SCOMM

#32:18

B. C. Resources Investment Corp.

One of the operating models
for comparison with AGSOC.

REMARKS FOR THE

TORONTO SOCIETY OF FINANCIAL ANALYSTS

BY

DAVID L. HELLIWELL

PRESIDENT AND CHIEF EXECUTIVE OFFICER

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

SHERATON CENTRE

SEPTEMBER 27, 1979

IN THE PAST, I HAVE RECEIVED ADVICE THAT, WHEN TALKING TO FINANCIAL ANALYSTS, I SHOULD NEVER SPEND MUCH TIME DWELLING ON HISTORY, BUT SHOULD EMPHASIZE WHAT I ANTICIPATE FOR THE FUTURE. IF YOU WILL PERMIT ME, I WANT TODAY, FOR AT LEAST A FEW MINUTES, TO GO AGAINST THAT ADVICE FOR THE FOLLOWING TWO REASONS: FIRST, THE TOTAL HISTORY OF B.C. RESOURCES IS JUST OVER TWO YEARS AND IS, THEREFORE, RELATIVELY BRIEF: SECOND, AND MUCH MORE IMPORTANT, THERE SEEMS TO BE DEVELOPING IN CANADA A BODY OF OPINION THAT FEELS A BCRIC SOLUTION WOULD BE APPROPRIATE AND A DESIRABLE OUTCOME IN THE PETROCAN DEBATE. I CERTAINLY DO NOT WANT TO OFFER MY OPINION ON THE QUESTION OF WHETHER "BRICKING" PETROCAN WOULD BE GOOD OR BAD, BUT ONLY WANT TO LET YOU, AND PEOPLE LIKE YOURSELVES, MORE CLEARLY UNDERSTAND HOW BCRIC CAME ABOUT AND WHAT IT IS TODAY, SO THAT YOU CAN HAVE A BETTER BASIS TO MAKE YOUR OWN JUDGEMENT AS TO ITS APPLICABILITY TO THE PETROCAN SITUATION.

B.C. RESOURCES WAS INITIALLY CONCEIVED TO BE A VEHICLE TO RETURN TO THE PRIVATE SECTOR CERTAIN INVESTMENTS WHICH WERE OWNED BY THE PROVINCE OF BRITISH COLUMBIA. THE GOVERNMENT WANTED TO AVOID THE CONFLICTS WHICH CAN ARISE WHERE IT HAD REGULATORY AUTHORITY OVER THE FOREST INDUSTRY, FOR EXAMPLE, AND YET HAD A DIRECT HOLDING IN SOME FORESTRY COMPANIES. IN SHORT, TO SEPARATE EXPLOITATION FROM REGULATION.

IN ADDITION, THE GOVERNMENT FELT THE PROCESS COULD PROVIDE A MECHANISM TO RAISE SOME BADLY NEEDED EQUITY CAPITAL THAT WOULD AT THE SAME TIME ENABLE ITS CITIZENS, WHO WERE WATCHING THEIR BANK DEPOSIT SAVINGS ERODE BY INFLATION, PARTICIPATE DIRECTLY, BUT INDIVIDUALLY, IN RESOURCE OWNERSHIP.

THE ARCHITECTS OF OUR CONCEPT PATTERNED BOTH THE UNDERLYING PRINCIPLES AND THE RESULTANT LEGISLATION VERY MUCH AFTER THE CANADA DEVELOPMENT CORPORATION AND THE ALBERTA ENERGY COMPANY.

SO, IN THE SUMMER OF 1977, THE GOVERNMENT PASSED INITIAL ENABLING LEGISLATION MUCH ALONG THE CDC AND AEC EXAMPLES. SHORTLY AFTER, THEY APPOINTED FIVE VERY PROMINENT BRITISH COLUMBIANS TO BE THE FOUNDING INCORPORATORS OF THE COMPANY AND ITS INITIAL DIRECTORS. THEY HAD ONE COMMON AND VERY SIGNIFICANT CHARACTERISTIC: THEY ARE ALL CHIEF EXECUTIVE OFFICER OF THEIR OWN HIGHLY SUCCESSFUL B.C. HEADQUARTERED PUBLIC COMPANY.

WHILE SOME OF THEM ARE NOT AS WELL KNOWN NATIONALLY AS OTHERS, ALL ARE VERY HIGHLY REGARDED IN B.C. THEY ARE: TREVOR PILLEY, CHAIRMAN OF THE BANK OF B.C.; JOHN PITTS, PRESIDENT OF OKANAGAN HELICOPTERS; JACK POOLE, PRESIDENT OF DAON DEVELOPMENT CORPORATION; CHUNKY WOODWARD, CHAIRMAN OF WOODWARD'S STORES; AND MAURY YOUNG, CHAIRMAN OF FINNING TRACTOR AND EQUIPMENT COMPANY.

INITIALLY, THIS GROUP DECIDED TO SPEND SOME TIME GRAPPLING WITH THE QUESTION OF OBJECTIVES, STRATEGIES, AND SO ON. THEY QUICKLY DECIDED THIS WAS NOT THEIR ROLE, BUT THAT THEY HAD TO FACE AT THE BEGINNING AND AS THEIR FIRST CONCERN, THAT WHICH MANY BOARDS LOSE SIGHT OF AS THEIR PRIME RESPONSIBILITY, THE SELECTION OF A CHIEF EXECUTIVE OFFICER.

I ONLY GO TO SUCH LENGTH ON THIS POINT TO UNDERSCORE THAT OURS IS A COMPANY WHERE THE BOARD CAME FIRST AND THE MANAGEMENT CAME SECOND AND NOT VICE VERSA, WHICH IS OFTEN THE CASE IN A MORE MATURE SITUATION. IT IS VERY CLEAR IN OUR CIRCUMSTANCES WHO REPORTS TO WHOM. I AM THEIR SELECTION AND AM FULLY ACCOUNTABLE TO THEM.

I WAS OFFERED THE OPPORTUNITY TO BECOME PRESIDENT AND CHIEF EXECUTIVE OFFICER AND BECAME THE FIRST BCRIC EMPLOYEE ON MARCH 1ST, 1978. THE COMPANY HAD BEEN INCORPORATED SIX DAYS EARLIER AND ON MARCH 6TH, WE ACQUIRED OUR FOUNDING ASSETS IN EXCHANGE FOR OUR ISSUANCE OF A PROMISSORY NOTE FOR 151½ MILLION DOLLARS. THOSE ASSETS WERE:

- 81 PER CENT OF CANADIAN CELLULOSE, A PUBLIC COMPANY AND A MAJOR PULP AND LUMBER PRODUCER IN THE PROVINCE.

- 100 PER CENT OF TWO MEDIUM-SIZED LUMBER PRODUCERS, KOOTENAY FOREST PRODUCTS AND PLATEAU MILLS, THE FORMER ALSO A PRODUCER OF SHEATHING PLYWOOD.

- 10 PER CENT OF THE SHARES OF WESTCOAST TRANSMISSION, A NATURAL GAS PIPELINE FIRM.

- AND, TO GIVE THAT "GRAB BAG" SOME SIZZLE, A LICENCE TO EXPLORE FOR GAS AND OIL ON SOME 2.3 MILLION ACRES OF LAND IN NORTHEASTERN BRITISH COLUMBIA.

THEN, WE WERE FACED WITH THE CONUNDRUM OF HAVING TO DECIDE HOW TO ACHIEVE INDIVIDUAL OWNERSHIP OF THE CORPORATION.

OUR FIRST CONCERN WAS THAT THE INVESTMENTS WE HAD, PROVIDED LITTLE OR NO CASH FLOW FOR DEBT SERVICE AND, IN ADDITION, WE WOULD REQUIRE FAIRLY SUBSTANTIAL CASH RESOURCES TO TAKE ADVANTAGE OF OUR POSITION IN THE GAS AND OIL EXPLORATION ACTIVITIES. OUR FURTHER CONCERN WAS THAT WE WERE ADVISED BY OUR DEALER-MANAGER GROUP THAT WE WOULD BE UNABLE TO SELL COMMON SHARES, PARTICULARLY TO BRITISH COLUMBIANS, THAT DID NOT CARRY A COMMITMENT TO DIVIDENDS. WHEN WE TRIED TO RECONCILE THESE CONCERNS INTO VARIOUS PRO FORMA CAPITALIZATIONS, IT BECAME CLEAR, THAT UNLESS THE GOVERNMENT WERE PREPARED TO GIVE US A SIGNIFICANT FREE CARRY ON A MAJOR PORTION OF THE 151½ MILLION DOLLAR NOTE, THEN THE CORPORATION WOULD NEVER GET OFF THE DRAWING BOARD.

THE PREMIER RECOGNIZED THAT TO AGREE TO THAT ASSESSMENT WOULD BE TANTAMOUNT TO GIVING THE CORPORATION AWAY, SO HE DECIDED TO DO JUST THAT, BUT TOTALLY AND EQUALLY TO ALL THE CITIZENS OF THE PROVINCE. THAT DECISION ALSO ELIMINATED THE TROUBLESOME QUESTION OF ASKING PEOPLE TO BUY BACK WHAT THEY ALREADY OWNED.

IN ORDER TO HAVE THE SHARES TO GIVE AWAY, THE GOVERNMENT AGREED TO EXCHANGE THE $151½ MILLION PROMISSORY NOTE IN FULL SETTLEMENT FOR 15 MILLION COMMON SHARES. OF THOSE 15 MILLION SHARES, THEY OFFERED TO GIVE 12 MILLION AWAY, OR FIVE EACH, TO EACH OF THE ELIGIBLE RESIDENTS. AT THE SAME TIME AS APPLICATIONS WERE TO BE RECEIVED FOR FREE SHARES, WE WOULD ACCEPT SUBSCRIPTIONS FOR FURTHER SHARES AT SIX DOLLARS EACH, TO BE ISSUED FROM OUR TREASURY, TO A MAXIMUM OF 5000 PER ELIGIBLE PERSON.

THIS TURN OF EVENTS WOULD ALSO REQUIRE FURTHER LEGISLATION TO AMEND OUR ACT, PRIMARILY BECAUSE WE WERE GOING TO ISSUE BEARER SHARES AND THERE WAS NO PROVISION FOR THAT IN THE B.C. COMPANIES ACT. BEARER SHARES WERE TO BE USED IN ORDER TO SAVE THE CORPORATION THE EXPENSE OF REGISTERING POTENTIALLY 2.4 MILLION SHAREHOLDERS. IN ORDER TO BE A REGISTERED, AND A VOTING SHAREHOLDER, ONE HAD TO PURCHASE A MINIMUM OF 95 OF OUR SHARES, TO BE ADDED TO THE FIVE FREE ONES IN ORDER TO QUALIFY.

THE DETAILED MECHANICS OF THE DISTRIBUTION ARE NOT GERMANE TO OUR DISCUSSION TODAY, BUT LOGISTICALLY IT WAS AN AWESOME AND EXPENSIVE UNDERTAKING. BECAUSE IT INVOLVED A POTENTIAL DISTRIBUTION TO 2.4 MILLION PEOPLE, IT REQUIRED THE UTILIZATION OF ALL THE FINANCIAL INSTITUTIONS IN THE PROVINCE. WITHOUT THE FULL PARTICIPATION OF THOSE INSTITUTIONS, INVOLVING SOME 1300 INDIVIDUAL LOCATIONS, THE JOB COULD NOT HAVE BEEN ACCOMPLISHED.

THE DISTRIBUTION AND THE SALE RESULTED IN 87 PER CENT OF THE ELIGIBLE POPULATION, OR TWO MILLION PEOPLE, APPLYING FOR THEIR FREE SHARES AND 130,000 OF THE INDIVIDUALS APPLYING TO BUY ONE HUNDRED OR MORE SHARES, YIELDING US GROSS PROCEEDS OF 487½ MILLION DOLLARS. INCIDENTALLY, ANOTHER 40,000 PEOPLE PURCHASED EXTRA SHARES, BUT NOT IN SUFFICIENT NUMBER TO BE QUALIFIED FOR REGISTRATION.

IN TOTAL, BCRIC HAS NOW 96¼ MILLION ISSUED SHARES, A LOT OF NEAR CASH ASSETS, AND A SHAREHOLDER LIST HIGHER THAN THIS PODIUM.

I KNOW OF NO SINGLE PERSON WHO GUESSED THE RESPONSE WOULD BE SO OVERWHELMING.

IN RETROSPECT, WE THINK THERE WERE A NUMBER OF FACTORS THAT PRODUCED SUCH ASTOUNDING RESULTS. <u>FIRST</u>, THE STOCK MARKET WAS BUOYANT AND A LOT OF PEOPLE WERE INTERESTED IN THE

MARKET GENERALLY, WITH GAS AND OIL INTEREST PARTICULARLY STRONG. SECOND, PEOPLE IN BRITISH COLUMBIA HAVE PRIDE IN THEIR PROVINCE, AND THEY RESPONDED VERY POSITIVELY TO THE CONCEPT OF A TOTALLY B.C. OPERATED AND DIRECTED COMPANY IN THE RESOURCE FIELD. THEY WANTED A CHANCE TO PUT THEIR MONEY IN A COMPANY LIKE BCRIC AND IT CERTAINLY APPEALED TO THE CHIP ON THE PROVINCE'S SHOULDER. THIRD, WAS THE PREMIER'S OWN PERSONAL SUPPORT OF THE ISSUE. FOURTH, THE BOARD OF DIRECTORS HAD GREAT PROVINCIAL CREDIBILITY. FIFTH, THE GENERAL MOMENTUM THAT THE ISSUE DEVELOPED AS PEOPLE READ ABOUT IT, TALKED ABOUT IT, AND LISTENED TO THE ADVICE OF PROFESSIONALS AS WELL AS THEIR FRIENDS AND NEIGHBOURS. THEY FELT IT WAS ATTRACTIVELY PRICED. AND FINALLY, OF COURSE, THERE WAS ALSO AN ELEMENT OF STRAIGHT SPECULATION BY PEOPLE ANTICIPATING A FAST, PROFITABLE TURN.

WHAT WERE THE IMPLICATIONS OF SUCH A RESPONSE TO OUR SHARE ISSUE? I DON'T MIND ACKNOWLEDGING THE FACT THAT THE BCRIC BOARD, AND ALL THOSE CONCERNED WITH THE ISSUE, SPENT SOME VERY NERVOUS DAYS, AND NIGHTS, BETWEEN LATE JUNE AND AUGUST 7TH, WHEN TRADING IN OUR SHARES WAS TO COMMENCE. NATURALLY, THERE WAS DELIBERATION ON THE QUESTION OF THE APPROPRIATENESS OF THE COMPANY DECLARING ITS INTENTION TO PROVIDE ASSISTANCE IN THE MAINTENANCE OF AN ORDERLY MARKET, SHOULD IT BE REQUIRED. HOWEVER, THE BOARD HAD THE COURAGE OF THEIR CONVICTION IN THE PRINCIPLE OF A FREE MARKET, AND IN OUR CIRCUMSTANCES, I MEAN FREE MARKET, AS THERE WAS NO MARKET MAKER, AND ELECTED NOT TO DECLARE INTENTION TO PROVIDE SUPPORT.

WHILE THAT DECISION DID TAKE COURAGE, IT WAS ALSO REINFORCED BY THE BELIEF THAT THE LARGE MAJORITY OF THE ORIGINAL PURCHASERS WERE LONG-TERM INVESTORS AND NOT SHORT-TERM SPECULATORS, AND THAT INDEED HAS NOW BEEN BORNE OUT.

FOR THE INVESTMENT COMMUNITY, I BELIEVE THE IMPLICATIONS OF OUR SHARE ISSUE ARE ALSO VERY SIGNIFICANT. ALMOST OVERNIGHT, SOME TWO MILLION PEOPLE IN B.C. HAVE BECOME OWNERS OF COMMON SHARES. THEY WILL NEED THE ASSISTANCE, ADVICE AND COUNSEL OF THE INVESTMENT COMMUNITY. THESE PEOPLE, HOPEFULLY, NOW HAVE THE FEELING THEY ARE OWNERS AND PARTICIPANTS.

LET ME MAKE TWO FINAL POINTS ABOUT BCRIC THAT RELATE TO THE "BRICKING" QUESTION AND THEN I'LL FOCUS ON WHERE I THINK WE ARE HEADED.

FIRST, BCRIC IS NOT RUN BY THE GOVERNMENT OF BRITISH COLUMBIA. THE GOVERNMENT NOW OWNS LESS THAN FIVE PER CENT OF BCRIC'S SHARES AND, WHILE THAT IS STILL THE LARGEST BLOCK, I CAN'T IMAGINE ANY GOVERNMENT GETTING INTO A PROXY BATTLE WHEN THE BALANCE OF THE OWNERSHIP IS ON SUCH A WIDESPREAD BASIS. WITH SO MANY OF THE CITIZENS OWNING OUR SHARES, THE GOVERNMENT IS OBVIOUSLY INTERESTED IN US AND OUR WELL BEING, PARTICULARLY AS WE ARE ALSO NOW POTENTIALLY A MAJOR ECONOMIC FORCE IN THE PROVINCE. BUT, WE HAVE NO FUNCTION NOR RESPONSIBILITY TO CARRY OUT ANY ASPECT OF GOVERNMENT POLICY OR DIRECTION OTHER THAN THAT EXPECTED OF ANY GOOD CORPORATE CITIZEN.

SECOND, B.C. RESOURCES HAS AS ITS PRINCIPAL OBJECTIVE THE MAKING OF PROFITS FOR ITS SHAREHOLDERS AND PROTECTION OF THEIR INVESTMENT. WE ARE NOT RESTRICTED TO OPERATING SOLELY IN BRITISH COLUMBIA, THOUGH OBVIOUSLY WE SEE SOME VERY EXCITING RESOURCE DEVELOPMENT POTENTIAL IN B.C.

WHAT ARE WE DOING NOW?

LET ME TELL YOU ABOUT OUR PERFORMANCE FOR THE FIRST SIX MONTHS OF THIS YEAR. TO JUNE 30TH, WE HAD CONSOLIDATED EARNINGS OF $14.2 MILLION ON SALES REVENUE OF $151.8 MILLION. THERE ARE NO FULLY COMPARATIVE FIGURES FOR LAST YEAR, SINCE WE ONLY COMMENCED BUSINESS IN MARCH, 1978. BUT THE RESULTS SHOW A SUBSTANTIAL IMPROVEMENT OVER THE OPERATING PERFORMANCE IN THE PRIOR PERIOD.

THESE RESULTS ARE GRATIFYING. BUT, BECAUSE OF THE SUBSTANTIAL INTEREST INCOME WE ARE NOW EARNING, AT A RATE OF OVER $1 MILLION A WEEK, WE OBVIOUSLY EXPECT OUR SECOND HALF EARNINGS TO BE CONSIDERABLY HIGHER. ALL OF THE CASH PROCEEDS OF OUR ISSUE ARE IN MONEY MARKET INSTRUMENTS, YIELDING WELL OVER 11 PER CENT. TO THE EXTENT THAT WE HAVE OIL AND GAS EXPENDITURES AND CAPITAL COST ALLOWANCES AVAILABLE AS A TAX SHELTER, WE HAVE AT LEAST INTERIM PROTECTION FROM INFLATION WHILE WE ASSESS LONGER-TERM DEPLOYMENT.

WE DID HAVE GENERALLY GOOD RESULTS FROM OUR FOREST PRODUCTS HOLDINGS DURING THE FIRST HALF BECAUSE OF STRONG LUMBER MARKETS AND STRENGTHENING PULP PRICES. BUT HIGHER THAN ANTICIPATED COSTS AT CANADIAN CELLULOSE'S PRINCE RUPERT PULP MILL, START-UP DIFFICULTIES AT OUR PLATEAU MILLS SAWMILL EXPANSION, AND A RAILCAR SHORTAGE ALSO HAD AN ADVERSE IMPACT ON OUR FOREST PRODUCTS EARNINGS.

I ANTICIPATE AN IMPROVEMENT IN OUR FORESTRY SECTOR EARNINGS FOR THE BALANCE OF THE YEAR, AS I BELIEVE, IN OUR CIRCUM-STANCES, INCREASES IN PULP PRICES WILL MORE THAN OFFSET THE EFFECT OF DECREASING LUMBER AND PLYWOOD PRICES.

OUR GAS AND OIL DIVISION CONTINUES TO MOVE AHEAD WITH ITS LONG-RANGE PLANS FOR EXPLORATION OF OUR LAND HOLDING IN BRITISH COLUMBIA. ALL OF THE ORIGINAL 2.3 MILLION ACRES COVERED BY OUR LICENCE HAVE NOW BEEN FARMED OUT TO 32 COMPANIES, COVERING COMPANIES LARGE AND SMALL, NATIONAL AND INTERNATIONAL. SOME OF THESE AGREEMENTS PROVIDE FOR DRILLING COMMITMENTS, WHILE OTHERS CALL FOR SEISMIC AND OTHER EXPLORATORY PROGRAMS LEADING TO AN OPTION TO DRILL. IF THE OPTION IS NOT EXERCISED, THE LANDS RETURN TO US SO THAT THEY CAN BE FARMED OUT TO SOMEONE ELSE.

IT WOULD TAKE MORE TIME THAN I HAVE TO PROVIDE YOU WITH DETAILS OF THE VARIOUS DEVICES WHICH HAVE BEEN USED IN THE FARM-OUT AGREEMENTS. THERE IS NO QUESTION THAT OUR LANDS WILL BE FULLY EXPLORED. WE WILL PARTICIPATE IN THE DEVELOPMENT AND DELINEATION OF ANY FIELD DISCOVERED BY OUR FARMEES, BUT ALL EXPLORATORY WORK, WHETHER IT TAKES ONE WELL OR TEN, WILL BE DONE BY THE FARMEE.

CURRENTLY, COMMITMENTS EXIST REQUIRING THE DRILLING OF EIGHT WELLS IN THE COMING WINTER SEASON ON OUR LICENSED LAND, WITH THE POSSIBILITY THAT AN ADDITIONAL 12 WELLS COULD RESULT, DEPENDING ON THE OUTCOME OF SEISMIC INTERPRETATIONS. FURTHER DRILLING COMMITMENTS EXTEND INTO BOTH 1981 AND 1982.

OUR GAS AND OIL DIVISION IS NOT FOCUSING ENTIRELY ON THE LICENSED LANDS, BUT IS EXPECTED TO DEVELOP HYDROCARBONS IN OTHER AREAS OF NORTH-EASTERN BRITISH COLUMBIA AND, FOR THAT MATTER, BEYOND THE BORDERS OF THE PROVINCE SHOULD PROSPECTIVE AREAS BECOME AVAILABLE. IN THIS CONNECTION, BY PARTICIPATING IN LAND SALES AND FARM-INS, AN ADDITIONAL 22,000 ACRES HAVE BEEN ACQUIRED IN ALBERTA AND AN ADDITIONAL 40,000 ACRES IN BRITISH COLUMBIA. THERE ALREADY IS DRILLING ACTIVITY UNDER WAY ON SOME OF THESE PARCELS.

ALTHOUGH THE ROUTE IS STILL SOMEWHAT TORTUOUS, WE ARE VERY PLEASED WITH THE PROGRESS OF BOTH FOOTHILLS PROPOSALS INVOLVING WESTCOAST TRANSMISSION. THEY WILL BE SIGNIFICANT ELEMENTS IN THE FORWARD PROGRESS OF THAT IMPORTANT INVESTMENT. I CONTINUE TO BE IMPRESSED BY THE REQUIREMENT FOR TENACITY AND DEDICATION TO PURPOSE IN THE ACHIEVEMENT OF OBJECTIVES IN THE HIGHLY REGULATED ACTIVITY OF ENERGY TRANSMISSION AND DISTRIBUTION. WE ARE WELL SERVED IN THAT REGARD AT WESTCOAST.

OBVIOUSLY, THE QUESTION MOST PEOPLE IN THE INVESTMENT COMMUNITY, AS WELL AS OUR SHAREHOLDERS, ARE ASKING IS WHAT WE'RE PLANNING TO DO WITH THE SUBSTANTIAL AMOUNT OF CASH WE HAVE AVAILABLE. AT THE MOMENT, WE'RE LOOKING AT SOME VERY INTERESTING PROSPECTS AND, ALTHOUGH I TRULY WISH I COULD ELABORATE, I CAN'T DISCUSS THEM TODAY BECAUSE IT WOULD BE IMPRUDENT TO DO SO.

THE EXTRAORDINARY SUCCESS OF THE PUBLIC OFFERING HAS BROADENED CONSIDERABLY THE SIZE AND SCOPE OF THE INVESTMENT CAPACITY OF BCRIC. IT IS NECESSARY, THEREFORE, TO CONTINUE TO WORK ON FUNDAMENTALS - THE DEVELOPMENT OF OBJECTIVES AND GOALS OF THE CORPORATION AND THE STRATEGY NECESSARY TO ACHIEVE THEM. WHILE A GREAT DEAL OF WORK HAS ALREADY BEEN DONE IN THIS AREA, THE MAGNITUDE OF THE PUBLIC OFFERING HAS NECESSITATED A REASSESSMENT. WE'RE COMMITTED TO MAKING THE RIGHT INVESTMENT DECISIONS ON BEHALF OF OUR SHAREHOLDERS, AND WE'LL TAKE THE TIME NECESSARY TO MAKE SURE WE DO SO.

IN THE MEANTIME, RUMOURS STILL ABOUND -- ABOUT THIS COMPANY BEING A TAKEOVER TARGET ONE DAY ... AND ANOTHER COMPANY THE FOLLOWING DAY. IN AUGUST, THE RUMOURS CONCERNING MACMILLAN BLOEDEL WERE SO PREVALENT THE TORONTO STOCK EXCHANGE ASKED US TO ISSUE A PUBLIC STATEMENT ABOUT OUR INTENTIONS ... WHICH, IN A GENERAL WAY, WE DID. THE TSE ASKED US PARTICU- LARLY ABOUT MB. BUT THEY UNDERSTOOD OUR POSITION THAT, WE COULD NOT START CONFIRMING OR DENYING SPECIFICS, OTHERWISE WE WOULD BE IN AN IMPOSSIBLE SITUATION VIS A VIS DOING THE RIGHT THING BY OUR SHAREHOLDERS.

AS THERE ARE SO MANY INTERESTING POSSIBILITIES OPEN TO US, THERE IS NO DOUBT THERE WILL CONTINUE TO BE SPECULATION FOR SOME TIME TO COME.

IN TERMS OF DECISIONS, HOWEVER, I CAN SAY THAT WE AS A COMPANY HAVE DECIDED TO INCREASE SIGNIFICANTLY OUR PRESENCE IN THE ENERGY FIELD IN WESTERN CANADA. I HAVE ALREADY MENTIONED OUR GAS AND OIL EXPLORATION ACTIVITIES. IN RECENT WEEKS, WE HAVE COMMITTED TO SUBSTANTIALLY INCREASED EXPLORA- TION EXPENDITURES, PRIMARILY BY EXTENDING OUR LAND POSITION AND BY FARM-INS WITH OTHERS. WE THINK THIS IS A BUSINESS OPPORTUNITY FOR BCRIC AND THAT WE HAVE THE EXPERTISE AND THE OPPORTUNITY TO PARTICIPATE IN A MAJOR WAY IN THIS ACTIVITY.

OVERALL, I BELIEVE B.C. RESOURCES IS VERY FAVOURABLY POSITIONED TO TAKE ADVANTAGE OF OPPORTUNITIES. WE HAVE EXCEPTIONAL LIQUIDITY THROUGH OUR SUBSTANTIAL INVESTMENTS IN THE MONEY MARKET AT CURRENT HIGH INTEREST LEVELS. AND OUR HORIZONS ARE BROAD IN TERMS OF POTENTIAL OPPORTUNITIES.

WE DO, HOWEVER, HAVE SOME GENERAL GUIDELINES WHICH WILL LIKELY DETERMINE MOST OF OUR MAJOR INVESTMENT DECISIONS. FIRSTLY, WE BELIEVE THE NATURAL RESOURCE SECTOR IS WHERE WE SHOULD BE. SECONDLY, WESTERN CANADA IS WHERE WE BELIEVE RESOURCE OPPORTUNITIES ABOUND, AND THAT'S GOING TO BE OUR MAJOR FOCUS. THIRDLY, ENERGY AND ENERGY RELATED FIELDS ARE KEY OPPORTUNITY AREAS AND THAT'S WHERE WE WANT BCRIC TO HAVE A PRESENCE.

IN RESPONSE TO MANY ENQUIRIES, LET ME TOUCH ON THE MATTER OF DIVIDENDS. WE INDICATED IN OUR PROSPECTUS THAT WE DID NOT ANTICIPATE MAKING DIVIDEND PAYMENTS IN THE NEAR FUTURE. IT IS POSSIBLE, HOWEVER, THAT THE BOARD MIGHT BE ABLE TO ADOPT A DIVIDEND POLICY SOONER THAN WE HAD EARLIER ANTICIPATED BECAUSE OF THE GREATER INVESTMENT FLEXIBILITY WE NOW HAVE. THIS DECISION, HOWEVER, WILL HAVE TO REMAIN DEPENDENT ON THE TYPES OF EARLY INVESTMENT THAT WE MAKE, AND OUR VIEW OF THEIR CAPACITY TO GENERATE THE CONSISTENT CASH FLOW REQUIRED TO SUPPORT A LONG-TERM DIVIDEND POLICY.

