

^{Ltd. and}
UnionGas CentraGas Ontario Inc.

Union Gas Limited
and Centra Gas Ontario Inc.

Annual Report 1995

About this report: *The Union Gas Limited and Centra Gas Ontario Inc. 1995 Annual Report consists of a President's Report highlighting the achievements of both companies, and separate Financial Reports for each company, enclosed in the back cover pocket. This design reflects the working relationship of Union and Centra which operate under shared services arrangements, yet remain separate legal entities.*



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Union Gas Limited and Centra Gas Ontario Inc. are two major Ontario natural gas utilities which provide energy delivery and related services to a combined total of approximately 965,000 residential, commercial and industrial customers in over 385 communities in the province. Union Gas serves an area in southwestern Ontario from Windsor to just west of Toronto and also provides gas storage and transportation services for other utilities and energy companies in central Canada and the northeast U.S. Centra Gas serves northern Ontario from the Manitoba border to the North Bay/Muskoka area, and eastern Ontario from Port Hope to Cornwall. Together Centra and Union employ about 3,400 men and women. Combined revenues for 1995 were \$1.9 billion and combined net income was \$124 million. Total throughput for the two companies in 1995 was 33 billion cubic metres. In 1995, assets totalled \$3.6 billion.

Centra and Union are wholly-owned subsidiaries of Westcoast Energy Inc. of Vancouver, B.C., and operate under a shared services arrangement featuring a common senior management group and combined administrative functions. The companies are nevertheless separate legal

entities with separate boards of directors. The companies' utility operations are regulated under the Energy Board Act and the Energy Act (Ontario).

Union Gas

For the Year Ended December 31

Financial (millions)

	1995	1994
Total revenue	\$ 1,325.5	\$ 1,402.9
Net income	\$ 90.1	\$ 86.2
Earnings applicable to common shares	\$ 75.8	\$ 71.8
Capital expenditures	\$ 250.9	\$ 270.6
Total assets	\$ 2,829.0	\$ 2,729.0

Operating

Volume of gas (10 ⁶ m ³)		
Distribution volume	8 757	8 293
Transportation volume	19 659	16 753
Total throughput	28 416	25 046
Customers at year-end	728,471	706,707
Degree day deficiency	3,991	4,050

Centra Gas

For the Year Ended December 31

Financial (millions)

	1995	1994
Total revenue	\$ 538.2	\$ 611.9
Income from continuing operations	\$ 32.6	\$ 29.4
Earnings applicable to common shares	\$ 32.4	\$ 26.7
Capital expenditures	\$ 83.2	\$ 81.9
Total assets	\$ 819.7	\$ 903.6

Operating

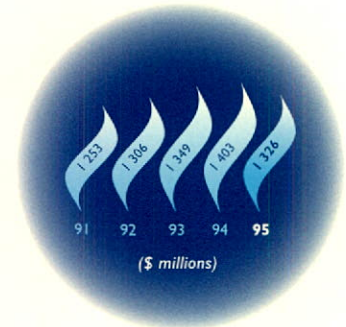
Gas distribution volume (10 ⁶ m ³)	4 576	4 145
Customers at year-end	236,585	226,137
Degree day deficiency	5,279	5,191

P R E S I D E N T ' S R E P O R T

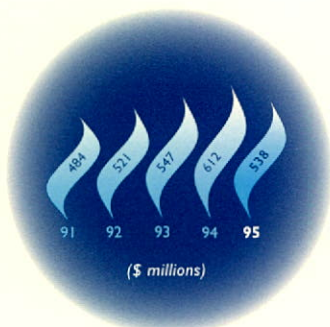
A HIGH PERFORMANCE YEAR 1995 was the first full year that Union Gas and Centra Gas Ontario operated together under Shared Services arrangements, with many of our management and administrative functions and positions combined to create significant efficiencies and cost savings for customers. I am pleased to report that this year of organizational change and operational innovation was also a year of extremely strong performance for both companies. Earnings, throughput, and the number of customers served all grew significantly.

Combined net income for the two companies was \$123.7 million in 1995. Union's net income was \$90.1 million, up 4.5 percent over 1994, while Centra's net income grew 19.6 percent to \$33.6 million. Both companies delivered more gas to customers than ever before, with total throughput reaching almost 33 000 million cubic metres (10^6m^3). At Union, throughput grew more than 13 percent to 28 400 10^6m^3 , mainly as a result of higher use by large industrial customers and greater demand by storage and transportation customers. Centra's throughput grew more than 10 percent to 4 576 10^6m^3 , primarily due to increased usage by industrial and cogeneration customers as well as colder weather in Centra's service area.

The total number of customers served by Union and Centra grew to 965,000. Union added 21,800 new customers for a total of 728,000 and Centra added 10,400 for a total of 237,000. Approximately 55 percent of these new customers switched to natural gas from other fuels, confirming the continuing competitive position of our product in the energy marketplace.



UNION GAS
TOTAL REVENUE

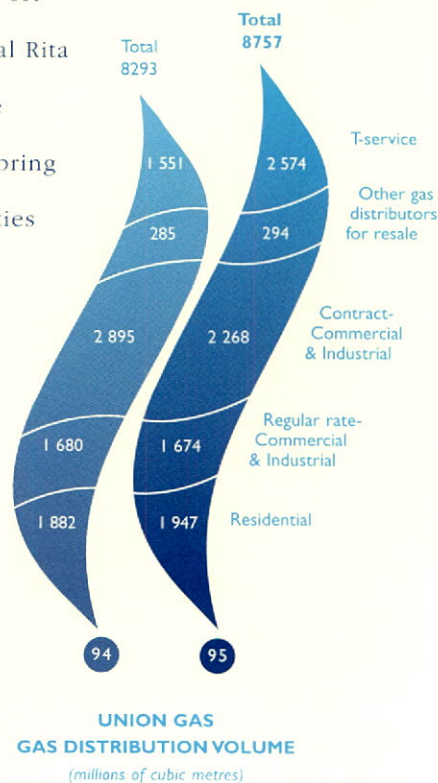


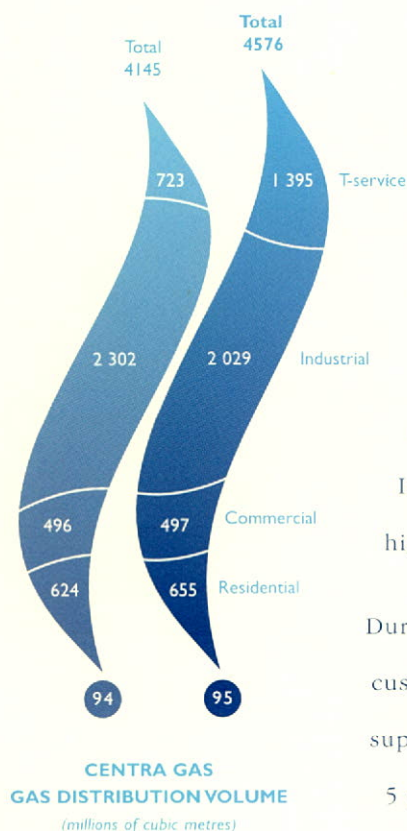
CENTRA GAS
TOTAL REVENUE

Both companies continued to invest significant capital in expanding and upgrading facilities in order to provide excellent service to a growing number of customers. Union invested more than \$250 million, and Centra more than \$83 million, in order to respond to business opportunities created by increased customer demand for natural gas products and services. In the past five years, the two companies have invested a combined total of almost \$1.6 billion in Ontario. Capital expenditures for 1996 are expected to total approximately \$345 million for the two companies. This represents a significant commitment to the communities we serve, and illustrates our confidence in future growth opportunities for natural gas products and related energy services.

SERVING OUR DISTRIBUTION CUSTOMERS During the year we continued to grow our business by strengthening our abilities to deliver the kinds of high-value products and services customers require. Natural gas service was extended to more than 30 previously unserved communities including Wingham, Blyth, Brussels, Port Franks, Markdale and Flesherton in southwestern Ontario; and Harty, Val Rita and Kakabeka Falls in northern Ontario. This aggressive pace of service expansions will continue in 1996, and plans are currently underway to bring the economic and environmental benefits of natural gas to 18 communities in northern and eastern Ontario, and five in southwestern Ontario.

A new \$7 million customer-focussed service centre was opened in Brantford to serve the needs of customers and communities in that area. The service centre site features a preserved wetland and a rehabilitated native woodland and grassland to be used as an environmental resource for the community.





In the merchandise sales area, company and dealer sales of appliances such as furnaces, fireplaces and barbecues were strong, increasing by approximately 10 percent over last year at Union and 5 percent at Centra. Our EnerSmart program, which offers customers choice in a variety of energy-efficient products and services, continued to grow. In 1995 over 50 percent of Union's furnace sales were of the high-efficiency type.

During 1995 Union and Centra were both able to reduce their customers' natural gas rates, as a result of lower natural gas supply costs. For Centra's residential customers, rates decreased by 5 percent in January and an additional 4.5 percent in October.

Union's residential customers saw a reduction of just over 6 percent in October. As a result, it costs less today for natural gas than it did in 1983.

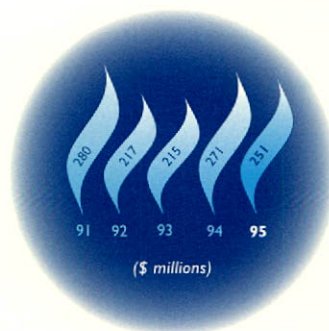
Our commitment to providing excellent customer service was strengthened through a new training program. A new training centre was opened at Canadore College's North Bay Campus to provide technical training for Centra's northern service and operations personnel as well as for dealers and installers. Training is delivered by college staff utilizing programs developed at the Union Gas Education Centre in Chatham.

We believe that future success in an increasingly market-driven energy business will depend on our ability to offer customers value and choice in energy products and services. To do this effectively, we have begun to shape our distribution organization along two main business lines. One will focus on providing efficient

and reliable energy delivery. The other will entail the retailing of energy "solutions" - products and services such as gas commodity sales, equipment sales and service, energy management, vehicle fuel, rentals, and financing. This new organization will enable us to optimize our performance in an increasingly competitive energy market.

S **ERVING OUR STORAGE AND TRANSPORTATION CUSTOMERS** Union's transmission and storage system in southwestern Ontario is strategically located near the major markets of central Canada and between the growing markets of the U.S. mid-west and northeast. The system has pipeline interconnections to most Canadian and U.S. supply basins and includes Canada's largest natural gas storage facility, with a working capacity of over 3.5 billion cubic metres. The system therefore operates as a key service hub in the North American natural gas delivery system. In 1995, the storage and transportation business continued to develop market opportunities to meet the growing needs of its Canadian and U.S. customers for storage, transportation and other related transactional services.

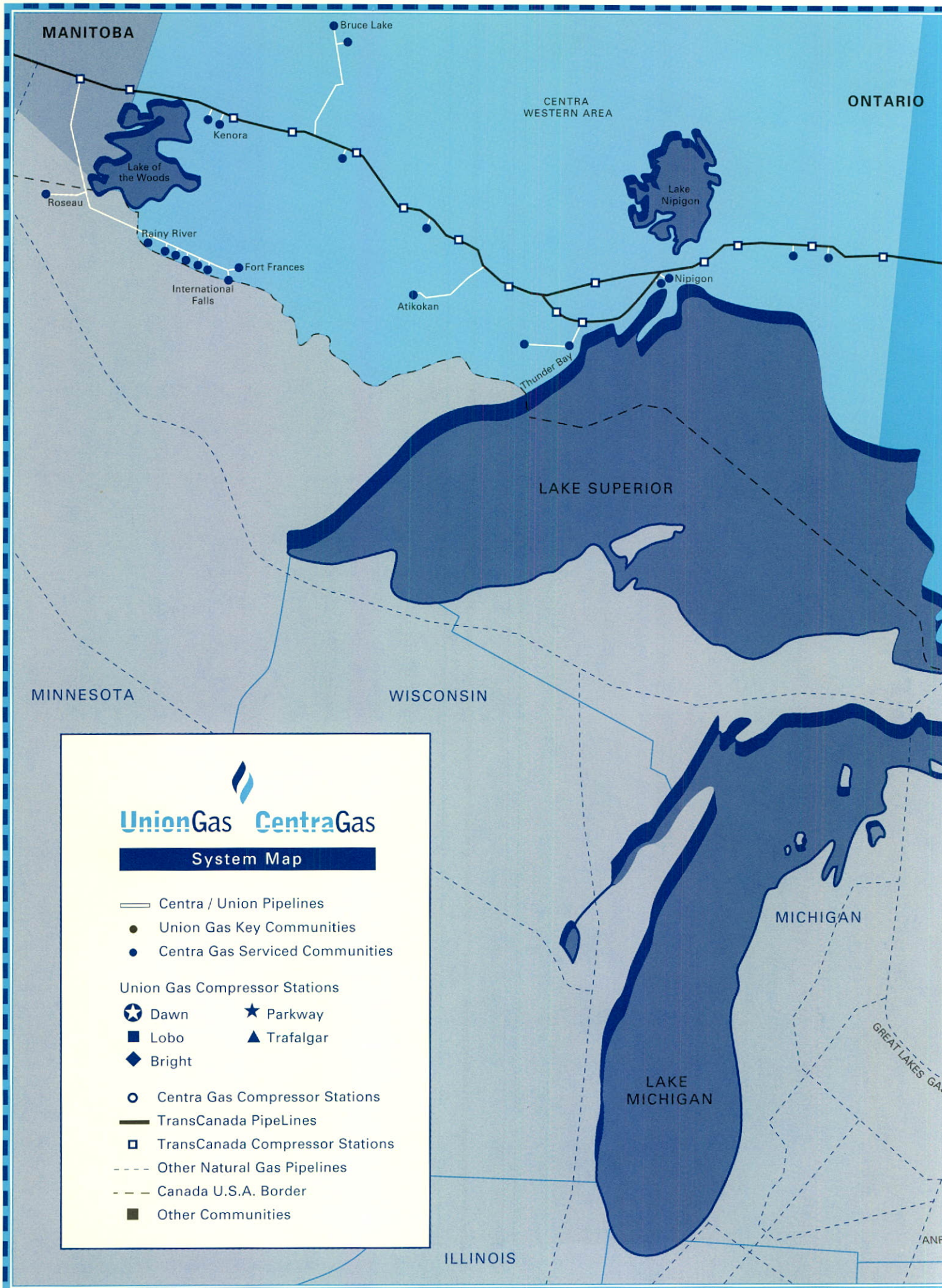
An innovative new service was created in partnership with the Alberta Energy Company Ltd. (AECO). North America's first Hub-to-Hub service offers "seamless" deliveries of natural gas between the AECO C HUB storage facility in Alberta and the Union Gas service hub at the Dawn storage facility near Sarnia. Customers may deliver gas to one hub location and receive it simultaneously at the other. The new service helps to eliminate pipeline capacity problems. During 1995 more than 565 million cubic metres were contracted between Union and AECO.



