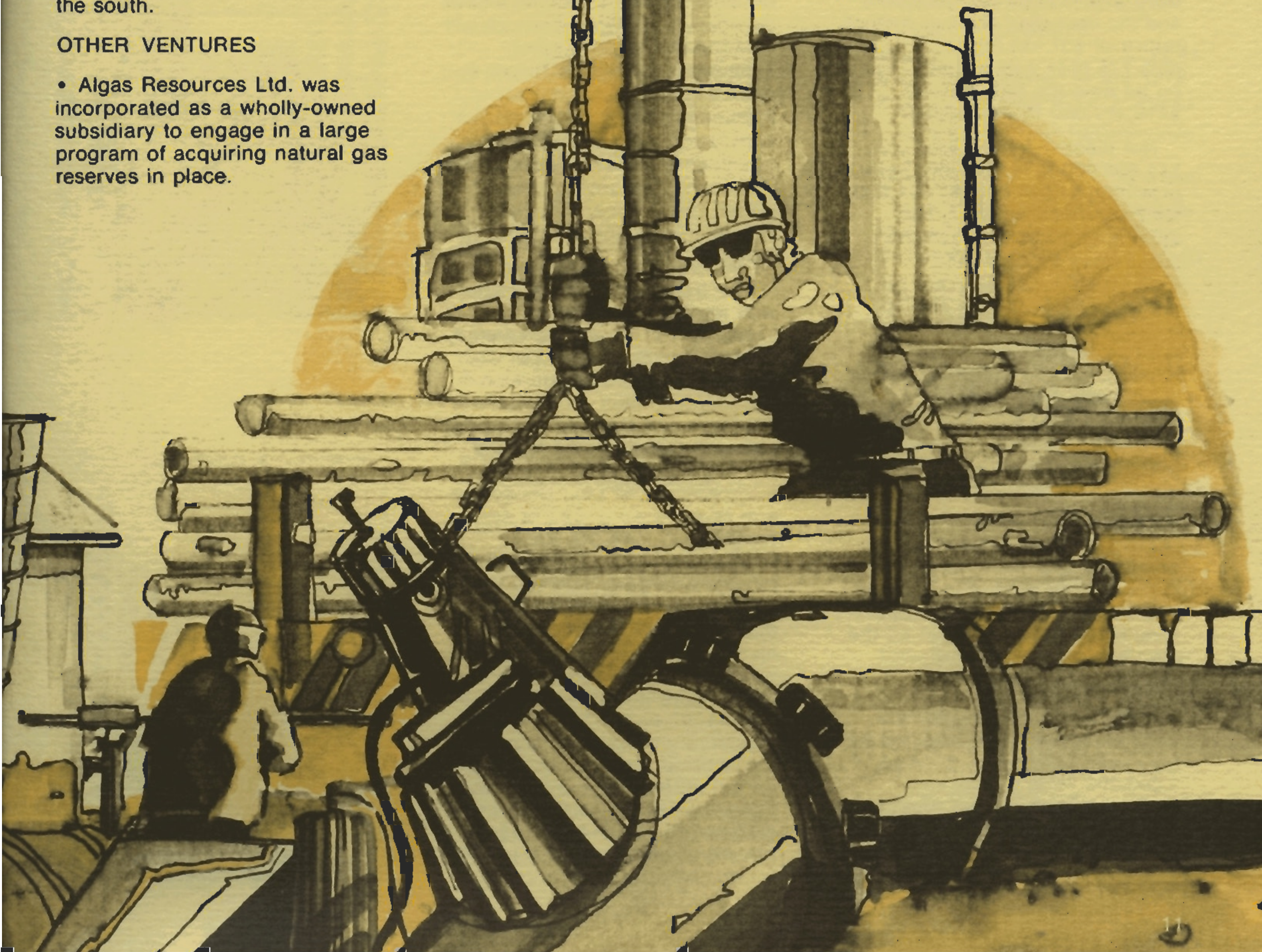
OTHER VENTURES

• Algas Resources Ltd. was incorporated as a wholly-owned subsidiary to engage in a large program of acquiring natural gas reserves in place.

Early in 1974, Algas Resources acquired working interests varying from 75% to 100% in the petroleum and natural gas rights underlying 58 sections of land in the Princess area of southeastern Alberta. The reserves will be developed for future sales opportunities.