THAT'S WHAT IS HAPPENING AT BCRIC. WE HAVE BEEN PLEASANTLY SHOCKED, AND EXCITED, BY THE RESPONSE TO OUR SHARE ISSUE. WE HAVE A GREAT DEAL OF CASH, A LOT OF POTENTIAL LEVERAGE, AND A WIDE-OPEN HORIZON OF POSSIBILITIES BEFORE US. WE'RE NOW ENERGETICALLY, BUT PRUDENTLY, DEVELOPING OUR GOALS AND OBJECTIVES AND CONSEQUENT INVESTMENT STRATEGY. WITHIN THAT STRATEGY, WE'RE LOOKING AT SOME INTERESTING INVESTMENT OPPORTUNITIES, PRIMARILY IN THE RESOURCE AND ENERGY FIELDS. WE THINK THEY ARE VERY EXCITING, IN TERMS OF POTENTIAL, BUT WE'VE GOT SOME MORE HOMEWORK TO DO BEFORE WE REACH ANY CONCLUSIONS. I CAN SAY, HOWEVER, THAT THE OPPORTUNITIES AVAILABLE TO BCRIC ARE VERY CONSIDERABLE AND I EXPECT YOU WILL BE HEARING ABOUT SOME OF THESE IN THE NOT TOO DISTANT FUTURE.

NOW, I HAVE DESCRIBED THE CONCEPT BEHIND THE CREATION OF BCRIC, THE MANNER IN WHICH PUBLIC PARTICIPATION WAS OBTAINED AND HAVE TRIED TO GIVE YOU SOME INSIGHT INTO THE DIRECTION WE ARE HEADED AND THE OPPORTUNITIES OPEN TO US. IN PARTICULAR, I WILL LET YOU DECIDE FOR YOURSELVES WHETHER THE "BRICKING" OF PETROCAN WOULD BE APPROPRIATE.

SPEAKING OF OPPORTUNITIES, I UNDERSTAND THAT THIS IS THE END OF MY OPPORTUNITY, BUT THE BEGINNING OF YOURS, IN TERMS OF "HAVING AT ME" WITH QUESTIONS. I'LL DO MY BEST.

THANK YOU.

British Columbia Resources Investment Corporation
(Free Shares) Regulation

Interpretation

1. In this regulation,

"Act"

means the British Columbia Resources Investment Corporation Act;

"age"

means the age of an individual attained on his or her last birthday preceding June 16, 1979;

"attorney"

means a person appointed as the attorney of an applicant for shares of British Columbia Resources Investment Corporation by instrument in writing required by this regulation and who furnishes the identification required by the instrument or this regulation;

"authorized agents"

means the persons authorized to receive and stamp applications as provided by this regulation;

"corporation"

means British Columbia Resources Investment Corporation;

"eligible resident"

means a Canadian citizen or individual qualified to be a Canadian citizen who has applied for Canadian citizenship, and who

(a) has ordinarily resided in British Columbia for at least the immediately preceding 12 months, or has so resided since birth, or

(b) is

(i) a member of the Canadian Forces,

(ii) an agent-general, officer or servant of the Province,

(iii) performing services in a country other than Canada under a program of the Government of Canada, or

(iv) attending an educational institution outside of the Province,

and before his posting, appointment or attendance described in subparagraphs (i) to (iv) inclusive, has ordinarily resided in British Columbia for the preceding 36 consecutive months, or

(c) has ordinarily resided in British Columbia for at least 10 consecutive years before leaving the Province for not more than 60 months and who before January 1, 1979 has returned to and has resumed permanent residence in British Columbia, or

(d) is the spouse living with, or is the child under the age of 16 years of, an individual described in paragraph (b) (i), (ii), (iii), (iv) or (c);

"minister"

means the Minister of Finance.

Applications

2. (1) The Final Date for applications for free shares of the corporation is June 15, 1979 or such later date as the minister may, before that date, specify.

(2) The application form must be in Form A to this regulation and must be presented and stamped by an authorized agent on or before the Final Date.

(3) Applications may be presented at locations in British

This prospectus constitutes a public offering of these securities only in British Columbia.

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

New Issue

British Columbia Resources Investment Corporation

Common Shares

(without par value)

This offer is made only to individuals who have qualified for free common shares of British Columbia Resources Investment Corporation ("BCRIC") to be distributed by the Province of British Columbia as described under "Distribution of Free Common Shares" on page 23. This offer commences on March 15, 1979 and will expire on June 15, 1979 unless extended by BCRIC. Up to 5,000 common shares may be purchased, in integral multiples of five, by or in respect of each eligible resident of British Columbia. Bearer share certificates will be issued on all applications for less than 100 common shares. See "Plan of Distribution".

Price: $6.00 per share

No market has been established for the common shares of BCRIC, but application will be made to list the common shares on the Vancouver Stock Exchange. The offering price for the common shares was determined by BCRIC and the Province of British Columbia was notified of this price. BCRIC has agreed to pay an agents' commission of $0.25 per common share purchased pursuant to this offer. The net proceeds to BCRIC from this offer will be $5.75 per common share sold, before deducting expenses of issue payable by BCRIC estimated at $2,500,000. Other expenses common to the distribution of free common shares by the Province of British Columbia will be borne by the Province.

The common shares are not guaranteed in any manner by the Province of British Columbia or any other government, nor has any government any direct or indirect obligation with respect to them. The common shares are subject to certain risk factors as described under "Risk Factors Affecting Common Shares" on page 23. If a material change occurs during the offering period that makes untrue or misleading any statement of a material fact contained in this prospectus, an amendment will be filed with the Superintendent of Brokers of British Columbia.

These common shares are conditionally offered if, as and when issued by BCRIC subject to enabling legislation and the distribution of free common shares by the Province, all as more particularly set out under "Plan of Distribution" and "Details of the Offering".

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BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

British Columbia Resources Investment Corporation ("BCRIC") was incorporated under the Companies Act of British Columbia on February 22, 1978. The British Columbia Resources Investment Corporation Act (the "BCRIC Act"), which was proclaimed in parts on September 14, 1977 and March 9, 1978 and was amended on August 24, 1978, contains provisions relating to BCRIC, including conditions concerning the ownership and voting of its shares. Reference is made to "British Columbia Resources Investment Corporation Act" on page 21.

The head office and registered office of BCRIC is located at Suite 2600, 1177 West Hastings Street, Vancouver, British Columbia, V6E 3Y3.

Objective

The objective of BCRIC is to operate profitably and to maximize the value of BCRIC for the benefit of the shareholders through growth in earnings and asset values. BCRIC was established in part to encourage British Columbians to participate individually in equity investments based in British Columbia. The first efforts of BCRIC will be directed towards identifying additional investment or business opportunities within British Columbia which are consistent with its objective. However, BCRIC has the same unlimited investment opportunity available to it as any Canadian company and may vary or extend its investments in a manner that the directors believe will benefit the shareholders of BCRIC.

Dividend Policy

BCRIC has not paid dividends on its common shares and does not expect to pay dividends in the early years of its operation. All available funds are expected to be used by BCRIC to finance expansion and new investment until dividends from existing holdings improve or satisfactory cash returns are developed. This policy will be reviewed from time to time by the directors of BCRIC and any change in policy will be influenced by the level of earnings available for distribution in BCRIC, financial market and economic conditions in general, and the degree to which funds should be retained to finance internal requirements such as debt repayment, capital expenditures or working capital.

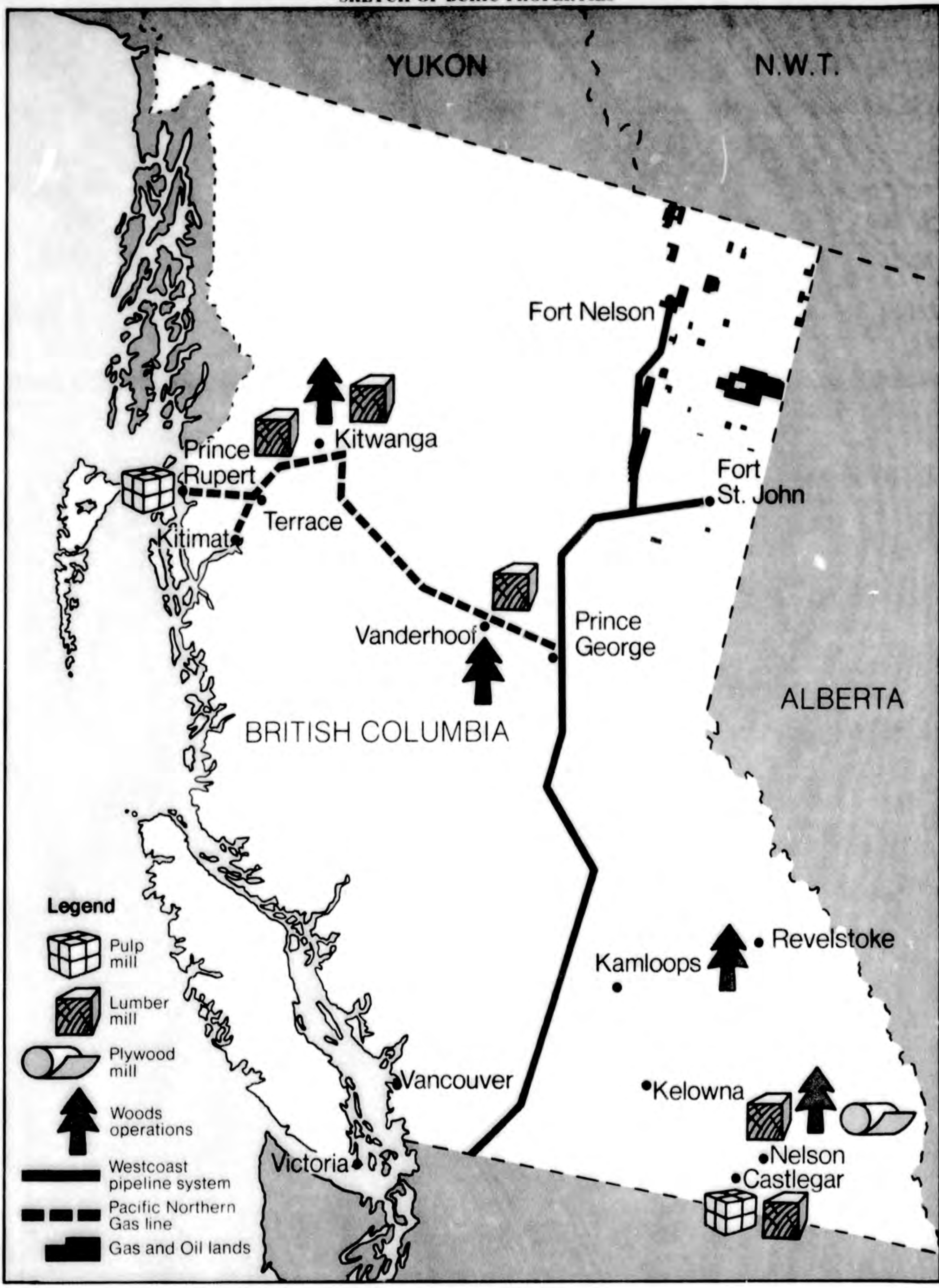
BUSINESS AND PROPERTIES OF BCRIC

BCRIC has to date acquired investments in the forest products industry, which involve the manufacture and sale of pulp, lumber and plywood, and in the energy industry, which involve the exploration, development and transmission of energy resources. The forest products investments consist of approximately 81% of the shares of Canadian Cellulose Company, Limited and all of the shares of Kootenay Forest Products Ltd. and Plateau Mills Ltd. The energy investments include a licence to explore for petroleum and natural gas over approximately 2.3 million acres of land located in northeastern British Columbia and approximately 10% of the common shares in Westcoast Transmission Company Limited.

These investments were acquired on March 9, 1978 from the Province of British Columbia at a transfer price of $151,532,930. As consideration for these interests BCRIC issued to the Province a non-interest bearing demand note which will be exchanged for 15,000,000 common shares of BCRIC. Reference is made to "Consolidated Capitalization", "Plan of Distribution" and Note 2 to the Consolidated Financial Statements.

Each of these investments is described in more detail below. However, BCRIC is not limited to these investments or industries and may invest in a broad spectrum of ventures. A sketch of the location of BCRIC's properties is presented on page 4.

SKETCH OF BCRIC PROPERTIES



FOREST PRODUCTS INVESTMENTS

CANADIAN CELLULOSE COMPANY, LIMITED

Canadian Cellulose Company, Limited ("CanCel") produces bleached softwood kraft pulp in British Columbia at Prince Rupert and Castlegar for sale in North America, Europe and the Far East. CanCel also manufactures lumber at Castlegar, Terrace and Kitwanga in British Columbia, for sale principally in North America.

CanCel's business had its origins in operations in British Columbia formerly controlled by Celanese Corporation of New York. These consisted of a sulphite pulp mill constructed near Prince Rupert in 1951, two bleached softwood kraft pulp mills, one constructed at Castlegar in 1961 and the other at Prince Rupert in 1966, and three sawmills at Castlegar, Terrace and Kitwanga. On June 29, 1973 the Province of British Columbia acquired 79% of the Common Shares and all of the 39,750 Non-Voting Shares of CanCel from Celanese Corporation in exchange for the Province's guarantee of $68,000,000 (U.S.) of First Mortgage Bonds of CanCel, formerly guaranteed by Celanese Corporation. There was no cash outlay by the Province. The remaining 21% of CanCel's Common Shares were received by the public and the Common Shares were listed on the Toronto, Montreal and Vancouver stock exchanges. In 1975 the Province acquired an additional 2% of the Common Shares from the public. In October 1976 production of sulphite pulp was discontinued.

Financial Summary

CanCel's net sales, earnings and dividends paid in each of the past five fiscal years ended December 31 were as follows:

	1978	1977	1976	1975	1974
			(in millions of dollars)		
Net sales	$175.5	$161.1	$177.6	$156.0	$191.5
Earnings before income taxes and extraordinary items	3.4	23.5	29.4	29.5	54.6
Provision for income taxes	.6	10.9	14.8	14.2	25.6
Earnings before extraordinary items	2.8	12.6	14.6	15.3	29.0
Extraordinary items (1)	4.0	4.7	11.5	12.2	21.9
Net earnings	$ 6.8	$ 17.3	$ 26.1	$ 27.5	$ 50.9
Dividends	$ 3.9	$ 3.9	$ 3.7	$ 3.7	$ 0.6

(1) In each of the years 1974 to 1977, the extraordinary item was a tax credit arising from prior years' losses. In 1978 the extraordinary item represented a reduction of provincial logging taxes of prior years due mainly to adjustment of tax depreciation claims.

CanCel's financial performance is dependent upon the demand for and supply of market pulp, the value of the Canadian dollar in terms of United States currency and, to a lesser extent, lumber prices. In the 1974 - 1976 period CanCel's results largely reflected a strong pulp market, offset in 1975 by low lumber prices and an industry-wide labour dispute and in 1976 by the closure of the sulphite mill and unfavourable foreign exchange. The pulp market weakened during 1977 and 1978. Earnings in 1977 were reduced by lower pulp prices, partially offset by fire insurance proceeds, foreign exchange gains and higher lumber sales and prices. A continuation of poor pulp prices into the third quarter of 1978 significantly lowered 1978 earnings. In addition, higher manufacturing costs at Prince Rupert associated with tie-ins and startup of the kraft pulp mill modification described under "Pulp Operations" below, failure of a turbo-generator, a major fire at the Castlegar sawmill and a disruption in operations and damage to logging roads and bridges caused by a severe winter flood in the northwestern region all contributed to the substantial earnings decline. Higher lumber prices and favourable foreign exchange partly offset these factors.

Sales and Marketing

CanCel's net sales by principal product, after deducting freight and delivery charges, in each of the last five years were as follows:

	1978	1977	1976	1975	1974
			(in millions of dollars)		
Kraft pulp	$126.0	$103.0	$112.1	$102.4	$106.7
Lumber	49.5	51.7	40.9	22.6	34.7
Sulphite pulp (1)	—	6.4	24.6	31.0	50.1
Total	$175.5	$161.1	$177.6	$156.0	$191.5

(1) Production of sulphite pulp was discontinued in October 1976.

The following table shows the geographic distribution of CanCel's net sales by principal product during the past five years:

	1978		1977		1976		1975		1974	
	(in millions of dollars)									
Pulp:										
Canada	—	—	$ 4.0	4%	$ 8.2	6%	$ 11.2	8%	$ 11.2	7%
United States	$ 33.5	27%	36.2	33	48.2	35	49.4	37	63.0	40
Europe	64.7	51	55.6	51	51.3	38	49.3	37	52.4	34
Far East	25.4	20	11.3	10	26.6	19	21.4	16	27.7	17
Other	2.4	2	2.3	2	2.4	2	2.1	2	2.5	2
	$126.0	100%	$109.4	100%	$136.7	100%	$133.4	100%	$156.8	100%
Lumber:										
Canada	$ 15.6	32%	$ 11.9	23%	$ 10.1	25%	$ 6.5	29%	$ 9.2	27%
United States	33.9	68	39.8	77	30.8	75	16.1	71	25.5	73
	$ 49.5	100%	$ 51.7	100%	$ 40.9	100%	$ 22.6	100%	$ 34.7	100%
Total	$175.5		$161.1		$177.6		$156.0		$191.5	

With the substantial completion of the kraft pulp mill modification at Prince Rupert in late 1978, CanCel has increased its kraft pulp capacity by approximately 35%. CanCel is susceptible to the cyclical demand and price trends of pulp markets as it lacks the product diversification and secondary manufacturing facilities of more integrated competitors. CanCel has attempted to minimize the effects of non-integration by negotiating longer term contracts and broadening its customer base. Approximately 90% of pulp production in 1979 and 1980 has been committed under contracts for fixed terms of between three and seven years, compared to virtually none before 1973. CanCel has broadened its customer base to more than 100 customers in 19 countries and operates sales offices in Vancouver, Montreal and Brussels.

Kraft pulp prices are principally determined by world market factors. CanCel's sales are based on its announced prices in force at the date of customers' requisitions, but some are subject to discounts based on volume and to meet competitive situations.

The principal market for pulp produced at Castlegar is the United States, where it is shipped by rail. Castlegar pulp also moves by rail to Vancouver for shipment to Southeast Asia, Europe and South America. Pulp manufactured at Prince Rupert is transported by bulk ocean carrier to Western Europe, the Mediterranean, China and Japan. CanCel maintains inventories at key distribution points in the United States and Europe.

All lumber is sold in the North American market by sales staffs at the Terrace and Castlegar sawmills.

Pulp Operations

The Prince Rupert pulp mill, located on Watson Island eight miles south of Prince Rupert, has a daily capacity of 1100 tonnes. In 1976 a modification project was undertaken which incorporated usable portions of the adjacent sulphite pulp mill into the kraft pulp mill and increased its capacity. The modified mill has been in a run-in phase since October 1978 and average daily production at Prince Rupert in the first two months of 1979 was 964 tonnes. The Castlegar pulp mill, completed in 1961, has a daily capacity of 515 tonnes.

Production of kraft pulp and sulphite pulp over the past five years was as follows:

	1978	1977	1976	1975(1)	1974
			(in thousands of tonnes)		
Kraft pulp					
Prince Rupert	195.6(2)	155.0(3)	200.5	143.3	194.2
Castlegar	171.2	164.0	164.8	126.2	176.7
Sulphite pulp					
Prince Rupert (4)	—	—	66.9	79.3	141.7

(1) Operations were suspended for 95 days due to a strike.

(2) Production was affected by power outages and the mill modification project.

(3) Production was affected by a shortage of chemicals due to a strike in the chemical industry and by a shutdown of approximately two months primarily for major improvements.

(4) Sulphite pulp production ceased in October 1976.

Lumber Operations

The Terrace sawmill produces annually 120 million board feet of dimension lumber and the Kitwanga mill, located on 22 acres of leased land, produces annually 40 million board feet of green dimension lumber. The Castlegar sawmill consists of a large log facility which produces annually 100 million board feet of lumber and a small log facility constructed in 1978 with an estimated annual capacity of 35 million board feet. The output of the Castlegar mill is approximately evenly divided between boards and dimension lumber.

On June 17, 1978 the Castlegar sawmill, including the just completed small log facility, was severely damaged by fire. Reconstruction of the sawmill was substantially completed in late 1978. Production from the large log facility reached approximately 80% of design capacity by the end of January 1979 and the small log facility commenced production in February 1979.

Production of lumber over the past five years was as follows:

	1978	1977	1976	1975(1)	1974
		(in millions of board feet)			
Terrace	122.5	127.2	111.8	66.6	93.6
Kitwanga	40.3	36.8	35.7	16.6	32.3
Castlegar	49.2(2)	94.0	102.5	83.9	116.8
	212.0	258.0	250.0	167.1	242.7

(1) Operations were curtailed by a labour dispute.

(2) Sawmill closed by fire on June 17, 1978.

Timber Resource

The Province of British Columbia owns approximately 95% of all forest lands in British Columbia and grants licences to harvest timber from these lands. CanCel holds tenure in the form of two tree farm licences ("TFLs") and three timber sale harvesting licences ("TSHLs"). Both TFLs were granted for terms of 21 years and were stipulated to be renewable. The present Forest Act, which came into force on January 1, 1979, provides that both TFLs will expire within the next five years and gives CanCel the right to replace them on expiry with new 25 year TFLs. A TFL grants to its holder the exclusive right to harvest timber from a designated area of forest land, under short term cutting permits, at a rate, called the "allowable annual cut" ("AAC"), that is calculated according to sustained yield forestry principles. The licensee is responsible for managing the licence area for timber production and forest renewal under the general supervision of the British Columbia Forest Service and has obligations respecting recreation, fish, wildlife and associated resources. Under its TFLs CanCel is obliged to pay to the Province annual rent, based on the AAC, and stumpage for timber harvested from the licence area. Stumpage rates fluctuate according to the market values of forest products, estimated logging, production and forest management costs and allowances for profit, risk and incentive.

TSHLs typically are for terms of ten years, although some are longer. The licensee is granted the right to harvest an AAC in a designated Public Sustained Yield Unit ("PSYU"), which is an area of forest land managed according to sustained yield forestry principles by the Forest Service. In almost all PSYUs harvesting rights are held concurrently by a number of licensees. The licence itself does not specify areas within the PSYU where the licensee will carry out his logging operations. Short term cutting permits are issued from time to time by the Forest Service to identify specific areas to be logged. The holder of a TSHL is obliged to pay annual rent, based on the AAC specified in the licence, and stumpage on timber harvested. The holder of a TSHL has the right to obtain a new form of tenure, a forest licence with a 15 year term, as a replacement for the TSHL when it expires or is surrendered.

The AAC authorized under an existing or replacement TFL, a TSHL or a forest licence may be reduced permanently by the Province if the licensee undercuts. Where the volume of timber actually harvested under the licence during a five year cut control period is less than the minimum volume required to be harvested during that period, the AAC may be reduced by as much as the deficiency. In the case of a TFL the Province may delete land from the licence area sufficient to account for the reduction in AAC or as an alternative grant timber sale licences in the TFL authorizing the reduction in the original holder's AAC to be harvested by others.

Northern Operations

CanCel harvests its wood supply for its northern operations (the Prince Rupert pulp mill and Terrace and Kitwanga sawmills) primarily from TFL No. 1 under which CanCel has exclusive cutting rights over certain forest lands in the Skeena and Nass river valleys in northwestern British Columbia During 1978 CanCel and the Province agreed to reduce the area of the TFL from approximately 2,300,000 productive acres to approximately 935,000 productive acres and the AAC from 72,000,000 cubic feet to 45,606,000 cubic feet. The licence expires in 1983 and CanCel has the right to a replacement TFL. The three TSHLs held by CanCel have an aggregate AAC of 16,200,000 cubic feet. CanCel also manages two TSHLs held by others with a combined AAC of 3,253,000 cubic feet. The sulphite pulp mill, which has now been phased out, required chips produced from roundwood at the mill whereas approximately 45% of the future requirements of the modified kraft pulp mill are anticipated to be supplied by residual chips produced as a lumber by-product by sawmills. CanCel believes that the reduced AAC for TFL No. 1, the AAC of the other tenures available to CanCel and purchased pulp logs and residual chips are sufficient to meet the requirements of its mills. Logs are transported to the mills by road, on the Canadian National Railway and by towed booms.

Interior Operations

TFL No. 23 grants CanCel cutting rights over approximately 968,000 productive acres of forest lands in the basin of the Columbia River. Timber from the TFL supplies logs for the Castlegar sawmill, which in turn supplies residual chips to the adjacent pulp mill. The balance of the requirement of the pulp mill is met by purchasing residual chips from other sawmills in the area and from pulp logs from the TFL. Logs are transported by truck to dumps along the Columbia River below Revelstoke and are towed to the mills in log booms. The construction of the Revelstoke Dam, two miles north of Revelstoke on the river, will affect log transport from the north block of the TFL. The conditional licence issued by the Comptroller of Water Rights to British Columbia Hydro and Power Authority ("B.C. Hydro") for the dam authorizes provision for such log handling facilities as the Comptroller may order.

In 1978 the Province amended TFL No. 23 to provide for licences to an independent sawmill operator to harvest timber in a designated area comprising approximately 112,000 productive acres of the TFL. Such a licence has been granted with an AAC of 5,660,000 cubic feet, effectively reducing CanCel's AAC from 41,500,000 cubic feet to 35,840,000 cubic feet in 1979. CanCel believes that this reduced AAC and available log inventory will provide sufficient wood for the mills in 1979 because the sawmill has not yet reached full production and CanCel is entitled to cut up to 50% in excess of the AAC in one year. When the sawmill achieves full production, CanCel believes that it will require approximately 46,000,000 cubic feet of AAC under the TFL to maintain full production at its mills. TFL No. 23 expires on December 31, 1979 and CanCel has the right to a replacement TFL. The AAC under the replacement TFL has not yet been determined, but will be based on the latest independent inventory of the TFL made in 1975. In CanCel's opinion this inventory substantiates an increase in the AAC for the TFL and CanCel anticipates that, subject to the concurrence of the Minister of Forests, its AAC will be increased under the replacement TFL to meet its wood requirements.

Employee Relations

CanCel employs approximately 2,700 people, of whom approximately 2,200 are represented by industrial unions. There are ten collective agreements involving four unions, the International Woodworkers of America (the "IWA"), the Pulp, Paper and Woodworkers of Canada (the "PPWC"), the British Columbia Government Employees Union, and the Canadian Merchant Service Guild, which directly affect CanCel's operations. The IWA is the certified bargaining agent for approximately 1,080 employees engaged in logging and sawmill activities and the PPWC bargains for approximately 1,025 employees at the pulp mills. Negotiations with the IWA and the PPWC are conducted on an industry-wide basis in British Columbia through employers' organizations of which CanCel is a member. Both unions are operating under two year contracts which were negotiated under federal anti-inflation controls without work stoppages and expire in June 1979.

In July 1975 a Province-wide pulp and paper workers' strike shut down CanCel's pulp mills. This strike also forced curtailment of CanCel's logging and sawmill operations. The strike continued until mid-October 1975 when the Province enacted "back-to-work" legislation. Operations may be affected by work

stoppages in other industries on which CanCel depends, such as the chemical, towboat, shipping and rail transportation industries. In early 1977, the pulp mill at Prince Rupert was shut down for about 20 days due to a shortage of chemicals caused by a strike in the chemical industry.

Environment

In the forest products industry, pollution control is primarily regulated provincially under the Pollution Control Act, 1967 and federally under the Fisheries Act and the Clean Air Act. CanCel's operations do not currently comply with certain requirements of its permits and pollution control standards. CanCel is modifying its facilities to comply with some of the requirements and is evaluating alternatives for compliance with others.

During the last five years CanCel has expended approximately $6,200,000 on projects involving pollution abatement. In addition the modification project at Prince Rupert avoided pollution abatement requirements for the sulphite mill which were estimated in 1975 to cost $80,000,000. CanCel estimates that it may be required to expend during the period 1979 to 1987 approximately $40,000,000 (in 1978 dollars) primarily to meet existing and anticipated pollution control requirements. The specific facilities required and the amounts and timing of expenditures have not been determined and will be subject to the requirements of regulatory authorities and approval by CanCel's directors.

Additions to Property, Plant and Equipment

Capital expenditures on property, plant and equipment during the five fiscal years ended December 31, including expenditures on roads to the extent not offset against provincial stumpage payments, were as follows:

	1978	1977	1976	1975	1974	Total
			(in millions of dollars)			
Logging	$ 4.8	$ 7.2	$ 4.5	$ 9.9	$ 7.9	$ 34.3
Lumber	7.9	2.5	0.5	1.1	3.5	15.5
Pulp	67.6	68.0	22.2	3.9	3.2	164.9
Other	0.1	0.2	0.3	—	—	0.6
Total	$80.4	$77.9	$27.5	$14.9	$14.6	$215.3

Included in the above table are $133,000,000 of construction costs and $11,800,000 of interest and other capitalized costs relating to the modification of the pulp mill at Prince Rupert, $7,400,000 relating to the new small log facility at the Castlegar sawmill, and $22,100,000 relating to logging roads net of stumpage offsets. The balance relates mainly to logging operations, pollution abatement and plant replacement and improvement.

CanCel has planned capital expenditures of $12,600,000 in 1979 for additions to property, plant and equipment including an estimated $2,200,000 to complete the pulp mill modification. In addition expenditures of approximately $7,000,000 will be made in 1979 for logging roads, part of which will be eligible for stumpage offset. The planned expenditures may be increased as described under "Environment".