**UNION GAS
CAPITAL EXPENDITURES**



**CENTRA GAS
CAPITAL EXPENDITURES**





In late 1995, the new Bluewater Pipeline, linking Union's facilities with those of the Consumers' Power Co. of Michigan, was completed at a total cost of \$5 million (U.S.). Constructed co-operatively by Union's affiliate, St. Clair Pipelines Ltd., and CMS Gas Transmission and Storage Co. of Michigan, the new international pipeline increases natural gas supply, storage and transportation options for customers on both sides of the border.

Maintaining the operating integrity of the transmission system is an ongoing priority. In 1995 a number of replacements were carried out including a \$5 million 3.6-kilometre section south of Cambridge, and two 1.6-kilometre sections north of Hamilton at a total cost of \$5 million. The replacements enhanced pipeline operation at higher pressures in areas of increased population density.

M **AJOR INDUSTRIAL MARKETS** Large volume industrial users account for 70 percent of in-franchise deliveries at Centra and over 60 percent at Union Gas. Both companies use a segmented approach for focussing on special customer needs in this market, striving to meet individual requirements for energy efficient technologies, emissions reduction, cost savings and substitution of gas for other fuels. A number of initiatives to provide value-added customer service in these areas were completed or underway in 1995.

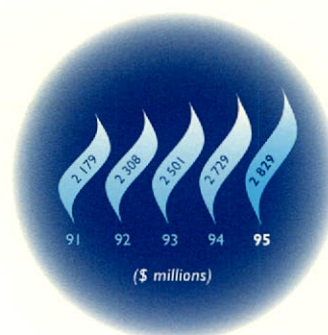
A new \$13 million pipeline expansion provided for increased natural gas deliveries to Stelco's Lake Erie Business Unit at Nanticoke, Ontario. The additional gas load of 88 10⁶m³ per year replaces purchased coke in Stelco's blast furnaces, reducing the steelmaker's energy costs and atmospheric emissions.

Two new cogeneration facilities began operations in Windsor. The 35 megawatt Ford of Canada cogeneration facility, constructed and managed by Union Gas, and

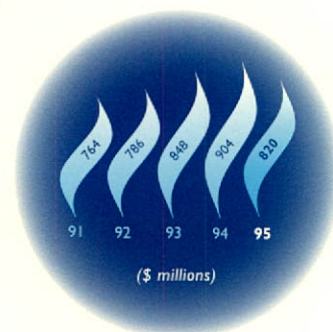
West Windsor Power's 102 megawatt plant added a total of 212 10⁶m³ of yearly incremental gas load.

During 1995, work commenced on transmission and compressor facilities to provide the 110 megawatt

Northland Power Inc. cogeneration plant at Iroquois Falls, Ontario, with approximately 183 10⁶m³ of gas load per year. Work is also currently underway on facilities to serve the 110 megawatt Kingston CoGen plant west of Kingston, Ontario, which will add an annual load of 189 10⁶m³, beginning in late 1996.



UNION GAS
TOTAL ASSETS

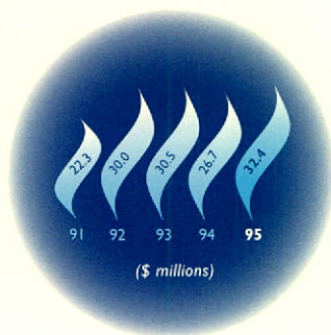


CENTRA GAS
TOTAL ASSETS

E NVIRONMENTAL COMMITMENT Centra and Union both recognize the link between a healthy environment and sustained economic growth, and therefore are committed to achieving and demonstrating sound environmental performance and leadership. Initiatives taken during 1995 to strengthen our environmental management commitment included the submission of our Greenhouse Gas Emissions Reduction Plan in support of the federal Voluntary Climate Change Program, and the development of a comprehensive environmental training program in co-operation with other Westcoast companies.

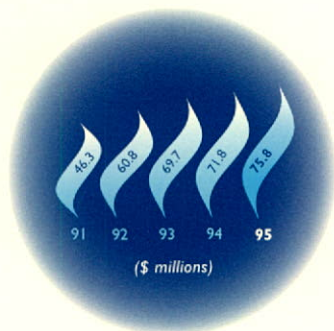
The companies are committed to encouraging their customers to use natural gas in the most efficient way possible. To meet this commitment, specific initiatives are in place for 1996 and plans are being developed for 1997 under demand side management (DSM) programs.

L OOKING AHEAD We look forward to continued strong performance in 1996. In our distribution business, growth will be driven by an aggressive program of community expansion projects, fuel substitution and new housing. Industrial



**CENTRA GAS
EARNINGS APPLICABLE
TO COMMON SHARES**

markets are expected to strengthen along with the North American economy. In our storage and transportation business we expect increased demand for energy delivery and service options from Canadian and U.S. customers. In all markets we will strive to achieve customer satisfaction and market share growth by offering value-added products and services in a highly focussed and segmented approach.



**UNION GAS
EARNINGS APPLICABLE
TO COMMON SHARES**

The coming years will also present considerable challenges to adapt to change. While the North American natural gas industry is robust, the energy marketplace is undergoing a transformation driven by customer demands for choice and value, the emergence of strong competition for the provision of energy services and a corresponding shift away from traditional forms of regulation. In order to take advantage of the opportunities presented by this changing business environment, we have designed strategies to meet our customer needs by focussing on specific lines of business where we will operate in a framework of more competition and, eventually, less regulation.

A number of other factors will influence our future success. The employees of Centra and Union will play a most important part in achieving our customer satisfaction goals in this era of rapid change. Employees, who interact with customers on a daily basis, truly know their needs. The knowledge, innovation and flexibility that employees bring will give us the ability to compete and perform in an increasingly market-driven business environment.

Information technologies, which have changed the way energy is marketed and delivered, will be critical tools to enable us to create operational efficiencies,

help us to determine specific customer needs, and facilitate the delivery of specific energy solutions.

As part of the Westcoast Energy group of companies, Centra and Union also have the competitive advantage of participating in all aspects of the natural gas industry, including those related to electricity production. As part of a national corporate presence with more than 1.3 million customers, we also benefit from the strategic advantages of a shared vision, maximized resources and knowledge, and the efficiencies of scope and scale.

In the past year we have achieved tremendous success in a context of significant organizational change and ongoing marketplace evolution. I wish to sincerely thank all of the employees who have worked hard to transform business strategies into success stories. Your efforts have benefitted both our customers and our shareholders. I look forward to working together to successfully meet the challenges of change which the coming year will continue to bring.



John Bergsma,
President and Chief Executive Officer
April 10, 1996

U NION GAS LIMITED
DIRECTORS

Michael E. J. Phelps ^(2,3)
Chairman of the Board
Chairman and Chief Executive Officer
Westcoast Energy Inc.

James R. Anderson
Executive Vice-President
Union Gas Limited and
Centra Gas Ontario Inc.

John Bergsma ^(2,3,5)
President and Chief Executive Officer
Union Gas Limited and
Centra Gas Ontario Inc.

Maurice J. Closs ^(1,3,4)
Corporate Director

Adrian B. Ryans ^(1,4,5)
Professor, Business Administration
University of Western Ontario

E. B. (Betty) Sims ^(4,5)
President and General Manager
Chicopee Manufacturing Limited

David G. Unruh ⁽⁵⁾
Senior Vice-President,
Law and Corporate Secretary
Westcoast Energy Inc.

Arthur H. Willms
President and Chief Operating Officer
Westcoast Energy Inc.

Graham M. Wilson ^(1,2)
Executive Vice-President and Chief
Financial Officer
Westcoast Energy Inc.

C ORPORATE INFORMATION

Transfer Agent and Registrar:
The R-M Trust Company

Stock Exchange listings and symbols:

Preference shares: Class A - 5 1/2%
(UNG.PR.C),
Class A - 6% (UNG.PR.D),
The Toronto Stock Exchange;

Class B - 6.74% (UNG.PR.B),
The Toronto Stock Exchange,
The Montreal Exchange

Registered Office - Union Gas:
50 Keil Drive North, Chatham, Ontario
N7M 5M1

C ENTRA GAS ONTARIO INC.
DIRECTORS

Michael E. J. Phelps
Chairman of the Board
Chairman and Chief Executive Officer
Westcoast Energy Inc.

John Bergsma ⁽⁵⁾
President and Chief Executive Officer
Union Gas Limited and
Centra Gas Ontario Inc.

Wayne M. Bingham ⁽¹⁾
Vice-President, Finance and Treasurer
Westcoast Energy Inc.

Preston R. Cook ^(1,4,5)
Consultant
Thunder Bay, Ontario

Murray W. Cooper ^(1,4,5)
Director and Vice-Chairman
Northern Telephone Limited
New Liskeard, Ontario

Kenneth E. Rekrutiak
Senior Vice-President and
Chief Administrative Officer
Westcoast Energy Inc.

Committees of the Board

- (1) Audit
- (2) Executive
- (3) Human Resources
- (4) Independent
- (5) Corporate Governance

C ORPORATE INFORMATION

Transfer Agent and Registrar:
Montreal Trust

Stock Exchange listings and symbols:

First preferred shares:
\$2.60 First series (CGE.PR.A),
\$2.70 Second series (CGE.PR.B),
The Toronto Stock Exchange;

Second preferred shares:
Series A - 7.85% (CGE.PR.C)
The Toronto Stock Exchange,
The Montreal Exchange

Registered Office - Centra Gas:
200 Yorkland Boulevard
North York, Ontario M2J 5C6

O FFICERS-UNION GAS LIMITED AND
CENTRA GAS ONTARIO INC.

Michael E. J. Phelps
Chairman of the Board

John Bergsma
President and Chief Executive Officer

James R. Anderson
Executive Vice-President

Michael F. Bermon
Senior Vice-President, Finance
and Regulatory Affairs

Donald J. Moore
Senior Vice-President,
Distribution Operations

Wayne M. Bingham
Treasurer

Bohdan Bodnar
Vice-President, Human Resources

James B. Bracken
Vice-President, Marketing-Storage
and Transportation

Anthony Haines
Vice-President, Distribution Strategic
Development

Donald S. Heath
Vice-President, Retail Energy Solutions

George R. Laidlaw
Secretary

Robert W. Little
Vice-President, Engineering
and Gas Supply Operations

John W. Wellard
Vice-President, Operations, Ontario

John van der Woerd
Vice-President, Distribution Marketing

Janet P. Woodruff
Controller

O FFICERS-UNION GAS LIMITED

Patrick T. Langan
Vice-President, Business
Development

Lawrence W. Fedchun
Assistant Secretary

Ross S. Valdis
Assistant Secretary



Union Gas Limited
Financial Report 1995

The following discussion and analysis has been prepared by management and is a review of the operating results, financial condition and outlook for the Company. This discussion should be read in conjunction with the financial statements and the accompanying notes.

The Company changed its year-end from March 31 to December 31, effective December 31, 1995. Accordingly, the financial statements have been presented for the twelve months ended December 31, 1995, with comparative information for the twelve months ended December 31, 1994. All references relate to December fiscal years unless otherwise stated.

OPERATING RESULTS

Rate Regulation

Utility earnings are regulated by the Ontario Energy Board (OEB) on the basis of a return on rate base for a future test year period. A rate application process leads to the implementation of new rates which are intended to provide a utility with the opportunity to earn an allowable rate of return. The allowable rate of return is established by determining the weighted average cost of the individual components of the capital structure.

The use of a future test year period in the rate making process is intended to eliminate the time lag between changes in future costs and estimated revenue levels, and the implementation of appropriate rate adjustments. The actual rate of return achieved by the Company may vary from the rate allowed by the OEB as a result of the Company's ability to generate forecasted revenues, weather, levels of cost inflation, interest rates, timing of permitted rate increases and general economic conditions.

In July 1995, the OEB issued a decision approving rates for the Company for the fiscal years ending March 31, 1995 and 1996. The OEB approved a rate of return on a deemed 29% common equity component of rate base of 11.75% for both fiscal years.

For the 1996 calendar year, the Company will continue with the rates last approved by the OEB. A rate application has been filed with the OEB for rate changes effective January 1, 1997.

Earnings

<i>For the Years Ended December 31 (millions)</i>	1995	1994
Gas distribution margin	\$ 409.4	\$ 392.0
Transportation and storage revenue	148.8	144.4
Other revenue	95.8	81.7
Expenses		
Operating and maintenance	211.9	206.5
Depreciation and amortization	104.5	96.2
Property and capital taxes	33.4	31.7
Interest expense	136.2	124.9
Income taxes	77.9	72.6
Net income	\$ 90.1	\$ 86.2
Earnings applicable to common shares	\$ 75.8	\$ 71.8

Net income for the year ended December 31, 1995 was \$90.1 million compared to \$86.2 million for the year ended December 31, 1994. After deducting preference share dividends, earnings applicable to common shares were \$75.8 million compared to \$71.8 million in 1994. Factors contributing to the increase in earnings included higher distribution volumes, increases in demand for storage, transportation and other services, and growth in the Company's rate base. These increases were partially offset by the impact of warmer weather, which resulted in a decrease in earnings of \$1.7 million compared to last year.

Shared Services

During 1995, the Company and Centra Gas Ontario Inc., a commonly controlled company, continued with the implementation of the shared services plan which was previously approved by the OEB. Under the plan, certain administrative departments were combined to provide services to both companies, resulting in operating efficiencies and reductions in the total cost of service for the benefit of both companies' customers.