• The Company also incorporated Algas Engineering Services Ltd. as a wholly-owned subsidiary offering engineering, design and other consulting services to the pipeline and natural gas industry.

• The Company owns about 45% of International Portable Pipe Mills Ltd. which is operating a pipe mill near Cochrane, Alberta.



Financial

(Figures in parentheses are for 1972)

Operating revenues for the year were $78,715,000 ($64,666,000) and the operating profit or annual return of $37,455,000 ($33,775,000) was earned on an average rate base of $416,167,000 ($386,000,000).

Net income for the year was $14,868,000 ($14,067,000) before providing $1,524,000 ($1,611,000) for preferred dividends. Net income applicable to common shares was $13,344,000 ($12,456,000) or 79¢ (75¢) per common share on the average number of shares outstanding during the year. Dividends totalling 42¢ (39¾¢) per common share were paid. Included in net income is a gain of $177,000 ($394,000) realized on the purchase in the market of long-term debt securities for sinking fund purposes.

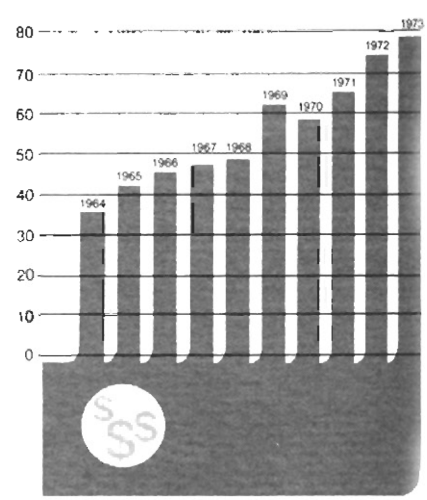
During the year the Company continued to obtain some funds in the money market by issuing short term notes and through lines of credits with its banks, the total of which reached a maximum of $14.9 million.

Long term financing for the 1973 expansion was obtained by the issue in February 1974 of 1,000,000 7¾% Cumulative Redeemable Preferred Shares of the par value of $25 each. This financing produced in the order of $24,000,000 net to the Company.

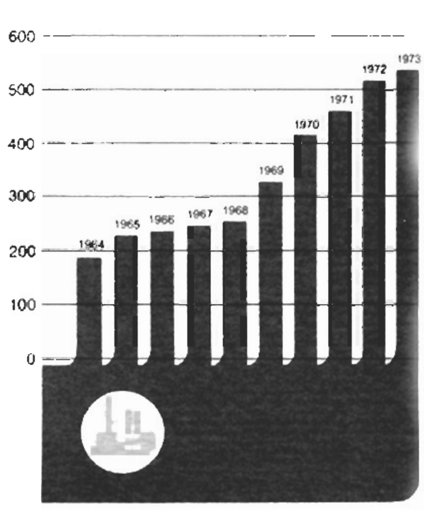
At meetings held in Calgary in October, 1973, holders of first mortgage bonds, secured debentures and preferred shares approved amendments which will give the Company greater flexibility in the establishment and financing of subsidiaries. Previous to the amendments, a subsidiary could not undertake any financing except through the Company. The amendments permit the Company to have subsidiaries which may finance independently.

The transportation contracts with the Company's customers, TransCanada PipeLines Limited, Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited, Westcoast Transmission Company (Alberta) Ltd. and Consolidated Natural Gas Limited, provide that the Company will be paid transportation charges on a cost of service basis which includes the Company's operating expenses, income and other taxes and depreciation of its pipeline and plant facilities, together with an annual return on the rate base, which is composed of the depreciated investment in plant and an allowance for working capital. Small volumes of gas are transported for other customers on a tariff basis. Financing costs, interest on debt and dividends on preferred and common shares are payable from the annual return.