Energy

CanCel utilizes hydro-electric power, natural gas, petroleum products and hog fuel in its manufacturing processes. Natural gas, the price of which is set by the British Columbia Energy Commission, is supplied through pipelines to Prince Rupert and Terrace by Pacific Northern Gas Ltd. and to Castlegar by Inland Natural Gas Co. Ltd. Oil is supplied to Prince Rupert by barge and to Castlegar by rail. At Prince Rupert and Castlegar, part of CanCel's electrical energy requirements is met from its own steam driven turbo-generators and the balance is supplied at Castlegar by Cominco Ltd. and at Prince Rupert by B.C. Hydro. It is expected that a recent connection to the Peace River generating facilities through the provincial power grid will reduce disruptions in the supply of purchased power to Prince Rupert.

Investment

CanCel has a 24% interest in Babine Forest Products Limited ("Babine") which owns a sawmill, opened in 1975, at Burns Lake in the central interior of British Columbia. The sawmill's annual production is 100 million board feet of dimension lumber and 24% of its residual chips are committed for sale to CanCel's Prince Rupert pulp mill. In 1978 CanCel's equity in Babine's net earnings amounted to $1,230,000.

KOOTENAY FOREST PRODUCTS LTD.

Kootenay Forest Products Ltd. ("Kootenay") commenced sawmill operations in 1952 at Nelson in the Kootenay Lake area of British Columbia. In 1967 a plywood plant was added to the sawmill operations. In 1974 Kootenay was acquired by the Province of British Columbia.

Kootenay's net sales and earnings in each of the fiscal periods from 1975 to 1978 inclusive were as follows:

	12 months ended December 31		10 months ended December 31	12 months ended February	
	1978	1977	1976	1976	1975
			(in thousands of dollars)		
Net sales	$28,560	$21,522	$16,031	$15,263	$12,385
Earnings (loss) before extraordinary items (1) (3)	3,896	(11)	530	601	(4,210)
Extraordinary items (2)	—	848	—	84	1,284
Net earnings (loss) (3)	$ 3,896	$ 837	$ 530	$ 685	($2,926)

(1) Kootenay received a non-interest bearing advance of approximately $11.6 million from the Province in March 1974. This advance was repaid in March 1978 out of the proceeds of an issue of common shares to the Province. As part of these arrangements Kootenay agreed to transfer certain of its freehold lands to the Province.

(2) Gains arising on sale of private land to the Province.

(3) No provision has been made for income taxes as Kootenay has been exempt since March 1974 due to its status as a Crown corporation. Kootenay will lose this exemption in 1979.

Strong demand and higher prices for both plywood and lumber in 1978, the beneficial effects of the substantially lower value of the Canadian dollar in terms of U.S. currency, and improved productivity combined to increase Kootenay's sales and earnings over previous years. These favourable factors were partially offset by higher operating and stumpage expenses.

Business of Kootenay

Kootenay carries on logging operations primarily through independent contractors and operates a sawmill, a plywood plant and related facilities in Nelson on approximately 30 acres of land and nine acres of leased foreshore lots served by two railway lines. The sawmill has an annual capacity of 55 million board feet of dimension lumber and the annual capacity of the plywood plant is 570 million square feet (1/16th inch) of sheathing plywood.

Production, sales volumes and sales revenues by product for the past five years were as follows:

	Twelve months ended December 31				
	1978	1977	1976	1975	1974
Lumber					
Production (MMFBM)	52.2	52.8	38.8	25.2	32.1
Sales volume (MMFBM)	54.4	51.1	37.7	29.5	34.0
Sales revenue (millions)	$12.8	$9.9	$6.2	$3.9	$5.1
Plywood					
Production (MMSF 1/16") (1)	530.7	504.4	552.4	452.1	412.9
Sales volume (MMSF 1/16")	533.3	500.5	554.5	466.2	413.0
Sales revenue (millions)	$15.7	$11.6	$13.1	$9.9	$7.9

(1) Includes purchased veneer.

(2) MMFBM means millions of board feet and MMSF 1/16" means millions of square feet on a 1/16 inch basis.

Inadequate log supply resulted in curtailed production in 1974 and 1975. Increased expenditures on logging and road construction together with sawmill modifications have led to increased sawmill production.

Kootenay's lumber and plywood production is marketed by its own sales staff at Nelson. Lumber is sold primarily to wholesalers and is shipped by both rail and truck. In 1978, approximately 22% of lumber

was sold in Canada and 78% in the United States. The majority of Kootenay's plywood is transported by rail and sold in Eastern Canada. In 1978, 90% of plywood was sold to Canadian purchasers and 10% was exported.

Kootenay also sells wood chips to CanCel's pulp mill at Castlegar and to Georgia-Pacific Corporation in Bellingham, Washington. In 1978, wood chip sales revenues were approximately $959,000.

Kootenay employs approximately 500 people of whom 82% are union members represented by the IWA. The present collective agreement, which was negotiated under federal anti-inflation controls, expires on June 30, 1979. Collective bargaining is conducted by the Interior Forest Labour Relations Association which represents Kootenay and other forest industry employers in the southern interior region. Kootenay may be affected by work stoppages in other services on which it depends such as transportation.

Kootenay is subject to various environmental protection laws and regulations and is currently installing emission control devices at an estimated cost of $200,000 to meet provincial requirements. Additional expenditures to meet environmental protection requirements in 1979 are projected to be $160,000.

Timber Resource

Kootenay holds two TSHLs expiring in 1981 and 1982 which it expects to replace with a forest licence having a 15 year term. The present AAC is approximately 12,600,000 cubic feet. The timber consists of many species and contains a high proportion of small, over-mature and decadent trees. Harvesting operations are conducted in steep terrain at relatively long distances from conversion facilities resulting in high raw material costs. Logs are transported by truck and by towing on Kootenay Lake.

In previous years Kootenay has logged its private timberlands to supplement its AAC by between 900,000 and 3,200,000 cubic feet per annum. These private lands were recently transferred to the Province. Kootenay retains harvesting rights on these lands and is preparing a plan for logging operations over a maximum of twenty years. Kootenay anticipates continuing to cut approximately 1,200,000 cubic feet per year for its mills from these lands.

Kootenay's conversion facilities annually require approximately 14,500,000 cubic feet of timber composed of 7,500,000 cubic feet of peeler logs and 7,000,000 cubic feet of saw logs. Logging operations have generally yielded an insufficient supply of peeler logs and an excess of small saw logs. To overcome this wood imbalance, Kootenay has had to purchase peeler logs. As a result of inadequate log handling and log preparation facilities it has also had to purchase green veneer. Both these problems have contributed to excessive saw log inventory. Kootenay expects to continue to depend upon purchases of between 3,500,000 and 4,500,000 cubic feet of peeler logs per annum for the foreseeable future as well as purchasing varying quantities of veneer.

Kootenay has increased expenditures on roads to improve its access to timber stands with a higher peeler log content. Continued substantial expenditures are anticipated because of the imbalance between Kootenay's timber resources and its conversion facilities.

Capital Expenditures

Total capital expenditures during the five years ended December 31, 1978, including expenditures on roads to the extent not offset against provincial stumpage payments, were as follows:

1978	1977	1976	1975	1974
		(in thousands of dollars)		
$1,515	$1,996	$2,317	$2,256	$1,464

Capital expenditures in recent years have been directed primarily to renovation of the sawmill in 1975 and 1976 and development of logging roads. BCRIC and Kootenay are studying plans to adapt facilities for better use of the timber resource and to improve log handling and log preparation. These plans, if implemented, would increase sawmill capacity, reduce inventory and eliminate purchases of veneer. Current projections for such expenditures through 1980 amount to approximately $10 million. In addition Kootenay expects to spend an average of $1.7 million annually, before stumpage offsets, over the next three years on road development to provide access to better stands of timber suitable for plywood manufacture as well as

to increase the supply of harvestable timber. Roads currently developed permit access to sufficient timber which, together with purchases of peeler logs and veneer at present levels, will supply present mill requirements for approximately one and one-half years.

PLATEAU MILLS LTD.

Plateau Mills Ltd. ("Plateau"), incorporated in 1967, has sawmill operations at Engen, twelve miles west of Vanderhoof, British Columbia. The Province of British Columbia acquired control of Plateau in 1973 and the remaining minority interest in 1974.

Plateau's net sales and earnings in each of the past five fiscal years ended December 31 were as follows:

	1978	1977	1976	1975	1974
		(in thousands of dollars)			
Net sales	$28,224	$21,826	$11,573	$8,624	$9,385
Earnings (loss) before extraordinary item (1)	4,432	4,378	1,937	68	(316)
Extraordinary item (2)	—	—	—	—	229
Net earnings (loss) (1)	$ 4,432	$ 4,378	$ 1,937	$ 68	$ (87)

(1) Plateau has been exempt from income taxes since 1974 due to its status as a Crown corporation. Plateau will lose this exemption in 1979.

(2) Reduction of deferred income taxes upon acquiring status as a Crown corporation.

Plateau's results in 1978 compared to 1977 were favourably affected by strong demand and higher prices for lumber, as well as by exchange gains resulting from the lower value of the Canadian dollar. Earnings were affected adversely by higher stumpage, logging and operating costs and by marketing and productivity problems.

Business of Plateau

Plateau operates two sawmills and related facilities in Engen on its 1,080 acre site adjacent to the Canadian National Railway and the Yellowhead Highway. The older mill, constructed in 1970, handles larger diameter logs and the newer mill, constructed in 1976, handles small logs. The combined annual capacity of these mills is 149 million board feet of dimension lumber. The newer mill is being expanded so as to be able to process both small and large logs. Upon completion of the expansion in March 1979, the older mill will be phased out. The designed annual capacity of the expanded mill is 156 million board feet. Plateau anticipates a reduction of unit costs and an improvement in timber utilization as a result of the expansion.

Lumber production and sales volumes for the past five years ended December 31 have been as follows:

	1978	1977	1976	1975	1974
		(in millions of board feet)			
Production	133.9	142.6	95.5	66.8	86.3
Sales	141.7	138.4	89.3	82.3	84.7

Plateau's sales staff at Engen markets its lumber to wholesalers, retailers and industrial users. In 1978, approximately 6% was sold in Canada and 94% in the United States. Wood chips are sold to Prince George Pulp and Paper Ltd. In 1978 wood chip sales revenues amounted to $2,068,000.

Plateau employs approximately 330 full-time employees of whom 85% are represented by the IWA. The collective agreement which was negotiated under federal anti-inflation controls expires on August 31, 1979. Collective bargaining is conducted by the North Cariboo Forest Labour Relations Association on behalf of Plateau and many of the forest employers in the northern interior region. Shortages of skilled labour and a high turnover rate have adversely affected productivity. Plateau expects that the improvement in working conditions associated with the sawmill expansion will reduce turnover.

Plateau depends on outside sources for transportation of lumber products and for supply of energy. Plateau is pioneering a wastewood burner as a heat source for two of its six kilns used for drying lumber. If this process is commercially successful, Plateau will significantly reduce natural gas purchases.

Plateau is subject to various environmental protection laws and regulations. Plateau believes its operations are generally in compliance with all requirements.

Timber Resource

Plateau holds three TSHLs and one timber sale licence with a total AAC of 26,468,000 cubic feet and annually harvests approximately another 720,000 cubic feet under a private agreement. Licences for 63% of the AAC have been extended under the new Forest Act to expire in 1981 and the other licences expire in 1988. Plateau intends to replace its existing licences with a forest licence having a term of 15 years.

Plateau's timber consists of accessible stands of lodgepole pine, spruce and balsam fir. Most logging operations and log transport are carried out by independent contractors. Plateau does not foresee any shortage of suitable wood for its existing facilities.

Capital Expenditures

Total capital expenditures during the past five years ended December 31, including expenditures on roads to the extent not offset against provincial stumpage payments, have been as follows:

1978	1977	1976	1975	1974
		(in thousands of dollars)		
$8,814	$4,291	$4,069	$4,537	$2,750

This table includes approximately $6.3 million relating to construction of a new sawmill completed in November 1976 and $5.7 million relating to the current mill expansion. Road expenditures in recent years have been increased to support the increase in production. Existing logging roads provide access to sufficient timber to supply the present mill requirements for approximately four years. Plateau anticipates that total capital expenditures in 1979 will be approximately $4.5 million, including about $2 million for the sawmill expansion and log yard improvements.

ENERGY INVESTMENTS

GAS AND OIL DIVISION

On March 9, 1978, the Province of British Columbia issued to BCRIC a petroleum and natural gas licence (the "Licence") under which BCRIC has the exploration rights described below covering 2,343,667 acres of unproven and undeveloped land in northeastern British Columbia ("the Licenced Lands"). BCRIC paid $40,896,043 for the Licence. The location of the Licenced Lands is illustrated on the map on page 15.

The Licence

The Licence stipulates that BCRIC may undertake geological and geophysical methods of exploratory work, alone or in conjunction with others, but may not drill, in its own right, exploratory wells for petroleum and natural gas on the Licenced Lands. In order to drill and prove potentially productive geological horizons, farmout agreements must be negotiated with third parties who undertake the drilling operation on behalf of themselves and BCRIC. This provision ensures that the oil and gas industry will have the opportunity to participate in the exploration and development of the Licenced Lands.

During the five year term of the Licence, BCRIC has the exclusive right to receive petroleum and natural gas permits from the British Columbia Ministry of Energy, Mines and Petroleum Resources for any portion of the Licenced Lands which will be evaluated under a farmout agreement. Each permit will cover a land area specified by BCRIC in its application and will be issued for a term of eight years where the permit relates to blocks designated "A" on the map on page 15 or for a term of ten years where the permit relates to blocks designated "B" on the same map. The Licence makes provision for the renewal of a permit for a five year term if a subsequent agreement is entered into for further exploration. Land under permit may be surrendered by BCRIC at any time subject to outstanding farmout agreements.

The right to produce from the Licenced Lands may be granted by way of leases issued pursuant to the Petroleum and Natural Gas Act, 1965 of British Columbia (the "PNG Act") after a well has been drilled. The area covered by these leases will be determined by the geographical location and depth of the well and its capability of producing.

Most of the provisions of the PNG Act and the regulations thereto will apply to BCRIC under the terms of the Licence. However, there are provisions of the Licence which supersede provisions of the PNG Act, including reduced rentals, the elimination of work obligations while under permit and enhanced lease entitlements.

The properties included in the Licenced Lands were valued in a report dated February 15, 1978 and prepared for the Minister of Energy, Mines and Petroleum Resources of British Columbia by D & S Petroleum Consultants (1974) Ltd. and D & S Geological Services Ltd. of Calgary, Alberta and London, England. The report set out appraised values for each of the tracts of land comprising the Licenced Lands and established a total value for the Licenced Lands of $40,896,043 or an average price of $17.45 per acre ($43.11 per hectare). (A hectare is a metric unit of area which equals 10,000 square metres or 2.471 acres.) Because much of the Licenced Lands was remote from exploration activity in 1977, the valuation was based on a variety of factors including the results of recent land sales in the area, prevailing land prices for unproven wildcat acreage, the results of drilling on offsetting lands which might indicate reservoirs which could be encountered on the Licenced Lands, and the general level of exploration activity in the area.

Industry Price and Drilling Statistics

As BCRIC has no existing production or established oil and gas reserves on the lands managed by it, the following statistical information is provided in connection with land value and drilling activity trends in British Columbia. The bonuses paid on the sale of Crown reserve petroleum and natural gas rights for each of the last five years by type of disposition are set out below.

Crown Reserve Disposition Bonuses

	1978	1977	1976	1975	1974
	(in millions of dollars)				
Permits	$ 49.5	$ 60.0	$27.5	$ 6.6	$15.4
Drilling reservations	64.5	30.6	6.2	2.7	2.7
Leases	63.5	34.8	9.5	3.4	4.9
Total	$177.5	$125.4	$43.2	$12.7	$23.0

During 1978, monies paid by the oil and gas industry to acquire petroleum and natural gas permits covering British Columbia Crown lands amounted to $49.5 million or $61.14 per acre, which compared to a total of $60.0 million in 1977 on significantly more land area for an average of $38.31 per acre. While the rights obtained by BCRIC under the Licence are not directly comparable to any of the disposition categories shown above, the bonus amounts realized on permit dispositions represent most closely the trend in values which might apply to the Licenced Lands.

The following table sets out a review of drilling activity and results over the past five years in British Columbia.

Drilling Activity in British Columbia

	1978	1977	1976	1975	1974
Oil wells	72	38	13	2	6
Gas wells	201	165	95	31	51
Dry holes	129	118	71	44	84
Servicing and standing wells	6	7	5	4	6
Total wells completed	408	328	184	81	147

Operating Strategies

BCRIC opened a Gas and Oil Division office in Calgary in June 1978. A small staff of experienced professionals is pursuing the following operating strategies and priorities for the Gas and Oil Division:

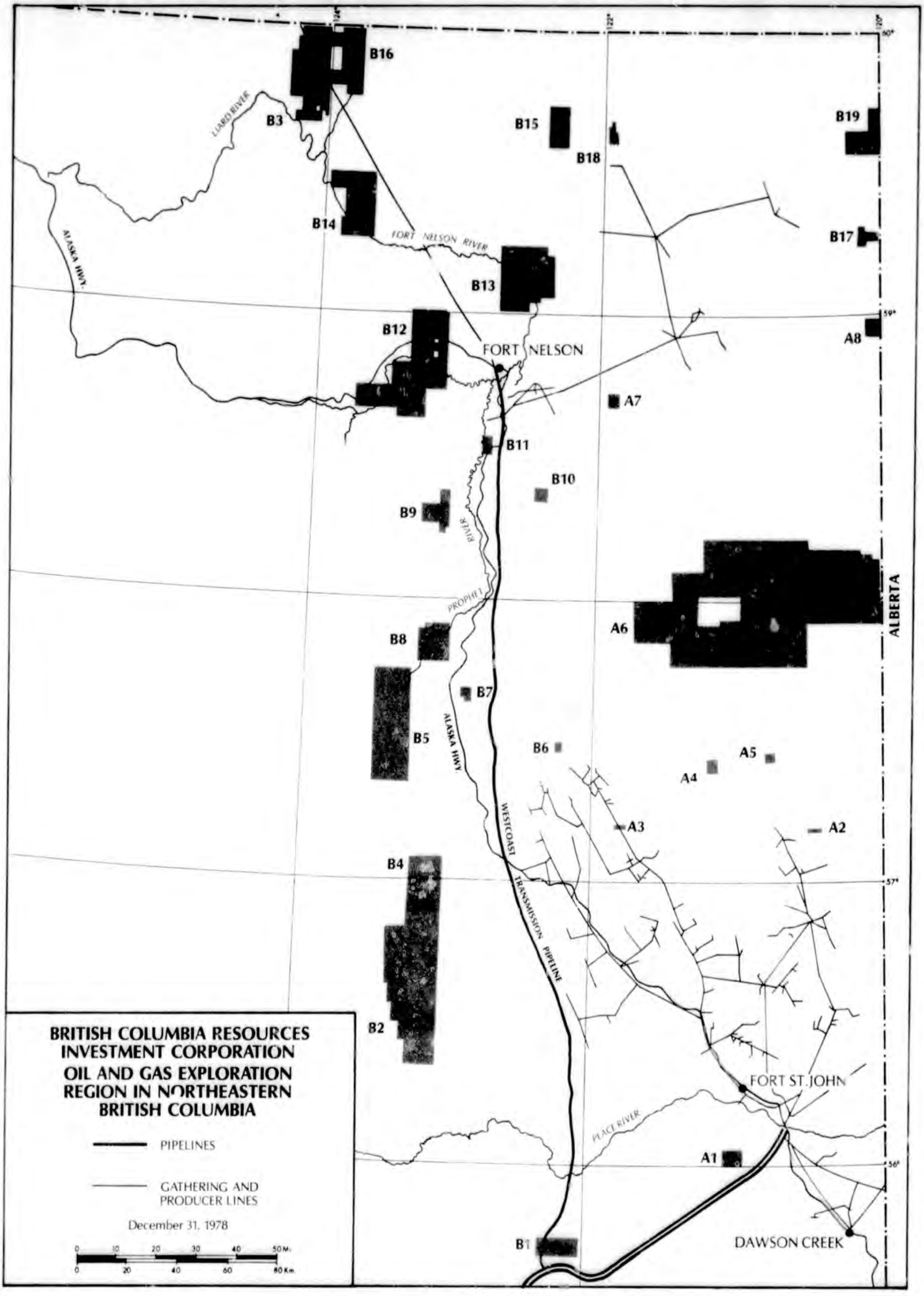
— to negotiate farmout agreements requiring farmees to provide all exploratory funds for seismic and drilling activity on Licenced Lands so that these lands are fully and expeditiously explored;

— to participate fully in development activity with others on the Licenced Lands;

— to pursue exploration prospects on other than Licenced Lands;

— to acquire selectively both semi-proven and unproven acreage in order to offset the dilution of BCRIC's land inventory which results from farmout agreements on the Licenced Lands; and

— to pursue opportunities to acquire interests in producing properties.



BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION
OIL AND GAS EXPLORATION REGION IN NORTHEASTERN BRITISH COLUMBIA
PIPELINES
GATHERING AND PRODUCER LINES
December 31, 1978
B16
B3
LIARD RIVER
B15
B18
B19
B14
FORT NELSON RIVER
B17
ALASKA HWY.
B13
B12
FORT NELSON
A8
A7
B11
B10
B9
RIVER
PROPHET
A6
ALBERTA
B8
B7
B5
ALASKA HWY.
B6
A5
A4
WESTCOAST
A3
A2
TRANSMISSION
PIPELINE
B4
B2
FORT ST. JOHN
PEACE RIVER
A1
B1
DAWSON CREEK

Farmout Agreements

All farmout agreements negotiated to date essentially provide that the third party farmee absorb all costs of exploratory activities on the Licenced Lands, although BCRIC has undertaken some minor seismic programs for control purposes on Licenced Lands prior to farmout. In addition, each farmee must drill one or more wells to a prescribed depth to earn a 50% interest in any leases which may issue from a permit. The interest earned extends down only to the depth or geological horizon penetrated by the well. Since a field discovered on Licenced Lands may extend to adjacent areas, another feature of most agreements is that an area of mutual interest is established covering the petroleum and natural gas rights on land adjacent to the farmout block. BCRIC will attempt to protect its interest in the related lands by participating with its farmee in any subsequent development work.

Twenty-two of the twenty-seven blocks comprising the Licenced Lands have been committed to farmout agreements, although formal agreements have not been signed in every case. Over 89% of the Licenced Lands are covered by these commitments. To this date in negotiations, farmees are obligated to conduct a minimum of 1,460 kilometres of seismic and to drill 18 wells over the next three and one-half years. Farmees on commitments negotiated to date include a broad range of experienced exploration companies.

Block A-6, the largest block in the Licenced Lands consisting of 905,019 acres, was divided into eleven parcels and farmed out to a number of operators in order to generate more concentrated exploration activity. One parcel has been retained by BCRIC. Some of the operators on Block A-6 have subsequently joined with others to explore jointly on this land. Approximately 550 kilometres of seismic line and nine wells have been committed on this block.

Drilling Activity

Four of the wells referred to above under "Farmout Agreements" are being drilled in the 1978-1979 winter drilling season. The first well on the Licenced Lands was Wainoco BCRIC Sojer, drilled in November 1978 on Block A-3 in the Nig Creek area 120 kilometres northwest of Fort St. John. An area of mutual interest was established adjacent to Block A-3. Consequently three parcels of land were purchased jointly by Wainoco Oil & Gas Limited and BCRIC at the November 22, 1978 Crown sale. The Sojer well found a gas-bearing section capable of commercial production and has been capped.

Gulf BCRIC Cheves, a 3,140 metre test, has been drilled on Block B-9 and is currently testing. This well is 3.5 kilometres south southeast of an earlier Gulf Cheves well which was drilled in early 1978.

Esso BCRIC Stanislas, a 3,000 metre test, commenced drilling operations on January 19, 1979 on Block B-15.

Czar BCRIC Dobin, a 1,000 metre test, commenced drilling operations on February 15, 1979 at the southwest extremity of Block B-19.

As the first investment in BCRIC's strategy to expand its activities beyond the Licenced Lands and related mutual interest lands, BCRIC has entered into a farmin agreement on a parcel of land located in the Sahtaneh area east of Fort Nelson. By paying 12½% of well costs, BCRIC will earn a 6¼% interest in production from the well after well costs have been recovered. The well, known as Tri Star et al Sahtaneh, is currently drilling and offsets Mobil Sahtaneh to the southwest, a well which flowed gas at a rate in excess of 11.5 million cubic feet per day.

Oil and gas exploration involves a high degree of risk, which can be reduced by a combination of experience, knowledge and careful evaluation. BCRIC intends to engage in the drilling of both exploratory and development wells. There is no assurance that commercial quantities of gas or oil will be discovered by BCRIC. The marketability of gas and oil which may be acquired or discovered by BCRIC will be affected by market fluctuations, the proximity and capacity of gas and oil pipelines and processing equipment and government regulations, including regulations related to prices, taxes, royalties, land tenure, methods of operation, allowable production, importing and exporting of oil and gas and environmental protection. Hazards such as unusual or unexpected formations, high pressures or other anomalous conditions are encountered in drilling and operating wells. BCRIC will have the benefit of insurance placed in such amounts as it considers adequate. BCRIC may become subject to liability for pollution, blow outs or other hazards against which it is not fully insured.

Expenditure Plans

BCRIC has established a preliminary five year expenditure plan totalling approximately $55 million. This amount is allocated approximately equally to expenditures on Licenced Lands and to expenditures for or on other lands. The amount of actual expenditures will depend upon many factors including the success of prior expenditures in this program, the cash flow which may result from these expenditures, the amount of net proceeds from the present sale of BCRIC common shares which can be dedicated to this program and the opportunities for expenditure which become available to or are developed by BCRIC's Gas and Oil Division.

As part of this five year plan, BCRIC has developed an expenditure budget of $8.3 million for 1979. These expenditures may include seismic and drilling work and land acquisition costs and will be allocated to participating in joint operations on Licenced Lands and mutual interest lands, the purchase of semi-proven and wildcat acreage not related to the Licenced Lands, and exploratory drilling on new acreage. The 1979 program will be financed from internal cash flow of BCRIC, the proceeds from the sale of common shares offered by this prospectus and debt capital where the expenditure plan will support such financing.

Government Regulation

All of BCRIC's present exploration activities are being conducted in British Columbia. The exploratory work carried out by BCRIC and its farmees and any production of petroleum or natural gas will be governed by the PNG Act as modified by the Licence.

The PNG Act and regulations prescribe royalties payable in respect of the sale of natural gas, natural gas by-products and petroleum produced in British Columbia. Virtually all natural gas and by-products produced in the Province are sold under contract with the British Columbia Petroleum Corporation ("BCPC"), a Crown corporation, and are exempt from royalties. The price payable to producers is based upon a "field price" reviewed annually by the British Columbia Energy Commission and is adjusted in accordance with changes in the average market value and volume of export and domestic gas sales, transmission costs and federal taxes. In December 1978 the price payable for "new gas" (generally, gas drawn from a pool which did not flow prior to November 14, 1973) was fixed at $1.046 per thousand cubic feet and the price payable for "old gas" was fixed at $0.766 per thousand cubic feet, at wellhead. The time of completion of a well also determines the royalty payable on "new oil" and "old oil". New pool discovery wells are exempt from royalties for the first three years of production and royalties on "new oil" (generally, oil drawn from a pool which did not contain a completed well prior to November 1, 1975) are usually less than those levied on "old oil". Royalty rates are also determined by the volume of monthly production from a particular well.

The Federal Government regulates the prices of crude oil and natural gas in interprovincial and export trade and controls the volumes of crude oil and natural gas exported from Canada.

WESTCOAST TRANSMISSION COMPANY LIMITED

BCRIC owns 3,471,375 common shares (approximately 10% of the outstanding common shares and the second largest shareholding) in the capital of Westcoast Transmission Company Limited ("Westcoast"). Westcoast is primarily engaged in purchasing, gathering, processing, transmitting and selling natural gas.

The following table sets out a five year history of Westcoast's operating revenues, net income, cash flow, net income per common share (weighted average) and dividends per common share and the high and low prices for Westcoast's common shares on The Toronto Stock Exchange.

	Year ended December 31				
	1978	1977	1976	1975	1974
Operating revenues (in thousands)	$843,902	$780,164	$579,276	$416,677	$266,600
Net income after preferred dividends (in thousands)	41,538	39,450	36,059	29,619	25,172
Cash flow (in thousands)	85,805	81,419	75,867	55,060	47,161
Net income per common share	1.21	1.19	1.11	0.99	0.97
Dividends per common share	0.69	0.653	0.612	0.60	0.433
Common share price high—low	12¾-10⅜	11¾-8⅞	9⅝-7⅜	7¾-6⅛	8⅜-4⅞

The Pipeline System

Westcoast, together with two wholly-owned subsidiaries, owns and operates a natural gas pipeline system (the "Pipeline System") consisting on May 31, 1978 of 1,400 miles of main transmission pipeline in British Columbia with 17 mainline compressor stations, 1,101 miles of gathering lines in British Columbia, Alberta, the Yukon Territory and the Northwest Territories with 13 field compressor stations, three gas processing plants located at Fort Nelson, Taylor and Boundary Lake, British Columbia with a total marketable gas capacity of 1,430 million cubic feet per day and two elemental sulphur recovery plants located at Fort Nelson and Taylor. The main transmission pipeline runs from Fort Nelson and Taylor in northern British Columbia to a point on the United States border near Huntingdon, British Columbia where it connects with the pipeline system of Northwest Pipeline Corporation ("Northwest"). The Pipeline System has a mainline transmission capacity (mainline sales plus compressor fuel) of approximately 1,360 million cubic feet per day.