The amortization of one-time restructuring costs related to the implementation of shared services was included in operating and maintenance expense. These costs will be recovered in rates over a three year period, which commenced in 1995. The expenses of the combined departments were allocated to each company using a cost driver approach which is designed to allocate expenses based on underlying activity levels or causal relationships.

Distribution Volumes

Total distribution volumes, including T-service, increased by 5.6% to 8 757 million cubic metres (10^6m^3) in 1995, compared to 8 293 10^6m^3 in 1994. Distribution volumes to the residential and regular rate commercial and industrial customers increased by 59 10^6m^3 or 1.7%. The increase was due primarily to the net addition of 22,000 customers, partially offset by the impact of warmer weather in 1995 compared to 1994. The weather in 1995 approximated normal temperatures on average, while the weather in 1994 was 1.4% colder than normal.

Total volumes delivered to contract and T-service customers increased by 405 10^6m^3 or 8.5% due primarily to higher consumption levels by some large industrial customers. Compared to last year, T-service volumes increased by 1 023 10^6m^3 , while contract gas sales volumes decreased by 618 10^6m^3 . The decrease in contract volumes and a corresponding increase in T-service volumes was due primarily to customers converting to T-service from other direct purchase arrangements. The change from gas sales to T-service does not impact the gas distribution margin.

Gas Distribution Margin

The Company has changed its income statement presentation to disclose the margin related to gas distribution throughput. The gas distribution margin represents the margin earned on all distribution volumes, including gas sales and T-service. Previously, T-service revenue was included in transportation and storage revenue.

The gas distribution margin was \$409.4 million in 1995, which represented an increase of \$17.4 million or 4.4% compared to last year. The increase in the gas distribution margin was due primarily to higher industrial volumes and growth related to the net addition of 22,000 customers, partially offset by the impact of warmer weather.

Transportation and Storage Revenue

Revenue from the transportation and storage of gas was \$148.8 million in 1995 compared to \$144.4 million in 1994. The increase in revenue was due primarily to an increase in demand for long-term transportation and storage services by other utilities and shippers, and higher rates.

The transportation and storage customers are primarily Canadian transmission and distribution companies. Approximately 90% of the Company's annual transportation and storage revenue is generated by fixed demand charges under contracts with remaining terms of up to 20 years and having an average outstanding term of 11 years.

Other Revenue

Other revenue was \$95.8 million, which represented an increase of \$14.1 million or 17.3% over last year. Factors contributing to the growth in other revenue included an increase in equipment rental revenue due to increases in rental units and rates, higher service work activity, the gain on sale of certain storage rights, and an increase in preferred dividend income due to higher interest rates.

Operating Expenses

The operating and maintenance expense of \$211.9 million in 1995 increased by \$5.4 million or 2.6% compared to last year. The increase reflected higher costs related to growth in the customer base, inflation and amortization of one-time shared services costs, partially offset by savings related to shared services.

Depreciation and amortization expense was \$104.5 million compared to \$96.2 million in 1994. The increase reflected the growth in the depreciable asset base.

Interest Expense

The net interest expense was \$136.2 million in 1995 compared to \$124.9 million in 1994. Short-term debt interest expense decreased by \$1.6 million due to reduced borrowing levels, partially offset by higher short-term interest rates. Long-term debt interest expense increased by \$13.7 million as a result of higher average borrowings. Interest capitalized increased by \$0.8 million due to an increase in construction work in process.

FINANCIAL CONDITION

Operations

The cash provided by operations was \$290.8 million, compared to \$178.8 million in 1994. The increase was due primarily to a lower value of gas in storage related to reduced volumes and a decrease in the average cost of gas, and other changes in working capital requirements.

Investment Activities

The Company invested \$250.9 million in property, plant and equipment during the year compared to \$270.6 million in 1994. Of the total 1995 investment, 27% was spent on transmission and storage projects, 45% on distribution projects and 28% on general plant and equipment including rental equipment, and information technologies and

systems. These investments were necessary to meet the growth in customer demand for services. Capital expenditures are expected to be approximately \$240 million in 1996.

The Company's average rate base in 1995 was \$2.04 billion, compared to \$1.89 billion in 1994.

Liquidity and Capital Resources

The Company plans to meet future cash requirements through funds generated from operations, short and long-term debt, and common equity investment by the Company's parent.

The Company has bank lines of credit of \$550 million that enable it to borrow directly from banks, issue bankers' acceptances and support a commercial paper program. Virtually all of the short-term cash requirements are funded through issuing commercial paper at rates generally below prime. The short-term borrowing levels fluctuate significantly during the year due to the funding of construction activities, the timing of long-term debt issues and the seasonality of the utility business. The peak borrowings for the year reached \$367 million in January.

The Company has entered into interest rate swap agreements expiring in 1996 and 1997 which effectively fix the borrowing cost of \$75.0 million of short-term borrowings at 10.859%. These borrowings are treated as long-term debt for purposes of the OEB approved utility capital structure.

In November 1995, the Company issued \$125 million aggregate amount of 8.65% debentures, maturing November 10, 2025. The proceeds from these debentures were used to reduce commercial paper obligations incurred to fund working capital requirements and capital expenditures.

Common equity is issued periodically to the Company's parent in order to maintain a 29% common equity component of rate base as approved by the OEB. The Company issued common shares totalling \$45.0 million in 1995 and \$3.0 million in 1994.

The Company's capital instruments are rated as follows:

	Canadian Bond Rating Service	Dominion Bond Rating Service
Commercial paper	A - 1	R - 1 (Low)
Debentures	A (Low)	A
Preference shares	P - 2	Pfd - 2

The Company expects to maintain these ratings in 1996, thereby having continued access to the short-term and long-term capital markets in Canada. The Company does not plan to issue either debentures or preference shares in 1996.

Gas Supply

The gas supply portfolio includes long-term firm gas supply contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. These contracts are indexed to either the New York Mercantile Exchange (NYMEX) natural

gas futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. Long-term firm gas supply contracts represent approximately 33% of the Company's total forecast gas supply including buy/sell volumes. Approximately 93% of the Company's forecast long-term firm gas supply from January through October 1996 is subject to indexed prices. Most of these contracts are subject to price redetermination as of November 1, 1996.

The Company has implemented a risk management strategy to manage the price volatility of its long-term firm gas supply. Hedges are used to fix gas prices with respect to the underlying physical gas supply contracts and include the use of natural gas swaps and purchase price collars. During the year ended December 31, 1995, the Company hedged the purchase price applicable to 46% of its indexed firm service gas supply. At December 31, 1995, the Company had entered into natural gas swap contracts to effectively fix the purchase price for approximately $216 \times 10^6 \text{ m}^3$ or 15% of the indexed gas supply from January to October 1996.

The Company has completed negotiations for all of the long-term firm gas supply contracts with a November 1, 1995 price redetermination, with the exception of the contract with TransCanada Gas Services Inc. (formerly Western Gas Marketing Limited). The contract with TransCanada Gas Services Inc. (TGSI) represents approximately 28% of the Company's long-term firm gas supply on an annual basis. The contract with TGSI allows for binding arbitration if the parties cannot agree on pricing terms. Since a negotiated price was not achieved, the companies have initiated an arbitration process. The arbitration hearing will begin in late April, with a decision expected in June, 1996.

Gas costs are included in customer rates based on forecasts approved by the OEB. The difference between the OEB approved price and the actual cost of gas purchased, including the impact of both the indexed purchase prices and any hedging activities, is deferred for disposition as approved by the OEB.

OUTLOOK

Operating Results

The natural gas industry in North America continues to experience considerable growth. Natural gas is abundant, readily accessible through vast distribution systems and has significant environmental advantages compared to other fossil fuels. Natural gas also has competitive pricing advantages in most markets today.

The North American energy marketplace is evolving in a way that is pointing to more customer choice, stiffer competition for energy services and less regulation. While the changing marketplace will provide challenges, it will also provide significant opportunities for expanding traditional services and marketing new services to a large customer base.

The Company is well positioned to take advantage of future market growth. The Company is a full service supplier of energy services, ranging from traditional storage, transmission and local distribution, to value added products and services targeting individual customer needs. The Company is also strategically located. Approximately 45% of natural gas from western Canada delivered to Ontario and Quebec markets is transported on the Company's system. Many of the major pipelines from both the United States and Canada can access the

Company's transmission system at either the western or eastern ends. This enables the Company to be an integral part of the pipeline infrastructure of North America, with access to traditional and emerging markets.

The Company is expecting continued growth in the residential and commercial market share through conversion activity, new housing and community expansion programs. Industrial volumes are expected to increase in all market sectors as the North American economy continues to strengthen. Continued growth in transportation and storage services is also anticipated as customers seek greater choices in energy delivery and service options.

The Company expects to achieve market share growth by offering value added products and services in a highly focused and segmented approach. The Company has devised business strategies and started organizational changes that focus activities on major lines of business.

Business Risk

The Company's earnings are impacted by business risks inherent in the natural gas industry and energy marketplace. The earnings level is impacted by general economic conditions, the Company's ability to generate forecasted revenues, interest rates, levels of cost inflation and the OEB's decisions with respect to rates. The rates allowed by the OEB are based on forecasts assuming normal weather conditions. Since a large portion of the gas distributed to the higher margin residential and commercial market is used for space heating, differences from normal weather have a significant effect on the consumption of gas. Economic conditions and the price of competitive energy sources impact sales to the industrial customers. Many of these customers have the ability to switch to an alternative fuel. Competition for energy services in the North American energy marketplace as well as economic conditions impact the transportation and storage business.

Environmental Management Program

The Company is committed to conducting its business in an environmentally responsible manner using the principles of sustainable development, by promoting the wise and efficient use of energy and by seeking ways to reduce the environmental impacts of its business. The Company continues to strengthen its environmental management program through a comprehensive audit program and additional environmental training for employees. As well, active participation in environmental research, development and technology transfer is important as a means to identify the most cost effective way of managing environmental issues to support the Company's business plans and operations.

MANAGEMENT RESPONSIBILITY FOR
FINANCIAL REPORTING

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Their preparation necessarily involves the use of estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined therein.

Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. The system of internal controls is periodically reviewed by an independent internal audit function to ensure its effective operation.

Price Waterhouse was appointed by the shareholders to conduct an independent examination of the financial statements in accordance with generally accepted auditing standards, which includes such tests and other procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for reporting and for final approval of the financial statements. An Audit Committee of non-management Directors is appointed by the Board to review the financial statements in detail and to report to the Directors prior to such statements being approved for publication. The Audit Committee meets regularly with management, the internal auditors and the external auditors to discuss their evaluation of internal accounting controls, audit results and the quality of financial reporting. The internal and external auditors have free access to the Audit Committee to discuss the results of their audit.

February 16, 1996



M. F. Bermon
Senior Vice-President
Finance and Regulatory Affairs



J. P. Woodruff
Controller

AUDITORS' REPORT

To the Shareholders of Union Gas Limited:

We have audited the balance sheets of Union Gas Limited as at December 31, 1995 and 1994 and the statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Price Waterhouse
Chartered Accountants
Toronto, Ontario
February 16, 1996

STATEMENTS OF INCOME

<i>For the Years Ended December 31 (millions)</i>	1995	1994
Gas sales	\$ 1,047.2	\$ 1,160.3
Cost of gas	671.5	784.8
Gas sales margin	375.7	375.5
Transportation service	33.7	16.5
Gas distribution margin	409.4	392.0
Transportation and storage revenue	148.8	144.4
Other revenue	95.8	81.7
	654.0	618.1
Expenses		
Operating and maintenance	211.9	206.5
Depreciation and amortization (note 4)	104.5	96.2
Property and capital taxes	33.4	31.7
	349.8	334.4
Operating income	304.2	283.7
Interest expense		
Long-term debt	120.5	106.8
Short-term debt	19.5	21.1
Interest capitalized	(3.8)	(3.0)
	136.2	124.9
Income before income taxes	168.0	158.8
Income taxes (note 11)	77.9	72.6
Net income	90.1	86.2
Preference share dividend requirement	14.3	14.4
Earnings applicable to common shares	\$ 75.8	\$ 71.8

(See accompanying notes)

STATEMENTS OF RETAINED EARNINGS

<i>For the Years Ended December 31 (millions)</i>	1995	1994
Retained earnings, beginning of year	\$ 212.7	\$ 186.0
Net income	90.1	86.2
Dividends		
Preference shares	14.3	14.4
Common shares	47.6	44.8
Other	0.3	0.3
Retained earnings, end of year	\$ 240.6	\$ 212.7

(See accompanying notes)

BALANCE SHEETS

<i>As at December 31 (millions)</i>	1995	1994
Assets		
Current assets		
Accounts receivable	\$ 243.5	\$ 153.9
Inventories (note 3)	144.5	242.3
Income taxes	—	58.5
	388.0	454.7
Property, plant and equipment (note 4)	2,244.1	2,100.3
Other assets (note 5)	89.1	66.4
Investments (note 12)	107.8	107.6
	\$ 2,829.0	\$ 2,729.0
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (note 6)	\$ 280.7	\$ 383.6
Accounts payable and accrued charges	176.9	176.0
	457.6	559.6
Long-term debt (note 7)	1,257.5	1,149.6
Deferred income taxes	323.0	300.5
Shareholders' equity		
Share capital (note 8)	550.3	506.6
Retained earnings	240.6	212.7
	790.9	719.3
	\$ 2,829.0	\$ 2,729.0

Commitments and Contingencies (note 13)

(See accompanying notes)

Approved by the Board



Director



Director

STATEMENTS OF CHANGES IN FINANCIAL POSITION

<i>For the Years Ended December 31 (millions)</i>	1995	1994
Operating Activities		
Net income	\$ 90.1	\$ 86.2
Charges not affecting cash:		
Depreciation and amortization	107.1	98.6
Deferred income taxes	8.1	5.1
	205.3	189.9
Non-cash working capital changes		
Accounts receivable	(82.6)	32.4
Gas inventories	99.9	(51.6)
Accounts payable and other	68.2	8.1
	290.8	178.8
Investing Activities		
Additions to property, plant and equipment	(250.9)	(270.6)
Additions to other assets and investments	(33.6)	(14.2)
	(284.5)	(284.8)
Financing Activities		
Long-term debt		
Issued	125.0	275.0
Retired	(10.2)	(9.2)
Preference shares redeemed and purchased for cancellation	(1.3)	(1.4)
Common shares issued	45.0	3.0
Dividends	(61.9)	(59.2)
	96.6	208.2
Decrease in short-term borrowings	102.9	102.2
Short-term borrowings, beginning of year	383.6	485.8
Short-term borrowings, end of year	\$ 280.7	\$ 383.6

(See accompanying notes)

1 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies follows:

Regulation

The utility operations are subject to regulation under the Ontario Energy Board Act and the Energy Act (Ontario). Rate schedules are approved periodically by the Ontario Energy Board (OEB) and are designed to permit a fair and reasonable return on the utility investment after recovering the utility cost of service. Realization of the allowed rate of return is subject to actual operating conditions experienced during the year.