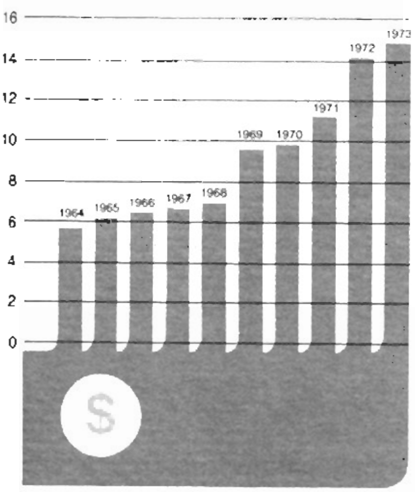
EARNINGS PER COMMON SHARE
Cents



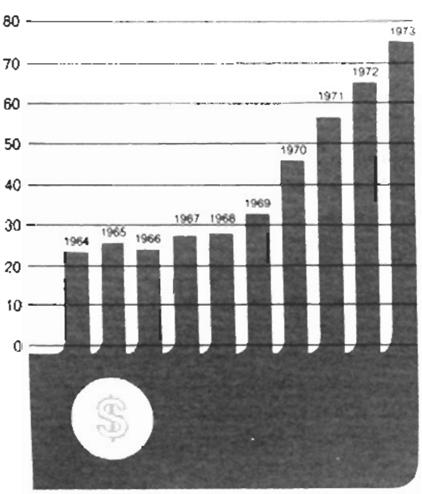
INVESTMENT IN PLANT-COST
Millions of Dollars



NET INCOME
Millions of Dollars



OPERATING REVENUE
Millions of Dollars



The depreciation component which is included in the charges to the Company's customers is calculated on a straight line basis which at the present time results in a composite rate of approximately 2½% per annum. The transportation contracts provide for full depreciation of the Company's plant facilities during the life of the contracts and the depreciation rates are subject to adjustment to attain that result.

The Company has been deferring its income taxes, and prior to 1973 passed on the full savings resulting from these deferrals to its customers. In 1973, the Company commenced charging for a portion of such deferred income taxes, resulting in an increase of $5,884,000 in its transportation charges.

At the year end 305,467 preferred shares were outstanding and were owned by 7,977 shareholders. Of these, 7,907 or 99% were Canadian residents. At the end of 1972, there were 321,420 preferred shares outstanding.

The decrease in outstanding preferred shares is due to the conversion of 4,679 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D, and to the purchase and cancellation of 11,274 4¾% Cumulative Redeemable Preferred Shares Series C, in accordance with the Purchase Fund provisions attaching to these preferred shares.

As a convenience to our shareholders, for income tax purposes, the values assigned to the Company's publicly traded shares on Valuation Day, December 22, 1971 are:

Class "A" common shares	$ 12.44
(After giving effect to the 1972 subdivision on a 4 for 1 basis.)	
4¾% Cumulative Redeemable Preferred Shares, Series C	$ 76.00
5⅜% Cumulative Redeemable Convertible Preferred Shares, Series D	$138.00

For the assistance of bondholders and debenture holders, the following Valuation Day values are provided for the most widely held of the Company's outstanding debt issues.

5¼% First Mortgage Sinking Fund Bonds, Series A	$ 89.00
5½% First Mortgage Sinking Fund Bonds, Series C	$ 84.00
6½% Secured Sinking Fund Debentures, Series A	$ 94.00
5¾% Secured Sinking Fund Debentures Series B	$ 85.00
7½% Convertible Sinking Fund Debentures, Series 1	$129.00
9¾% Sinking Fund Debentures, Series 2	$109.00
9¼% Sinking Fund Debentures, Series 3	$106.50
8% Sinking Fund Debentures, Series 4	$100.00

The
Alberta Gas Trunk Line
Company Limited

Consolidated Balance Sheet

Assets

	December 31 1973	December 31 1972
Plant, Property and Equipment — At Cost (Note 2):		
Gas plant in service (land, buildings, gas transmission system equipment, motor vehicles, etc.)	$530,411,000	$491,022,000
Less accumulated depreciation	88,613,000	75,903,000
	441,798,000	415,119,000
Gas plant under construction	4,598,000	16,881,000
	446,396,000	432,000,000
Investments in and Advances to Affiliated Companies — At Cost (Note 4)	3,840,000	1,014,000
Current Assets:		
Cash and short term deposits	2,905,000	8,199,000
Accounts receivable	7,160,000	6,946,000
Materials and supplies at cost	3,416,000	3,381,000
Prepaid expenses	548,000	182,000
	14,029,000	18,708,000
Other:		
Unamortized debt discount and expense	5,139,000	5,642,000
Gas Arctic — Northwest Project expenditures (Note 5)	1,902,000	1,230,000
Deferred charges (Note 6)	2,185,000	563,000
	9,226,000	7,435,000
	$473,491,000	$459,157,000

On behalf of the Board:

Director.