Westcoast is in the midst of an extensive construction program involving expenditures in the order of $225,000,000 during 1978 and 1979. Major projects completed in 1978 include the Grizzly Valley—Sukunka pipeline, the Silver—Dahl pipeline and the Clarke Lake South and Red Creek gas field connections. Scheduled for completion in 1979 are a processing plant near Chetwynd associated with the Grizzly Valley—Sukunka pipeline and other gathering facilities and additions to the Pipeline System.

Gas Supply, Cost of Service and Rate of Return

Westcoast has, in connection with the operation of the Pipeline System, entered into an agreement (the "BCPC Agreement") with BCPC. Under the BCPC Agreement substantially all of the gas produced in British Columbia is sold by the producers to BCPC which, in turn, commits and sells the gas to Westcoast. In addition, approximately 22% of Westcoast's gas is purchased from producers in northwestern Alberta, the Yukon Territory and the Northwest Territories.

Under the BCPC Agreement the price paid by Westcoast for the gas purchased from BCPC is an amount equal to the gross revenues received by Westcoast from the sale of gas transmitted through the Pipeline System and gas by-products from the processing and sulphur recovery plants, less both the cost incurred in purchasing gas from sources other than BCPC and the cost of service, including a return on rate base.

The rate base consists of actual investment in plant, property and equipment in service less depreciation plus working capital. The BCPC Agreement provides that the rate of return on rate base is subject to change by agreement or by arbitration. The present 11% rate of return has been in effect since January 1, 1977. Because operating income is generated by a return on rate base, the net income of Westcoast is not affected by fluctuations in the price or volume of gas sold and delivered through the Pipeline System. Net income is increased with additions to rate base by expansion of the Pipeline System.

National Energy Board Rate Application

Westcoast's tariffs, tolls and charges applicable to its customers are subject to the jurisdiction of the National Energy Board ("NEB"). The price payable for gas purchased outside British Columbia is governed by The Petroleum Administration Act.

In 1977 Westcoast filed its first rate application to be heard by the NEB. The application is being heard in three phases. Phase I which dealt with the depreciation and income tax components of cost of service has been heard. The NEB has approved an alteration of Westcoast's accounting treatment of depreciation, effectively increasing the recovery of depreciation, and a change from flow-through to normalized income tax accounting. A decision on methods of allocating these costs to domestic and export sales was postponed until Phase II. The components of rate base and the remaining components of the cost of service, including the return on rate base, are being considered in Phase II which is scheduled to be completed in March 1979. The design of rates and tolls charged to domestic customers will be considered in Phase III which is scheduled to be completed in April 1979.

Substantially all the decisions of the NEB as to depreciation, amortization and income taxes will be given effect to by the BCPC Agreement for purposes of determining the price to be paid by Westcoast for gas purchased from BCPC. Any increase in Westcoast charges authorized by the NEB will not necessarily result in additional after tax net profits.

Gas Sales

All gas transported through the Pipeline System, other than compressor fuel, is either exported to Northwest or sold to distributors in British Columbia, primarily B.C. Hydro, Inland Natural Gas Co. Ltd. ("Inland") and Pacific Northern Gas Ltd. ("Pacific Northern").

B.C. Hydro, Inland and Pacific Northern distribute approximately 95% of all the natural gas distributed to consumers in British Columbia. B.C. Hydro distributes gas throughout the lower mainland area of British Columbia including the metropolitan area of Vancouver. Inland carries on a gas distribution business principally in central and southern British Columbia. Pacific Northern carries on a gas distribution business in northwestern British Columbia as referred to under "Other Businesses" on page 20. Westcoast sells gas to B.C. Hydro, Inland and Pacific Northern pursuant to agreements each of which terminates on October 31, 1991.

Northwest, which is Westcoast's largest customer, owns and operates a gas transmission system in the United States serving markets in the States of Washington, Oregon, Idaho, Colorado, Utah, Nevada and Wyoming. Westcoast and Northwest have the necessary regulatory authorizations to export and import natural gas near Huntingdon under a contract which terminates on October 31, 1989. This contract provides for delivery of a maximum volume of 809.2 million cubic feet of gas per day.

Alaska Highway Pipeline Project

Westcoast owns 50% of the voting shares of Foothills Pipe Lines (Yukon) Ltd. ("Foothills Yukon") which, through its subsidiaries, is responsible for the construction and operation of the Canadian portion of the Alaska Highway Pipeline Project (the "Project"). The Project is sponsored by Westcoast, The Alberta Gas Trunk Line Company Limited and Northwest Alaskan Pipeline Company, an affiliate of Northwest, and will comprise a gas transmission system totalling 2,759 miles of large diameter pipe extending from Alaska through Canada to the lower 48 States with a throughput capacity of approximately 2.4 billion cubic feet of gas per day. Approximately 2,000 miles of the pipeline will be located in Canada. Completion of the Project is scheduled for the winter of 1984-85.

Five subsidiaries of Foothills Yukon, each of which will be owned to the extent of at least 51% of its voting shares by Foothills Yukon, will construct separate segments of the Canadian portion of the Project. Westcoast will be responsible for construction and operation of the northern British Columbia segment (approximately 440 miles) and will hold the remaining 49% voting interest in Foothills Pipe Lines (North B. C.) Ltd., the subsidiary company handling this phase of the Project.

The capital costs of the Project were estimated in mid-1978 to be approximately $8.1 billion of which approximately $4.4 billion was to be expended by Foothills Yukon and its subsidiaries for the Canadian portion of the Project. The foregoing capital cost estimates are currently being revised upward due to delays in the scheduled completion of the Project. These estimates are also subject to definitive design, timing and certain other factors affecting the Project and do not include capital cost estimates for a pipeline system from the Mackenzie Delta/Beaufort Basin along the route of the Dempster Highway to connect with the Project at Whitehorse, Yukon Territory.

As of December 31, 1978 Westcoast's total expenditures in respect of Foothills Yukon and its subsidiaries were $24.5 million. Westcoast will continue to contribute its proportionate share to cover the costs to be incurred by Foothills Yukon and its subsidiaries to develop the Project. The amount and timing of any commitment with respect to Project construction will be subject to a number of factors including regulatory approvals, the execution of gas sales and transportation contracts and the financing of the Project. Westcoast estimated in mid-1978 that its equity contribution to Foothills Yukon and its subsidiaries in connection with the construction of the Project would be approximately $440 million. This estimate will be updated based upon the revised capital cost estimates for the Project. Westcoast proposes to fund its equity contribution by means of a combination of debt issues, preferred share issues and funds received upon the exercise of outstanding share purchase warrants as well as cash flow which may result from the early construction and operation of the southern Alberta, southern British Columbia, and Saskatchewan sections of the Project or cash flow from other operations.

Feasibility studies are also progressing through Foothills Oil Pipe Line Ltd. on a concept to carry Alaskan oil through the same Alaska Highway transportation corridor to supply markets in the mid-western United States.

Other Businesses

Westcoast Petroleum Ltd. ("Westpete"), which is 59.8% owned (including 57.6% of the voting shares as at December 31, 1978), is engaged in oil and gas exploration, development and production and as at December 31, 1978 had interests in 8,249,090 gross acres (2,304,571 net acres) of prospective oil and gas lands in western Canada, the Yukon Territory, the Northwest Territories and the Arctic Islands. Westpete also owns and operates an oil pipeline extending for 505 miles between Taylor and Kamloops, British Columbia. Westpete accounted for approximately 10.6% of Westcoast's 1978 net income after tax.

Pacific Northern, which is 45% owned (including 100% of the voting shares), is a gas transmission and distribution company serving communities along its system which extends from a point on the Westcoast main transmission line near Summit Lake to Prince Rupert and Kitimat on the Pacific Coast as shown on the sketch on page 4.

The foregoing information with respect to Westcoast's business and operations was obtained from or based upon publicly available documents and records, particularly reports and other information which Westcoast has filed with the Superintendent of Brokers of the Province of British Columbia or the United States Securities and Exchange Commission, the 1977 Annual Report, the 1978 Mid-Year Update, the 1978 Third Quarter Interim Report to Shareholders and Westcoast's announcement of preliminary results for 1978.

CONSOLIDATED CAPITALIZATION

	Authorized	Outstanding as at December 31, 1978	Outstanding as at January 31, 1979
		(in thousands of dollars)	
Indebtedness			
Indebtedness of BCRIC			
Non-interest bearing promissory note payable (1)	$151,533	$151,533	$151,533
Long term debt of CanCel			
6⅛% Bonds due January 2, 1981 (2)	$ 71,136	$ 14,202	$ 9,531
5⅜% Bonds due July 1, 1985 (2)	$ 47,424	$ 26,664	$ 26,807
10½% Promissory notes due December 15, 1992 (2)	$ 59,288	$ 59,288	$ 59,570
11½% Promissory notes due December 15, 1992	$ 20,000	$ 20,000	$ 20,000
Bank loans (3)	$ 65,000	$ 50,000	$ 55,000
Sundry indebtedness		$ 7,377	$ 7,369
Minority interest in a subsidiary			
Common shares and retained earnings		$ 23,066	$ 23,101
Share capital (4)			
Common shares without par value (1)	100,000,000 shs.	5 shs. ($5.00)	5 shs. ($5.00)

NOTES:

(1) The Province of British Columbia which holds the note has agreed to exchange it for 15,000,000 fully paid common shares of BCRIC. Reference is made to "Plan of Distribution".

(2) Payable in U.S. dollars. Amounts shown are the Canadian dollar equivalents translated on the basis set out in Note 1 to the Consolidated Financial Statements.

(3) Reference is made to Note 7 to the Consolidated Financial Statements for further details.

(4) In addition to the stated dollar value for capital stock as indicated above, BCRIC had consolidated retained earnings of $15,922,000 at December 31, 1978.

(5) Reference is made to Note 9 to the Consolidated Financial Statements for particulars of long term leases.

DETAILS OF THE OFFERING

Common Shares

The authorized capital of BCRIC consists of 100,000,000 common shares without par value. The holders of common shares are entitled to dividends as and when declared by the board of directors; are entitled upon liquidation to receive pro rata such assets of BCRIC as are distributable to the holders of common shares; and have no pre-emptive, conversion or subscription rights. The common shares offered hereby will be fully paid and non-assessable. The holders of common shares are subject to the provisions of the BCRIC Act which are summarized below under "British Columbia Resources Investment Corporation Act".

Holders of common shares who hold registered share certificates are "members" of BCRIC for the purposes of the British Columbia Companies Act, are entitled to attend meetings of shareholders of BCRIC and will have one vote for each registered common share held. **The holder of common shares represented by a bearer share certificate will not be a "member" of BCRIC and will not be entitled to notice of or to attend at meetings of shareholders of BCRIC nor to vote as a shareholder.**

Bearer Share Certificates

Bearer share certificates will be issued on all applications for less than 100 common shares, including free common shares received from the Province of British Columbia as described under "Plan of Distribution". Holders of common shares represented by bearer share certificates will have the rights and restrictions summarized below. Amendments to the BCRIC Act will be required to authorize the issue by BCRIC of bearer share certificates. For full particulars reference should be made to the BCRIC Act and the Articles of BCRIC when amended and to the Companies Act of British Columbia.

Shareholder Rights

The holder of common shares represented by a bearer share certificate will be entitled to the principal rights and protections afforded individual registered shareholders under the Companies Act of British Columbia except the right to attend shareholders' meetings and to vote as a shareholder and the right to receive information mailed by BCRIC.

Share Registration

The bearer of bearer share certificates aggregating at least 100 common shares of BCRIC may become a registered shareholder of BCRIC by having such shares registered in his or her name subject to the restrictions on share ownership and share holdings described below.

Dividends

Declaration of dividends will be advertised and dividends payable on common shares represented by bearer share certificates will be paid to the bearer on presentation of such certificates to any dividend paying agent named in such advertisements. Dividends declared and not claimed within six years following their respective payment dates will be paid to the Minister of Finance to be held pursuant to the Unclaimed Money Deposits Act.

Loss or Destruction

Bearer share certificates will not be replaced by BCRIC if lost, stolen or destroyed.

British Columbia Resources Investment Corporation Act

Restrictions on Share Ownership

Only Canadian citizens or residents of Canada are eligible to purchase, own, or hold voting shares of BCRIC. Common shares of BCRIC represented by bearer share certificates will, by definition, not be voting shares. Voting shares may not be purchased or held in right of or for the use or benefit of a non-resident of Canada who is not a Canadian citizen.

For this purpose a resident of Canada is a person other than any of the following:

— an individual who is not ordinarily resident in Canada;

— a corporation that is incorporated, formed or otherwise organized elsewhere than in Canada or that is controlled directly or indirectly by non-residents or by a non-resident trust or of which the majority of directors are non-residents;

- the government of a foreign state or a political subdivision thereof, or an agent of either;
- a trust established by a non-resident (other than a trust for the administration of a pension fund for the benefit of individuals, a majority of whom are residents of Canada) or in which non-residents have more than 50% of the beneficial interest.

Maximum Share Holdings

The maximum number of voting shares of BCRIC which may be owned by or held for the use or benefit of any person or associated group of persons, other than the Province of British Columbia or a mutual fund, or pension or other similar fund, is 1% of the outstanding voting shares of BCRIC. A mutual fund or pension or other similar fund may hold up to 3% of the total number of the outstanding voting shares. The Lieutenant-Governor in Council is authorized by the BCRIC Act to change these limits.

Disposal of Excess Shareholding

Where voting shares of BCRIC are held in contravention of the BCRIC Act, BCRIC may require the holder to dispose of such shares to an eligible holder within a specified period of not less than sixty days. Failing compliance with such requirement, the voting shares may be redeemed for cancellation by BCRIC at its option at a price which is the lesser of the issue price on the initial issue of shares of that class or the market price prevailing at the time of redemption.

Voting Restrictions

The Province of British Columbia, while it owns 10% or more of the outstanding voting shares of BCRIC, may not vote those shares for the election of directors but may appoint:

- one director if the number of directors is four or less;
- two directors if the number of directors is five, six, seven or eight; and
- three directors if the number of directors is more than eight.

Where any of the shares of BCRIC are held or deemed to be held in contravention of the BCRIC Act, the voting rights attaching to those shares shall not be exercised, and any proceeding at a meeting at which voting rights pertaining to shares of BCRIC so held are exercised is, at any time within one year after the commencement of that meeting, voidable at the option of the directors.

Declarations

To ensure compliance with the restrictions imposed by the BCRIC Act on the holding and ownership of shares, BCRIC is entitled to receive, as a condition of registration of any shares of BCRIC on any subscription or transfer or on registration of bearer share certificates and at any time after registration, a declaration confirming that the subscriber or transferee or shareholder meets the requirements of the BCRIC Act. When a declaration is not received within 30 days after being requested, shares are deemed to be held in contravention of the BCRIC Act until the declaration is filed.

Redemption of Shares Held by the Province

BCRIC may redeem for cancellation voting shares held by or on behalf of the Province of British Columbia at a price per share agreed upon between BCRIC and the Minister of Finance, and approved by the Lieutenant-Governor in Council.

Company Meetings

BCRIC is seeking an amendment to the BCRIC Act which would provide that where the Supreme Court of British Columbia determines that it is impracticable to call or to conduct any general meeting of registered shareholders in the usual manner, or for any other reason the Court considers appropriate, the Court may order that the business to be transacted or the votes to be cast at the meeting be transacted or taken in such manner, and with or without the holding of a meeting, as the directors or the Court may prescribe. BCRIC is also seeking amendments to the BCRIC Act which would permit the directors of BCRIC to publish materials usually mailed to registered shareholders where they consider the cost of producing and mailing such material to be excessive or for any other reason they consider appropriate.

Winding Up

Proceedings to wind up BCRIC are invalid unless approved by the Lieutenant-Governor in Council.

Risk Factors Affecting Common Shares

The common shares are not guaranteed in any manner by the Province of British Columbia or any other government, nor has any government any direct or indirect obligation with respect to them. Future prices of the common shares will be determined by such factors as the selling intentions of persons receiving free common shares from the Province, the general economic climate, conditions in financial markets and the success or otherwise of BCRIC and its subsidiaries in attaining their objectives. Since BCRIC has only recently commenced operations, potential projects and investments in which BCRIC may participate or which may be acquired by it are not yet known. In addition results experienced by BCRIC's subsidiaries over the past five years are not necessarily indicative of future performance. No representations can be made as to the future influence of these factors on prices for BCRIC's common shares.

PLAN OF DISTRIBUTION

General

The common shares offered by this prospectus are offered for sale to individuals who qualify for free common shares of BCRIC to be distributed by the Province of British Columbia as described below. This offer is conditional upon such distribution being made by the Province.

An application for free common shares must be completed and validated before the expiry of this offer to establish qualification to purchase additional common shares. Each qualified applicant may purchase common shares in integral multiples of five, up to a total of 5,000 in respect of each eligible resident of British Columbia named in the application. The purchase price must be deposited with the application and will be invested by BCRIC in short term securities of Canadian financial institutions or governments until share certificates are available for delivery. Any interest earned from the time of deposit will accrue to BCRIC.

If any cheque tendered in payment with an application for common shares is returned "N.S.F.", the purchase is voidable at the option of BCRIC. Free common shares applied for in the same application must be re-applied for through the office of the Minister of Finance after October 1, 1979.

Distribution of Free Common Shares

On January 11, 1979 the Province of British Columbia announced its intention to make a gift of five common shares to each eligible resident of British Columbia. An eligible resident is an individual who is a Canadian citizen, or has qualified and applied for Canadian citizenship, and has either (i) ordinarily resided in British Columbia for at least the immediately preceding twelve months or has so resided since birth, or (ii) not met the qualifications in (i) but is otherwise qualified by residency as determined by the Minister of Finance.

Applicants must be 16 years of age or older. The parent or guardian is qualified to apply for and receive common shares in respect of eligible residents born after June 15, 1963. Applications to obtain free common shares may be made only at offices in British Columbia of participating chartered banks, trust companies, credit unions and registered investment dealers and at government offices designated by the Minister of Finance. The application period for free common shares is stated to commence on March 15, 1979 and to close on June 15, 1979, subject to the processing of appeals.

At the date of this prospectus the Province is the beneficial owner of the five outstanding common shares in the capital of BCRIC, which are held of record in the names of five of the directors of BCRIC. Pursuant to the BCRIC Act, on March 1, 1979 the Lieutenant-Governor in Council authorized the Minister of Finance to exchange the non-interest bearing demand note of BCRIC in the amount of $151,532,930 described under "Business and Properties of BCRIC" for 15,000,000 fully paid common shares of BCRIC. The Province's gift of common shares will be distributed from these common shares to be issued by BCRIC. The Province estimates that there are approximately 2,400,000 residents of British Columbia who are eligible for free common shares. If free common shares are distributed to or in respect of all such eligible residents, the Province will continue to hold approximately 3,000,000 common shares of BCRIC and has announced that it intends to retain beneficial ownership of any free common shares not distributed.

Dilution

After the issue of the 15,000,000 fully paid common shares of BCRIC, the pro forma net book value per common share of BCRIC, based on the Consolidated Balance Sheet of BCRIC as at December 31, 1978, would be $11.16 per share. The increment to the net book value of BCRIC for common shares sold on this offering is $6.00 per share, less agents' commissions and expenses of issue. The sale of each common share will result in immediate dilution of the pro forma net book value per share referred to above. The full

extent of the dilution resulting from this offering cannot be determined until the offering is completed and the number of common shares sold is known.

Necessary Legislation

The offering of common shares by BCRIC by this prospectus is conditional upon the necessary amendments to the BCRIC Act being passed to authorize the issue by BCRIC of bearer share certificates representing common shares of BCRIC. For particulars of the proposed bearer share certificates see "Details of the Offering".

Agents

Participating chartered banks, credit unions, trust companies and registered investment dealers have agreed in principle to act as agents of the Province in connection with the distribution of free common shares and as agents of BCRIC for the sale of the common shares offered by this prospectus. BCRIC has agreed to pay to the agents a commission of $.25 per common share purchased.

Delivery of Share Certificates

Share certificates will be available for delivery between August 7 and September 28, 1979 at the point of application and through the office of the Minister of Finance from October 22 to December 31, 1979. If the total of free and purchased common shares covered by any application form is less than 100, the common shares will not be registered in the name of the applicant but will be delivered in the form of bearer share certificates.

USE OF PROCEEDS

The proceeds to be derived from the sale of common shares offered hereby will depend upon the degree to which BCRIC's offer is accepted by qualified purchasers. BCRIC estimates that its expenses associated with this offering will amount to approximately $2,500,000, which amount and commissions will be deducted from the proceeds.

BCRIC proposes to allocate a portion of the net proceeds to expenditures of its Gas and Oil Division as described under "Expenditure Plans" on page 17. The balance will be applied towards future expenditures, investments and projects related to both the presently owned interests and ventures hereafter acquired or participated in by BCRIC. The exact timing, amount and identification of these expenditures or investments cannot be determined at this time and accordingly no amount has been allotted to any particular project. Pending such expenditures or investments, the net proceeds of this offering will be deposited with or invested in instruments issued by Canadian financial institutions and in such marketable securities as from time to time are approved by the directors of BCRIC.

TAXATION MATTERS

Taxation of BCRIC

At the present time, BCRIC and its wholly-owned subsidiaries are exempt from tax under the Income Tax Act (Canada) and the Income Tax Act (British Columbia) (the "Tax Acts") because all the shares of BCRIC are owned by the Province of British Columbia. BCRIC and its wholly-owned subsidiaries will lose this exemption during 1979 because of the distribution of the free common shares and the sale of additional common shares.

Taxation of a BCRIC Shareholder

A tax ruling has been received from the Department of National Revenue to the effect that a recipient of free common shares of BCRIC will have received them as a gift with no immediate tax consequences. The cost of the free common shares for tax purposes will be equal to their fair market value at the time of receipt, which value has yet to be determined. Where such common shares are capital property to a shareholder resident in British Columbia, no Canadian tax consequences will arise (except with respect to any dividends which may be paid in the future) until such time as the common shares are, or are deemed to be, disposed of under the provisions of the Tax Acts or any other applicable legislation. Where such shareholder has also purchased comm[illegible] ıares of BCRIC, the purchase price of these shares will be averaged with the fair market value of fr[illegible]mon shares for the purpose of computing any gain or loss on disposition. If BCRIC pays a dividend, su[illegible]n dividend will be subject to the normal rules respecting the taxation of dividends in the hands of a shareholder.

DIRECTORS AND MANAGEMENT

Directors and Officers

Name and Address	Office	Principal Occupation
JOHN WILSON PITTS 4391 Agar Drive, Richmond, British Columbia	Chairman of the Board and Director	Chairman, President and Chief Executive Officer, Okanagan Helicopters Ltd.
DAVID LEEDOM HELLIWELL 2600 - 1177 West Hastings Street, Vancouver, British Columbia	President and Director	President and Chief Executive Officer, BCRIC
TREVOR WILLIAM PILLEY 555 Burrard Street, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, a Canadian chartered bank
JOHN WILSON POOLE 1050 West Pender Street, Vancouver, British Columbia	Director	President and Chief Executive Officer, Daon Development Corporation
CHARLES NAMBY WYNN WOODWARD 101 West Hastings Street, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Woodward Stores Limited
WILLIAM MAURICE YOUNG 555 Great Northern Way, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Finning Tractor & Equipment Company Limited
RICHARD ARTHUR DANIEL COMMERFORD 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Vice President and Controller	Vice President and Controller, BCRIC
ROBERT GORDON SCOTT CURRIE 200 - 355 - 4th Avenue S.W. Calgary, Alberta	Vice President	Vice President, Gas and Oil Division, BCRIC
MICHAEL GILDAY MCKIBBIN 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Vice President and Treasurer	Vice President and Treasurer, BCRIC
GEORGE BUCHAN MCINTOSH 2800 - 650 West Georgia Street, Vancouver, British Columbia	Secretary	Barrister and Solicitor, Partner, Lawson, Lundell, Lawson & McIntosh
DAVID JOHN ROBERT PETITPIERRE 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Assistant Secretary	Assistant Secretary, BCRIC

During the last five years, all of the directors and officers have been associated in various capacities with the companies or firms listed opposite their names except Mr. Helliwell who prior to March 1978 was employed by Steel Brothers Canada Ltd., Mr. Pilley who prior to May 1974 was employed by another Canadian chartered bank, Mr. Commerford who prior to June 1978 was employed by CanCel and prior to July 1975 was employed by MacMillan Bloedel Limited, Mr. Currie who prior to June 1978 was employed by Panarctic Oils Ltd., Mr. McKibbin who prior to March 1978 was employed by Okanagan Helicopters Ltd. and prior to September 1976 was employed by Wood Gundy Limited, and Mr. Petitpierre who prior to October 1978 was employed by The White Pass and Yukon Corporation Limited and prior to November 1975 was employed by the Canadian Cancer Society — British Columbia and Yukon Division.

Messrs. Helliwell and Poole, directors of BCRIC, are also directors of CanCel. Mr. Woodward, a director of BCRIC, is also a director of Westcoast and Mr. Helliwell has been proposed by management of Westcoast for election as a director of that company.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by BCRIC and its subsidiaries to the directors and senior officers of BCRIC was $262,684 for the ten months ended December 31, 1978 and was $31,667 for the month ended January 31, 1979.

STOCK OPTIONS

Under the employee stock option plan of CanCel, as of January 31, 1979 there were options outstanding for senior officers of CanCel to purchase an aggregate of 19,900 Common Shares of CanCel and for other employees of CanCel to purchase an aggregate of 55,500 Common Shares of CanCel as shown in the following table:

Date of Grant	Held by Senior Officers	Held by Other Employees	Option Price
February 26, 1974	12,660	38,060	$6.375
April 23, 1974	—	1,140	$6.375
July 29, 1974	—	1,500	$5.562
August 1, 1974	440	—	$5.687
November 12, 1974	—	800	$4.325
August 3, 1976	—	1,300	$6.875
November 30, 1976	700	1,500	$6.250
July 25, 1977	600	—	$7.375
August 2, 1977	—	300	$7.438
November 28, 1977	—	5,800	$5.312
February 28, 1978	400	2,500	$6.375
March 1, 1978	5,000	—	$6.875
August 22, 1978	100	2,600	$7.625
	19,900	55,500	

In each case the option price is the average of the high and low prices on The Toronto Stock Exchange on the date of grant. The options expire ten years after the date of grant subject to earlier expiration in the event of death or cessation of employment and may be exercised on a cumulative basis to the extent of 20% each year commencing one year after the date of grant. The closing price of the Common Shares of CanCel on The Toronto Stock Exchange on January 31, 1979 was $9.625 per share.

MATERIAL CONTRACTS

The only contracts entered into by BCRIC and its subsidiaries within the two years prior to the date of this prospectus, other than in the ordinary course of business, which could reasonably be regarded as presently material to the purchasers of the common shares offered hereby are the following:

(1) Two note agreements, each dated April 15, 1977, entered into by CanCel with The Prudential Insurance Company of America and Metropolitan Life Insurance Company, respectively, providing for the issue and sale by CanCel of $50,000,000 (U.S.) 10½% Notes due December 15, 1992 and $20,000,000 11½% Notes due December 15, 1992, and amending agreements dated June 15, 1978 and December 15, 1978.

(2) Agreement dated March 9, 1978 between the Province of British Columbia and BCRIC providing for the acquisition of assets by BCRIC from the Province. See "Business and Properties of BCRIC".

(3) The Petroleum and Natural Gas Licence dated March 9, 1978 issued by the Province of British Columbia to BCRIC. See "Gas and Oil Division".

(4) Three loan agreements, each dated May 1, 1978, entered into by CanCel with three Canadian chartered banks, respectively, establishing lines of credit aggregating $45,000,000 and amending agreements dated December 15, 1978 increasing the lines by an aggregate of $20,000,000. See Note 7 to the Consolidated Financial Statements.

(5) Agreement dated March 1, 1979 between the Province of British Columbia and BCRIC providing for the exchange of BCRIC's non-interest bearing demand note for 15,000,000 common shares of BCRIC, the introduction of enabling legislation including a provision that the issue of common shares at the offering price is deemed to be in the best interests of BCRIC and in compliance with sections 41 and 42 of the Companies Act, the establishment of procedures for the distribution of common shares and the allocation of the costs of the distribution.

Copies of these contracts except item (4) may be examined during ordinary business hours at the head office of BCRIC during primary distribution of the common shares offered by this prospectus. When the agreements with the financial institutions referred to under "Agents" on page 24 have been entered into, copies of these agreements may also be so examined.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Within the three years preceding the date of this prospectus, there have been no material transactions with BCRIC or its subsidiaries in which any of the directors, senior officers or any associate thereof has any material interest, direct or indirect. The Province of British Columbia, the holder of all of the outstanding common shares of BCRIC, has a material interest in the material transactions described under "Business and Properties of BCRIC" and "Plan of Distribution".

Within the three years preceding the date of this prospectus, the Province, B.C. Hydro and other governmental agencies of, and corporations beneficially owned by, the Province have entered into certain leases, licences, permits, contracts and other instruments with CanCel, Kootenay and Plateau in relation to timber rights and forest products, the supply of electricity and water and other matters, all in connection with, and in the ordinary course of, their respective businesses and which may materially affect them.

The Province, as guarantor of the 6⅛% and 5⅜% Bonds of CanCel, assented to the release on February 1, 1977 of all property mortgaged by CanCel as security therefor, and to the amendment on June 15, 1978 and December 15, 1978 of the trust deed relating to such Bonds to permit CanCel to incur indebtedness under the bank lines of credit referred to in Note 7 to the Consolidated Financial Statements.