Inventories

Supplies of natural gas are costed into inventory at prices approved by the OEB in the determination of customer sales rates. The difference between the OEB approved price and the actual cost of the gas purchased is deferred for disposition as approved by the OEB.

The Company's gas supply portfolio includes contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. The actual cost of gas purchased includes the impact of any hedging activities related to these contracts. The hedges are used to fix gas prices with respect to the underlying physical gas supply contracts and include the use of natural gas swaps and purchase price collars.

Inventories of merchandise, stores and spare equipment are valued at the lower of average cost and replacement cost.

Property, Plant and Equipment and Depreciation

Property, plant and equipment is carried at cost which includes all direct costs, an allocation of overhead incurred and interest capitalized during construction. The cost of property, plant and equipment is reduced by contributions and grants in aid of construction received from customers and governmental bodies in support of specific transmission and distribution facilities. The original cost of depreciable units retired, together with the net cost of removal less salvage, is charged to accumulated depreciation.

Depreciation is provided on the straight-line basis at various rates based on the average service life of each class of property, ranging from 4 to 60 years, determined by periodic reviews and as approved by the OEB.

Income Taxes

The Company uses the tax allocation method to account for income taxes. Income tax expense is the amount that would be payable if the timing of statutory tax deductions did not differ from those recorded for accounting purposes. This method recognizes the deferral of income taxes to future years when amounts deductible for income tax purposes will be less than those recorded in the accounts.

Gas Sales Revenue and Cost of Gas Sold

Gas sales revenue is recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading date to the end of the month.

In the matching of gas sales revenue and cost of gas sold, volumetric differences arise from the measurement process. The Company includes in the cost of gas sold an estimated amount of these volumetric differences based upon the methodology recognized by the OEB in the determination of customer sales rates. Annual fluctuations from the estimated level are deferred and amortized over a period of three years. The cost of gas sold includes both the estimated level of volumetric differences and the amortization of annual fluctuations.

Pension Plans

Pension expense includes the actuarial costs of pension benefits for employee services for the year and the amortization of the cost of past service benefits and experience gains and losses. Past service benefits and experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of pension plan members.

The Company also provides post-employment extended health care and life insurance benefits for all retired employees. The cost of these benefits are recorded during the year in which they become payable.

2 YEAR-END CHANGE

The Company changed its year-end from March 31 to December 31, effective December 31, 1995. Accordingly, the financial statements have been presented for the twelve months ended December 31, 1995, with comparative information for the twelve months ended December 31, 1994. All references herein relate to December fiscal years unless otherwise stated.

3 INVENTORIES

(millions)	1995	1994
Gas in storage	\$ 92.9	\$ 201.7
Merchandise, stores and spare equipment	37.3	35.2
Other	14.3	5.4
	\$ 144.5	\$ 242.3

Other includes short-term loans of gas to other utilities and suppliers, and line pack gas.

4 PROPERTY, PLANT AND EQUIPMENT

(millions)	1995	1994
Cost		
Storage	\$ 416.1	\$ 407.0
Transmission	867.8	814.3
Distribution	1,199.2	1,091.0
General	476.1	421.3
	2,959.2	2,733.6
Accumulated depreciation		
Storage	74.0	64.7
Transmission	188.4	169.2
Distribution	340.5	309.7
General	112.2	89.7
	715.1	633.3
Net book value	\$ 2,244.1	\$ 2,100.3

Depreciation rates provided during the year ended December 31, 1995 resulted in a composite rate of 4.02% (1994 - 3.96%). In 1995, \$2.6 million (1994 - \$2.4 million) of depreciation was allocated to operating and maintenance expense rather than to depreciation and amortization expense shown on the Statements of Income.

Property, plant and equipment includes assets that were not subject to depreciation totalling \$105.5 million (1994 - \$156.3 million). These assets include land, base pressure gas in storage reservoirs and assets under construction. Property, plant and equipment also includes rental equipment at a cost of \$303.3 million (1994 - \$275.0 million) and related accumulated depreciation of \$64.8 million (1994 - \$58.8 million). Rental revenue totalled \$45.2 million (1994 - \$41.2 million).

Capital expenditures during 1996 are expected to be approximately \$240 million.

5 OTHER ASSETS

(millions)	1995	1994
Merchandise sales contracts	\$ 103.8	\$ 76.5
Less: current portion	43.7	36.7
	60.1	39.8
Deferred charges	29.0	26.6
	\$ 89.1	\$ 66.4

The merchandise sales contracts are due over periods of up to 120 months and include finance charges. The amounts due may be paid in full at any time at the option of the customer. The current portion is included in accounts receivable.

6 SHORT-TERM BORROWINGS

The Company has entered into interest rate swap agreements expiring in 1996 and 1997 which effectively fix the borrowing cost of \$75.0 million of short-term borrowings at 10.859%.

7 LONG-TERM DEBT

(millions)	1995	1994
Sinking fund debentures		
13.375% 1980 Series, due March 31, 2000	\$ 42.0	\$ 43.5
17.5% 1981 Series, due November 30, 1996	7.5	9.1
14.25% 1982 Series, due November 1, 2002	12.9	14.2
13.0% 1983 Second Series, due June 30, 2003	18.2	20.0
11.55% 1988 Series II, due October 15, 2010	93.0	97.0
Other long-term debt		
10.625% 1986 Series debentures, due December 15, 2005 *	75.0	75.0
10.5% 1988 Series debentures, due May 31, 1998	50.0	50.0
10.625% 1989 Series debentures, due July 11, 2011	125.0	125.0
11.5% 1990 Series debentures, due August 28, 2015	150.0	150.0
8.8% 1992 Series debentures, due January 20, 1997	50.0	50.0
9.7% 1992 Series II debentures, due November 6, 2017	125.0	125.0
8.75% 1993 Series debentures, due August 3, 2018	125.0	125.0
7.90% 1994 Series debentures, due February 24, 2014	150.0	150.0
9.75% 1994 Series II debentures, due December 13, 2004	125.0	125.0
8.65% 1995 Series debentures, due November 10, 2025	125.0	—
	1,273.6	1,158.8
Less: current portion	16.1	9.2
	\$ 1,257.5	\$ 1,149.6

* The 10.625% 1986 Series debentures are retractable at the option of the holder on December 15 each year at par plus accrued interest. Prior to each retraction date, the Company may at its option increase the interest rate for a period of one year effective from the retraction date. Unless further notice is given by the Company, the interest rate reverts to 10.625% thereafter.

The weighted average cost of long-term debt for the year ended December 31, 1995 was 10.25% (1994 - 10.43%).

Principal repayment requirements on long-term debt during the next five years ending December 31 are as follows:

	(millions)
1996 -	\$ 16.1
1997 -	\$ 58.6
1998 -	\$ 58.6
1999 -	\$ 8.6
2000 -	\$ 43.1

8 SHARE CAPITAL

a. Details of share capital

(dollar amounts in millions)		1995	1994
Authorized	Issued		
Preference shares			
Class A - 202,072 shares (1994 - 203,072)	57,272 Series A, 5.5% (1994 - 57,272)	\$ 2.9	\$ 2.9
	90,000 Series B, 6% (1994 - 90,000)	4.5	4.5
	54,800 Series C, 5% (1994 - 55,800)	2.7	2.8
Class B - unlimited shares			
	980,000 Series 3, 7% (1994 - 1,040,000)	19.6	20.8
	3,000,000 Series 7, 8.65% (1994 - 3,000,000)	75.0	75.0
	350 Series 8, 7% (1994 - 350)	35.0	35.0
	2,000,000 Series 9, 6.74% (1994 - 2,000,000)	50.0	50.0
Class C - unlimited shares	Nil	—	—
		189.7	191.0
Common shares - unlimited shares	Common shares - 37,684,590 (1994 - 35,552,938)	360.6	315.6
		\$ 550.3	\$ 506.6

b. The Class A Preference Shares are cumulative and redeemable as follows:

Series A and C	— at \$ 50.50 per share
Series B	— at \$ 55.00 per share

Through the operation of a purchase fund the Company is obligated to offer to purchase \$170,000 of Series A and \$140,000 of Series C shares annually at the lowest price obtainable but not exceeding \$50 per share. The Company may purchase shares for cancellation at a price not exceeding the then current redemption price. During the year ended December 31, 1995, the Company did not purchase any Series A shares. In the prior year, the Company purchased and cancelled 100 Series A shares with an aggregate value of \$5,000. During the year ended December 31, 1995, the Company purchased and cancelled 1,000 (1994 - 3,000) Series C shares with an aggregate value of \$50,000 (1994 - \$150,000).

The Class B Preference Shares, Series 3 are cumulative and redeemable. The Company may redeem these shares at \$20 per share. The Company may purchase shares for cancellation at the lowest price obtainable but not exceeding the then current redemption price. Through the operation of a mandatory sinking fund 60,000 of these shares are redeemed on September 1 of each year at \$20 per share.

The Class B Preference Shares, Series 7 are cumulative, redeemable and retractable. On and after January 1, 1996 the Company may redeem all or part of the outstanding shares at \$25 per share. The holders have the option to require the Company to redeem all or part of the outstanding shares for \$25 each on January 1, 1996. All or any of these shares may be converted by the holder into an additional series of Class B Preference Shares, if created by the Company, during the period beginning on January 1, 1996 and ending six months thereafter. On January 1, 1996 the Company redeemed all of the Class B Preference Shares, Series 7 at \$25 per share for a total amount of \$75.0 million.

The Class B Preference Shares, Series 8 are cumulative and redeemable. After March 31, 1997 the Company may redeem all or part of the outstanding shares at \$100,000 per share. On and after March 31, 1997, the rate at which dividends accrue will be subject to negotiation between the Company and the holders of the shares. Failing such dividend rate renegotiation, the rate and length of time the rate will be applied will be subject to a competitive bid by existing and potential holders of the shares at the time of the rate redetermination. The period to which the new rate would apply is a minimum of three months.

The Class B Preference Shares, Series 9 are cumulative, redeemable and retractable. On and after January 31, 1998 the Company may redeem all or part of the outstanding shares at \$25 per share. The holders have the option to require the Company to redeem all or part of the outstanding shares for \$25 each on January 31, 1998. All or any of these shares may be converted by the holder into an additional series of Class B Preference Shares, if created by the Company, during the period beginning on January 31, 1998 and ending six months thereafter.

- c. During the year ended December 31, 1995, the Company issued 2,131,652 (1994 - 141,110) common shares for total cash consideration of \$45.0 million (1994 - \$3.0 million).

9 NATURAL GAS SWAP CONTRACTS

The purchase price applicable to approximately 93% (1994 - 77%) of the Company's forecast long-term gas supply from January through October 1996 is indexed to either the New York Mercantile Exchange Natural Gas Futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. At December 31, 1995, the purchase price applicable to 216 10⁶m³ or 15% (1994 - 551 10⁶m³ or 37%) of this indexed supply has been effectively fixed through the use of natural gas swap contracts. These contracts have a fair

value of \$0.8 million receivable (1994 - \$10.1 million payable) at December 31, 1995. The fair value reflects the estimated amount that the Company would receive or pay to terminate the contracts at December 31, 1995, based on the estimated future net cash flows under the terms of each contract.

10 EMPLOYEE PENSION PLANS

The pension expense for the year ended December 31, 1995 amounted to \$4.8 million (1994 - \$5.2 million). As at December 31, 1995, the market related value of the pension fund assets was estimated to be \$244.3 million (1994 - \$217.0 million) and the actuarial present value of accrued pension benefits was estimated to be \$231.8 million (1994 - \$216.5 million).

11 INCOME TAXES

The provision for income taxes consists of the following:

(millions)	1995	1994
Current	\$ 69.8	\$ 67.5
Deferred	8.1	5.1
	\$ 77.9	\$ 72.6

A reconciliation of income tax expense to the amount that would be obtained by applying the combined Federal and Ontario statutory tax rates to income before income taxes follows:

(millions)	1995		1994	
Combined statutory federal and provincial income tax rate	\$ 74.7	44.5%	\$ 70.4	44.3%
Dividend income	(2.8)	(1.7)	(2.2)	(1.4)
Large corporations tax	5.2	3.1	3.9	2.5
Other	0.8	0.5	0.5	0.3
Effective income tax rate	\$ 77.9	46.4%	\$ 72.6	45.7%

12 RELATED PARTY TRANSACTIONS

- The Company's investments include \$105.5 million of Westcoast Energy Inc. (Westcoast) First Preferred Shares which are carried at cost. The Company may redeem all or part of the outstanding shares after January 1, 1995. Westcoast has the option to redeem all or part of the preferred shares at any time, with mandatory redemption on October 31, 1997. The Company is a wholly-owned subsidiary of Westcoast.

Cumulative dividends accrue at a rate equal to the lesser of 9.5% and 70% of the average prime rate of Westcoast's principal banker for the dividend period. During the year ended December 31, 1995, the Company received dividends from Westcoast totalling \$6.4 million (1994 - \$5.0 million).