Director.

See accompanying notes.

Liabilities

		December 31	
		1973	1972
Shareholders' Equity:			
Capital (Notes 7 and 12)			
Authorized			
2,000,000	Preferred Shares of the par value of $100 each		
32,000,000	Class "A" common shares of the par value of $1.25 each		
2,003	Class "B" common shares of the par value of $5 each		
Issued			
209,495	4¾% Cumulative Redeemable Preferred Shares Series C (1972 — 220,769 shares)	$ 20,950,000	$ 22,077,000
95,972	5⅝% Convertible Preferred Shares Series D (1972 — 100,651 shares)	9,597,000	10,065,000
16,834,816	Class "A" common shares (1972 — 16,709,277 shares)	21,043,000	20,887,000
1,699	Class "B" common shares	9,000	9,000
		51,599,000	53,038,000
Contributed surplus		45,525,000	44,199,000
Reinvested earnings		36,878,000	30,599,000
		134,002,000	127,836,000
Deferred Income Taxes (Note 8)		5,884,000	
Long Term Debt (Note 9)		304,500,000	315,329,000
Bank Loans and Short Term Notes (Note 10)		10,613,000	
Current Liabilities			
Accounts payable		2,383,000	1,956,000
Dividends payable February 15		2,146,000	2,152,000
Interest accrued on long term debt		4,425,000	4,504,000
Sinking fund instalments due within one year		9,538,000	7,380,000
		18,492,000	15,992,000
Contingency (Note 4)			
		$473,491,000	$459,157,000

Consolidated Statement of Income

	Year Ended December 31, 1973	1972
Operating revenue:		
Transportation of gas (Notes 2 and 3)	$78,715,000	$64,666,000
Operating revenue deductions:		
Operating and maintenance expenses	18,733,000	15,715,000
Depreciation (Note 2)	12,408,000	11,227,000
Property taxes	4,235,000	3,949,000
Income taxes (Note 8)	5,884,000	
	41,260,000	30,891,000
Operating profit	37,455,000	33,775,000
Other income:		
Interest on short term deposits	312,000	297,000
Gain on redemption of long term debt	177,000	394,000
Allowance for funds used during construction	1,668,000	2,635,000
	39,612,000	37,101,000
Income deductions:		
Interest on long term debt	23,892,000	22,036,000
Other interest	349,000	557,000
Amortization of debt discount and expense	503,000	441,000
	24,744,000	23,034,000
Net income for the year (Notes 2, 3 and 8)	$14,868,000	$14,067,000
Earnings per common share	$ .79	$ .75
Fully diluted earnings per common share	$ .77	$ .74

Consolidated Statement of Reinvested Earnings

	Year Ended December 31, 1973	1972
Balance at beginning of year	$30,599,000	$24,923,000
Net income for the year	14,868,000	14,067,000
	45,467,000	38,990,000
Less dividends paid or payable:		
Preferred shares	1,524,000	1,611,000
Common shares	7,065,000	6,780,000
	8,589,000	8,391,000
Balance at end of year	$36,878,000	$30,599,000

See accompanying notes

Consolidated Statement of Source and Application of Funds

	Year Ended December 31, 1973	1972
Source of funds:		
Funds provided from internal sources		
Net income for the year	$14,868,000	$14,067,000
Charges against income not requiring an outlay of cash		
Depreciation	12,408,000	11,227,000
Amortization of debt discount and expense	503,000	441,000
Deferred income taxes	5,884,000	
	33,663,000	25,735,000
New money provided		
Common shares	262,000	291,000
Sinking fund debentures		35,000,000
Bank loans and short term notes	10,613,000	
	$44,538,000	$61,026,000
Application of funds:		
Dividends		
Preferred shares	$ 1,524,000	$ 1,611,000
Common shares	7,065,000	6,780,000
	8,589,000	8,391,000
Additions to plant, property and equipment	26,804,000	44,604,000
Retirement of long term debt	10,376,000	9,352,000
Cost of issuing securities	3,000	1,098,000
Purchase of preferred shares for cancellation	825,000	825,000
Gas Arctic - Northwest Project expenditures and sundry assets	672,000	(1,334,000)
Investments in and advances to affiliated companies	2,826,000	401,000
Deferred charges	1,622,000	563,000
Working capital decrease	(7,179,000)	(2,874,000)
	$44,538,000	$61,026,000