In February 1979, Kootenay completed the transfer to the Province of approximately 32,900 acres of timber and other lands. This transfer was made pursuant to commitments arising out of the purchase of Kootenay and the loan of $11.6 million to Kootenay by the Province in 1974. On the condition that Kootenay transfer these lands, the Province subscribed in 1978 for 11,602,729 common shares of Kootenay with a par value of $1.00 each, the proceeds of which were used to repay the Province's loan. Kootenay retained certain harvesting and other rights on the lands. In addition, Kootenay sold approximately 337 acres of land to the Province in 1977 for approximately $920,000.

LEGAL MATTERS

BCRIC has advised General Telephone & Electronics Corporation that it is prepared, in principle, to act as a voting trustee in respect of certain ordinary shares of British Columbia Telephone Company ("B.C. Tel") which may be issued by B.C. Tel to GTE International Incorporated in exchange for shares in GTE Automatic Electric (Canada) Ltd. The latter company owns all the issued shares of GTE Lenkurt Electric (Canada) Ltd. If the transaction does proceed, BCRIC would have no beneficial interest in those shares.

BCRIC is not party to nor is its property the subject of any pending legal proceedings nor are any such proceedings known to be contemplated. The only proceedings to which any subsidiary of BCRIC is a party or to which any of its property is subject, and the only such proceedings known to BCRIC to be contemplated, other than proceedings the outcome of which is not considered material to BCRIC, are as follows:

(1) CanCel commenced an action against B.C. Hydro on June 28, 1977 in the Supreme Court of British Columbia for damages for additional costs to transport logs arising out of the operation of the Mica Dam on the Columbia River and consequent deprivation from 1973 of rights to float logs down the river. The claim for damages is estimated at approximately $1,000,000.

(2) The Supreme Court of British Columbia has found Star Bulk Shipping Company liable to CanCel for breach of a contract of affreightment. The original claim was for approximately $1,300,000, but the estimate of damages, not yet determined, on the basis of the present finding is approximately $100,000. On February 8, 1978, CanCel commenced an appeal in the British Columbia Court of Appeal.

(3) CanCel commenced an action against Royal Insurance Company of Canada, The Boiler Inspection and Insurance Company of Canada and New Hampshire Insurance Company on January 19, 1979 in the Supreme Court of British Columbia claiming approximately $309,000 under contracts of insurance. The claim concerns costs and damages to CanCel resulting from a spill of polychlorinated biphenyls into Porpoise Harbour at Prince Rupert.

(4) CanCel is contemplating proceedings against Brown Boveri Canada Limited, the supplier of a turbo-generator at its Prince Rupert pulp mill which failed in July 1978. The contemplated proceedings are to recover partial reimbursement of total costs of approximately $2,800,000. The supplier has denied liability.

Legal matters in connection with this offering have been approved on behalf of BCRIC by Lawson, Lundell, Lawson & McIntosh, Vancouver. Mr. G. B. McIntosh, the Secretary of BCRIC, is a partner of Lawson Lundell, Lawson & McIntosh.

AUDITORS

The auditors of BCRIC are Clarkson, Gordon & Co., Chartered Accountants, 700 West Georgia Street, Vancouver, British Columbia.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the common shares will be Montreal Trust Company at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal.

PURCHASER'S RIGHTS OF RESCISSION

An applicant may rescind the purchase of common shares to which this prospectus relates if written notice of the intention to rescind is received by BCRIC before the earlier of:

(a) seven days after the date of the application covering the purchase of such shares, or

(b) June 15, 1979.

For these purposes, a notice of rescission received by BCRIC by mail at P.O. Box 4800, 349 West Georgia Street, Vancouver, B.C. V6B 4A4, shall be deemed to be received on the date postmarked on the enclosing envelope.

An applicant may also rescind the purchase of common shares to which this prospectus relates, while still the owner of the shares, if the prospectus and any amended prospectus filed with the Superintendent of Brokers of British Columbia as of the date of application for the shares contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement contained therein not misleading in the light of the circumstances in which it was made. No action for rescission under this paragraph may be commenced after September 15, 1979, nor may any action be commenced under this paragraph if the purchaser knew of the untruth of the statement or knew of the omission at the time he made application for the shares. It shall be a good defence to an action for rescission under this paragraph if the untruth of the statement or the fact of the omission was unknown to BCRIC at the time the application was filed and, in the exercise of reasonable diligence, could not have been known to BCRIC.

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Consolidated Statement of Earnings and Retained Earnings

For the Period from Incorporation on February 22, 1978 to December 31, 1978

(in thousands of dollars)

Revenues	
Sales of forest products	$ 202,659
Other income (Note 10)	10,960
	213,619
Costs and expenses	
Cost of goods sold	184,130
Selling and administration	9,603
Interest on long term debt	4,715
Other	1,694
	200,142
Earnings before the undernoted items	13,477
Provision for income taxes (Note 8)	303
Earnings before minority interest and extraordinary item	13,174
Minority interest in earnings of subsidiary	494
Earnings before extraordinary item	12,680
Recovery of logging taxes, net of minority interest - $758 (Note 8)	3,242
Net earnings and retained earnings at end of the period	$ 15,922

See accompanying notes

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION
(Incorporated under the laws of British Columbia)

Consolidated Balance Sheet

December 31, 1978

(in thousands of dollars)

Assets

Current	
Cash and short term investments	$ 9,787
Accounts receivable (Note 3)	52,040
Inventories (Note 4)	75,475
Prepaid expenses	1,328
	138,630
Investments and advances (Note 5)	41,067
Fixed	
Property, plant, and equipment (Note 6)	198,773
Petroleum and natural gas rights	40,959
	239,732
Unrealized foreign exchange losses	5,639
	$425,068

Liabilities

Current	
Bank loans	$ 7,017
Accounts payable and accrued charges	44,507
Current portion of long term debt	9,284
	60,808
Long term debt (Note 7)	168,247
Promissory note payable to the Province of British Columbia (Note 13)	151,533
Deferred income taxes (Note 8)	5,492
Minority interest in subsidiary	23,066

Shareholders' Equity

Share capital (Note 13)	
Authorized - 5 common shares without par value	
Issued - 5 common shares for one dollar each	
Retained earnings	15,922
Commitments (Note 9)	
	$425,068

See accompanying notes

Approved by the Board of Directors:

(Signed) D. L. HELLIWELL, Director (Signed) JOHN W. PITTS, Director

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Consolidated Statement of Changes in Financial Position

For the Period from Incorporation on February 22, 1978 to December 31, 1978

(in thousands of dollars)

Source of funds			
From operations			
Earnings before extraordinary item			$ 12,680
Charges to earnings not requiring an outlay of funds			
Depreciation, amortization and depletion			12,207
Deferred income taxes			256
Other			(591)
			24,552
Recovery of logging taxes (Note 8)			4,000
Acquisition of assets from the Province of British Columbia (Note 2)			
Promissory note issued as consideration		$151,533	
Less assets acquired			
Investment in Westcoast Transmission Company Limited	$37,364		
Petroleum and natural gas licence	40,896		
Net long term assets of subsidiary companies	21,722	99,982	
Working capital of subsidiary companies acquired			51,551
Issue of long term debt			79,998
Proceeds on sale of fixed assets			591
Other			571
			161,263
Application of funds			
Additions to fixed assets			77,669
Reduction in long term debt			5,031
Dividends paid to minority shareholders			741
			83,441
Working capital at end of the period			$ 77,822

See accompanying notes

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements using information available up to February 27, 1979, except for Note 13 which was prepared as of March 1, 1979. Because a precise determination of many assets and liabilities is dependent upon future events, estimates and approximations have been used where necessary. The financial statements have been prepared within the framework of the accounting policies summarized below:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries (see Notes 2 and 14).

Translation of foreign currencies

Transactions in foreign currencies are translated at rates in effect on the dates of the transactions. Cash, receivables, payables and other assets and liabilities carried at current prices are translated at the rate at the end of the period. Unrealized gains or losses are included in income except for those related to long term debt which are amortized over the remaining term of the debt. This policy conforms to the recommendations of the Canadian Institute of Chartered Accountants on foreign currency translation.

Inventories

Logs, pulp chips and other raw materials are valued at the lower of average cost and replacement cost. Finished products (pulp, lumber and plywood) are valued at the lower of average cost and net realizable value.

Property, plant and equipment

These assets are stated at cost less accumulated depreciation, amortization and depletion. Depreciation, amortization and depletio are computed as follows:

Asset	Rate and Method
Pulp mills	4% composite rate; straight-line
Sawmills	4% to 6% composite rate; straight-line
Logging equipment	10% to 20% rate; diminishing balance
Timber cutting rights, roads and related facilities	unit of production method, using current log production as a percentage of estimated total log production available from such assets.

Petroleum and natural gas rights

The gas and oil operations of the Corporation are in the exploratory stage. The costs of acquiring petroleum and natural gas rights, including the licence acquired from the Province of British Columbia (see Note 2), and exploration costs are being capitalized.

2. INCORPORATION AND ACQUISITION OF ASSETS

On September 1, 1977, the British Columbia Resources Investment Corporation Act was enacted. The Act authorized the incorporation of British Columbia Resources Investment Corporation under the Companies Act (British Columbia). Incorporation took place on February 22, 1978 and 5 common shares were issued for $1 each.

Effective March 9, 1978, the Corporation acquired the following assets from the Province of British Columbia:

81% of the outstanding shares of Canadian Cellulose Company, Limited, a pulp and lumber manufacturer ("CanCel")
100% of the outstanding shares of Kootenay Forest Products Ltd., a lumber and plywood manufacturer ("Kootenay")
100% of the outstanding shares of Plateau Mills Ltd., a lumber manufacturer ("Plateau")
10% of the outstanding shares of Westcoast Transmission Company Limited, a gas transmission company ("Westcoast")
A petroleum and natural gas licence covering 2.3 million acres in northeastern British Columbia.

In consideration for the above, the Corporation issued a non-interest bearing promissory note payable on demand to the Province of British Columbia in the amount of $151,532,930 (see Note 13). The purchase price was allocated as follows:

	(in thousands)
CanCel, Kootenay and Plateau	$ 73,273
Westcoast	37,364
Petroleum and natural gas licence	40,896
	$151,533

The acquisition of CanCel, Kootenay and Plateau has been accounted for by the purchase method and the results of operations and the changes in financial position of these companies since the date of acquisition have been consolidated with those of the Corporation. A summary of the net assets acquired is as follows:

	CanCel	Kootenay	Plateau	Total
		(in thousands)		
Working capital	$ 41,998	$ 4,435	$ 5,118	$ 51,551
Net book value of fixed assets	157,256	9,162	11,193	177,611
Less long term debt, deferred income taxes and minority interest	103,068	2,226	5,347	110,641
Book value of net assets	$ 96,186	$11,371	$10,964	$118,521
Excess of book value of net assets acquired over the consideration paid				45,248
Consideration				$ 73,273

The excess of book value of net assets acquired over the consideration paid, less $4,217,000 which has been allocated to increase long term debt, is not allocable to specific assets or liabilities. The balance of $41,031,000 has been deducted from the net book value of fixed assets and is being amortized as a reduction of depreciation expense over the remaining lives of these assets, estimated at fifteen years (see Note 6).

3. ACCOUNTS RECEIVABLE

	(in thousands)
Trade	$ 40,700
Insurance claims	5,112
Other	6,228
	$ 52,040

4. INVENTORIES

	(in thousands)
Logs, pulp chips and other raw materials	$ 48,877
Pulp, lumber and plywood	18,106
Supplies	8,492
	$ 75,475

5. INVESTMENTS AND ADVANCES

	(in thousands)
Investment in Westcoast, at cost (quoted market value of $40,784,000 which does not necessarily reflect the realizable value of this investment)	$ 37,364
Investment in an associated company, at cost plus equity in earnings less dividends received	2,117
Other	1,586
	$ 41,067

6. PROPERTY, PLANT AND EQUIPMENT

	(in thousands)
Pulp mills	$325,876
Sawmills	64,466
Timber cutting rights, roads and related facilities	58,722
Logging equipment and other facilities	21,369
	470,433
Less accumulated depreciation, amortization and depletion	272,956
	197,477
Land	1,296
	$198,773

Accumulated depreciation, amortization and depletion has been increased by $38,731,000 which represents an allocation of the excess of the book value of acquired net assets of subsidiary companies over the consideration paid, net of the $2,300,000 amortization of this excess for the period ended December 31, 1978 (see Note 2).

7. LONG TERM DEBT

	(in thousands)
CanCel	
6⅛% Bonds due January 2, 1981 with annual principal payments (U.S. $12,000,000)	$ 14,202
5⅜% Bonds due July 1, 1985 with annual principal payments (U.S. $22,500,000)	26,664
10½% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983 (U.S. $50,000,000)	59,288
11½% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983	20,000
Bank loans on revolving credit facilities, with interest at various rates	50,000
Other	527
	170,681
Other subsidiaries	
Term bank loan with repayments in 1979 and 1980, with interest at bank prime plus ¾%	2,200
Term loan with quarterly principal payments to 1986 with interest at bank prime plus ½%	4,650
	177,531
Less amounts due within one year	9,284
	$168,247

CanCel has bank lines of credit of $45,000,000 on revolving credit facilities with any loans at June 30, 1981 converting into term loans repayable over periods of up to nine years in equal semi-annual or annual installments, and an additional $20,000,000 on a revolving credit facility repayable by December 15, 1980. At December 31, 1978 the outstanding loans under these facilities were $45,000,000 and $5,000,000 respectively.

The bonds, promissory notes and bank loans on revolving credit facilities are unsecured. Certain assets have been pledged as collateral for the term loan and the term bank loan.

CanCel's trust deed relating to its bonds and the agreements relating to its promissory notes, in general terms, restrict dividends and certain other payments by CanCel to a maximum of $4,000,000 plus 50% of its net earnings after December 31, 1976. The amount available for payment of dividends at December 31, 1978 was $6,985,000.

Principal payments required on long term debt in each of the next five years with the United States dollar component translated at the December 31, 1978 rate of exchange are:

	(in thousands)
1979	$ 9,284
1980	$14,529
1981	$10,075
1982	$ 9,771
1983	$17,711

8. INCOME TAXES

The Corporation and two of its subsidiaries were exempt from income taxes in 1978 because not less than 90% of their outstanding shares were owned by the Province of British Columbia. When this condition is no longer met the companies will become taxable and will provide for income taxes based on the earnings reported in their accounts. The companies will be able to deduct from future taxable income various amounts comprised primarily of depreciation which were charged to earnings while the companies were exempt from income taxes. The potential future tax reduction is estimated to be $5,400,000 at December 31, 1978. Had the Corporation and its two subsidiaries not been exempt from income taxes in 1978, and on the basis that the potential tax reduction will be accounted for as realized, the provision for income taxes in the Consolidated Statement of Earnings and Retained Earnings would have been increased by $3,000,000, there would have been an extraordinary credit in the amount of $2,400,000 and net earnings for the period would have been decreased by $600,000.

In prior years, CanCel claimed depreciation for tax purposes in excess of depreciation recorded in its accounts in order to maximize the deferral of liability for income taxes. This resulted in increased liability for logging taxes. In 1978 the liability for such logging taxes was reduced by $4,000,000 due to revision by CanCel of its tax depreciation claims as a consequence of the high level of capital expenditures in recent years and other factors. These revisions have been accepted by the taxing authorities. The logging tax reduction has been shown as an extraordinary item.

CanCel has made fixed asset acquisitions qualifying for federal investment tax credits which would enable it to reduce income tax expense by approximately $6,000,000 if sufficient income taxes became payable prior to December 31, 1983. These benefits will not be recorded in the consolidated accounts of the Corporation until they are realized.

9. COMMITMENTS

Rental obligations under long term leases amount to approximately $2,600,000 in each of the years 1979, 1980 and 1981, $2,200,000 in 1982 and $1,100,000 in 1983.

At December 31, 1978 commitments for expenditures on fixed assets amounted to $4,400,000.

10. OTHER INCOME

	(in thousands)
Insurance proceeds relating to estimated loss of earnings due to a fire at CanCel's Castlegar sawmill	$3,570
Income related to cancellation of a sales contract	3,370
Equity in earnings of an associated company	1,104
Income from other investments	2,916
	$10,960

11. INSURANCE DEDUCTIBLES

During 1978 CanCel experienced a major fire, a severe storm and the failure of a major piece of equipment. The estimated insurance recoveries have been recorded as other income or as reductions in cost of goods sold, as appropriate. The deductible portion of the losses has been included as a reduction of earnings and amounts to approximately $5,000,000.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable to directors and senior officers amounted to $262,684 in 1978.

13. SUBSEQUENT EVENT

The Corporation has increased its authorized common shares to 100,000,000 and has agreed to carry out the following in 1979:

(a) issue 15,000,000 common shares to the Province of British Columbia in exchange for the promissory note of $151,532,930, and

(b) subject to enabling legislation being passed, offer for sale up to 5,000 common shares to or in respect of each eligible resident of British Columbia at a price of $6.00 per share. Management anticipates that, in addition to agents' commissions which are dependent on the number of shares sold, expenses of approximately $2,500,000 will be incurred in connection with the share offering.

14. SUBSIDIARY COMPANIES

Canadian Cellulose Company, Limited
- Calum Lumber Limited
- Canadian Cellulose International S.A.
- Celgar Properties Limited
- Celtran Equipment Limited
- High Arrow Limited
- Pohle Lumber Co. Ltd.
- Twinriver Timber Limited

Kootenay Forest Products Ltd.

Plateau Mills Ltd.
- Plateau Timber Ltd.
- Nechako Valley Pulp Mill Ltd.

AUDITORS' REPORT

To the Directors of
British Columbia Resources Investment Corporation:

We have examined the consolidated balance sheet of British Columbia Resources Investment Corporation as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the period from incorporation on February 22, 1978 to December 31, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Vancouver, Canada,
February 27, 1979
(except for note 13 which is
dated March 1, 1979).

(Signed) CLARKSON, GORDON & CO.
Chartered Accountants

CERTIFICATES

Dated: March 1, 1979

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act (British Columbia) and the regulations thereunder.

(Signed) JOHN W. PITTS
Director

(Signed) D. L. HELLIWELL
Director

(Signed) T. W. PILLEY
Director

(Signed) J. W. POOLE
Director

(Signed) C. N. W. WOODWARD
Director

(Signed) W. M. YOUNG
Director

PRINTED IN BRITISH COLUMBIA

11-9-79 Lender's would first be interested ~~to~~ in borrowers financial security and as that was lessened the more they would look to the proposed project to be invested in and its ability alone to generate repayment NOTE todays interest cost may make a 100% financing impossible but it all depends on the project and the risk involved

David Best position would be an outright gift of cash because a guarantee would improperly influence the appearance of the viability of any potential project to stand on it's own as a good investment risk.

implementation cost = $5.00 / application (15 mil.)

11-9-79 B.C. Resources Mr David Helliwell C.E.O.
Reps. Miller, Fuller, Metcalf, Gardiner & Parker, Rosenstein, Kris Harden, Steve Jigmagian (of Kelso, and Jerry Gauche

David – BCRIC was not formed under a socialist admin. and during last election the corp. was termed galloping capitalism

Board of 5 all CEO's of 5 successful B.C. companies that are successful in there own right and are not conflicting ~~&~~ or competing companies to BCRIC

Singer Via. AWC mtg — retained earnings ($8500) taxed at a punitive rate of 20% rather than normal 46% rate for (Corp.) profits

4 investment dealers determined for the Gov. what companies would be good investments for BCRIC to start off with

the BC people really see BCRIC as their own personal Corp. and are very directly interested
also Government has taken quite a risk i.e. if BCRIC stock is low at election time this could affect public opinion
Law states that it is illegal to organize blocks of stock i.e. a group representing say 15% interest trying to control Corp direction (no individual may own more than 1% pensions etc 3%

11-9-79 current Board is very active reg. mtgs once every month with adhoc mtgs. every 2-3 wks.
Workers find that they are now working for themselves and neighbors etc. rather than an absentee owner

AGSOC's competitive advantage in the market of one corp buying other corps.

Banks were given .25 cents for each share of stock that they sold - shares could be used as collateral and even with nearly ½ billion dollars worth bought there didn't appear to be any adverse effect on any other money market i.e. retail, savings, bonds, auto - auto thought before the sale that they would be severly hurt by such a draw of cash from the public - people began to look to Gold or BCRIC shares as the best hedge against inflation

60 mil/yr interest income alone

487 mil

England w/ National Oil and Petro Can - TVA and others have looked at BCRIC as a ~~possible~~ possible method of turning these resources back to the people directly

Apx $1.40 per share holder per year to service i.e. distribution of dividend and financial report. quarterly report cost $.20 to put in stockholders hands.

11-7-79 Ket. 7:30p 7 attended

Reps. Miller, Gardiner, Parker, Fuller Kristine, ~~[illegible]~~ Ken & myself.

Litter SB2 & 237 3 Litter Billers

~~1 Reporter~~ then there were 6

8:30 AGSOC

1. Dick Whitaker - opposed Gravel reelection scheme/what about the management - that is so important to the success of this kind of ~~[illegible]~~ corp.

2. Mr. Paul Wingren - if AGSOC passes & Gravel looses he might become one of the incorporators.

Memo

To: Rep. Jim Duncan
From: [illegible] E. Haley
Subject: AGSC Hearing Trip Report
Date: 11-26-79

Wednesday, 9-7-79

AGSC hearings in Ketchikan, committee members present, Representatives Mike Miller, Terry Gardiner, Bill Parker, and Jack Fuller. Also present were Ken Rosenstein and Kristine Harder, committee staff.

Two Ketchikan residents testified:

Dick Whitaker was opposed to the concept as he saw AGSC as a reelection scheme for Senator Mike Gravel and was emphatic about the importance of good management to the success of such a corporation, but had no suggestions.

Paul Wingren also testified with concern that if Senator Gravel were to lose the next election he could become one of the incorporators.

~~Friday 9-9-79~~

own holdings ie BCRIC serves as a vehicle to separate exploitation from regulation.

As for the 2.3 million acres of land BCRIC received oil and gas exploration licence to, Helliwell call this the pizzazz in the investment package. He also indicated that Alaska may want to consider a similar gift to AGSOC thus providing it with some assets.

Helliwell stated that the people of British Columbia really see BCRIC as their own corporation and are very directly interested in its success. This was also affirmed in varying degrees by the people I talked to while in B.C. Another factor contributing to the corporation's acceptance may be that the people now see themselves working themselves, their neighbors, and their province rather than absentee owners

Don Alexander 388-4415 Pres BC Systems

9:00 Jack Rattledge - Montreal Trust

Jerry Gaucher's Notes Jan. 1980 mtgs

1. Mechanics of stock distribution

2. Stock offering - mechanics
   - price
   - registration costs

   } costs equally -

3. Conflict of interest - discrimination
   - appeals procedure on residency
   - how residency is determined
   - minority shareholders

Helliwell -

data base mgmt problem - consulting firm retained by govt to advise how to set up the distribution

1300 separate physical locations - couldn't do by mail - w/remote people folks went out into the bush - drivers licence
SSec card
Medicare card
} special treatment for natives

Whose records are the stock records - the stock record is most up to date + accurate list of the citizens of BC (but other list is drivers licence w/ is 20% inaccurate)

Hawkins - Computech

Jnc 22 Feb 78

Issue of free shares + sale of shares was simultaneous

March 15 - June 15 app period 1979

Aug 7 shares available for dist

Sept 30 distribution stopped

- applied for but not received up till Feb 29 available from gov't agent office if hadn't received

- Oct 1, 79 - to Dec 31, 79 gov't offices will accept application

Eligibility - be eligible to be Canadian citizens

- resident of province for 12 mo.

They accepted peoples words under penalty of perjury

Power of attorney for people who are incompetents

22 Feb 78 - corporation organized

Nov 30 78 - premier decided to give shares away

Jan 11 79 - premier announced free distribution

6 March 79 - bought assets for non interest bearing promissory note 150m -

swapped stock for the note

Govt gave away 12m of the 15m shares

Record date for Canadian Cellulose was March 6

They proposed 50m cash grant from BC govt bc the assets were generating sufficient cash flow - or long term cash ~~flow~~ capital loan

Alberta - dividend to the people - during 1950's
Alberta act to dist nat. resource revenues to people

Contract rights of minors under BC law were lowered to 16 - below 16 mothers could apply for extra shares w/were legally their own and not the children

Fathers felt discriminated
Indians got special treatment
Indigents - both stock & dividends are excluded from welfare Cs

BC Systems Corp - handled mechanics of stock dist - govt operation which hired Hawkins
~~Govt~~ remunerated agents at 2⁰⁰ for taking app / 2⁵⁰ for dist shares

Since free shares and sales shares will be handled at same time BCRIC gave high commission 25¢ to help carry the overhead

Banks wanted 7⁵⁰ for each application - govmt spent $9.0 m while BCRIC spent $20m in Commissions Hawkins spent $6m on his operation plus 600,000 on advertising -

Ask Hawkins what it would have cost to put the list together just as information for govmt - w/out issuing shares

No possibility of directors benefitting from the Co - no promoters / speculators - not trying to milk

Jan 11 announcement by Premier - Premier had to get order of council exempting the Premier from securities laws disclosure - thus exempted the entire offering from the $ laws - but they went ahead

Largest prior issue had been Bell Canada of about $250m - only two larger issues in North America than the BCRIC - Ford going public and

BCRIC survey showed great confidence in the province and saw it as a long term - they did this w/ survey of 150 phone calls

Because we don't have same rationale attitudes may be even more important

BCRIC was sold as a nat. resource co. but they never made clear decision to be a nat. resource co -

Montreal Trust handles stock transfer problems - they made decisions and dealt with all the problems - $300,000 per yr fee

They considered elimination of stock certificates but needed them for bearer shares - the registered shares only represents ownership

In the Act itself there is a provision allowing a judge to issue special rules to take Gp out of a jam

Bob Hawkins - Computech

early Dec 1978 premier decided to dist shares - why he decided to dist rather than sell cos it isn't clear to Bob -

Decision was made to marry share dist + capital stock offering w/was a good idea - perceived as a success because of the amount of money raised

From a cost point of view best way is to get certificate into the hand of Sh in one stroke - mechanics of having people come in and apply for shares had something to do with the success of the stock sale

30 days to design / 30 days to implement - 60 days from idea to function

Hawkins started out as a design consultant on the project
hired 50 clerical staff / 25 key punching people (must look at people availability or will be hiring keypunch people from Seattle) - typists are easier to hire w/ better availability

Development staff was from 30/50 people - lawyers, acctants (audit staff),

Development Organization

Project Mgr

Asst PM

PM Chart Admin.

Policy Comm.

Audit

Staffing Equip & Space

Legal & Financial

Fraud Detection

Training

Application & Processing

Shan Reg

Full time staff 20 } 40 day
Part time " 20 }
15 for 20 days

Receiving
Cashier
Edit & Balancing
Accounting & Data Control — 50 pers 3/15 - 8/15
Data Entry — plus 50 pers 5/1 - 6/30
Microfilm
Fraud & Error Resolution
Trouble Calls
Filing
Staffing

He would try to loosen up power of attorney process to catch more people first time around and then

Outside auditors from BC was Peat Marwick in Vancouver this report cost $100,000

Don Alexander - Pres. BC Computer Assn
Mike McKevin VP Fin BCRIC
Shotto Hebenton - Attorney
Bob Hawkins -

Weekly sitrep to check the flow chart for the project - each event was charted and times set out

One of the things which they did was to do things twice to insure accuracy - they chose manual systems and used backups to insure

3 tasks preaudit (emp information)
① ~~determine eligibility~~ handle cash
② eligibility / fraud
③ share registration process (transfer agent handled this)

16 tons of bearer share
100 cubic feet of registered shares
Registered 140,000 shareholders

Mailing out is cheapest & easiest way to dist stock but not the most impressive to Sh

They were concerned with the bush and he likes the way they did the dist through the banks - he would tighten up accounting through banks - would investigate travel practices of people in the state to find them - availability of govt

Problem estimating how many people were eligible bc didn't know how many had lived in BC for 12 mo. - try to make eligibility clean & w/ few exceptions

Needed 2 of 3 pieces of ID to apply - used telephone to call people & tell them they couldn't apply more than once

They had 2.1 m people apply for free shares on 1.7 m applications - broke into 3 types
1) registered (100 or more)
2) free shares
3) purchased share (less than 100)

1) 140,000 app for reg shares (120,000/130,000 people)

3) 70,000 purchase appl. (40,000 people)
2) 2.1 m ~~term~~ bearer certificates
ca 10.4 M pre shares issued
4.5 m owned by govnt.

Transfer function for small companies $3.00 C
under their analysis ~~$7.00~~ printing postage etc.
Single transaction $1.21
To avoid hucksters must clarify intent & if the salesmen get out of line pull licenses
- don't let them sell in malls / door to door b/c it will make it a joke
- people taking advantage of indians

1300 locations for application -
Avoid addresses on stock
① cost of original doubles
② transfer costs ~~go~~ up b/c changes
Certificate should be pretty - value represented

Planning is very important to success - spend extra time on planning & it will reduce the implementation time

For Project Administrator

Good Control / no panic

reasonably high profile guy

someone who can phone Premier / gov / assistant & get response

door opened to [illegible]

good organizer

good "systems" man would be helpful

Must be a risk taker

Politically you want 90% of the people to apply for stock - for \$30 someone might not walk around the corner

If people believe this is a sham then they won't apply & if only 50% apply will be a joke

Jack Rutledge - Montreal Trust 688-4411

Shotto Hebenton - Shrum, Liddle & Hebenton 688-2155

505 Burrard 18th floor

Jack Rutledge (John R. Rutledge)
Montreal Trust Co.