- b. The Company and Centra Gas Ontario Inc. (Centra), an affiliated company, received approval from the OEB in August 1994 to proceed with a shared services plan. Under the plan, certain administrative departments were combined in 1995 to provide services to both companies, resulting in operating efficiencies and reductions in the total cost of service for the benefit of the companies' customers. During the year, the Company charged Centra \$4.0 million (1994 - nil) to recover net expenses incurred on behalf of Centra.
- c. The Company purchases natural gas at prevailing market prices and under normal trade terms from related companies. During the year ended December 31, 1995, these purchases totalled \$24.2 million (1994 - \$38.2 million). The Company also provides storage and transportation services to related companies under normal trade terms. During the year, this revenue totalled \$10.9 million (1994 - \$10.0 million). In addition, the Company provided administrative and other services to a related company totalling \$2.7 million (1994 - \$3.1 million), which were recovered at cost.
- d. At December 31, 1995, the Company had intercompany receivable balances of \$13.5 million (1994 - \$4.2 million) and intercompany payable balances of \$1.2 million (1994 - \$1.9 million).

13 COMMITMENTS AND CONTINGENCIES

The Company, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters would have a significant impact on its financial position.

14 CONTINUITY OF REPORTED RESULTS

A summary of financial results for the nine months ended December 31, 1995 is provided for continuity with results disclosed as at March 31, 1995.

Statement of Income

For the Nine Months Ended December 31, 1995 (millions)

Gas sales	\$ 612.4
Cost of gas	381.6
Gas sales margin	230.8
Transportation service	26.3
Gas distribution margin	257.1
Transportation and storage revenue	112.0
Other revenue	68.2
	437.3
Expenses	
Operating and maintenance	160.9
Depreciation and amortization	81.0
Property and capital taxes	24.9
	266.8
Operating income	170.5
Interest expense	
Long-term debt	91.1
Short-term debt	13.3
Interest capitalized	(2.8)
	101.6
Income before income taxes	68.9
Income taxes	34.9
Net income	34.0
Preference share dividend requirement	9.9
Earnings applicable to common shares	\$ 24.1

Statement of Retained Earnings

For the Nine Months Ended December 31, 1995 (millions)

Retained earnings, beginning of period	\$ 252.6
Net income	34.0
Dividends	
Preference shares	9.9
Common shares	36.0
Other	0.1
Retained earnings, end of period	\$ 240.6

Statement of Changes in Financial Position

For the Nine Months Ended December 31, 1995 (millions)

Operating Activities

Net income	\$ 34.0
Charges not affecting cash:	
Depreciation and amortization	83.1
Deferred income taxes	(10.2)
	106.9
Non-cash working capital changes	
Accounts receivable	(28.8)
Gas inventories	(6.3)
Accounts payable and other	12.2
	84.0

Investing Activities

Additions to property, plant and equipment	(199.6)
Additions to other assets and investments	(38.7)
	(238.3)

Financing Activities

Long-term debt	
Issued	125.0
Retired	(8.7)
Preference shares redeemed and purchased for cancellation	(1.3)
Common shares issued	25.0
Dividends	(45.9)
	94.1
Increase in short-term borrowings	60.2
Short-term borrowings, beginning of period	220.5
Short-term borrowings, end of period	\$ 280.7

15 COMPARATIVE AMOUNTS

Certain of the 1994 amounts have been reclassified to conform with the presentation adopted in 1995.

On May 2, 1995, the Toronto Stock Exchange ("TSE") enacted a new by-law requiring companies listed on the TSE to annually disclose the corporate governance practices of their boards of directors for fiscal years ending on or after June 30, 1995. A similar rule was adopted by the Montreal Stock Exchange. This disclosure statement is to refer to the guidelines set out in the "Report of the Toronto Stock Exchange Committee on Corporate Governance in Canada" (the "TSE Guidelines"). The TSE Guidelines set out the principal responsibilities of a board of directors and the corporate governance principles to be followed by them.

In October of 1995, the Company established a Corporate Governance Committee (the "Committee") composed of four directors, a majority of whom are considered to be outside and unrelated to management. Through this Committee, the Board of Directors of the Company (the "Board") will develop sound corporate governance practices to enhance shareholder value.

Board of Directors

The Board has the responsibility for supervising the management of the business and the affairs of the Company. The management of the Company is responsible for the day to day operations of the business. The Board has considered and does consider the principal risks to the Company and receives reports of the Company's assessment and management of those risks. The Board through management has put structures in place in the Company to allow effective communication with the Company's stakeholders and the public. The Board also periodically reviews the compensation of directors in light of risks and responsibilities.

Composition of the Board

The Board is composed of nine directors. Of the directors, John Bergsma, as President and Chief Executive Officer, is a full-time officer of the Company, and four directors are full-time officers of the Company's parent, Westcoast Energy Inc. ("Westcoast"). Westcoast owns 100% of the voting common shares of the Company and is therefore considered a significant shareholder. None of the Westcoast directors are actively involved in the day-to-day management of the Company. The TSE Guidelines provide that a director related to a significant shareholder should not be considered a related director of the subsidiary corporation. The TSE has indicated that an outside director is a director who is not an officer or employee of the Company or of any of its subsidiaries. The remaining three directors are not officers or employees of the Company or its subsidiaries and do not have interests in or relationships with the Company or its parent (other than interests and relationships which may arise from shareholdings) which could materially interfere, or could reasonably be perceived to materially interfere with such directors' ability to act with a view to the best interests of the Company. The Board has therefore concluded that a majority of the directors of the Company are outside and unrelated, as those terms are defined by the TSE.

Committees of the Board

The Board has established and adopted terms of reference for each of the Executive, Audit, Human Resources, Corporate Governance and Independent Committees.

The Executive Committee is composed of three directors, a majority of whom are unrelated directors. The committee is established to act as the reviewing body for urgent matters which cannot await the next Board meeting and to perform such functions and exercise such powers specifically delegated to the committee by the Board.

The Audit Committee is composed of three outside and unrelated directors. This committee is broadly responsible for ensuring that the Company's management has designed and implemented an effective system of internal financial controls, for reviewing and reporting on the integrity of the consolidated financial statements of the Company, for ensuring compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and the disclosure of material facts and for reviewing the appropriateness and effectiveness of the Company's policies and business practices which impact on the financial integrity of the Company, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management.

The Human Resources Committee is composed of three directors, a majority of whom are unrelated. This committee is generally responsible for recommending to the Board human resources and compensation policies and guidelines for application to the Company and for implementing and overseeing human resources and compensation policies approved by the Board.

The Corporate Governance Committee is composed of four directors, a majority of whom are outside and unrelated directors. This committee's prime responsibility is for developing and monitoring the Company's overall approach to corporate governance issues and for administering a corporate governance system which is effective in the discharge of the Company's obligations to its shareholders.

The Independent Committee is made up of three directors who are outside and unrelated directors. The mandate of the Independent Committee is to approve affiliate transactions and to monitor the Company's compliance with its written Undertakings to the Lieutenant Governor in Council for the Province of Ontario.

Chairman

Michael Phelps, the Chief Executive Officer of Westcoast which is the significant shareholder of the Company, is the Chairman of the Board of the Company. As such, while being responsible on behalf of the Board for the recruitment of the other directors and the assessment of performance, he reviews with the Board on-going assessment matters, the appointment and monitoring of senior management, and succession issues.

Shareholder Feedback and Concerns

The Company provides annual and quarterly reports to its preference shareholders and responds to enquiries from those shareholders on a timely basis.

Decisions Requiring Board Approval

The Board operates by seeking the advice of and delegating powers, duties and responsibilities to committees of the Board, by delegating certain of its authorities to management and by reserving certain powers to itself.

Expectations of Management

The Board reviews the Company's strategic plan with management at least annually. Members of the management team report to the Board on a regular basis to review the Company's financial and operational results and the Company's progress in fulfilling its strategic goals and objectives.

FINANCIAL STATISTICS

	Year Ended December 31 (millions)		Year Ended March 31 (millions)	
Operating Results	1995	1994	1995	1994
Operating revenues	\$ 1,325.5	\$ 1,402.9	\$ 1,362.6	\$ 1,429.4
Operating expenses	1,021.3	1,119.2	1,089.6	1,135.5
Income before interest and income taxes	304.2	283.7	273.0	293.9
Net interest expense	136.2	124.9	129.8	115.1
Income taxes	77.9	72.6	64.1	80.5
Net income	90.1	86.2	79.1	98.3
Preference share dividend requirement	14.3	14.4	14.4	14.5
Earnings applicable to common shares	\$ 75.8	\$ 71.8	\$ 64.7	\$ 83.8
Balance Sheet	As at December 31 (millions)		As at March 31 (millions)	
Assets				
Current assets *	\$ 388.0	\$ 454.7	\$ 403.2	\$ 345.9
Property, plant and equipment	2,959.2	2,733.6	2,776.9	2,530.5
Less accumulated depreciation	715.1	633.3	649.5	570.4
	2,244.1	2,100.3	2,127.4	1,960.1
Other assets *	89.1	66.4	24.4	19.1
Investments	107.8	107.6	107.6	107.2
Total	\$ 2,829.0	\$ 2,729.0	\$ 2,662.6	\$ 2,432.3
Capitalization				
Current liabilities	\$ 457.6	\$ 559.6	\$ 407.8	\$ 372.6
Long-term debt	1,257.5	1,149.6	1,148.1	1,032.3
Deferred income taxes	323.0	300.5	327.6	286.0
Shareholders' equity				
Preference shares	189.7	191.0	190.9	192.2
Common equity	601.2	528.3	588.2	549.2
	790.9	719.3	779.1	741.4
Total	\$ 2,829.0	\$ 2,729.0	\$ 2,662.6	\$ 2,432.3
Cash Flow Data	Year Ended December 31 (millions)		Year Ended March 31 (millions)	
Cash from operations	\$ 205.3	\$ 189.9	\$ 215.5	\$ 226.9
Capital expenditures	\$ 250.9	\$ 270.6	\$ 267.6	\$ 214.3
Common share dividends declared	\$ 47.6	\$ 44.8	\$ 45.5	\$ 43.8

* The amounts receivable on merchandise sales contracts due after one year were reclassified from accounts receivable to other assets for the years ended December 31, 1995 and 1994.

1993	1992	1991	1990	1989	1988
\$ 1,290.0	\$ 1,289.3	\$ 1,218.6	\$ 1,216.3	\$ 1,241.0	\$ 1,288.7
1,031.5	1,058.4	1,020.3	1,025.2	1,060.4	1,099.7
258.5	230.9	198.3	191.1	180.6	189.0
111.8	108.2	100.5	91.0	78.0	74.7
65.6	54.9	40.1	38.2	43.0	56.7
81.1	67.8	57.7	61.9	59.6	57.6
15.2	13.4	11.2	9.7	9.9	11.4
\$ 65.9	\$ 54.4	\$ 46.5	\$ 52.2	\$ 49.7	\$ 46.2

\$ 303.0	\$ 267.3	\$ 280.6	\$ 255.5	\$ 189.4	\$ 239.9
2,360.4	2,173.7	1,921.8	1,688.9	1,491.1	1,258.7
524.2	484.0	425.2	385.4	341.7	302.2
1,836.2	1,689.7	1,496.6	1,303.5	1,149.4	956.5
31.4	34.4	46.0	44.0	52.1	74.8
107.1	107.4	106.9	105.8	105.8	105.5
\$ 2,277.7	\$ 2,098.8	\$ 1,930.1	\$ 1,708.8	\$ 1,496.7	\$ 1,376.7

\$ 548.3	\$ 420.2	\$ 286.2	\$ 307.0	\$ 268.9	\$ 272.3
766.5	749.1	805.2	679.5	572.2	489.2
267.7	253.1	265.9	236.8	217.3	208.3
194.7	197.0	170.9	120.3	122.7	125.2
500.5	479.4	401.9	365.2	315.6	281.7
695.2	676.4	572.8	485.5	438.3	406.9
\$ 2,277.7	\$ 2,098.8	\$ 1,930.1	\$ 1,708.8	\$ 1,496.7	\$ 1,376.7

\$ 197.1	\$ 159.8	\$ 174.1	\$ 154.3	\$ 131.8	\$ 146.3
\$ 228.7	\$ 268.6	\$ 261.3	\$ 213.9	\$ 235.5	\$ 108.8
\$ 44.6	\$ 42.8	\$ 42.7	\$ 40.7	\$ 36.8	\$ 34.6

OPERATING STATISTICS

	Year Ended December 31		Year Ended March 31	
	1995	1994	1995	1994
Distribution Business				
Customers (end of year)				
Residential	656,036	634,740	639,248	613,425
Commercial	67,261	65,856	66,686	64,952
Industrial	5,166	6,104	6,090	6,265
Other utilities	8	7	8	8
Total	728,471	706,707	712,032	684,650
Distribution volume (10 ⁶ m ³)*				
Residential	1 947	1 882	1 765	1 950
Commercial	1 444	1 466	1 354	1 525
Industrial	2 498	3 109	2 990	3 410
Other utilities	294	285	273	289
Total gas sales volume	6 183	6 742	6 382	7 174
T-service	2 574	1 551	1 760	1 194
Total distribution volume	8 757	8 293	8 142	8 368
Average gas use per customer (m ³)**				
Residential	3 025	3 006	2 822	3 252
Commercial	21 839	22 665	20 797	24 044
Degree day deficiency (celsius)***	3 991	4 050	3 682	4 226
Storage and Transmission Operation (10⁶m³)				
Gas delivered for other utilities under transportation and storage contracts	19 659	16 753	16 820	16 729
Contracted peak storage capacity	1 559	1 553	1 553	1 785
Contracted peak daily transportation capacity	90	89	89	85
Gas into storage	3 569	3 872	3 876	3 673
Gas out of storage	4 623	3 545	3 596	3 794
Maximum day send out				
From storage	50	54	50	54
From total system	136	131	136	131
Gas Supply (10⁶m³)				
Source				
Firm supplies	2 278	2 992	2 956	2 696
Direct purchase	3 174	3 358	3 528	3 597
Ontario suppliers	182	188	205	172
Petrosar	—	—	—	20
Other supplies	54	506	320	550
Total	5 688	7 044	7 009	7 035
System Facilities				
Kilometres of pipelines				
Gathering and storage	164	165	165	165
Transmission	3 223	3 188	3 199	3 183
Distribution	19 518	19 010	19 199	18 722
Total	22 905	22 363	22 563	22 070
Compressor stations (kilowatts)	271 505	271 505	271 505	273 445
Working storage capacity (10 ⁶ m ³)	3 544	3 534	3 516	3 568
Number of employees at year end	2,630	2,606	2,630	2,585