Consolidated Statement of Contributed Surplus

	Year Ended December 31, 1973	1972
Balance at beginning of year	$44,199,000	$41,110,000
Premium on issue of capital stock (Note 7)	1,027,000	2,846,000
Gain on purchase of preferred shares for cancellation (Note 7)	302,000	278,000
Capital stock issue expenses written off	(3,000)	(35,000)
Balance at end of year	$45,525,000	$44,199,000

Notes to Consolidated Financial Statements
December 31, 1973

1. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Pan-Alberta Gas Ltd., Algas Engineering Services Ltd. and Algas Resources Ltd. from their respective dates of incorporation in July, 1972, February and November, 1973.

2. Plant, property and equipment

Gas plant in service consists of facilities for the transportation of gas owned by TransCanada PipeLines Limited, Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited, Westcoast Transmission Company (Alberta) Ltd., Consolidated Natural Gas Limited and others.

The transportation contracts with the above-named owners provide that the Company will be paid transportation charges on a cost of service basis which includes operating expenses, income and other taxes (see Note 8) and depreciation of its facilities together with an annual return on its investment (see Note 3). Depreciation of gas plant in service has been provided in an amount equal to depreciation included in the transportation charges at a composite rate of approximately 2½% per annum on a straight line basis.

The cost of construction of additional facilities during 1974 is estimated at $21,000,000.

3. Rate of return

The Company's rate of return included in its transportation charges was increased from 8¾% to 9%, effective January 1, 1973.

4. Investment in and advances to affiliated companies

Details are as follows:

	December 31, 1973	December 31, 1972
Alberta Gas Chemicals Ltd. (50% owned)	$2,612,000	
International Portable Pipe Mills Ltd. (45% owned)	1,228,000	$1,014,000
	$3,840,000	$1,014,000

Alberta Gas Chemicals Ltd. is constructing and will own and operate a methanol plant at Medicine Hat, Alberta, estimated to cost $19,000,000 when completed. Alberta Gas Chemicals has arranged interim and term financing with a Canadian chartered bank for up to $14,700,000 to be jointly and severally guaranteed by the Company and the other 50% shareholder.

International Portable Pipe Mills Ltd. has constructed and is operating a portable pipe mill for the production of 18" to 48" line pipe. The company has not yet attained commercial production.

5. Gas Arctic — Northwest Project expenditures

The Company is participating in a group studying the feasibility of a gas pipeline from Alaska and the Canadian Arctic. It is estimated that the Company's share of expenditures will amount to approximately $2,900,000 at December 31, 1974. Return from these expenditures is dependent on the Company's ultimate participation in the transportation of gas.

6. Deferred charges

Included are deferred charges (consultants' services, salaries and other administrative costs) of $1,751,000 at December 31, 1973 ($221,000 at December 31, 1972) incurred by the Company's wholly-owned subsidiary, Pan-Alberta Gas Ltd. Although Pan-Alberta has contracted for the purchase of large daily quantities of gas and the resale of such gas, these contracts are dependent upon the approval of various regulatory bodies in Canada and the United States. It is estimated that additional costs of $1,900,000 will be incurred by Pan-Alberta during 1974. If the necessary approvals are obtained, these costs will be amortized over a six-year period commencing in late 1974. If the approvals are not obtained, the costs will be written off.

7. Capital

The Company is required to set aside on its books as Purchase Funds $1,425,000 annually or such lesser amount as would increase the Funds to $2,850,000 for the purchase for cancellation of its 4¾% Cumulative Redeemable Preferred Shares Series C and 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D, if and when available, at a price not in excess of the par value and costs of purchase or for the redemption thereof. Preferred Shares Series C of the par value of $1,127,000 were purchased for cancellation at a cost of $825,000 during 1973 and the gain of $302,000 has been credited to contributed surplus. No Preferred Shares Series D were purchased for cancellation during 1973. The preferred shares are redeemable at the option of the Company — the Series C at $104 per share on or before May 15, 1975 and the Series D at $106 per share on or before May 15, 1980, and at reducing amounts after those dates.