If the purchase had separate application or one more copy of original - they got the form & then had to return it to the service co -

they didn't do this bc they used up all the paper

When preparing the certificate they would have put address on the stock certificate -

Could also have done pre and check first and that would have avoided recession of ~~something~~ some shares of stock w/ were already put together by the transfer agent

Original intention was to put all data on computer and then run the stock certificates on the printer - they decided to go manual because of flexibility - typewriters and typists are easier to get than computer terminals and operators - tried not to go overtime

Leave right corner for transfer agent to make signature easier when issuing alot of stock

They have 40 people servicing 300,000 account.

The quality of the product depends on the audit review and quality control - input to computer system for record keeping is critical

Better data from bank would help - incentives/penalties to the banks would help

Could have helped if applications must be typed - query whether this would be feasible - would improve quality of data input

Start controls at day one and don't let up - over control

Transfer agent problem is greater than BC because you are dealing almost totally with unsophisticated investors - in BC 70% of registered Sh. were first timers - sales person from banks and credit unions were also unsophisticated

Ann Nitz March 27, 1980

The shareholder relations dept at BCRIC has taken some of the load off the transfer agent. - lady who handled hot line for stock issue runs dept at BCRIC - they write down each question and each answer + file

With respect to Tr agent size is not as important as their experience and their computer capacity - flexibility is an important element (a rigid organization won't be able to do the job)

1. Make quality of incoming product as good as possible

2. Have as many copies of the form as possible

3. Get $ Sec number in as many cases as possible

4. Typists are a dime a dozen but auditors aren't - Controls

5. Dealing with spoiled certificates
They set aside a batch of 3000 certificates which were used to replace spoiled (in typing) certificates these and the main body were in consecutive orders

This system is adapted from US Trust - Morgan Guaranty has best system in the world from a computer standpoint

Need to be able to run list of new accounts for a period of time - want to send a letter to new accounts from the corporation welcoming the shareholder + for other purposes

What does St Statute currently applies to Directors officers like registration AS 45.55.060 A7, investment advisors

do we have anything that applies A050C ~~to~~ NASD rules

further contract extentions ie how we will accomodate SEC on these two (conflict & indemnification) Sam would make ~~[illegible]~~ recomendations
also holding period
book value as to demand for repurchase
Public Utility

* Call Sam Monday 12-31 202-872-6414

Call office + Ken Friday 12-27
on check deposit + Sam's questions

Make Rm. Res. Hotel Georgia 1-604-682-5566
BORIC 2600 W. Hastings

Arrival 12:00 Midnight Sun 1-6 and Monday 1-7

David Helliwell BCRIC
Bob Hawkins Computech

(John R.)
1-8-80 Jack Rutledge Montreal Trust Company (Transfere Agent)
would liked to have had an extra copy of the application form also would have been ~~mine~~ easier to have all the registered stock coming to MTC direct rather than through Bob's shop.
Name quality on applications should be better (legability)
300,000 accounts requires apx 40 people
BCRIC with 130 to 140,000 amounts to about 1/2 of MTC business
140,000 issue took 2 wks to get out to shareholders
data quality at Bank level should be improved to have better data going into computers ie applications should be typed to eliminate errors of interpretation
70-75% initial investors ~~are~~ considered as unsofisticated
3-27-80 first BCRIC ~~Stockholders~~ mtg
Shareholder education/information relations person records caller info question & ~~answer~~
Agent must be well experienced and flexible
need good Auditors & good controls
100 cuft. of certificates to be issued
time zone differences and line problems to central data system

12-27

Monday Jan. 7 + Tues Jan. 8, 1979

12-19

BCRIC 604-687-2600 Judy Kimball

1. People who put the stock offering together

Helliwell
10:00 AM
Monday ~~Jan~~ 7
~~In~~ his Office

2. Those involved in setting up the distribution of free stock

3. Political backers of BCRIC concept

? 4. General Council re: conflict of interest,
and indemnification of officers and discrimination

12-20 Rosenstein to Sam Stern 202-872-6414

398 P. 2D 213 Alvest Inc. V.S. Superior Oil Corp
Officer or Dir stands in a fiduciary relationship + he must reasonably protect interest of Corp. + duty breached when they take advantage of a business opportunity when ~~that~~ opp actually should have gone to or belonged to their employing company

SEC

Jan 10th OK but he is leaving that evening

conflict + indemnification

no statutes expressly dealing with officers + investment advisors

Send Sam

NS, 45.55.060 N7 Investment advisor... regist required

NASD rules used

NS 45.55.120 N 4,5,6

Securities must be registered (N650C exempted)

Send Sam

3 NAC 0E, 060

202-224-6665

Jerry and Ken final & Senate version of windfall

NS 10.05. 216 (10.50, 230 of NGSOC)

From Model Act

10,50.225 no loans to officers or dir.

10,50, 230 Liability of Directors in Certain Cases

10.50.295 removal of directors

10,60.630 known fraud act

635 " " distribution

Request exemption on 2 basis

BCRIC

AN OWNER: What it means

As a shareholder in British Columbia Resources Investment Corporation, you are a part owner of BCRIC.

As an owner, we know you will be interested in following the affairs of the company and we intend to keep you as informed as possible.

If you are a registered shareholder (that is, you own shares which have been registered in your name) you can attend, and vote, at the shareholders' meetings.

If you are the holder of bearer share certificates (shares that are not registered in any name), we have no name or address to which information can be sent in the mail. However, we will endeavour to keep you informed through announcements in the press, advertising, and through our shareholder information service at the phone numbers listed on the back page.

If and when any cash dividends are declared, registered shareholders will receive their dividends by mailed cheque while holders of bearer certificates will be able to receive their dividends at a financial institution. You will be informed in advance of any dividend payments.

BCRIC

If you have questions about your shares, you may:

WRITE: Shareholder Information Services, B.C. Resources Investment Corporation, 2600 - 1177 West Hastings Street, Vancouver, B.C. V6E 3Y3

PHONE: BCRIC Shareholder Information Services.
In the Vancouver area, call 669-4443
Outside Vancouver call toll-free (112) 800-663-9122
Shareholders living in the area north of Stewart and Wonowon may call collect 669-4443.

If you wish to transfer or change your share registration, write to:
Stock Transfer Department
Montreal Trust Company
466 Howe Street
Vancouver, B.C. V6C 2A8
(telephone 688-4411)

British Columbia Resources Investment Corporation
2600–1177 West Hastings Street,
Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRINTED IN BRITISH COLUMBIA

A share in BCRIC

British Columbia Resources Investment Corporation

WELCOME to BCRIC

We're pleased that you have become a shareholder in British Columbia Resources Investment Corporation. You are among approximately 2,000,000 individual shareholders, registered and unregistered, of the company.

For those of you who have not owned shares in a corporation before, we've attempted in this pamphlet to give you some information you might find useful concerning your shareholding.

Please take time to read about certificates. They are valuable and safe-keeping is of prime importance.

We hope you find the experience as a shareholder a rewarding one as BCRIC grows and develops.

If you require further information, please write to us or call our shareholder information service.

David L. Helliwell
President and Chief Executive Officer

August, 1979

BCRIC

YOUR SHARES

B.C. Resources has issued two kinds of share certificates, bearer and registered.

Each bearer certificate is for five shares, and these certificates are "negotiable" in that they can be readily exchanged or sold without any registration. If they are lost, stolen or destroyed they cannot be replaced.

Owners of bearer share certificates who accumulate 100 or more shares can have these certificates transferred into a registered share certificate by writing to the Montreal Trust Company in Vancouver whose address is on the back page of this pamphlet. Any chartered bank or trust company will assist you in safe delivery of your shares to Montreal Trust, usually for a nominal fee.

Registered certificates have been issued to those shareholders who initially applied for 100 shares or more. As a registered shareholder, your name is on the share certificate and on the company's list of members.

If your registered share certificate has an incorrect name, or you wish to register the shares in another name, you should write to the Vancouver branch of Montreal Trust Company, making your request and enclosing your endorsed share certificates. We suggest you send certificates by registered mail or through a bank or trust company.

BCRIC

THE MARKET: Buying, Selling and Ownership

Shares of BCRIC will be traded on the Vancouver Stock Exchange and application will be made at a later date to list the shares on other stock exchanges in Canada.

Share prices as established in the trading marketplace will usually be listed in daily newspapers that carry Vancouver Stock Exchange or other market quotations.

Buying and selling shares is usually done on a stock exchange through an investment dealer, for a fee or commission. In the case of BCRIC shares, the Vancouver Stock Exchange has made some special exceptions to its normal practices and will accept as a "board lot" units of five shares until January 31, 1980. This will assist people to trade in smaller amounts.

If you wish to buy more shares, or wish to sell your shares, and there is no investment dealer (stock broker) near you, you can ask any branch of a Canadian chartered bank or trust company to handle this.

You may also trade your BCRIC bearer shares with other individuals at an agreed price if you wish. Since bearer certificates do not carry the name of the shareholder, they can be transferred between individuals by physical delivery.

NINE MONTH REPORT 1979

BCRIC

British Columbia Resources Investment Corporation

British Columbia Resources Investment Corporation

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION BCRIC

Unaudited *(Thousands of dollars)*	Three months ended September 30, 1979	Nine months ended September 30, 1979
Source of funds		
Operations	**$ 22,524**	$ 52,487
Share subscriptions received	**13,283**	487,464
Issue of shares on conversion of promissory note	—	151,533
Other	**228**	1,057
	36,035	692,541
Application of funds		
Conversion of promissory note to share capital	—	151,533
Investment in petroleum and natural gas properties	**3,161**	3,864
Additions to property, plant and equipment	**8,926**	20,836
Share issue expenses (net of reduction of income taxes)	**281**	12,558
Long term debt reduction	**14,816**	22,464
Dividends paid by subsidiary to minority shareholders	**188**	560
	27,372	211,815
Increase in working capital for the period	**8,663**	480,726
Working capital at beginning of the period	**549,885**	77,822
Working capital at end of the period	**$558,548**	$558,548

*Weighted average shares outstanding was calculated on the basis of 15 million shares outstanding January 1, 1979, with the balance assumed to be outstanding on the dates the company received the subscriptions.

British Columbia Resources Investment Corporation

CONSOLIDATED BALANCE SHEET BCRIC

Unaudited *(Thousands of dollars)*	September 30, 1979	December 31, 1978
ASSETS		
Current assets		
Short term investments and cash	**$506,311**	$ 9,787
Inventories, receivables and other	**137,506**	128,843
Total current assets	**643,817**	138,630
Investments and advances	**41,579**	41,067
Property, plant and equipment	**204,576**	198,773
Petroleum and natural gas rights and exploration	**44,823**	40,959
Other	**3,289**	5,639
Total assets	**$938,084**	$425,068
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	**$ 85,269**	$ 60,808
Long term debt	**143,984**	168,247
Promissory note payable to the Province of British Columbia	—	151,533
Deferred income taxes	**14,015**	5,492
Minority interest in subsidiary	**24,595**	23,066
	267,863	409,146
Shareholders' equity		
Share capital— 96.2 million shares	**638,997**	—
Retained earnings	**31,224**	15,922
Total shareholders' equity	**670,221**	15,922
Total liabilities and shareholders' equity	**$938,084**	$425,068

Approved by the Directors:

W M Young

Director

John W Pitts

Director

BCRIC Shareholder Information Service

WRITE:
BCRIC, 2600–1177 West Hastings Street
Vancouver, B.C. V6E 3Y3

PHONE:
In Vancouver area, 669-4443.
Outside Vancouver and within B.C., call toll free (112) 663-9122. North of Stewart and Wonowon, B.C., call collect 669-4443.

Printed in British Columbia

BCRIC HIGHLIGHTS

- Consolidated net earnings were $27.9 million on total revenues of $247.5 million for first nine months of 1979.
- Forest product earnings benefited from strong lumber and pulp prices, but were affected adversely by labour disruptions at Canadian Cellulose.
- The gas and oil division participated in the drilling of nine wells which resulted in two gas wells, one potential gas well, and one oil well.
- The company made a major commitment to increase substantially its gas and oil exploration program in Western Canada to $30 million in 1980.
- BCRIC is actively examining new investments. Within a year it expects to have made at least one major investment.

TO OUR SHAREHOLDERS

BCRIC

We are pleased to commence what will be quarterly reporting to shareholders concerning financial results and other matters affecting the company. We welcome our founding shareholders as well as those who have become shareholders since market trading began August 7, 1979.

For the first nine months of 1979 net earnings were $27,860,000 on total revenues of $247,462,000. Detailed figures are included in the financial statements.

These results reflect BCRIC's share of earnings from its forest products holdings (Canadian Cellulose Company, Limited, Kootenay Forest Products Ltd., Plateau Mills Ltd.), dividend income from its investment in Westcoast Transmission Company Limited and $16,386,000 of interest income primarily representing interest earned on the proceeds of the common share offering. As of September 30, short term investments amounted to $500,139,000.

Revenues from the forest products sector made an important contribution to the company's earnings. However, despite strong lumber markets and increasing pulp prices, forest products earnings were below expectations, largely due to weakening plywood markets, higher than expected production costs at Canadian Cellulose's Prince Rupert pulp mill and work stoppages at that operation.

The gas and oil division completed agreements with operating and drilling firms for exploration on BCRIC's 2.3 million gross acres of land in northeastern British Columbia. In addition, the company is participating on its own and with others in land purchases and drilling programs involving a further 96,609 gross acres in British Columbia and 35,447 gross acres in Alberta. The division's activities have been recently increased and additional staff added as a result of the approval of the Board of Directors to increase significantly gas and oil exploration expenditures in 1980 to $30 million. This program will enable the company to participate more fully in opportunities in the gas and oil sector in Western Canada.

The company, with others, has had modest success in its initial 1978/79 exploration program with the discovery of two gas wells, one potential gas well, and one oil well. Evaluation of these wells is still in progress. Five other wells drilled proved unsuccessful, although several provided promise for future exploration.

The offering of common shares from March 15 to June 15 produced $487.5 million in gross proceeds to the company. These funds are currently invested in high-yielding short term securities pending longer term investment.

The completion of this offering, combined with the Provincial Government's gifting of five free shares to individual British Columbians, has resulted in BCRIC having approximately two million shareholders, including 130,000 registered shareholders. Consequently, the Provincial Government's shareholding has been reduced from 100 per cent to less than five per cent. BCRIC now ranks among Canada's largest companies in terms of common share capital and, therefore, enjoys a wide range of investment possibilities.

BCRIC is currently examining investment strategies in view of its corporate objectives and strong cash position. These strategies include the examination of a number of interesting prospects in the resource sectors in Western Canada. It is anticipated that, within a year, BCRIC will have made at least one major investment.

Since becoming a public company, we have received a number of comments and suggestions from individual shareholders. These have been constructive and, on behalf of the Board, I want to thank those shareholders for their ideas.

David L. Helliwell,
President and Chief Executive Officer.

Vancouver, B.C.
October 18, 1979

CONSOLIDATED STATEMENT OF EARNINGS

BCRIC

Unaudited *(Thousands of dollars)*	Three months ended September 30, 1979	Nine months ended September 30, 1979
Revenues		
Sales of forest products	**$ 75,521**	$227,305
Interest on short term investments	**14,061**	16,386
Other	**1,301**	3,771
Total revenues	**90,883**	247,462
Costs and expenses		
Cost of forest products sold	**59,422**	178,994
Selling and administration	**4,640**	12,087
Interest on long term debt	**3,998**	12,318
Total costs and expenses	**68,060**	203,399
Earnings before income taxes	**22,823**	44,063
Provision for income taxes	**8,436**	14,216
Earnings before minority interest	**14,387**	29,847
Minority interest in net earnings of a subsidiary	**708**	1,987
Net earnings	**$ 13,679**	$ 27,860
*Weighted average shares outstanding (millions)	**96.1**	46.7
Net earnings per share	**$ 0.14**	$ 0.59

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Unaudited *(Thousands of dollars)*		
Retained earnings at beginning of the period	**$ 17,826**	$ 15,922
Net earnings	**13,679**	27,860
	31,505	43,782
Share issue expenses (net of reduction of income taxes)	**281**	12,558
Retained earnings at end of the period	**$ 31,224**	$ 31,224

AN INTRODUCTION TO

COMPUTECH

INTRODUCTION

Computech is a Vancouver based data processing consulting, systems design and programming firm which has been providing professional services to business and government since 1966. We are strictly a people company, rendering service for fees. We have no equipment of our own and are not connected with any data processing vendor. The principals are all active in the operation of the firm. Mr. Grant R. Gisel is President, Mr. Ian U. Reid is Vice-President and Controller and Mr. David L. Bowman is Vice-President and Senior Project Manager.

Our consulting services are specialized in three areas. These are the conduct of economic feasibility studies for data processing equipment, the selection of equipment for clients including tender preparation, proposal evaluation and contract negotiation and finally, performance evaluations of existing computer installations.

The systems design and programming services we provide are oriented toward the solution of business data processing problems. Our clients are usually medium to large scale computer users, but we have also assisted many organizations by implementing systems on their first computer.

Projects with which we have have been associated represent a broad spectrum. Applications include accounting, costing, payroll, inventory control and various financial systems. Significant projects have been undertaken on behalf of municipal and provincial governments, the Forest Industry, retail, distribution, financial, utility and service organizations. Our orientation in recent years has been toward the application of computers in a real time environment where we have used both large and small systems.

We believe that during the past thirteen years, Computech has established a creditable reputation for successfully completing data processing projects on time and within budget. The key to this performance is our professional data processing staff. With an average of more than ten years experience in the design and implementation of computer systems, they bring a comprehensive background of knowledge to every project.

When initiating a client assignment, our preferred practice is to develop a formal proposal outlining the work to be done with the appropriate schedules, cost estimates and definitions of mutual responsibility. This quotation then serves as a guide for measuring progress. We are prepared to provide a ceiling estimate for a project which we undertake not to exceed where sufficiently detailed specifications are available. Typically this is done in phases. For example, a final estimate for systems design work would be done at the end of the analysis phase while the programming estimate would be finalized at the end of the design phase. Naturally, these estimates are subject to revision should the Terms of Reference be altered.

We also work with clients in a variety of other arrangements. Our consultants can establish a continuing relationship with a client to provide advice or act as a sounding board. Our systems analysts and programming staff can work on an hourly rate with a client in situations where a specific project cannot be defined, but a variety of work needs to be done. In all cases, charges are based only on the time involved at our stated rates.

It is our practice to bill for all time expended and expenses incurred on behalf of our clients at the conclusion of each month. Invoices are due within thirty days.

Our rates vary depending on the individual assigned to the project and are adjusted every January to reflect salary increases.

PREVIOUS PROJECTS

Computech has been engaged in a wide variety of data processing assignments. Our projects have ranged in size from those requiring only a few man weeks of involvement to extremely large tasks consuming many man years. We have worked with computer equipment supplied by most major manufacturers as well as a variety of equipment from smaller vendors. In addition to technical competence, we have proven our capability to assume total management responsibility for the design, programming and implementation of new computer procedures on behalf of our clients.

During the past 13 years, we have completed several hundred projects. The application areas range from small batch accounting systems and on line order entry and banking projects to sophisticated longshore dispatch and claim assessment applications. The following paragraphs summarize several projects which are typical of our experience.

B.C. TELEPHONE

Yellow Pages Directory

In late 1976, Computech was retained by B.C. Telephone to aid them in the development and implementation of an on line system to update and produce the Yellow Pages Directories. The Yellow Pages database, developed by the team, consists of one million records, organized by directory, classifications and finding lines. The system uses CICS under MVS to drive the input terminals. Complex processing is involved in the preparation of output data in a format suitable for computerized typesetting. The project team consisted of a project leader from Computech and seven B.C. Telephone staff members.

Customer Inquiry System

In 1977 a study was initiated at B.C. Telephone to evaluate the feasibility of providing on line inquiry into billing records to improve response to customer queries. This study recommended a project be initiated to design and implement an on-line database system using an IBM mainframe and IMS DB/DC. As this was B.C. Tel's first experience with a major on-line IMS database system, Computech was asked to provide an analyst experienced in these areas to aid in the design and implementation of the database, and in the establishment of the internal procedures required to support such an application. The project is scheduled for a phased implementation with 120,000 customer accounts available on 18 terminals in the pilot service centre now in operation, expanding to 1.2 million accounts available on 475 terminals in all service centres by early 1980. On line update of information on the databases is scheduled for mid-year, 1980. The production version of the system is estimated to reside on six 3350 spindles and use 35% of the computer power of a /370-158 MP.

WEISER LOCK

In the Fall of 1976, Weiser Lock Co. asked Computech to develop a systems plan and to select the appropriate computer for its requirements. That project was completed in early 1977 and subsequently Computech was asked to assist with the general system design and with the detailed design of one of the subsystems. Weiser staff are now completing the detailed design and commenced programming in June 1978. This sophisticated manufacturing application encompasses production control, inventory control and sales order processing using an IBM System/370-145 with approximately twenty terminals.

CROWN ZELLERBACH CANADA LTD.

Coast and Wood Products Division

In 1976, Crown Zellerbach decided to design and install a new Order Entry and Invoicing System for its Coast Wood Products Divison. A four man project team consisting of a project leader and a programmer from Computech and two people from Crown Zellerbach completed the project in June, 1977. The system operates on Crown's DEC 10 computer using Digital's DBMS database software and consists of five terminals located in New Westminster, B.C. The system is designed so that the user controls all aspects of the running of the system with the exception of one batch job which is run overnight. The database contains all of the Coast Wood Products customer, product and on-order data. It is planned to expand the database to include receivable and sales analysis applications.

Paper Products Division

Computech was retained in late 1977 to prepare a long range system plan for the Paper Products Division. This study involved a review of the Division's requirements and resulted in the identification of numerous required applications including: order entry and invoicing, sales analysis, inventory, production reporting, costing, forecasting, plant capacity planning and production scheduling. The projects are to be done over the next 2 to 3 years.

GREATER VANCOUVER REGIONAL DISTRICT

The Greater Vancouver Regional District provides common services such as area planning and water to member municipalities. Computech was retained to select computing equipment and to develop several computer applications to be used by the District. A Digital PDP 11/70 was installed with a total of twenty terminals. The system now handles payroll, accounts payable, property information, quality control, accounting and debenture systems. The systems employ a number of unusual features, including on-line access to all payroll, personnel and accounting records at a detail level.

VANCOUVER STOCK EXCHANGE

Computech has worked with the Vancouver Stock Exchange from 1975 in the development of an on-line system to support floor trading and stock inquiries. Based on an IBM/370-125, the system uses a custom tailored version of CICS and a specially designed database handler. With a Digital Equipment PDP8 front end for line control, the system supports a message rate in excess of six per second. This rate, achieved through substantial software modifications, is more than double that normally supported by this type of equipment.

In 1978, a team of Computech staff members converted a portion of the Brokerage Accounting System, now being run at a local service bureau, to run on VSE's in-house computer. A benefit to be realized from the conversion is the creation of a base of information from which the Exchange will provide additional on-line services to the brokers.

ADDITIONAL STAFF

In addition to the projects involving direct Computech responsibility, we are often asked to undertake assignments where our staff act on an as required basis for the duration of a particular activity.

One concern of many computer installation managers is satisfying the often conflicting requirements of their many users with limited system development resources. Achieving deadlines may be difficult because of a shortage of staff or a lack of personnel with particular application or technical skills. Computech can often assist in these situations by providing experienced analyst programmers for either design or implementation projects.

Some examples of such projects include a materials billing system for B.C. Hydro using IMS on their /370-168, payroll systems for Canadian Cellulose, and industrial assessing procedures for the B.C. Assessment Authority. Numerous projects have been undertaken on this basis for large computer installations such as B.C. Telephone, Crown Zellerbach, Canadian Forest Products.

SUMMARY

These assignment examples highlight characteristics of many Computech projects which we believe to be invaluable to our clients. These include:

1. Development of imaginative and thorough solutions to information processing problems.

2. Ability to assume responsibility for a complete task where appropriate to client needs.

3. Design of technically and operationally successful systems.

4. Capability to meet critical schedules and budgets.

5. Ability to supervise and train client personnel if required.

It is these characteristics which result in superior performance for our clients. It is the assurance of high probability that a task assigned to Computech will be successfully completed as planned with a minimum consumption of client management time.

EQUIPMENT SELECTION

Computech has been engaged in a wide variety of data processing assignments. Many consulting projects have been feasibility/computer selection assignments. We have provided below a list of some of the major computer selection situations with which we have been involved. In addition, we are familiar with a broad variety of other equipment through our analysis, design and programming work.

Client	Year	From	To
Scott Paper	1968	IBM	IBM
Waterfront Employers of B.C.	1968	IBM	IBM
Tahsis Company	1969	IBM	Honeywell
Canada Cement Lafarge	1969	-	IBM
Worker's Compensation	1969	Univac	IBM
University of Winnipeg	1970	-	Univac
Westfair Foods	1970	IBM	Mohawk
W.G. McMahon Ltd.	1971	Univac	NCR
Fraser Valley Milk Producers	1971	Burroughs	Burroughs
Maritime Employers Assoc.	1972	-	IBM
Canadian Cellulose Ltd.	1973	Honeywell	IBM
West Coast Drugs	1973	-	Singer
Vancouver Stock Exchange	1973	Univac	IBM
Laurentide Financial Corp.	1974	Burroughs	Burroughs
City of Kelowna	1975	-	Univac
District of Coquitlam	1975	-	Univac
Greater Van. Regional Dist.	1976	-	Digital Equip.
Tahsis Company	1976	Honeywell	Honeywell
Vancouver Ticket Centre	1976	-	Digital Equip.
Burrard Drydock Co. Ltd.	1976	-	Digital Equip.
Milcrae Warehouses Ltd.	1976	-	Basic IV
Prov. of B.C. (Peripherals)	1977	IBM	IBM
B.C. Television	1977	Univac	Digital Equip.
Canadian Data	1978	-	Digital Equip.
Corp. of Burnaby	1978	IBM	Univac
W.G. McMahon Ltd.	1978	NCR	Digital Equip.
Operating Engineers	1978	Service Bureau	Data General
Vancouver School Board	1979	Honeywell	IBM
B.C. Lions Society	1979	Service Bureau	Data General

REFERENCES

In evaluating the capability of a professional firm, past and existing clients are perhaps the most important source of information about the skills and competence of the organization. We have provided below the names of clients for whom we have worked during the past few years and have indicated the nature of our involvement. You may wish to contact some of these individuals to obtain their views as to the services we provide.

Client	Computech Involvement
Bank of British Columbia Mr. W.A. Franklin Asst. General Manager 668-4544	Consulting regarding installation long term plans and supplier negotiations. Designed and implemented a share accounting system.
B.C. Hydro & Power Authority Mr. Al Donald Acting Manager, Management Systems 663-3544	Programming services.
B.C. Telephone Company Mr. H.E. Seadon Director, Mgmt. Information Services 432-3611	A variety of consulting, systems design and programming projects.
Burrard Yarrows Corporation Mr. D.J. Alsop V.P., Finance & Administration 988-2111	Feasibility study and computer selection. Systems design and implementation of payroll and costing systems.
Canadian Cellulose Ltd. Mr. M. Stellmacher Manager, Data Systems 685-2452	Consulting, systems design and programming projects.

Client	Computech Involvement
Canadian Data Mr. R.D. McLean President 687-8841	Consulting and equipment selection.
Canadian Forest Products Ltd. Mr. G. Herbert Data Processing Manager 664-3701	Feasibility studies and various programming projects.
Corp. of the Twp. of Richmond Mr. A. Inglis, C.A. Deputy Treasurer-Collector 278-5511	Assistance in equipment selection.
Crown Zellerbach Canada Ltd. Mr. Tom B. Boulanger Director, Computer Services 668-4278	Various consulting, systems design and programming projects.
District of Burnaby Mr. H.B. Karras Deputy Treasurer 294-7332	Feasibility studies and equipment selection.
District of Coquitlam Mr. V. Dong Municipal Treasurer 526-3611	Feasibility study, equipment selection and responsibility for design and programming.
Greater Vancouver Reg. Dist. Mr. J. McLean Assistant Treasurer 731-1155	Feasibility study and equipment selection. Responsibility for systems development and programming.

Client	Computech Involvement
Insurance Corp. of B.C. Mr. R.E. Henderson Senior Vice President 665-7766	Organizational studies of data processing department. Systems design and programming projects.
Intl. Union of Op. Engineers Mr. M. Parr Business Manager 291-8831	Feasibility study, system design.
Kelly Douglas Ltd. Mr. David G. Gibbs Controller 435-1444	Several equipment studies related to on-line data collection and machine selection. Programming.
Maritime Employers Association Mr. Arnold Masters President (514) 878-3721	Total responsibility for development of on line dispatch systems.
W.G. McMahon Ltd. Mr. D.H. Wheeler Vice President (204) 633-1020	Feasibility studies, equipment selection, systems design and programming.
Rent Review Commission Mr. J.G. Patterson Rentalsman 689-3111	Feasibility studies and systems design and programming.
Registered Nurses Association Ms. F.A. Kennedy Administration Manager 736-7331	Feasibility studies and systems and programming projects.

Client	Computech Involvement
Simon Fraser University Mr. G. Suart Vice-President, Administration 291-4101	Organizational review of administrative systems staff.
Tahsis Co. Ltd. Mr. J. Neal Manager Data Processing 681-2266	Feasibility study and equipment review.
Vancouver Stock Exchange Mr. J. Forbes Vice President, Administration 685-0331	Consulting studies, on line systems Planning and related design and programming.
Weiser Lock Co. Mr. B. Edwards Vice President, Administration 526-3641	Feasibility study.
West Coast Drugs Ltd. Mr. C.W. Cruickshank General Manager 530-9713	Feasibility studies, equipment selection and responsibility for on-line system implementation.
Wosk's Limited Mr. L. Wosk Vice President Corporation Management 321-6861	Systems design and programming.