* 10⁶m³ (million cubic metres)

** m³ (cubic metres)

1993	1992	1991	1990	1989	1988
587,348	564,809	546,359	530,337	510,854	492,973
63,065	61,557	60,858	59,144	56,895	54,697
6,133	6,166	6,298	6,347	6,237	5,930
8	9	7	7	6	5
656,554	632,541	613,522	595,835	573,992	553,605
1 818	1 655	1 606	1 658	1 574	1 493
1 423	1 332	1 370	1 422	1 363	1 315
3 873	3 763	3 721	3 976	3 826	3 991
273	259	256	268	264	250
7 387	7 009	6 953	7 324	7 027	7 049
844	792	732	910	998	593
8 231	7 801	7 685	8 234	8 025	7 642
3 163	2 989	2 990	3 191	3 146	3 088
23 159	21 994	23 091	24 852	24 732	24 857
4 082	3 637	3 595	3 859	3 795	3 725
14 984	13 382	8 993	7 714	6 663	6 605
1 661	1 379	1 385	1 379	1 401	1 079
84	83	72	65	60	54
3 555	2 907	3 181	3 467	3 161	3 045
3 551	3 515	2 934	3 138	3 090	3 266
42	44	37	42	36	37
118	113	100	90	90	88
2 485	2 206	3 200	3 636	3 791	4 659
4 601	4 156	3 205	2 827	2 183	1 442
158	135	129	155	153	160
259	271	273	262	287	265
65	63	275	959	699	359
7 568	6 831	7 082	7 839	7 113	6 885
177	256	279	282	288	290
3 166	3 185	3 140	3 108	3 047	3 047
18 086	17 733	17 332	16 889	16 393	16 027
21 429	21 174	20 751	20 279	19 728	19 364
273 070	245 205	242 880	159 831	159 441	112 564
3 497	3 307	3 291	3 161	2 968	2 842
2,532	2,474	2,443	2,397	2,313	2,272

*** Normal degree day deficiency is 3 994 (365 day year) 4 018 (366 day year)



UnionGas

Union Gas Limited
50 Keil Drive North
Chatham, Ontario N7M 5M1

A Westcoast Energy Company

CentraGas

Centra Gas Ontario Inc.

Financial Report 1995

The following discussion and analysis has been prepared by management and is a review of the operating results, financial condition and outlook for the Company. This discussion should be read in conjunction with the financial statements and the accompanying notes.

OPERATING RESULTS

Rate Regulation

Utility earnings are regulated by the Ontario Energy Board (OEB) on the basis of a return on rate base for a future test year period. A rate application process leads to the implementation of new rates which are intended to provide a utility with the opportunity to earn an allowable rate of return. The allowable rate of return is established by determining the weighted average cost of the individual components of the capital structure.

The use of a future test year period in the rate making process is intended to eliminate the time lag between changes in future costs and estimated revenue levels, and the implementation of appropriate rate adjustments. The actual rate of return achieved by the Company may vary from the rate allowed by the OEB as a result of the Company's ability to generate forecasted revenues, weather, levels of cost inflation, interest rates, timing of permitted rate increases and general economic conditions.

In June 1994, the Company filed an application with the OEB to set new rates for 1995. After a public hearing, an interim decision regarding the Company's 1995 rates was released in March 1995. The OEB approved a rate of return on common equity of 12.125% on a deemed 36% equity component of rate base. In June 1995, the OEB released its final decision in which it confirmed the interim rates.

For the 1996 year, the Company will continue with rates last approved by the OEB. A rate application has been filed with the OEB for rate changes effective January 1, 1997.

Earnings

<i>For the Years Ended December 31 (millions)</i>	1995	1994	1993
Gas distribution margin	\$ 172.8	\$ 158.2	\$ 152.3
Other revenue	27.0	24.8	21.3
Investment income	3.0	3.5	4.1
Expenses			
Operating and maintenance	71.1	65.6	64.5
Depreciation and amortization	29.6	28.1	24.7
Property and capital taxes	9.9	9.7	9.2
Interest expense	43.9	41.0	36.9
Income taxes	15.7	12.7	11.7
Income from continuing operations	32.6	29.4	30.7
Income from discontinued operations	1.0	(1.3)	1.2
Net income	\$ 33.6	\$ 28.1	\$ 31.9
Earnings applicable to common shares	\$ 32.4	\$ 26.7	\$ 30.5

The income from continuing operations was \$32.6 million in 1995, \$29.4 million in 1994 and \$30.7 million in 1993. Income from the discontinued cogeneration operations amounted to \$1.0 million in 1995 compared to a loss of \$1.3 million in 1994 and income of \$1.2 million in 1993. After deducting preference share dividends, earnings applicable to common shares were \$32.4 million in 1995, \$26.7 million in 1994 and \$30.5 million in 1993.

Factors contributing to the increase in 1995 earnings compared to 1994 included higher industrial volumes, colder weather, growth in the Company's rate base and higher earnings from the cogeneration operations. The colder weather in 1995 contributed to an increase in earnings of \$2.1 million compared to 1994.

The decrease in earnings in 1994 compared to 1993 was due primarily to warmer weather, a reduction in the OEB approved rate of return on common equity and a decrease in earnings from the Company's cogeneration facility. The warmer weather in 1994 contributed to a decrease in earnings of \$3.8 million compared to 1993.

Discontinued Operations

On June 15, 1995, the Company, in accordance with its undertakings to the OEB, transferred the Fort Frances cogeneration facility to Westcoast Power Inc., a subsidiary of Westcoast Energy Inc. The Company's net assets related to the cogeneration operations were sold at fair market value and resulted in the recording of contributed surplus of \$6.1 million.

The results of the discontinued cogeneration operations have been disclosed separately for the current and prior years. Certain statistical information has also been restated to reflect the transfer of the cogeneration operations.

Shared Services

During 1995, the Company and Union Gas Limited, a commonly controlled company, continued with the implementation of the shared services plan which was previously approved by the OEB. Under the plan, certain administrative departments were combined to provide services to both companies, resulting in operating efficiencies and reductions in the total cost of service for the benefit of both companies' customers.

The amortization of one-time restructuring costs related to the implementation of shared services was included in operating and maintenance expense. These costs will be recovered in rates over a three year period, which commenced in 1995. The expenses of the combined departments were allocated to each company using a cost driver approach which is designed to allocate expenses based on underlying activity levels or causal relationships.

Distribution Volumes

Total distribution volumes, including transportation volumes, increased by 10.4% to 4 576 million cubic metres (10^6m^3) in 1995, compared to 4 145 10^6m^3 in 1994. Distribution volumes to the residential and commercial customers increased by 32 10^6m^3 . This increase was due primarily to the addition of 10,400 customers and the impact of colder weather, partially offset by a decrease in the weather normalized use per customer for residential customers. The weather was 0.5% colder than normal in 1995 and 1.2% warmer than normal in 1994. The total volumes delivered to industrial and T-service customers increased by 399 10^6m^3 due primarily to higher consumption levels by customers in the pulp and paper and cogeneration sectors.

Total distribution volumes increased from 3 964 10^6m^3 in 1993 to 4 145 10^6m^3 in 1994. The increase reflected customer growth, a higher weather normalized use per customer in the commercial sector and an increase in industrial volumes related to higher consumption by customers in the ferrous metals and cogeneration sectors. These increases were partially offset by the effect of warmer weather and a decrease in the weather normalized use per customer for residential customers. The weather was 2.2% colder than normal in 1993.

Gas Distribution Margin

The Company has changed its income statement presentation to disclose the margin related to gas distribution throughput. The gas distribution margin represents the margin earned on all distribution volumes, including gas sales and transportation (T-service) volumes. Previously, T-service revenue was included in other revenue.

The gas distribution margin was \$172.8 million in 1995 compared to \$158.2 million in 1994. This increase was due primarily to an increase in the delivery component of rates, higher industrial volumes, growth related to the addition of 10,400 customers and colder weather.

The gas distribution margin in 1994 increased by \$5.9 million compared to the 1993 margin of \$152.3 million. The increase was due to customer growth and increased industrial demand, partially offset by the impact of warmer weather.

Other Revenue

Other revenue consists primarily of equipment rental revenue, finance contract revenue and administration fees. Other revenue was \$27.0 million in 1995 compared with \$24.8 million in 1994. The increase in other revenue was primarily due to higher rental revenue arising from an increase in the number of rental units of furnaces, appliances[®] and commercial water heaters.

Other revenue increased from \$21.3 million in 1993 to \$24.8 million in 1994. The increase reflected higher equipment rental revenue resulting from increases in rental units and rates, and the introduction of the heating protection plan.

Operating Expenses

The operating and maintenance expense was \$71.1 million in 1995 compared to \$65.6 million in 1994. The increase reflected higher costs related to growth in the customer base, inflation and amortization of one-time shared services costs, partially offset by savings related to shared services. The increase of \$1.1 million in 1994 compared to the 1993 expense of \$64.5 million was due primarily to customer growth and inflation.

The depreciation and amortization expense was \$29.6 million in 1995 compared to \$28.1 million in 1994 and \$24.7 million in 1993. The increase was due to a higher investment in property, plant and equipment required to serve the Company's expanding customer base.

Investment Income

Investment income was \$3.0 million in 1995 compared to \$3.5 million in 1994 and \$4.1 million in 1993. The decrease in the investment income was due to the repayment and redemption of debt by commonly controlled companies.

Interest Expense

Interest expense was \$43.9 million in 1995 compared to \$41.0 million in 1994. The increase was due primarily to higher average short-term and long-term debt levels which were required to finance the Company's continuing investment in property, plant and equipment.

Interest expense in 1994 increased by \$4.1 million compared to the 1993 expense of \$36.9 million. The increase was due to a higher long-term debt level and an increase in short-term interest rates in 1994.

FINANCIAL CONDITION

Operations

Funds provided by continuing operations in 1995 were \$90.5 million compared to \$48.9 million in 1994. The increase was primarily due to a decrease in the value of gas in storage related to reduced volumes and a lower cost of gas, and other changes in working capital requirements. The funds provided by continuing operations decreased by \$2.8 million in 1994 compared to the 1993 amount of \$51.7 million. This decrease was due primarily to a higher cost of gas and additional volumes of gas in storage in 1994 compared to 1993.

Investment Activities

Capital expenditures totalled \$83.2 million in 1995, \$81.9 million in 1994 and \$82.6 million in 1993. Of the total 1995 investment, 75% was spent on distribution projects and rental equipment and 25% on general plant and equipment including information technologies and systems. The capital expenditures reflected the continuing growth in new business, system betterment and other expenditures necessary to meet the growth in customer demand for services. Capital expenditures are expected to be approximately \$105 million in 1996.

The average rate base was \$675.3 million in 1995 compared to \$620.8 million in 1994 and \$557.4 million in 1993.

Liquidity and Capital Resources

The Company plans to meet future cash requirements through funds generated from operations, short and long-term debt, and common equity investment by the Company's parent. The Company has operating credit facilities totalling \$100.0 million with a Canadian chartered bank.

In August 1995, the Company issued \$100 million aggregate amount of 8.85% senior debentures, maturing September 1, 2005. The proceeds of these debentures were used to repay short-term indebtedness incurred to finance capital expenditures and for other corporate purposes. During 1995, there were long-term debt repayments of \$55.4 million. In addition, the Ontario Hydro loan of \$46.9 million was assumed by Westcoast Power Inc. as part of the transfer of the cogeneration facility.

The Company did not issue long-term debt in 1994. Long-term debt repayments in 1994 totalled \$11.0 million.

The Company's capital instruments are rated by Canadian Bond Rating Service at B++(High) for the senior debentures and P-3(High) for the preferred shares. Dominion Bond Rating Service has rated the senior debentures and preferred shares at A and Pfd-2 respectively. The Company expects to maintain these ratings in 1996.

Gas Supply

The gas supply portfolio includes firm service gas supply contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. These contracts are indexed to either the New York Mercantile Exchange (NYMEX) natural gas futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. Firm service gas supply contracts represent approximately 19% of the Company's total forecast gas supply including buy/sell volumes. Approximately 80% of the Company's forecast firm service gas supply from January through October 1996 is subject to indexed prices. Most of these contracts are subject to price redetermination as of November 1, 1996.

The Company has implemented a risk management strategy to manage the price volatility of its firm service gas supply. Hedges are used to fix gas prices with respect to the underlying physical gas supply contracts and include the use of natural gas swaps and purchase price collars. During the year ended December 31, 1995, the Company hedged the purchase price applicable to 50% of its indexed firm service gas supply. At December 31, 1995, the Company had entered into natural gas swap contracts to effectively fix the purchase price for approximately $112 \times 10^6 \text{m}^3$ or 30% of the indexed gas supply from January through October 1996.

Gas costs are included in customer rates based on forecasts approved by the OEB. The difference between the OEB approved reference prices and the actual cost of gas purchased, including the impact of both the indexed purchase prices and any hedging activities, is deferred for disposition as approved by the OEB.

OUTLOOK

Operating Results

The natural gas industry in North America continues to experience considerable growth. Natural gas is abundant, readily accessible through vast distribution systems and has significant environmental advantages compared to other fossil fuels. Natural gas also has competitive pricing advantages in most markets today.

The North American energy marketplace is evolving in a way that is pointing to more customer choice, stiffer competition for energy services and less regulation. While the changing marketplace will provide challenges, it will also provide significant opportunities for expanding traditional services and marketing new services to a large customer base.

The Company is expecting continued growth in the residential and commercial market share through conversion activity, new housing and community expansion programs. Industrial volumes are expected to increase in the cogeneration, forestry, and pulp and paper sectors. This growth is related to additional cogeneration facilities, export demand for resource based products, and economic growth as the economy continues to strengthen.

The Company will also achieve market share growth by offering value added products and services in a highly focused and segmented approach. The Company has devised business strategies and started organizational changes that focus activities on major lines of business.

Business Risk

The Company's earnings are impacted by business risks inherent in the natural gas industry and energy marketplace. The earnings level is impacted by general economic conditions, the Company's ability to generate forecasted revenues, interest rates, levels of cost inflation and the OEB's decisions with respect to rates. The rates allowed by the

OEB are based on forecasts assuming normal weather conditions. Since a large portion of the gas distributed to the higher margin residential and commercial market is used for space heating, differences from normal weather have a significant effect on the consumption of gas. Economic conditions and the price of competitive energy sources impact sales to the industrial customers. Many of these customers have the ability to switch to an alternative fuel.