Class "A" common shares were issued during the year as follows:

	Shares
On conversion of 5⅜% Preferred Shares Series D	52,489
On conversion of 7½% Sinking Fund Debentures, Series 1	45,300
On exercise of options granted to officers and employees	27,750
	125,539

Of the total consideration received, $157,000 was credited to share capital and $1,027,000 to contributed surplus.

Class "A" common shares were reserved at December 31, 1973 as follows:

	Shares
For conversion of the 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D until July 15, 1980 on a conversion basis of 11.20 common shares for each preferred share converted	1,075,286
For conversion of the 7½% Convertible Sinking Fund Debentures, Series 1 until July 15, 1982, on a conversion basis of 100 common shares for each $1,000 principal amount of Series 1 Debentures	3,124,300
Under an Incentive Stock Option Plan	394,200
Options are outstanding to officers and employees to purchase 212,550 common shares at prices ranging from $8.875 to $14.25 per share, exercisable in annual instalments on a cumulative basis from 1974 to 1978.	
181,650 common shares remain reserved under the Plan but unallocated.	
For the exercise of an option outstanding to an officer of the Company to purchase common shares at a price of $9.75 per share, exercisable to December 31, 1980	8,000
	4,601,786

8. Income taxes

For income tax purposes the Company claims capital cost allowances and other deductions in excess of the related amounts charged against income in the accounts and accordingly no liability for income taxes exists at December 31, 1973.

Commencing January 1, 1973 the Company arranged with certain of its customers to include in its transportation charges to those customers a portion of the income taxes which have been deferred to future years and has adopted a policy of providing for income tax expense in amounts equal to the income taxes included in such charges. Because income taxes associated with the Company's operations are a component of its transportation charges (see Note 2) the payment or deferral of income taxes does not affect net income.

If the tax allocation basis of accounting under which income tax expense is based on reported income had been followed in respect of all customers in the current and prior years, the cumulative amount of the deferred tax credits would have been approximately $59,000,000 to December 31, 1973 of which $10,000,000 is applicable to 1973 and $7,500,000 to 1972.

9. Long term debt

Details of the Company's long term debt are as follows:

	Maturity	1973	1972
First Mortgage Bonds			
5¼% Series A	1981	$ 15,404,000	$ 16,221,000
5¾% Series B	1981	37,137,000	40,598,000
(1973 — $37,137,000 U.S.)			
(1972 — $40,598,000 U.S.)			
5½% Series C	1985	13,655,000	14,325,000
8¾% Series D	1989	60,853,000	62,678,000
(1973 — $56,700,000 U.S.)			
(1972 — $58,400,000 U.S.)			
Secured Debentures			
6½% Series A	1981	12,054,000	12,154,000
5¾% Series B	1985	21,962,000	22,387,000
Unsecured Debentures			
7½% Series 1 (Convertible)	1990	31,243,000	31,696,000
9¾% Series 2	1990	19,620,000	19,820,000
9¼% Series 3	1990	17,645,000	17,830,000
8% Series 4	1991	49,465,000	50,000,000
8⅛% Series 5	1992	35,000,000	35,000,000
		314,038,000	322,709,000
Less sinking fund instalments due within one year shown as current liability		9,538,000	7,380,000
		$304,500,000	$315,329,000

The 5¾% First Mortgage Bonds, Series B are payable in United States funds. The Company will receive under its transportation contracts with Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited (see Note 2) sufficient United States dollars to discharge its future principal and interest payments in connection with the Series B bonds. Accordingly, the principal amount of the bonds has been, and future revenue receipts and interest payments in United States dollars will be, translated to Canadian dollars on the basis that one United States dollar is equal to one Canadian dollar.

TransCanada PipeLines Limited and Alberta and Southern Gas Co. Ltd. have agreed that losses or gains experienced by the Company in purchasing United States dollars to meet principal and interest payments of the 8¾% First Mortgage Bonds, Series D, at rates above or below the rates at which the entire issue was converted into Canadian dollars, will be for their account.