PERSONNEL

Our technical staff is comprised of forty two experienced data processing professionals. The enclosed resumes of some members of the firm provide the best indication of the kind of skills which we can apply to your projects. A few general points regarding our staff are:

1. The average technical experience of our staff exceeds ten years.

2. Our staff has been selected on the basis of productivity and reliability.

3. All analysts are required to program periodically to encourage realism at the design phase.

4. Our staff have consistently produced innovative, practical solutions to problems, often well in advance of common practice.

We believe the key to the success of any major project is the experience and capability of the staff assigned to perform the work. Our resumes provide a guide to the expertise we would assign to a project.

GRANT R. GISEL

Grant Gisel received a Bachelor of Commerce degree from the University of Manitoba in 1964. His initial computing experience was gained at IBM Canada Ltd., first as a programmer and systems engineer and then as a marketing representative. He worked with the Company in several Western Canadian cities and was involved with the installation of numerous computer systems.

Mr. Gisel joined Computech in 1968 as a consultant engaged in feasibility studies and computer evaluation. Subsequently, he was retained as Acting Director of Computer Systems for the Workers' Compensation Board where he directed the implementation of a third generation computer and supervised development of new systems involved in the restructuring of administrative practices at the Board. During 1971/72, Mr. Gisel managed the Computech team who implemented an on-line longshore dispatch system for the Maritime Employers Association in Montreal.

Since 1973, Mr. Gisel has been engaged in a variety of feasibility studies, equipment selections and supervision of computer systems implementation projects. Major clients have included B.C. Telephone, Burrard Dry Dock Ltd., Greater Vancouver Regional District, Crown Zellerbach, Insurance Corporation of B.C., The British Columbia Systems Corporation, B.C. Resources Investment Corporation and the District of Burnaby. He has also acted as a consultant to the Vancouver Stock Exchange in regard to their on-line data processing system.

Mr. Gisel was appointed Vice-President of the Company in 1969 and President in 1973. Active in the computing community, he is a member and past Director of the Data Processing Management Association and member and past President of the Canadian Information Processing Society.

IAN U. REID

Ian Reid graduated from the University of Victoria in Mathematics and Philosophy during 1964. He held a commission in the Canadian Navy. His early computing experience was obtained at IBM Canada Ltd. as a programmer and systems analyst in the IBM Datacentre. During this time he gained extensive experience in various commercial applications, supervised programming and operating staff and developed estimating tools.

Mr. Reid joined Computech in 1968 as a consultant. He developed computer evaluation procedures for the Company and conducted a wide variety of projects. Mr. Reid has recently been directly involved in feasibility studies and equipment selection situations for clients such as the Tahsis Company Ltd., the Bank of British Columbia, British Columbia Television, B.C. Telephone Company, Canadian Forest Products and the International Union of Operating Engineers. He has dealt extensively with most of the general purpose and minicomputer manufacturers in his various selection situations.

He is responsible for managing a variety of systems development projects involving Computech analysts and programmers. Mr. Reid has also carried out a number of non computer oriented consulting assignments.

Mr. Reid was appointed Vice-President of the Company in 1969. His responsibilities within Computech include internal financial management and administration. He is a member of the Canadian Information Processing Society and a Director of the EDP Auditors Association.

DAVID L. BOWMAN

Mr. Bowman joined the United States Air Force in 1961 and was trained in systems and data processing. In 1965 he moved to Canada and was employed by Simpson Sears, where he was responsible for programming credit accounting and inventory reporting systems.

Mr. Bowman joined Computech in 1967 as a programmer analyst. Since then he has had extensive systems analysis and programming experience using a wide variety of hardware and software. He has managed several successful large computer projects. Mr. Bowman was instrumental in the development of new forecasting techniques for inventory management and he has been responsible for the implementation of four different inventory management systems, the largest of which was for Crown Zellerbach Limited.

In 1971, he designed an integrated account management system for a major subsidiary of John Labatt Ltd. In 1972, he designed and implemented membership and claims payment procedures for the dental plans offered by CU&C Health Services. During 1973 he served as acting Data Processing Manager for B.C. Sugar. In 1975 he designed and implemented an on-line sales order processing and inventory control system for West Coast Drugs Limited. In 1976 he completed an overall materials management study for B.C. Telephone inventories. More recently, he has been involved in various consulting assignments related to feasibility studies and equipment selection.

Mr. Bowman was promoted to Vice-President and Director of Computech in 1975. His responsibilities include overall project scheduling and manpower planning.

ROBERT L. HAWKINS

Bob Hawkins graduated from the University of British Columbia with a Bachelor's degree in Mathematics and Physics in 1962. Initial professional experience was gained with IBM Canada Ltd. as a Systems Engineer from 1962 to 1966, and then as a marketing representative in 1967. During this period he was responsible for systems design for numerous commercial applications in Provincial Government and the distribution, retail and manufacturing industries.

Mr. Hawkins joined the City of Vancouver as Systems and Data Processing Manager in 1968. His responsibilities included manual systems and office equipment as well as conventional data processing functions. He was also involved in the solution of many organizational and staffing problems. In 1973 he carried out a comprehensive study for the selection and subsequent implementation of a large scale computer required for on line data base applications. In 1974/5 he directed the development of an on-line property tax system using advanced data base techniques. During this same period he managed a complex conversion project to a large scale Honeywell computer system.

In 1975 Mr. Hawkins joined Computech as a Senior Consultant. He has been involved in a variety of feasibility and equipment selection projects. As well, he participated in the systems requirements definition and implementation for a new computer installation at the District of Coquitlam. Clients for whom Mr. Hawkins has carried out assignments include Weiser Lock Co., Vancouver Ticket Centre, Federal Industries, the Corporation of Richmond and the British Columbia Systems Corporation. He has particular expertise in Municipal and Provincial Government applications and in sophisticated analyses of large scale and mini computer equipment.

ROBERT H. BIRCH

Mr. Birch graduated from the University of Saskatchewan with a B.Sc. in 1962. After teaching for one year, he joined IBM's Vancouver Education Centre in 1963. He was transferred to Victoria in 1965 as a systems engineer. His major assignment there involved the initial systems development work for the start up of the B.C. Medical Plan. Mr. Birch was transferred to Winnipeg in 1969 to the IBM Field Systems Centre.

In 1970, after returning to Vancouver, Mr. Birch was responsible for the coordination of the IBM Western Canadian Data Centre efforts in the Call 360 and RJE. He was reassigned to the Education Centre in 1971. His prime areas of responsibility there were in the Data Base/Data Communications program products with particular emphasis on CICS/VS, DOS DL/1 and IBM/VS as well as the associated teleprocessing equipment. During this time he maintained and used all software systems related to the above areas. On CICS and DL/1 he was used as a Western Canadian specialist for all of IBM's branches and was responsible for developing many of the Canadian and DL/1 courses.

In October 1975 Mr. Birch joined Computech as a senior consultant. He has participated in and led various system definition and feasibility studies for clients such as the B.C. Telephone Company, Crown Zellerbach, Weiser Lock, Kelly Douglas and the Vancouver Stock Exchange. He is currently in charge of a multi-year systems development project for Crown Zellerbach's Paper Products Division. For the past year he has also been the Acting Computer Services Manager for the Municipality of Burnaby. Mr. Birch was appointed to the Computech Management Committee in the Fall of 1976 and is responsible for internal staff education.

ERNIE W. LOHRENZ

Mr. Lohrenz was employed by Manitoba Hydro's Data Processing Department in 1962. He was responsible for the programming of accounting reports, payroll, and an accounts payable system. He joined MacMillan Bloedel in 1967. His first project was a payroll conversion. Subsequently, he was involved in the programming and implementation of an on-line order invoicing system.

Mr. Lohrenz joined Computech in 1970. Initially he participated in the programming of an integrated inventory management system for Crown Zellerbach. Next, he designed and implemented a generalized inventory package for small distributors and costing and payroll systems for Canadian Cellulose Ltd. He also assisted on a project involving the development of a Property Management System. Other assignments include a School Board Payroll and a Membership System for the Registered Nurses Association. He worked with the Vancouver Stock Exchange on their net settlement system during 1974 and the following year designed and implemented a warehouse billing system for Kelly Douglas Limited. Mr. Lohrenz has recently completed the design, programming and implementation of an integrated terminal oriented accounting inventory control system at Wosk's and a payroll design for A&W Food Services. He has been the project leader of a large scale on-line management information system for CU&C Health Services.

Mr. Lohrenz has worked with IBM System/360 and /370 equipment from the Model 20 to Model 158 level as well as Univac 1108, NCR Century 100, Burroughs 1700 and TRW 2200/5500 computers. He is a highly skilled ANS COBOL programmer as well as being experienced with various Assemblers and BASIC. He was appointed to the Computech Management Committee in 1978 and is responsible for the technical operations of the Victoria Office.

JOHN C. BOVARD

Mr. Bovard joined the Investors Group in Winnipeg in 1963 as an analyst/programmer. His responsibilities included development of a mutual funds accounting system and an automatic payment plan application. He joined MacMillan Bloedel Ltd. in 1967 and worked on their payroll system, a ship cargo reporting application, the general ledger and an on-line building materials order invoicing system.

Mr. Bovard joined Computech in 1968. His initial assignments involved the development of a wide range of forest industry applications including cost and budget reporting, payroll, labour statistics, financial statements and inventory management. He was also responsible for the on-line phase of the B.C. Maritime Employers Longshore Dispatch System. In 1972, he designed and implemented a sophisticated Property Management System for the Baxter Group. He has carried out several projects for the B.C. Telephone Company and has designed and implemented a share system for the Bank of British Columbia. Mr. Bovard was lead Technical Designer for an on-line credit union system at Central Data Systems. He was Project Leader for an on line system to maintain the Yellow Page Directories at B.C. Telephone. He is currently involved in client feasibility projects and acts in a senior technical guidance capacity on Computech's larger assignments.

Mr. Bovard has worked with IBM/360 and /370 equipment from the Model 30 to Model 158 level as well as the Univac 1108, Honeywell 200 and Burroughs 4700. Experienced with both DOS and OS software, he has conducted extensive programming projects in ANS COBOL, PL/1, RPG and Assembler and has used CICS extensively. A skilled Systems Designer, Mr. Bovard has been totally responsible for numerous projects from the initial definition phase through implementation. Mr. Bovard is a member of the Computech Management Committee and is responsible for the development of internal project management systems.

LADISLAV BRANDA

Mr. Branda graduated in 1968 in Business Administration specializing in Data Processing Systems. Prior to this time, he was employed by a National Computing Centre in Prague, Czechoslovakia, where he wrote commercial programs in Assembler and Algol. Mr. Branda supervised 15 programmers and had responsibility for systems development.

Mr. Branda joined Computech in 1969 as a Programmer Analyst. His initial assignments included a Retail Sales Analysis System for the Bay and a Telephone Toll Billing System. In 1970, Mr. Branda assumed responsibility for the design of an on-line longshore dispatch system at the B.C. Maritime Employers Association. Subsequently, he assisted in the design of a similar dispatching method for Eastern Canadian Ports. Mr. Branda redesigned a management reporting procedure for the B.C. Telephone Company involving manual systems and control problems as well as computer system modifications. He also completed an assignment as Project Leader for Central Data Systems in the development of their On Line Credit Union System. Other projects in which Mr. Branda has participated include a variety of feasibility and system studies as well as system audits.

Mr. Branda's most recent major assignment has been as Project Leader of a five person project revamping the billing system used by the Provincial Government for the Forest Industry's wood cutting. The project, which involved COBOL on large scale IBM equipment, is being implemented within the time and cost constraints specified.

Mr. Branda has particular expertise in application definition. He is very skilled in establishing true user requirements and in producing system solutions, both manual and computerized. He is an experienced large scale project leader. Many of the systems on which he has worked have involved the use of both on-line transaction oriented terminals and database software. He was appointed to the Computech Management Committee in 1979.

DAVID C. WILLS

Dr. Wills graduated from Oxford with a Ph.D. in Physics during 1970. He joined Arthur Anderson in London and worked as consultant and analyst in their management consulting division. His initial programming projects included a corporate model for a steel wholesaler and a sales forecasting system for a shoe manufacturer. He designed and implemented a program package for the development of simulation models on a time sharing system. Subsequently, Dr. Wills was engaged in a study and design of a system for a department of the British Government. This project involved considerable review and revision of manual systems as well as the use of various statistical packages. He completed the analysis, design and implementation of an accounting and management information system for a finance company in London. His responsibilities in this project included the systems analysis and design as well as programmer supervision.

Dr. Wills joined Computech in September, 1974 and worked on an Assessment System for the City of Vancouver. This was followed by a personnel system feasibility study for Scott Paper Ltd. He then assisted the B.C. Assessment Authority in their development of a conversion to a province-wide system for machinery assessment. He supervised, designed and implemented payroll, financial reporting and related systems at the Greater Vancouver Regional District on the DEC 11/70. He has designed a job cost system for the Burrard Drydock DEC 11/70 and is supervising its development. Dr. Wills is currently working on the development of a municipal accounting system for the District of Burnaby.

Dr. Wills has worked with PL/1, FORTRAN, COBOL and Assembler used on the Univac 1108, IBM System/360 and System/3 and Honeywell 6000 computers. He has extensive working experience with the DEC 11/70 under RSTS/E. He was appointed to the Computech Management Committee in 1979.

C.A. BRIDGES

Mr. Bridges graduated from Queens University, Kingston, with a B.Sc. in Electrical Engineering in 1972. He joined Prudential Assurance in October of that year as a programmer, where he worked with COBOL and Assembler on an IBM System/360 Model 40.

In February 1975 he joined Data Logic as a programmer/analyst where, on a contract basis, he was involved in a variety of projects including Dividend Accounting for a major trust company. Assignments were carried out on a System/360 Model 40 and System/370 Model 168 under DOS and OS/MVT respectively. Languages included COBOL, MARK IV, Assembler and ALGOL.

He came to Vancouver and joined a Digital O.E.M. firm in February 1977 as a System Support Representative. During this time he designed and implemented a Real Estate Accounting System, a Scheduled Maintenance Application, a Work Order System, a generalized accounting package and various payroll functions. He worked with DEC 11/34 and 11/70 systems under RSTS-E, RT11 and CTS300. Languages used include DIBOL, Macro and BASIC+2.

Mr. Bridges joined Computech as a programmer/analyst in April 1979 and is currently implementing an administrative system for the Operating Engineers in Business Basic on a Data General Nova.

Mr. Bridges has a broad background in commercial design and implementation in COBOL oriented IBM installations and various sized DEC 11 systems.

A.W. CARTER

Mr. Carter graduated from the University of Alberta in 1970 with a B.Sc. (Computing Science Major) and joined the Alberta Government as an analyst. His initial project was in the medical claims area where, over a two year period, he rose from a junior programmer to Project Leader. This was followed by two years in the redesign and rewrite of the Public Service Pension System. The Pension System included on line inquiry and calculation package using Government supplied software. Subsequently, he participated in the design of a new motor vehicle on line system. All the above projects used COBOL on large scale IBM System/360 and /370 equipment.

In 1974, Mr. Carter joined Thorne Riddell as an analyst working with their System/3 equipment on various commercial applications including parts inventory and magazine distribution systems. Moving to Vancouver in 1975, he worked for Boeing computer services company participating in various on line mini oriented projects including a Nursery order entry and inventory system running on a DEC 11/34 and the Surrey Welfare System on TRW Data points.

Mr. Carter joined Computech in 1977. His initial assignments involved several systems using BASIC+2and RMS 11 on DEC 11/70 computers. He has also designed and supervised programming for a Union Membership and Pension System for a Datageneral Nova minicomputer.

Mr. Carter has used COBOL with IBM System/3, System/370 and a Hewlett Packard 3000. He has worked with Databus on the Datapoint 2200 and 5500 as well as Basic on various Digital Equipment DEC 11 and Datageneral Nova systems. The majority of his professional work has included project leader and design responsibilities as well as programming.

RALPH DANYLUK

Mr. Danyluk graduated from the University of Manitoba in 1972 with a B.Sc. (Honour Physics) and from Simon Fraser University in 1975 with a M.Sc.(Physics).

During his undergraduate years he was involved with various computer projects, including an economics model for the Manitoba government's guaranteed income program, and a fast data acquisition and analysis system for nuclear physics and medical research.

In 1975, he joined Digital Equipment Corporation as a software specialist providing presales assistance and systems support. He was heavily involved in customer training, system installation and implementation consulting of commercial data processing accounts, including: Greater Vancouver Regional District, Prince George Pulp and Paper, B.C. Building Corporation, and Prince George School District. During this time, he gained experience in project management, system conversion (IBM to DEC), and DEC hardware and software.

Prior to joining Computech he was involved with the implementation of a job costing system for Star Shipping on a PDP 11/70 for a local systems company.

Mr. Danyluk joined Computech in May, 1979 and is currently working on the programming and implementation of a lumber inventory system for BALCO.

Mr. Danyluk is experienced with FORTRAN, RPG, BASIC+, BASIC+2, DIBOL, RMS11, various assemblers, and both remote batch and on-line communications software. His equipment background includes IBM/360, IBM System/3 and 32, PDP 9/15, 8, 11, and HP1000.

ROBERT G. ELDRIDGE

Mr. Eldridge graduated from U.B.C. in 1965 with an Honours B.Sc. He joined IBM Canada Ltd. where he worked on a /360 Assembler programming assignment, a 1401 to /360 conversion and various other technical support assignments in Victoria and Vancouver.

In September 1967, Mr. Eldridge joined Weldwood of Canada as a Programmer/Analyst. His work included the complete development of a major Order Entry computer system including the feasibility study, design, programming and installation. His other projects at Weldwood included technical support of computer operations, participation in a CICS project, DOS system generation and planning for the conversion to virtual systems. Mr. Eldridge later became Technical Services Manager responsible for hardware/software selection and usage, maintenance activities involving a wide range of business systems and supervision of the technical programming and data preparation staffs. In May 1976, Mr. Eldridge was hired by Control Data as a senior application analyst providing sales support for their peripheral products in Western Canada. He joined Computech in May, 1977 and worked on the development of a Mill Stores system for Canadian Cellulose Ltd.

Mr. Eldridge next participated on a project team which designed and implemented an on line information system for CU&C Health Services. His responsibilities include technical design, CICS implementation and programming and system tuning. He also monitors and controls supplier software deficiencies and their correction.

Mr. Eldridge has practical experience with COBOL, Assembler, FORTRAN, RPG and PL/1 as well as DL/1 TOTAL, LIBRARIAN, FORESIGHT and CICS. His experience with IBM hardware spans System/3 through to large scale systems. In addition, he has management experience in most phases of data processing.

SUZANNE R. FARRINGTON

Ms. Farrington graduated from the University of Florida with a Bachelor's degree in Business Administration in 1968. She joined IBM as a programmer trainee immediately thereafter. Her first three years involved business system programming in COBOL, PL/1 and Assembler on manufacturing inventory, production control and accounting systems. This was followed by various system software projects including DL/1 and IMS testing and OS and VS2 Supervisor debugging. In 1973 she returned to the manufacturing environment to develop process control application programs.

Moving to Vancouver, Ms. Farrington joined Weldwood of Canada as an analyst in 1974. While there, she maintained an integrated data base system utilizing TOTAL and COBOL. She also designed and implemented automated lubrication scheduling, vibration analysis and sales analysis systems. In 1976 she joined a software firm as Chief Programmer for a team designing, programming and implementing an on-line receivables system, in COBOL, for an Interdata 7/32. Her additional responsibilites included the design of spool, security and screen formatting packages. In this project she acquired considerable experience with structured programming approaches.

Ms. Farrington joined Computech in July 1977 as a computer analyst. Her initial projects involved use of a DEC 11/70 using Basic+2 under RSTS. She has been responsible for technical design and the supervision of client programmers in the development of an on-line budgeting system.

Ms. Farrington has extensive experience in PL/1 and COBOL under DOS, OS and various derivatives as well as Interdata and DEC experience. She has a broad background in using TOTAL and ENVIRON. Applications expertise includes most standard commercial systems with particular emphasis on manufacturing systems.

IAN FISHER

Ian Fisher began his computing career during 1969 in England with Unigate Foods (the largest dairy products manufacturer in Britain) as a junior programmer. He was involved in the programming of budgeting, inventory control and accounting systems.

In September 1972, Mr. Fisher joined F.M.C., where he was responsible for the implementation of accounting and payroll systems. He was later responsible for the technical support of the computer operations and operating system. In 1974 he was promoted to Chief Programmer and subsequently gained supervisory experience on various projects including product costing, producer payments, genetics and breeding performance, least cost mix and inventory evaluation. In early 1977, he completed the design, programming and implementation of an on line order entry system. His last major project before immigrating to Canada in August 1977 was a sales and dispatch system using Entrex 480 minicomputers linked via a communications network to the mainframe.

Mr. Fisher joined Computech in September 1977 and programmed a purchase order processing system for a Singer System 10 minicomputer. He has carried out a COBOL programming project in a DOS/VS environment at the Vancouver Stock Exchange. He has worked with Crown Zellerbach on their DEC 10 in a programming and technical design capacity.

Mr. Fisher has had programming experience on various ICL, IBM and DEC computers using ANSI COBOL and Assembler. He has also worked with various key to disk systems and programmable terminals.

PAUL FRIEDMAN

Mr. Friedman graduated from the University of California, Irvine in 1971 with a Bachelor of Science degree in Computer Science and from the University of British Columbia in 1973 with a Master of Science degree in Computer Science. While attending university he had a number of part time jobs in which he gained computer operating and programming experience.

In February 1974, Mr. Friedman joined Computer Sciences Canada Ltd. as a Technical Specialist. He was responsible for the system design and programming for a range of commercial applications, including general ledger, accounts receivable, accounts payable and financial modelling.

Mr. Friedman joined Computech in December 1976, and assisted in the implementation of a union dues check off and reporting system for the Registered Nurses Association. Subsequently, he implemented programs in the Toll Reporting Systems for B.C. Telephone. He has also designed and programmed some modifications to the computer systems used by the Rent Review Commission. He has programmed aspects of an on line log system on a Dec 11 in Basic+2.

Mr. Friedman has had experience working on the IBM/360 and /370 computers using DOS, OS and MTS operating systems. He has also worked on a Univac 1108 and DEC Systems 10 and 11. He has had considerable experience in the use of COBOL, FORTRAN, PL/1, BASIC, Assembler, Algol, and the System 2000 Data Base System.

LINDA HODDER

Ms. Hodder began her data processing career as a Programmer Analyst with the Dorset County Council in 1968. In her five years with the council she participated in all facets of commercial applications programming including programmer and chief programmer roles.

In 1973 she immigrated to Canada and joined the Insurance Corporation of British Columbia as a programmer analyst, later rising to senior system analyst. During this time she headed teams responsible for aspects of the cyclical renewals systems, the insurance cheque refund applications (including on-line inquiry) and the data entry key edit program conversion. She was also second in charge of the Production Systems Group which was responsible for establishing system standards and procedures, ensuring data integrity and supervising the operation of a control database using IMS backup and recovery procedures.

In 1977 she joined Honeywell as a Marketing Support Representative where she became involved in project management of conversion and application projects, large scale customer support including database and guest lectures on systems analysis at local universities. In February 1979 she joined Computech. Her initial project involved definition and design of systems related to the initial B.C. Resources share offering. She has since been responsible for the design, programming and implementation of a sales subsystem using COBOL on the HP3000.

Ms. Hodder has extensive experience with IBM PL/1 and Honeywell Cobol 74. Her database background includes IMS, IMAGE and IDS/II. She is experienced in the use of on-line systems and has training in finance, project management and structured analysis and design.

BEVERLEY HUGHES

Ms. Hughes graduated from the University of Waterloo in 1970 with a Bachelor of Science Degree specializing in Mathematics. Upon graduation, she joined the Canadian Federal Government as a programmer, where she was employed for a period of four years. During this time, she worked primarily for the Public Service Commission and the Department of Manpower and Immigration. Assignments in which she was engaged include a variety of financial and accounting systems as well as software development for a generalized report writer and plotting routines.

In 1974, Ms. Hughes left the Federal Government to join an Ottawa based software consulting firm as an analyst programmer. There she undertook a variety of client design and programming assignments. Her largest project involved the implementation of both application programs and systems software for a minicomputer.

She moved to Vancouver in the Fall of 1976, joining Computech at that time. She worked on the Periodic Reporting phase of a large on-line banking system and completed the conversion of systems to remote job processing for Prince George Pulp and Paper. She has provided technical design and programming assistance to Crown Zellerbach on their DEC 10 system.

Ms. Hughes has had experience with a variety of computing equipment including IBM 360/370, DOS, OS/MVT, MVS, Burroughs B35/4700, DEC 10 and Computer Automation. She has written programs in COBOL, PL/1, MARK IV and BASIC as well as working with a minicomputer Assembler language.

JANINE E. HUNTLEY

Mrs. Huntley graduated from UBC with a Computer Science major. She joined the Computer Services Division of the City of Vancouver in 1975. Her initial responsibilities were as programming secretary and senior data control clerk, including JCL parameterization.

In 1976 she was appointed a programmer in the Systems Development branch. Her application programming experience at the City includes hourly payroll, salary payroll, Bank Reconciliation, accounting, metrification, inventory and billing. Responsibilities included both program development and maintenance. In some projects she coordinated programming duties and promoted the use of Structured Programming techniques. She also acquired significant experience in the practicalities of reliable system implementation through one assignment as programmer responsible for all emergency maintenance and related user interfacing.

Technically, she wrote the standard program types including on line edit/updates and their batch backup. Her work at the City was largely in COBOL, including the use of the IDS data base manager. She is also familiar with PL/1, FORTRAN, BASIC and IBM Assembler. She has used Honeywell 6040 (level 66) and IBM System/370 systems.

Mrs. Huntley joined Computech in 1979 and is currently involved in an IBM COBOL project modifying a series of programs to allow for batch transmission and a corporate restructuring.

LESLIE ANN INGRAM

Ms. Ingram graduated from the University of Alberta in 1967 with a Bachelor of Science degree in Mathematics and Computer Science. For one year after graduation she continued her studies in the Department of Computer Science. From 1968 until September of 1973, she was employed by Imperial Oil Limited in their Systems and Computer Services Department. While with Imperial Oil she was responsible for programming and systems work, primarily of a scientific and technical nature. In her last project at Imperial Oil, she performed the detail design of an on line interactive system for a refinery laboratory.

In September 1973, Ms. Ingram joined the Data Base Administration Group of the Insurance Corporation of B.C. This group was responsible for the design of the large IMS data bases used by ICBC. Ms. Ingram was promoted to Manager of the Data Base Administration Group in 1975.

She joined Computech in April 1976 and worked on the development of several financial oriented systems on the DEC 11/70 at the Greater Vancouver Regional District. She programmed a materials management system for B.C. Hydro. She is currently assisting B.C. Telephone in a major IMS data base design project for their Customer Services Area.

Ms. Ingram has had extensive experience with large scale IBM computers, and their operating systems. She has had considerable experience in the use of FORTRAN IV, MARK IV, PL/1 and COBOL programming languages and with the IMS/DC database manager. In addition, she has had experience with IBM's /360 Assembler and GIS languages. Recently, she has also worked with Digital equipment using RSTS and BASIC+2.

C. LARRY JAMESON

Mr. Jameson graduated from the University of Windsor in 1972 with a B.A.Sc. in Electrical Engineering, specializing in Computer Science. He joined Moore Business Forms in Toronto as a programmer. In two years at this installation, he worked on inventory and warehouse applications as well as satisfying maintenance requirements. Application development was in PL/1 and ANS COBOL for an IBM System 370 Model 135 running under DOS/VS.

Mr. Jameson joined the Canadian Trotting Association in 1975. The Association used various program packages for licensing, statistical and control applications. These applications were carried out on large scale Univac and IBM equipment prior to the installation of a DEC 11/50 using RSTS-E and BASIC+. Mr. Jameson was responsible for the design and implementation of a new driver standing system, package maintenance and systems programming. In 1976, he joined Boeing Computer Services in Vancouver. His principal responsibility was the implementation of an accounting system on a DEC 11/34. Other activities included the evaluation of various computerized mapping packages and implementation of an accounting system using an MAI BASIC IV.

Mr. Jameson joined Computech in 1977 and worked on payroll and accounting systems using DEC 11/70's in Basic+. He has provided technical design and programming assistance to Crown Zellerbach on their DEC 10 system.

Mr. Jameson has a thorough knowledge of the DEC 11 system using BASIC under RSTS, the DEC 10 using COBOL, and of the IBM System/370 using COBOL and PL/1. He has been responsible for the design and programming of a variety of commercial systems and has conducted evaluations of numerous software packages.

JEANETTE KEAYS

Ms. Keays graduated from UBC in 1968 with Mathematics and Physics majors. She joined Gulf Oil in Calgary in February 1969 where she worked on various subsystems, primarily in the area of oil accounting. Most of this was done in COBOL on the Honeywell 200 and IBM 360/50 under OS. She also carried out FORTRAN work on a CDC 6400 and some Assembler.

In September 1972, Ms. Keays joined Simon Fraser University as a systems analyst. She was responsible for the planning, controlling, design and implementation of all systems related to the University's Library. Applications included ordering, financial, and inventory systems. She also managed a staff of analysts, programmers and data entry personnel. Various administrative duties included budget management and staff evaluation. While at Simon Fraser, Ms. Keays maintained her technical expertise by programming aspects of most new systems. The languages used were PL/1 and MARK IV on the IBM System/370. In addition, she designed a system for the University's DEC 11.