Environmental Management Program

The Company is committed to conducting its business in an environmentally responsible manner using the principles of sustainable development, by promoting the wise and efficient use of energy and by seeking ways to reduce the environmental impacts of its business. The Company continues to strengthen its environmental management program through a comprehensive audit program and additional environmental training for employees. As well, active participation in environmental research, development and technology transfer is important as a means to identify the most cost effective way of managing environmental issues to support the Company's business plans and operations.

MANAGEMENT RESPONSIBILITY FOR
FINANCIAL REPORTING

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Their preparation necessarily involves the use of estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined therein.

Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. The system of internal controls is periodically reviewed by an independent internal audit function to ensure its effective operation.

Ernst & Young was appointed by the shareholders to conduct an independent examination of the financial statements in accordance with generally accepted auditing standards, which includes such tests and other procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for reporting and for final approval of the financial statements. An Audit Committee of non-management Directors is appointed by the Board to review the financial statements in detail and to report to the Directors prior to such statements being approved for publication. The Audit Committee meets regularly with management, the internal auditors and the external auditors to discuss their evaluation of internal accounting controls, audit results and the quality of financial reporting. The internal and external auditors have free access to the Audit Committee to discuss the results of their audit.

February 2, 1996



M. F. Bermon
Senior Vice-President
Finance and Regulatory Affairs



J. P. Woodruff
Controller

AUDITORS' REPORT

To the Shareholders of Centra Gas Ontario Inc.

We have audited the balance sheets of Centra Gas Ontario Inc. as at December 31, 1995 and 1994 and the statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Chartered Accountants
Toronto, Canada
February 2, 1996

STATEMENTS OF INCOME

<i>For the Years Ended December 31 (millions)</i>	1995	1994
Gas sales (note 13)	\$ 494.8	\$ 581.3
Cost of gas (note 13)	338.4	428.9
Gas sales margin	156.4	152.4
Transportation revenue (note 13)	16.4	5.8
Gas distribution margin	172.8	158.2
Other revenue	27.0	24.8
	199.8	183.0
Expenses		
Operating and maintenance (note 13)	71.1	65.6
Depreciation and amortization	29.6	28.1
Property and capital taxes	9.9	9.7
	110.6	103.4
Operating income	89.2	79.6
Investment income (notes 3 and 13)	3.0	3.5
	92.2	83.1
Interest expense		
Long-term debt	41.8	40.6
Short-term debt	2.4	0.8
Interest capitalized	(0.3)	(0.4)
	43.9	41.0
Income before income taxes	48.3	42.1
Income taxes (note 10)	15.7	12.7
Income from continuing operations	32.6	29.4
Income (loss) from discontinued operations (note 2)	1.0	(1.3)
Net income	33.6	28.1
Preference share dividend requirement	1.2	1.4
Earnings applicable to common shares	\$ 32.4	\$ 26.7

(See accompanying notes)

STATEMENTS OF RETAINED EARNINGS

<i>For the Years Ended December 31 (millions)</i>	1995	1994
Retained earnings, beginning of year	\$ 139.3	\$ 132.7
Net income	33.6	28.1
Dividends		
First preferred shares	0.2	0.2
Second preferred shares - series A	1.0	1.2
Common shares	43.8	20.1
Retained earnings, end of year	\$ 127.9	\$ 139.3

(See accompanying notes)

BALANCE SHEETS

<i>As at December 31 (millions)</i>	1995	1994
Assets (note 2)		
Current assets		
Accounts receivable	\$ 78.5	\$ 81.9
Inventory of gas in storage and supplies	25.2	64.4
Current portion of investments (note 3)	1.5	3.7
Other	—	0.2
	105.2	150.2
Investments (note 3)	40.8	37.9
Property, plant and equipment (note 4)	661.8	699.3
Other assets (note 5)	11.9	16.2
	\$ 819.7	\$ 903.6

Liabilities and Shareholders' Equity (note 2)

Current liabilities		
Bank indebtedness (note 6)	\$ 54.2	\$ 84.4
Accounts payable and accrued charges	78.4	101.3
Income and other taxes payable	8.2	—
Long-term debt due within one year (note 7)	8.6	55.4
	149.4	241.1
Long-term debt (note 7)	406.9	362.4
Deferred income taxes	—	30.4
Shareholders' equity		
Capital stock (note 8)	129.4	130.4
Contributed surplus (note 2)	6.1	—
Retained earnings (note 9)	127.9	139.3
	263.4	269.7
	\$ 819.7	\$ 903.6

(See accompanying notes)

On behalf of the Board:



Director



Director

STATEMENTS OF CHANGES IN
FINANCIAL POSITION

<i>For the Years Ended December 31 (millions)</i>	1995	1994
Operating Activities		
Net income from continuing operations	\$ 32.6	\$ 29.4
Charges not affecting cash:		
Depreciation	29.6	28.1
Amortization	3.5	1.0
Operating cash flow from continuing operations	65.7	58.5
Change in non-cash working capital related to continuing operations	24.8	(9.6)
Cash provided by continuing activities	90.5	48.9
Change in operating activity of discontinued operations	10.6	(3.6)
	101.1	45.3
Financing Activities		
Issue of long-term debt	100.0	—
Repayment of long-term debt	(55.4)	(11.0)
Redemption of preference shares	(1.0)	(1.5)
Dividends paid	(45.0)	(21.5)
	(1.4)	(34.0)
Investing Activities		
Additions to property, plant and equipment	(83.2)	(81.9)
Investments	3.7	5.7
Finance contracts	(4.4)	(2.3)
Deferred costs and other	(3.8)	(1.0)
Proceeds from transfer of cogeneration operations (note 2)	18.7	—
Investing activities of discontinued operations	(0.5)	(1.1)
	(69.5)	(80.6)
Increase (decrease) in bank indebtedness	(30.2)	69.3
Bank indebtedness at beginning of year	84.4	15.1
Bank indebtedness at end of year	\$ 54.2	\$ 84.4

(See accompanying notes)

1 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles. A summary of significant accounting policies follows:

Regulation

The utility operations are subject to regulation by the Ontario Energy Board ("OEB") which exercises its statutory authority over such matters as rate of return, construction and operation of natural gas facilities, accounting practices and rates of the Company.

Inventory of Gas in Storage and Supplies

Gas in storage is carried at cost at prices as approved by the OEB which includes transportation and storage. Supplies are carried at the lowest of average cost, replacement cost and net realizable value.

Investments

Long-term investments are recorded at cost net of any estimated permanent impairment in value.

Property, Plant and Equipment

Property, plant and equipment are carried at cost which includes direct costs, overhead attributable to construction and interest capitalized during construction. The cost of property, plant and equipment is reduced by contributions and grants in aid of construction received from governmental bodies in support of specific transmission and distribution facilities.

The original cost of utility property retired is removed from plant accounts and charged to accumulated depreciation, which is credited with the salvage proceeds less removal costs. Under this method, no profit or loss is recognized on ordinary retirements of depreciable property.

Depreciation of utility property, plant and equipment is calculated on a straight-line method based on the original cost, which includes site restoration costs. Average annual depreciation rates are 2.4% for gas distribution, 7.6% for rental equipment, 7.5% for general and other plant, 2.8% for gas storage, and 2.1% for capital leases. The application of such rates is equivalent to a composite rate of approximately 3.91% (4.03% in 1994).

Other Assets

Goodwill is included in other assets and is not amortized. The goodwill represents the excess of acquisition costs over the underlying value of net assets at date of purchase in respect of companies amalgamated January 1, 1968. Management has reviewed the valuation of the goodwill. The determination as to whether there has been an impairment in the goodwill is made by comparing the carrying value of the goodwill to the projected undiscounted net cash flow generated by the related activity.

Discounts, premiums and expenses related to long-term debt are deferred in the year incurred and amortized against income over the term of the applicable issue.

The Company defers, in the year incurred, certain expenses which the regulatory authorities require or permit to be recovered from future revenues. Such charges are being amortized over various time periods.

Income Taxes

Rates and revenues for utility operations, established for regulatory purposes, include recovery of only such income taxes as are currently payable or are recoverable through the rates charged to customers. Accordingly, the Company provides for income taxes on this basis and does not provide for income taxes deferred to future years as a result of timing differences between accounting income and taxable income, principally in respect of depreciation and amortization.

Pension Plans

Pension costs and obligations are determined annually by independent actuaries using management's best estimate assumptions and the projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions and experience gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employee group.

Natural Gas Swap and Other Contracts

The Company's gas supply portfolio includes contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. The actual cost of gas includes the impact of any hedging activities related to these contracts. The hedges are used to fix gas prices with respect to the underlying physical gas supply contracts and include the use of natural gas swaps and purchase price collars. The difference between the OEB approved reference prices and the actual cost of gas is deferred for disposition as approved by the OEB.

2 DISCONTINUED OPERATIONS

On June 15, 1995, the Company, in accordance with its undertakings to the OEB, transferred the Fort Frances cogeneration facility to Westcoast Power Inc. ("WPI"), a commonly controlled company. The Company's net assets related to the cogeneration operations were sold at fair market value of \$18.7 million and resulted in the recording of contributed surplus of \$6.1 million. Cash retained by the Company with respect to the cogeneration operations was \$7.3 million. All contractual agreements and obligations related to the cogeneration facility have been assigned to and assumed by WPI.

The proceeds from the transfer of the cogeneration net assets consisted of preference shares of WPI of \$44.0 million, net of a note to WPI from the Company of \$25.3 million. Subsequent to the transaction, the preference shares were redeemed and the note was repaid.

Details of the discontinued cogeneration operations for the period January 1, 1995 to June 15, 1995 and for the year ended December 31, 1994 are as follows:

<i>(millions)</i>	1995	1994
Operating revenue	\$ 20.4	\$ 38.5
Operating costs	17.5	37.2
Operating income	2.9	1.3
Financial expenses	0.8	2.0
Income (loss) before income taxes	2.1	(0.7)
Income taxes		
Current	2.9	2.5
Deferred	(1.8)	(1.9)
	1.1	0.6
Earnings (loss) from discontinued operations	\$ 1.0	\$ (1.3)

The consolidated balance sheet included the following amounts applicable to the discontinued cogeneration operations as at December 31, 1994.

<i>(millions)</i>	
Current assets	\$ 21.5
Property, plant and equipment (cost \$113.8 million)	89.3
Other assets	4.6
	115.4
Current liabilities	(14.4)
Long-term debt - 4.0% Ontario Hydro loan	(46.9)
Other liabilities	(4.9)
Deferred income taxes	(30.4)
Net assets	\$ 18.8

3 INVESTMENTS

(millions)	1995	1994
10.6%-14.0% Centra Gas Manitoba Inc. debentures (i) (note 7)	\$ 23.1	\$ 24.6
Demand note from a commonly controlled company (ii)	—	2.2
	23.1	26.8
Deduct current portion of investments		
Centra Gas Manitoba Inc. debentures	1.5	1.5
Demand note from a commonly controlled company	—	2.2
	1.5	3.7
	21.6	23.1
13.9%-19.9% finance contracts due 1996 to 2005, net of current portion included in accounts receivable of \$3.2 million (\$2.5 million in 1994)	19.2	14.8
	\$ 40.8	\$ 37.9

(i) Annual interest of \$2.8 million (\$3.0 million in 1994) is included in investment income. Interest receivable of \$0.8 million (\$0.9 million at December 31, 1994) is included in accounts receivable.

(ii) The subordinated demand note from a commonly controlled company, bearing interest at 7.6% per annum, was repaid during 1995. Interest of \$0.2 million (\$0.5 million in 1994) is included in investment income.

4 PROPERTY, PLANT AND EQUIPMENT

(millions)	1995	1994
Cost		
Gas distribution	\$ 653.6	\$ 602.5
Rental equipment	129.1	115.2
General and other plant	58.7	53.7
Gas storage	25.8	25.7
Capital leases	7.2	6.7
Cogeneration facility	—	113.5
	874.4	917.3
Accumulated Depreciation		
Gas distribution	156.8	144.9
Rental equipment	22.8	20.5
General and other plant	22.4	18.5
Gas storage	6.3	5.6
Capital leases	4.3	4.1
Cogeneration facility	—	24.4
	212.6	218.0
Net book value	\$ 661.8	\$ 699.3

Gas distribution plant is net of contributions in aid of construction of \$70.7 million (\$70.3 million at December 31, 1994). General and other plant is net of contributions toward leasehold improvements of \$4.9 million (\$4.9 million at December 31, 1994).

Capital lease obligations of \$2.8 million (\$2.6 million at December 31, 1994) are included in accounts payable.

5 OTHER ASSETS

<i>(millions)</i>	1995	1994
Goodwill	\$ 8.8	\$ 8.8
Cogeneration commissioning costs	—	4.6
Rate hearing	0.1	1.8
Long-term debt discount and issue costs (i)	3.8	2.6
Preliminary survey and engineering	0.6	0.2
Premium on long-term debt, net of accumulated amortization of \$1.7 million (\$1.3 million in 1994) (i)	(1.4)	(1.8)
	\$ 11.9	\$16.2

(i) These costs are amortized over the term of the applicable issue.

6 BANK INDEBTEDNESS

The Company has operating credit facilities totalling \$100.0 million with a Canadian chartered bank. These operating credit facilities are subject to annual review.

7 LONG-TERM DEBT

<i>(millions)</i>	1995	1994
Sinking fund senior debentures		
14.0% debentures due November 29, 2002	\$ 16.0	\$ 17.3
13.5% debentures due November 14, 2003	16.5	17.8
13.5% debentures due November 14, 2008	16.0	16.0
10.625% debentures due July 14, 2006	54.0	57.0
10.75% debentures due July 31, 2009	63.0	66.0
Other		
12.9% senior debentures, due November 20, 1995	—	45.0
9.7% senior debentures, due December 9, 2002	75.0	75.0
8.65% senior debentures, due October 19, 2018	75.0	75.0
8.85% senior debentures, due September 1, 2005	100.0	—
4.0% Ontario Hydro loan	—	46.9
8.1% term loan	—	1.8
	415.5	417.8
Less: Current portion	8.6	55.4
	\$ 406.9	\$ 362.4

Of the \$415.5 million of debt, \$23.1 million represents financing arranged by the Company for Centra Gas Manitoba Inc., a commonly controlled company (note 3). The Ontario Hydro loan, which relates to the discontinued operation, has been assumed by WPI (note 2).