Sinking fund requirements in respect of long term debt for the years 1975 to 1978 are: 1975 - $10,961,000; 1976 - $11,589,000; 1977 - $12,352,000; 1978 - $13,155,000.

10. Bank loans and short term notes

Because short term borrowings are customarily repaid from the proceeds of long term financing, the Company has adopted the policy of including in current liabilities only those borrowings for which financing arrangements have not been completed. Short term borrowings outstanding at December 31, 1973 will be repaid from the net proceeds from the issue and sale of 1,000,000 7¾% Cumulative Redeemable Preferred Shares of the par value of $25 each referred to in Note 12 and accordingly have been excluded from current liabilities.

11. Remuneration of directors and senior officers

The aggregate direct remuneration paid during the year by the Company and its subsidiaries to its directors was $61,000 (1972 - $41,000) and to its officers was $268,000 (1972 - $238,000).

12. Subsequent events

On February 1, 1974 the Company authorized a class of 2,000,000 preferred shares of the par value of $25 each of which 1,000,000 shares have been designated 7¾% Cumulative Redeemable Preferred Shares.

Pursuant to an Underwriting Agreement dated February 1, 1974 the Company has issued and sold 1,000,000 7¾% Cumulative Redeemable Preferred Shares of the par value of $25 each. The net proceeds of the issue are estimated at $24,125,000.

Auditors' Report

To the Shareholders of
The Alberta Gas Trunk Line Company Limited.

We have examined the consolidated balance sheet of The Alberta Gas Trunk Line Company Limited as at December 31, 1973 and the consolidated statements of income, reinvested earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 22, 1974.

Clarkson, Gordon & Co.
Chartered Accountants.

The
Alberta Gas Trunk Line
Company Limited

Ten Year Review

(in thousands of dollars except per share amounts and rate of return percentages). The per share figures have been restated from those previously reported to reflect the 1972 subdivision on a 4 for 1 basis.

		1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
FINANCIAL											
	Operating revenues	$ 78,715	64,666	56,351	45,469	31,930	27,929	26,309	24,976	25,511	23,417
	Operating expenses, depreciation and taxes	$ 41,260	30,891	26,444	21,499	14,926	13,087	12,037	10,823	12,354	11,440
	Operating profit	$ 37,455	33,775	29,907	23,970	17,004	14,842	14,272	14,153	13,157	11,977
	Interest expense — net	$ 22,587	19,708	18,508	13,988	7,184	7,892	7,692	7,815	7,106	6,404
	Net income	$ 14,868	14,067	11,399	9,982	9,820	6,950	6,580	8,338	6,051	5,573
	Dividends on preferred shares	$ 1,524	1,611	1,826	2,143	2,280	1,495	1,306	1,306	1,397	1,512
	Net income applicable to common shares	$ 13,344	12,456	9,573	7,839	7,540	5,455	5,274	5,032	4,654	4,061
	Net income per common share										
	On average shares outstanding	$ .79	.75	.66	.59	.62	.49	.47	.45	.43	.38
	On fully diluted basis	$ .77	.74	.64	.57	.60					
	Dividends paid per common share	$ .42	.39¾	.37½	.37½	.37½	.35¼	.30¾	.30	.28¾	.25
	Average common shares outstanding during year (thousands)	$ 16,793	16,530	14,584	13,368	12,224	11,208	11,200	11,168	10,880	10,860
	Working capital (deficiency) at year end	$ (4,463)	2,716	5,590	(5,696)	(5,864)	(5,078)	(3,570)	(2,637)	1,897	(1,807)
	Additions to plant, property and equipment	$ 26,804	44,604	60,892	82,808	68,251	23,132	11,309	7,703	23,521	25,845
	Investment in plant, property and equipment (cost)	$ 535,009	507,903	463,761	404,003	321,611	254,046	231,155	223,833	216,319	192,896
	Investment in plant, property and equipment (net)	$ 446,396	432,000	398,622	348,384	274,615	214,154	197,030	191,443	189,351	173,207
	Average rate base	$ 416,167	386,000	355,169	294,766	212,550	197,800	190,293	188,702	175,424	159,688
	Average rate of return	9.00%	8.75%	8.42%	8.13%	8.00%	7.50%	7.50%	7.50%	7.50%	7.50%
	Bank loans and short term notes	$ 10,613	—	—	—	40,945	6,500	7,800	—	—	22,700
	Long term debt (less due within one year)	$ 304,500	315,329	292,013	251,316	136,035	125,524	130,864	135,973	140,802	101,028
	Shareholders' equity										
	Preferred shares	$ 30,547	32,142	33,888	41,607	44,548	46,475	27,500	27,500	27,500	25,000
	Common share equity	$ 103,455	95,694	86,508	54,331	49,428	33,808	30,420	28,638	26,413	25,810
STATISTICAL	Shareholders and employees										
	Number of preferred shareholders	7,977	8,289	8,833	10,385	10,781	11,087	3,172	3,254	3,214	8,457
	Number of common shareholders	22,146	21,374	22,277	21,838	22,543	23,452	24,833	26,007	26,782	28,251
	Number of employees	762	781	701	577	442	322	301	290	278	290
OPERATING	Miles of pipeline in system	4,113	4,030	3,493	3,246	2,778	2,198	2,094	2,003	1,945	1,765
	Compression horsepower	420,535	365,635	355,955	315,945	209,125	60,015	60,015	43,185	26,355	26,355
	Total system receipts (MMcf)	1,720,637	1,595,465	1,420,524	1,259,337	1,047,780	873,254	740,905	676,180	636,876	578,773
	Maximum day receipts (MMcf)	5,573	5,131	4,567	4,337	3,892	3,094	2,757	2,242	2,058	1,993
	Average day receipts (MMcf)	4,714	4,371	3,892	3,450	2,670	2,392	2,029	1,858	1,744	1,585

Directors

James E. Baugh, P. Eng.
Vice President
Exploration-Production
Petrofina Canada Ltd.

S. Robert Blair, P. Eng.
President and Chief Executive Officer
of the Company.

Arthur J.E. Child, FCIS
President and Chief Executive Officer
Burns Foods Limited.

William J. Deyell, P. Eng.
Senior Vice President
of the Company.

Peter L. P. Macdonnell, QC
Partner
Milner and Steer.

John C. Mayne
Chairman of the Board
of the Company.

John R. McCaig
President and Chief Executive Officer
Trimac Limited.

David E. Mitchell, P. Eng.
President and Chief Executive Officer
Great Plains Development Company
of Canada, Ltd.

H. J. Sanders Pearson
President
Century Sales and Service Limited.

L. Merrill Rasmussen, P. Eng.
President
Pacific Petroleums Ltd.

Daryl K. Seaman
President and Chief Executive Officer
Bow Valley Industries Ltd.

Officers

John C. Mayne
Chairman of the Board.

S. Robert Blair, P. Eng.
President and Chief Executive Officer

William J. Deyell, P. Eng.
Senior Vice President.

D. Howard Hushion, P. Eng.
Senior Vice President.

Robert L. Pierce, QC
Senior Vice President and Secretary.

Robin J. Abercrombie
Vice President.

James D. Kedlec
Vice President.

F. A. Richerd McKinnon, CA
Treasurer.

Dianne I. Narvik
Assistant Secretary.

Barry E. Harper CA
Assistant Secretary.

Solicitors
Howard, Dixon, Mackie, Forsyth,

Auditors
Clarkson, Gordon & Co.

Transfer Agents and Registrars

PREFERRED SHARES SERIES C AND D

Crown Trust Company
Montreal, Toronto, Winnipeg, Calgary and Vancouver
Canada Permanent Trust Company as agent for Crown Trust Company in Edmonton and Regina

CLASS "A" COMMON SHARES

National Trust Company, Limited
Montreal, Toronto, Winnipeg, Calgary, Edmonton and Vancouver
Canada Permanent Trust Company as agent for National Trust Company, Limited in Regina

CLASS "B" COMMON SHARES

National Trust Company, Limited
Calgary

Stock Exchange Listings

CLASS "A" COMMON SHARES

Toronto Stock Exchange
Montreal Stock Exchange
Calgary Stock Exchange

PREFERRED SHARES SERIES C AND D

Toronto Stock Exchange
Calgary Stock Exchange

PRINTED IN CANADA