Long-term debt maturities and sinking fund requirements during the next five years ending December 31 are as follows:

	(millions)
1996-	\$ 8.6
1997-	\$ 8.6
1998-	\$ 12.6
1999-	\$ 9.6
2000-	\$ 9.6

8 CAPITAL STOCK

(millions of dollars)	1995	1994
Authorized:		
First preferred shares issuable in series	477,113 shs.	481,213 shs.
Second preferred shares issuable in series	3,177,775 shs.	3,210,075 shs.
Junior preferred shares issuable in series	2,400,000 shs.	2,400,000 shs.
Common shares	31,044,885 shs.	31,044,885 shs.
Issued and outstanding:		
First preferred shares		
57,140 \$2.60 cumulative, first series		
without par value (60,340 in 1994)	\$ 2.9	\$ 3.0
15,665 \$2.70 cumulative, second series		
without par value (16,565 in 1994)	0.8	0.8
Second preferred shares		
527,075 7.85% cumulative, series A		
without par value (559,375 in 1994)	13.1	14.0
	16.8	17.8
14,283,376 Common shares without par value		
(14,283,376 in 1994)	112.6	112.6
	\$ 129.4	\$ 130.4

First preferred shares, first and second series, (redeemable at the Company's option at \$50.50 per share) do not presently have voting rights. Under the terms of the issue, the Company is obliged to offer to purchase 3,200 first series shares and 900 second series shares per annum at a price not in excess of \$50.00 per share.

Second preferred shares, series A, (redeemable at the Company's option at \$25.00 per share) do not presently have voting rights. Under the terms of the issue, the Company is obliged to offer to purchase 56,000 shares per annum at a price not in excess of \$25.00 per share.

The following shares were redeemed for cash approximating their carrying value and cancelled during the year:

	1995	1994
First preferred shares, first series	3,200	3,200
First preferred shares, second series	900	900
Second preferred shares, series A	32,300	50,700

9 DIVIDEND RESTRICTIONS

The indentures and agreements relating to the Company's long-term debt obligations contain covenants limiting the payment of dividends. The Company is in compliance with all such covenants.

10 INCOME TAXES

A reconciliation between the statutory and the effective rate of income taxes is provided as follows:

<i>(millions of dollars)</i>	1995	1994
Income before income taxes from continuing operations	\$ 48.3	\$ 42.1
Combined federal and Ontario provincial statutory tax rate	43.5%	43.5%
Computed income taxes	\$ 21.0	\$ 18.3
Increases (decreases) in income taxes resulting from:		
Deferred charges and other items claimed for tax purposes in the year incurred	(6.6)	(6.0)
Capital cost allowance deducted for income tax purposes in excess of depreciation	(0.5)	0.3
Large corporation tax	1.6	1.4
Other	0.2	(1.3)
Actual income tax expense	\$ 15.7	\$ 12.7
Effective tax rate	32.5%	30.2%

Deferred income taxes relating to utility operations which have not been provided and are not yet recovered in revenues amounted to \$7.1 million in 1995 (\$7.0 million in 1994) and \$117.5 million in total to December 31, 1995 (\$110.4 million to December 31, 1994).

11 PENSION PLANS

The Company has non-contributory defined benefit plans covering substantially all employees. Normal retirement benefits under these plans are related to employees' remuneration and years of service.

Actuarial valuations of the union plans and the salaried plan were performed at January 1, 1995 and January 1, 1994 respectively. The market related value of the pension fund assets and the actuarial present value of accrued pension benefits extrapolated to December 31, 1995 and December 31, 1994 are set out below:

<i>(millions of dollars)</i>	1995	1994
Market related value of pension fund assets	\$ 37.5	\$ 38.4
Actuarial present value of accrued pension benefits	\$ 40.8	\$ 38.0

12 NATURAL GAS SWAP CONTRACTS

The purchase price applicable to 80% of the Company's 1996 forecast firm service gas supply from January through October 1996 is indexed to either the New York Mercantile Exchange Natural Gas Futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. At December 31, 1995, the purchase price applicable to 112 10⁶m³ or 30% of this indexed supply (47% at December 31, 1994) has been effectively fixed through the use of natural gas swap contracts. These contracts have a fair value of \$1.3 million receivable at December 31, 1995 (\$5.6 million payable at December 31, 1994). The fair value reflects the estimated amount that the Company would receive or pay to terminate the contracts at December 31, 1995, based on the estimated future net cash flows under the terms of each contract.

13 RELATED PARTY TRANSACTIONS

The Company and Union Gas Limited ("Union"), a commonly controlled company, received approval from the OEB in August 1994 to proceed with a shared services plan. Under the plan, certain administrative departments were combined in 1995 to provide services to both companies, resulting in operating efficiencies and reductions in the total cost of service for the benefit of the companies' customers. During the year, the Company was charged \$4.0 million (1994 - nil) by Union to recover expenses incurred by Union on its behalf. These charges were included in operating and maintenance expenses.

Transportation and purchases of natural gas of \$12.2 million (\$15.5 million in 1994) from commonly controlled companies are included in the cost of gas. These purchases were made under the same terms as purchases from unrelated parties.

Charges to the Company for administrative and general services provided by the parent, Westcoast Energy Inc. ("Westcoast") and commonly controlled companies, are \$0.3 million (\$0.9 million in 1994). These charges were included in operating and administration expenses.

Sales of natural gas of \$0.5 million (nil for 1994) to a commonly controlled company are included in gas sales revenue. Transportation of natural gas of \$1.2 million (nil for 1994) to commonly controlled companies are included in transportation revenue.

The Company provides administrative, management and engineering services to certain commonly controlled companies. The cost of these services amounted to \$0.4 million (\$0.6 million in 1994). The Company also earns income on its investments in commonly controlled companies (note 3).

All related party transactions occur in the normal course of operations and reflect fair market values. The recovery of the net cost of related party transactions in the Company's cost of service is subject to the rate regulation process of the OEB.

Accounts receivable from commonly controlled companies of \$1.5 million (\$1.1 million at December 31, 1994) are included in accounts receivable. Accounts payable to Westcoast and commonly controlled companies of \$6.4 million (\$3.7 million at December 31, 1994) are included in accounts payable.

14 COMPARATIVE AMOUNTS

Certain of the 1994 amounts have been reclassified to conform with the presentation adopted in 1995.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

On May 2, 1995, the Toronto Stock Exchange ("TSE") enacted a new by-law requiring companies listed on the TSE to annually disclose the corporate governance practices of their boards of directors for fiscal years ending on or after June 30, 1995. A similar rule was adopted by the Montreal Stock Exchange. This disclosure statement is to refer to the guidelines set out in the "Report of the Toronto Stock Exchange Committee on Corporate Governance in Canada" (the "TSE Guidelines"). The TSE Guidelines set out the principal responsibilities of a board of directors and the corporate governance principles to be followed by them.

In October of 1995, the Company established a Corporate Governance Committee (the "Committee") composed of three directors, a majority of whom are considered to be outside and unrelated to management. Through this Committee, the Board of Directors of the Company (the "Board") will develop sound corporate governance practices to enhance shareholder value.

Board of Directors

The Board has the responsibility for supervising the management of the business and the affairs of the Company. The management of the Company is responsible for the day to day operations of the business. The Board has considered and does consider the principal risks to the Company and receives reports of the Company's assessment and management of those risks. The Board through management has put structures in place in the Company to allow effective communication with the Company's stakeholders and the public. The Board also periodically reviews the compensation of directors in light of risks and responsibilities.

Composition of the Board

The Board is composed of six directors. Of the directors, John Bergsma, President and Chief Executive Officer, is a full-time officer of the Company, and Michael Phelps, Ken Rekrutiak and Wayne Bingham are full-time officers of the Company's parent, Westcoast Energy Inc. ("Westcoast"). Westcoast owns 100% of the voting common shares of the Company and is therefore considered a significant shareholder. Mr. Bingham, who is the Vice President, Finance and Treasurer of Westcoast, also holds office as Treasurer of the Company. Neither Mr. Phelps, Mr. Rekrutiak nor Mr. Bingham are actively involved in the day-to-day management of the Company. The TSE Guidelines provide that a director related to a significant shareholder should not be considered a related director of the subsidiary corporation. The TSE has indicated that an outside director is a director who is not an officer or employee of the Company or of any of its subsidiaries. The remaining two directors are not officers or employees of the Company, do not have interests in or relationships with the Company or its parent (other than interests and relationships which may arise from shareholdings) which could materially interfere, or could reasonably be perceived to materially interfere with such directors' ability to act with a view to the best interests of the Company. The Company does not have any subsidiaries. The Board has therefore concluded that a majority of the directors of the Company are outside and unrelated, as those terms are defined by the TSE.

Committees of the Board

The Board has established and adopted terms of reference for each of the Audit, Corporate Governance and Independent Committees.

The Audit Committee is composed of three unrelated directors. A majority of the committee is composed of outside directors. This committee is broadly responsible for ensuring that the Company's management has designed and implemented an effective system of internal financial controls, for reviewing and reporting on the integrity of the consolidated financial statements of the Company, for ensuring compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and the disclosure of material facts and for reviewing the appropriateness and effectiveness of the Company's policies and business practices which impact on the financial integrity of the Company, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management.

The Corporate Governance Committee is composed of three directors, a majority of whom are unrelated and are outside directors. This committee's prime responsibility is for developing and monitoring the Company's overall approach to corporate governance issues and for administering a corporate governance system which is effective in the discharge of the Company's obligations to its shareholders.

The Independent Committee is made up of two directors who are outside and unrelated directors. The mandate of the Independent Committee is to approve affiliate transactions and to monitor the Company's compliance with its written Undertakings to the Lieutenant Governor in Council for the Province of Ontario.

Chairman

Michael Phelps, the Chief Executive Officer of Westcoast which is the significant shareholder of the Company, is the Chairman of the Board of the Company. As such, while being responsible on behalf of the Board for the recruitment of the other directors and the assessment of performance, he reviews with the Board on-going assessment matters, the appointment and monitoring of senior management, and succession issues.

Shareholder Feedback and Concerns

The Company provides annual and quarterly reports to its preference shareholders and responds to enquiries from those shareholders on a timely basis.

Decisions Requiring Board Approval

The Board operates by seeking the advice of and delegating powers, duties and responsibilities to committees of the Board, by delegating certain of its authorities to management and by reserving certain powers to itself.

Expectations of Management

The Board reviews the Company's strategic plan with management at least annually. Members of the management team report to the Board on a regular basis to review the Company's financial and operational results and the Company's progress in fulfilling its strategic goals and objectives.

FINANCIAL AND OPERATING STATISTICS

(millions of dollars)

Operating Results *For the Year Ended December 31*

	1995	1994	1993	1992	1991
Operating revenues	\$ 538.2	\$ 611.9	\$ 547.1	\$ 521.2	\$ 483.6
Operating expenses	449.0	532.3	471.9	440.6	422.4
Income before interest and income taxes	89.2	79.6	75.2	80.6	61.2
Net interest expense	40.9	37.5	32.8	31.0	29.0
Income taxes	15.7	12.7	11.7	17.5	8.7
Income from continuing operations	32.6	29.4	30.7	32.1	23.5
Income (loss) from discontinued operations	1.0	(1.3)	1.2	(0.5)	0.5
Net income	33.6	28.1	31.9	31.6	24.0
Preference share dividend requirement	1.2	1.4	1.4	1.6	1.7
Earnings applicable to common shares	\$ 32.4	\$ 26.7	\$ 30.5	\$ 30.0	\$ 22.3

Balance Sheet *As at December 31*

Assets

Current assets	\$ 105.2	\$ 150.2	\$ 139.8	\$ 123.5	\$ 120.1
Investments	40.8	37.9	39.4	45.7	56.2
Property, plant and equipment	661.8	699.3	652.7	602.1	569.9
Other assets	11.9	16.2	16.5	14.6	17.9
Total	\$ 819.7	\$ 903.6	\$ 848.4	\$ 785.9	\$ 764.1

Capitalization

Current liabilities	\$ 149.4	\$ 241.1	\$ 133.0	\$ 130.8	\$ 171.8
Long-term debt	406.9	362.4	417.8	361.6	307.0
Deferred income taxes	—	30.4	33.0	37.8	34.9
Shareholders' equity	263.4	269.7	264.6	255.7	250.4
Total	\$ 819.7	\$ 903.6	\$ 848.4	\$ 785.9	\$ 764.1

Cash Flow Data *For the Year Ended December 31*

Cash from operations	\$ 101.1	\$ 45.3	\$ 56.7	\$ 80.2	\$ 73.0
Capital expenditures	\$ 83.2	\$ 81.9	\$ 82.6	\$ 58.6	\$ 45.4

Operating Statistics

Volumes (10⁶m³)

Residential	655	624	607	572	532
Commercial	497	496	516	488	476
Industrial	2 029	2 302	2 251	2 127	2 054
Transportation service	1 395	723	590	709	672
	4 576	4 145	3 964	3 896	3 734

Customers at year-end

Residential	211,801	202,082	190,788	178,566	168,301
Commercial	24,361	23,607	23,111	22,189	21,366
Industrial	384	412	398	410	405
Transportation service	39	36	12	15	14
	236,585	226,137	214,309	201,180	190,086

Kilometres of pipeline	7,785	7,495	7,271	7,027	6,869
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* Certain information has been restated to reflect the transfer of the cogeneration operations.

CentraGas



Centra Gas Ontario Inc.
200 Yorkland Boulevard
North York, Ontario M2J 5C6

A Westcoast Energy Company



UnionGas

Union Gas Limited
50 Keil Drive North
Chatham, Ontario N7M 5M1

CentraGas

Centra Gas Ontario Inc.
200 Yorkland Boulevard
North York, Ontario M2J 5C6

Westcoast Energy Companies