Ms. Keays joined Computech in September 1977 as a systems analyst. Her initial project involved the development and implementation of an Accounts Payable System for the Greater Vancouver Regional District. Utilizing the GVRD's DEC 11/70, this system was developed with DEC's new RMS 11 file handler and was programmed in Basic+2. She has also provided manual systems design assistance to the Alcohol and Drug Commission.

Ms. Keays is experienced with various equipment including a CDC 6400, IBM 370, Honeywell 200 and DEC 11. Although her primary experience is with PL/1, COBOL and BASIC, she has FORTRAN, MARK IV and Assembler language experience.

BELLE McCULLY

Ms. McCully began her data processing career at Lenkurt Electric in 1966 where she participated in the programming of costing and manufacturing systems. In 1969, working for a datacentre, she designed and implemented a general insurance package. Employed on a contract basis by the University of Winnipeg in 1970, Ms. McCully assisted in the development of a registration system.

On her return to Vancouver, Ms. McCully joined Computech as a programmer in September, 1970. Her initial assignment was as a member of the programming team responsible for the Labour Guarantee and on line Labour Dispatching System for the B.C. Maritime Employers Association. Later assignments have included programming for the City of Vancouver's Sign Bylaw System, and for a financial budgeting system at Canadian Cellulose Ltd. In May 1972, Ms. McCully was temporarily transferred to Montreal. There she participated in the development of an on line dispatching system for longshore labour in Eastern Canada. During 1973/74, Ms. McCully participated in the design and programming of a Share Accounting System, a payroll system, an on line entry and invoicing system, and a material management application. During 1975-77 Ms. McCully was the project leader of the reporting system phase in the development of a large scale on line financial system. In 1978 she headed a development team engaged in the design and programming of a brokerage accounting system for the Vancouver Stock Exchange. She has since participated in a large scale on-line banking system using IBM 3601 terminals and a 3031. During this project she used COBOL and CICS under VSI. Her responsibilities included project supervision for batch and on line recovery subsystems. Since October 1979, she has been performing analysis work on the B.C. Government payroll project.

Ms. McCully has had extensive programming experience with IBM, Univac, Burroughs and NCR computers, using PL/1, ANS COBOL and various Assemblers. She has also worked with the TOTAL database system.

JAMES G. McCULLY

Mr. McCully graduated from U.B.C. with a Bachelor's Degree in Mathematics in 1966 and joined Lenkurt Electric. He was involved with their Bill of Material, manufacturing inventory control and manufacturing accounting systems. After leaving Lenkurt, he participated in a number of commercial design and programming projects for a datacentre.

In 1969, Mr. McCully joined Computech as a programmer/analyst. His first projects included application programming for a Burroughs 3500, and technical design responsibility for the B.C. Maritime Employers Association on-line dispatch system. In July 1971, he was project leader for a complex retail budget and profitability reporting system for the Bay. After completing a Credit Union accounting system, Mr. McCully was transferred to Montreal in 1972. He held technical development responsibility for the Maritime Employers Association automated dispatch system. Returning to Vancouver, he was engaged at the B.C. Telephone Co. in the design of procedures to improve telephone Trunk Facility management. During 1974/75, he designed and implemented a new settlement system for the Vancouver Stock Exchange. Subsequently, Mr. McCully became technical project leader for a new computer installation at the District of Coquitlam. He has also provided database design and implementation assistance to the District of Burnaby.

Mr. McCully has had extensive experience at the technical computer system design level. He has also been involved with several on-line, data base oriented systems and has substantial experience with IBM's data communication product, CICS. His programming experience includes various Assemblers, ANS COBOL and PL/1. He has worked with all levels of IBM computers, using DOS and OS, UNIVAC 90 Series and Burroughs computers.

CHRIS MARSHALL

Chris Marshall began his computing career in Australia during 1970. He was employed by an NCR service bureau where he programmed in NEAT for various service bureau customers.

He then moved to New Zealand where he was involved in the design, programming and implementation of two major on line data base systems. The first was an inventory and order entry system for a conglomerate with such varied subsidiaries as wholesale grocery warehouses, breweries, wholesale liquor outlets, soft drink bottlers, travel agencies and a hotel chain. The second was the initial commercially oriented on line system for the New Zealand Health Department.

He then moved to Canada where he joined Johnston Terminals Ltd. in 1973 as an analyst/programmer. While with Johnston's, he designed and programmed several transportation systems covering the handling of goods by domestic air freight, pool car and truck, international containerized freight through Fraser Surrey docks as well as normal accounting systems. In his later years with Johnston's as a project leader, he developed these systems starting with the software analysis of hardware for these systems through the complete design, programming and implementation.

He then moved to Prince George in 1978 where he designed the Inventory, Receiving, Issuing, Purchasing and Accounts Payable portion of a Materials Management System for Prince George Pulp.

He then returned to Vancouver where he designed and programmed several small systems for small businesses using micro computers, before joining Computech in July, 1979.

Mr. Marshall has had programming experience on NCR, Burroughs, ICL, Datapoint, Data General and DEC equipment using various languages such as COBOL, BASIC, PLAN, Assembler, Databus, Fortran and NEAT.

BARRY J. MORTON

Mr. Morton began his computing career in England in 1967 as a junior programmer with the Liverpool Regional Hospital Board and with the Liverpool University as an analyst/senior programmer.

In 1969, Mr. Morton joined ICL as a systems engineer. Initially, acting in a programming role, he moved into a general systems and technical sales support role responsible for a number of ICL customers. During his 7 years with ICL he was involved in numerous projects at various levels including payroll, freight documentation (shipping), order entry, IBM conversions and benchmarks. His final position with ICL was Area Technical Support Executive, responsible for six support engineers and an installed customer computer base of $8 million. Mr. Morton's first project after joining Computech in 1977 was to investigate the incorporation of the manual Intercept System into a new computerized Directory Assistance System for B.C. Telephone. He was then made post implementation project leader of an on-line banking system. He has since provided operational and institutional interfacing for the highly successful B.C. Resources share issue operation. He has recently completed two large feasibility studies relating to major on-line commercial systems.

Mr. Morton's programming experience has been gained on ICL, IBM and Burroughs equipment using ANSI COBOL and Assemblers. He was the ICL technical specialist responsible for the Cullinane IDMS data base package. He has managed the installation for a vendor of a 400 terminal/multiprocessor/high transaction order entry system for a pharmaceutical distributor. From this, he has gained valuable experience in the performance and serviceability aspects of designing and implementing large communication applications. Since arriving in Canada, he has acquired considerable on-line experience on IBM and Burroughs systems with particular attention being paid to feasibility, design and project control responsibilities.

KIRSTEN MUDIE

Ms. Mudie graduated from U.B.C. in 1972 with a B.Sc., Computer Science Major. She joined a Vancouver software company where she carried out various programming projects on the U.B.C., Multiple Access and Computer Sciences systems. During this time her experience was primarily with COBOL with lesser amounts of FORTRAN, Assembler, BASIC, PL/1 and ASAP.

In 1974 she joined the City of Vancouver where she spent two years as a programmer and two years as an analyst. Programming projects included various maintenance and development assignments including the analysis and rewrite of display programs to reduce memory usage 70%. She also acted as the leader of the emergency maintenance group. As an analyst, systems included various payroll and revenue analysis projects. All projects at the City were carried out in COBOL under GCOS on the Honeywell 6040. This also involved extensive use of the IDS data basemanager as well as text editors etc. Most City applications were display oriented.

She joined Computech in January 1979. Her initial project involved programming in COBOL on a DEC 10 using a database manager.

Ms. Mudie has a background with numerous languages but her prime commercial experience has been with various COBOL implementations on IBM, Honeywell and DEC computers. Her application development work has usually involved the use of a database manager.

KEITH R.J. MUNRO

Keith Munro graduated from the data processing program at B.C.I.T. in 1973. His initial experience was gained at the District of Surrey as a COBOL programmer.

Mr. Munro joined the Insurance Corporation of British Columbia as a Programmer Analyst in 1973 where he worked with IMS as a member of the Data Base Administration group. In 1976, Mr. Munro was the Data Base Analyst responsible for the Cheque Refund System. This application was the first on-line inquiry system designed and developed at I.C.B.C. It used IMS DB/DC and VSAM Data Bases. Other activities included performance monitoring and tuning, testing of new IMS Data Base software, back up and recovery of large IMS Data Bases, and involvement in the Claims Data Capture pilot project, the first on-line-update system at ICBC using IMS/DC. In 1978, Munro was the Data Base analyst responsible for the project to install the IMS/VS Checkpoint/Restart facility into long running PL/1 computer programs, and to document standards for future use.

In 1979 Mr. Munro joined B.C. Hydro in the On-Line Systems section. He gained experience with CICS/VS using IMS to access Data Bases, and initiated a project to improve IMS performance by converting the Personnel Data Base to HDAM and implementing a VSAM Secondary Index on surname and initials.

Mr. Munro joined Computech in 1979 and became involved in the IMS DB/DC Customer Records Information System project at British Columbia Telephone Company.

Mr. Munro has programmed in PL/1, COBOL, ASSEMBER, GIS, and RPG. He has worked on numerous IBM systems from a 360/30 to a 3033 under several operating systems. He has also had experience programming the Key Edit data entry system. Mr. Munro is active in the D.P. community as a member of the IMS users group in B.C. and as a guest lecturer at B.C.I.T. on Data Base Concepts.

LEE S. MURDOCK

Lee Murdock received a Bachelor degree in Computer Science and Business Administration from the University of Utah in 1958. His initial computing experience was gained at Sperry Univac Corporation where, for a period of four years, he was engaged in operations, technical programming and computer operations supervision.

Mr. Murdock joined the Dinalection Corporation as Programming Supervisor in 1963. In this position, he was responsible for the design and development of a real time system for the U.S. Navy's Pacific Naval Range. He rejoined Sperry Univac as Computer Operations Supervisor of their Salt Lake City facility and also acted as a consultant to the University of Utah in the planning related to installation of an 1108 computer.

After immigrating to to Canada, Mr. Murdock joined the B.C. Telephone Company. During a nine year career with B.C. Tel., he held three positions. His first two years were as Technical Services Supervisor, where he directed a twelve man team responsible for hardware and software acquisitions and software maintenance. He then spent three years as Systems Development Manager. His staff of sixty-three undertook all business application development. For the last four years, Lee was Computer Services Manager. In this position, he controlled a staff of 148 engaged in technical support, computer operations and data entry. Hardware included an MP 370/158, 2 DEC System 10's, 38 PDP 11's and other minis.

Mr. Murdock returned to Salt Lake, Utah for personal reasons at the end of 1978. Then he was Computer Services Manager for a Sperry Univac division, directing two 1100 series computers which support a 500 terminal network. He joined Computech as a senior consultant in July, 1979. His initial assignment was providing assistance to operations management in a large scale multi vendor installation.

AL PEREZ

Mr. Perez graduated from the University of Illinois in 1968 with a Bachelor of Architecture degree, majoring in Structural Engineering. After graduation, he joined IBM in Mexico and gained experience in the IBM Data Centre. In 1970 Mr. Perez joined RCA as a Systems Support Engineer. While with RCA, he was responsible for technical support to RCA's customers and sales prospects.

In 1971 Mr. Perez joined El Puerto de Liverpool S.A., a large retail department store chain in Mexico. While with this company he held positions as a programmer analyst and subsequently as Systems Analysis and Programming Manager. He gained a wide experience in the design, development and successful implementation of payroll, accounts receivable, accounts payable, general ledger, on line credit authorization and on-line big ticket control systems.

Mr. Perez joined Computech in November 1976 and assisted in the development of municipal property system using database and communications techniques on a Univac 90/30. On this project, he had system design and programming responsibility for one of the project's subsystems. Mr. Perez completed a system design project for Weiser Lock Company. He has recently been involved in the definition, design and programming of a large scale time dependent project using COBOL on an IBM system.

Mr. Perez has had extensive experience with Burroughs B3500 and B3700, IBM 360/370 and Univac 90 computers. He has a thorough knowledge of COBOL, file organization techniques and TOTAL.

MANUEL L. QUIAZON

Mr. Quiazon graduated from LaSalle University, Manila, Philippines, in 1967 with a Bachelor of Science in Mechanical Engineering. He joined IBM Philippines after graduation and worked as a customer engineer for three years, responsible for the maintenance of IBM equipment. During the following four years with IBM, he was a programmer/analyst, responsible for design, programming, testing, implementation and maintenance of a wide variety of computer applications. These projects included Inventory Control, Stock Accounting, Ore Reserves Calculation, and Plant Maintenance.

After immigrating to Canada in January 1975, he joined Noranda Mines Ltd. in Toronto as a programmer analyst. His first task was to assist in programming a Fixed Asset package. He subsequently was given full responsibility to develop and implement an IMS Plant Maintenance package to be used by the Noranda group of companies. His duties included gathering user requirements, designing the business system, assisting in the computer system design, directing the activities of programmers, and training users. In October 1977, Mr. Quiazon joined Canadian Forest Products in Vancouver. He was responsible for the development of applications to be implemented on minicomputers. During his employment at Canfor, he completed the business and technical design of a Log Accounting System.

Mr. Quiazon joined Computech in August 1978 and was initially involved in the design and implementation of the Piece Scaling System for the B.C. Forest Service. He next undertook a programming project with the Vancouver Stock Exchange and has had subsequent experience at B.C. Telephone Company.

Mr. Quiazon has had extensive experience on a variety of IBM 360/370 equipment in both OS and DOS environments. He has written programs using COBOL, PL/1 and FORTRAN. He has worked with IMS/DL1. In addition, Mr. Quiazon has a sound knowledge of the Hewlett Packard 1000 with the IMAGE/QUERY data base software.

DONALD J. RALPH

Mr. Ralph graduated from Confederation College in 1976 with a 4.0 grade point average and a diploma in Business Data Processing Systems. This course included training in COBOL, PL/1, Assembler, Fortran and RPG.

Subsequent to graduation, Mr. Ralph joined the Great West Life Assurance Company in Winnipeg as a programmer. The majority of his work was in PL/1 using DL/1 and IMS. The IBM 370/158 used TSO in an MVT environment. His principal assignment area included user contact, detail specifications, coding, testing and implementation of aspects of the Corporate Modelling Systems. Installation standards required decision tables, structured programming and walkthroughs.

In 1977, he joined Inco Metals Company in Thompson as a junior programmer; promotion to senior programmer occurred in February, 1978. Projects involved all aspects from user definition to implementation, depending on the particular system. Applications included Accounts Payable and a Management Information System. He also assisted programmers and analysts in learning on-line systems. The technical environment was a DOS/VS IBM 370/138 using CICS/VS, VM/CMS, TOTAL, ENVIRON, TEBOL and COBOL. He was also involved in the use of the IBM Graphics package under CICS.

Mr. Ralph joined Computech in October, 1979. His initial project involves PL/1 in a CMS environment.

His background includes use of most main line development languages and tools provided for the IBM 370 including the COBOL and PL/1 languages, IMS and TOTAL database managers, CICS/VS and ENVIRON telecommunication monitors, TSO and CMS interactive terminal managers and OS/MVT and DOS/VS operating systems.

HARRY S. RAWCLIFFE

Mr. Rawcliffe graduated with an Honours Bachelor of Engineering degree from Liverpool which was followed by a Masters degree from Saskatchewan (1965) for theoretical and research work in computing services.

Following graduation he joined the Canadian Defence Research Board for three years where he was primarily involved in systems analysis and simulation, graphics and information retrieval. He was then employed by Control Data as a Cybernet systems analyst until, in 1970 he joined Western Totalisator where he was in charge of software development for their computerized betting system. He returned to England as a consultant with Systems Programming Ltd., where projects included computerized engineering drawings, component schedules and Computer Output Microfilm equipment evaluation. In 1973, Mr. Rawcliffe returned to Canada as system development manager for Unidrug Systems. This involved development and maintenance of various specialized on line applications on the PDP 11.

After joining Computech in November 1975, he participated in an on-line payroll in Basic+2 for a PDP 11/70 under RSTS/E. He has designed and implemented an engineering material system at B.C. Telephone. He is currently engaged in designing an on line logging system for B.C. Television on a DEC 11/60.

His experience includes FORTRAN, COBOL, BASIC+ and numerous Assemblers. Recent equipment he has worked with includes IBM Systems/360 and /370, CDC 6600, Varian 620, Data General Nova and various DEC 11 models. He has particular expertise in transaction oriented systems and the configuring, installation and use of multi-vendor special purpose systems.

P. MAUREEN SHARPE

Ms. Sharpe graduated from the University of Victoria in 1974 with a B.Sc. with a Computing Science option. Her initial professional work began in 1974 as a programmer for the Vancouver Resources Board and its predecessor, the Family and Children's Service.

Her assignments initially included specialized programming in PL/1, FORTRAN and ASAP as well as the use of various statistical packages. Thereafter, she designed and programmed in COBOL the cheque subsystem of the Social Assistance system and carried out various implementation and maintenance duties. In 1976 she became the programming supervisor with three programmer/analysts reporting to her. Work at this time included the MSA general ledger system and Social Assistance, Children in Care and Personnel applications.

In February 1978 she joined the British Columbia Systems Corporation where she became a Senior Programmer Analyst. Her duties included systems architecture for an on line IMS/DB/DC system, programmer leadership and coordination as well as user interfacing.

She joined Computech in July, 1979. Her initial assignment was on the Autoplan Data Capture project at ICBC, an on-line IMS/DB/DC PL/I system with complex screen handling.

Ms. Sharpe is experienced in both PL/1 and COBOL. She has an extensive background on IMS related projects on large scale IBM systems.

PEARL A. SINGH

Ms. Singh graduated with a Diploma from the Institute of Data Processing, London, England in 1965. Her initial industry experience was gained with CAP Consultants in London as a programmer. There, she worked on credit card billings, bill of materials and payables systems using IBM/360 DOS and OS computers with COBOL and Assembler.

Immigrating to Canada in 1968, Ms. Singh worked for the Drug Trading Company Ltd. on the development of an on-line order entry system and Eaton's of Canada in the design of a payroll system. She joined Mattel Canada in 1970 as a programmer and was promoted to systems analyst in 1972. Her work primarily involved design and implementation of a Bill of Material System. Ms. Singh was employed by Imperial Oil Ltd. in 1974. During four years at Imperial, she worked on a variety of systems in a programmer/analyst role. These included payroll, fixed asset accounting and credit card billing. The computing environment involved IBM/370-168 under MVS with TSO and IMS.

Ms. Singh joined Computech in November 1977 and worked on the development of a brokerage accounting system. This was followed by an assignment to assist in the implementation of the Piece Scaling System at B.C. Systems Corporation.

Ms. Singh has had extensive experience with a variety of IBM 360/370 computers in both DOS and MVS environments. Her major programming languages are COBOL, Assembler and MARK IV and, to a lesser degree, PL/1 and RPG. She has worked with IMS/DL1 and VSBASIC under TSO. In addition to programming, she has been responsible for the conduct of business and technical design projects and the supervision of programming staff.

SELMA R. TENNENHOUSE

Ms. Tennenhouse graduated from Queen's University in 1973 with a Bachelor of Science (Engineering) degree, specializing in Mathematics and Computer Science. During her time at Queens, Ms. Tennenhouse was employed in summer periods by the University's Computing Centre, the Federal Communications Research Centre and the Israel Meteorological Service where she undertook a variety of programming assignments. Upon graduation, Ms. Tennenhouse joined Bell Canada as a computer systems associate. She worked on a variety of programming projects, primarily in the traffic data recording and reporting areas. In January 1975, she moved to Vancouver with a computer services firm as a programmer analyst. During a two year period, she undertook assignments at the Unemployment Insurance Commission, the B.C. Assessment Authority and the B.C. Telephone Company. These projects involved a combination of design and programming responsibilities. Ms. Tennenhouse was involved in a major project for B.C. Hospitals where she was engaged in systems software support.

She joined Computech in October 1976 as an applications programmer. Ms. Tennenhouse has assisted in the development of an on-line order entry and invoicing system for the Coast Wood Products Division of Crown Zellerbach. This system uses Crown Zellerbach's DEC 10 computer and DEC's Data Base Management System. After carrying out a variety of programming prospects in a large scale IBM environment, she was assigned to the implementation of a complex on-line costing system on a DEC 11.

Ms. Tennenhouse has had experience with a wide variety of computing equipment including DEC 10, DEC 11, IBM System/370, CDC 6600, Burroughs 6700, XDS Sigma 7 and Interdata 7/32. She has written commercial programs in PL/1, COBOL, BASIC and Assembler and has experience with Fortran and Algol. She has also worked with Assembler languages on Xerox and Interdata computers. Finally, she has worked with the IMS and Digital DBMS Database manager.

H. WILLIAM THOMSON

Mr. Thomson graduated from the University of Victoria in 1974 with a Bachelor of Science degree, specializing in Computing Science. He joined the Academic Services staff at Simon Fraser University at that time. This position involved assisting faculty members with the development of mathematical and statistical modelling programs.

Mr. Thomson transferred to the Administrative Services staff of the Computing Centre in October 1975 as a programmer/analyst. Projects with which he was involved included an on-line work order system and an accounts payable system. He was promoted to a systems analyst position in October 1976. His primary responsibilities involved coordination of administrative systems using a DEC 11/70 computer interfaced to the University's large IBM facilities. Specific projects included development of the cross computer linkage and an on-line security system. He was project leader for a study to determine the feasibility of University wide implementation of word processing technology. He also assumed responsibility for implementation of a data collection system for the Library.

Mr. Thomson joined Computech in October 1978. His initial project involved the technical design and programming of an on-line job cost system on a DEC 11 system.

Mr. Thomson has had extensive experience with large scale IBM computers in an O/S environment as well as DEC 11/70 computers using RSTS/E. He has worked with ENVIRON as a teleprocessing monitor and the ADABAS data base system. Programming languages with which he is experienced include PL/1, APL, BASIC, BASIC +2 and FORTRAN.

NORM WATT

Mr. Watt graduated from the University of British Columbia with a Bachelor of Science degree in 1967 and a Masters of Business Administration degree in 1969. He joined IBM Canada Ltd. after graduation and worked for that company in Vancouver and Toronto. During his employment with IBM, Mr. Watt was involved in a variety of programming projects for customers and internal company systems.

Mr. Watt joined Scott Paper Limited as a programmer analyst in March 1972. During the following six years, he was involved in the development of a wide variety of computer applications common to a manufacturing/distribution organization. These included Order Entry, General Ledger, Accounts Payable and Sales Analysis.

Mr. Watt advanced through technical and supervisory positions to Manager of Systems and Programming. In this capacity, he was responsible for hiring and supervising programmers, interfacing with user departments to define system requirements and assisting in overall data processing planning.

Mr. Watt was hired by Computech in the spring of 1978. His first assignment involved the design and programming of a subsystem of the Piece Scaling system for B.C. Systems Corporation.

Mr. Watt has had extensive experience with a variety of IBM and Hewlett Packard computers. These range from System/370-125 under DOS-VS to a 3033 under MVS and Hewlett Packard 3000 II with the IMAGE/QUERY database software.

JEANNIE WEXLER

Ms. J. Wexler graduated from McGill University with a Bachelor of Commerce degree in 1968. Her computer career began at York University, where she helped develop payroll and other financial systems.

In 1970, she joined Computel, and was responsible for conducting benchmarks and programming client applications. There she was involved in a number of assignments, including the development of a vendor system using an IMS data base and a bank payroll system. In 1974, she moved to Vancouver to open and manage a branch office for the company. In addition to administration, she programmed for several of the company's clients. Ms. Wexler joined a software house in 1976 as a project manager.

She joined Computech in April, 1977 and has been involved in a variety of projects. These have ranged from feasibility studies for a hotel accounting system to development of accounting applications at the Greater Vancouver Regional District. She has carried out several consulting studies including: equipment selections for Canadian Telephones and Supplies and Okanagan College; developing a long range data processing plan for Belkin Packaging Ltd.; and formulating a policy for computer usage within the administrative areas of British Columbia Colleges and Institutes.

Ms. Wexler has considerable definition, design and implementation experience. She is experienced in COBOL and MARK IV with various IBM systems. She has also had experience on the Interdata 7/32, the Univac 1100 series and the DEC 11/70 with RSTS.

Jeannie Wexler is active in the Data Processing community. She is a past Vice-President of the Vancouver section of the Canadian Information Processing Society and was Program Chairman of Northwest '78. She is currently involved in the CIPS national conference for 1980.

GRANT G. WILSON

Mr. Wilson graduated with a Bachelor of Arts in Economics and Mathematics from U.B.C. He began work in data processing in 1964 as a programmer with National Datacentre, rising to Manager in Programming. His application experience included the broad range of accounting and commercial systems encountered in datacentres.

Mr. Wilson undertook a contract programming project for Nissan Auto during 1971 in Vancouver and Los Angeles, where he worked with inventory systems while using COBOL on an IBM System/370 Model 145. In 1972, he joined Singer Business Machines as a systems analyst providing systems support to on-line System 10 client installations.

Mr. Wilson joined Computech in 1974. His initial assignments included a wholesale inventory system at West Coast Drugs and a furniture inventory system for the Bay. During 1975 and 1976, he worked on projects for B.C. Telephone on their DEC 10. Those involved first, an on-line inquiry and inter supply point shipping system and second, the remote terminal printing subsystem for B.C. Telephone's service order system. Subsequently, he worked with Crown Zellerbach on their Log Production and Forecasting Systems. His next assignment was as project leader of a multi-branch nationwide on-line order entry/inventory system for a floor covering distributor.

Mr. Wilson has worked with numerous Assembler languages, RPG and COBOL. He has had experience with IBM System/370, Univac 9000, and the DEC 10 systems.

JUNE YOUNG

Ms. Young graduated from the University of British Columbia in 1960 with a Bachelor of Applied Science degree in Chemical Engineering. She joined the Department of Energy and Mines in Ottawa as a Scientific Officer in applied chemistry. In 1963 she was hired by the Operations Research and Economics Consulting Division of a large consulting firm in Toronto. There she worked on such assignments as an oil refinery simulation (IBM 7070 and Honeywell 1400), and the simulation of a two level warehouse inventory control system (Burroughs 5500).

Upon returning to Vancouver in 1967, Ms. Young joined Computech and worked on a variety of commercial applications using both GE and IBM equipment. In 1970 she took a position with UBC to design and program registration systems, notably scheduling of classrooms and the production of individual student timetables. In the summer of 1976, she returned to Computech after working for four years in Australia for the Mt. Newman Mining Company. While there, Ms. Young prepared a preliminary design of a system for monitoring maintenance on railroad cars, made major modifications to a fixed asset account system and designed and programmed a personnel data base incorporating a new payroll system (IBM 370/135 DOS/VS). Since rejoining Computech she has implemented a municipal taxation system at the District of Coquitlam and has programmed an on-line union membership system on a Datageneral minicomputer.

Ms. Young has had extensive programming experience in COBOL, Business BASIC, FORTRAN IV, PL/1, Algol, Automath and GE Assembly language. She has worked with all levels of IBM computers using DOS, MVS and MTS, the Univac 90 series, Burroughs, Honeywell and Datageneral systems.

ROBERT L. HAWKINS

COMPUTECH CONSULTING CANADA LTD.
1009 - 1177 West Hastings St., Vancouver, B.C. V6E 2K3 688-1371

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

B.C. RESOURCES

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street,
Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

David L. Helliwell
President & Chief Executive Officer

June 20, 1979

Mr. Tom Singer
State of Alaska
Office of the Governor
Division of Policy Development & Planning
Pouch AD
Juneau 99811

Dear Mr. Singer:

Thank you for your letter of June 13th. The attention that B.C. Resources has received since its inception, and latterly throughout our three month public offering has been overwhelming. I am pleased to enclose our prospectus, brochure, two speeches recently delivered by myself on the concept of BCRIC and Order in Council 739, with the hope that this material will be of assistance to you. I have also enclosed a press release dated June 15th, which at this point is the most up to date information on the public offering campaign. If after you peruse this information, you have any specific questions relating to BCRIC, I would be delighted to answer them.

Thank you again for your interest in B.C. Resources and my best wishes for a successful venture with AGSOC.

Yours truly,

/jab

.C. RESOURCES

British Columbia Resources Investment Corporation
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Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: David Helliwell
687-2600

or

Jack Morris
687-2600 or 736-8644

June 15, 1979

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) announced today that 1,614,805 British Columbians had applied for their five free shares.

In its final progressive report on share applications, BCRIC said its latest figures, to June 14, show that applications have been made for a total of 8,074,025 free shares.

David Helliwell, president of the corporation, also announced that up to June 14 British Columbians had applied to purchase 14,924,435 additional BCRIC shares at $6 each. This has yielded the corporation gross proceeds of $89,546,610 and reflects a registered shareholder application total of 47,000. Registered shareholders of BCRIC must have 100 or more shares.

The figures reported reflect only those applications processed as there is a significant number of unprocessed applications.

Mr. Helliwell noted that it will take some time to complete a tabulation of the number of share applications made up to the June 15 deadline. An announcement of final results will be made in about a week, when processing has been completed.

An opportunity to invest in

B.C. RESOURCES

British Columbia Resources Investment Corporation

This is
B.C. RESOURCES

British Columbia Resources Investment Corporation, or "B.C. Resources", is a unique company established to provide a special opportunity for British Columbians to invest individually in their own province.

This brochure is intended to give you some basic information about the company. For many who have never purchased shares before, we have included some additional information about the investment process.

For those who may wish to have more detailed information, a full prospectus is available on request from B.C. Resources or at a bank, trust company, credit union, or investment dealer.

We hope you find the following pages helpful and that you will take advantage of this opportunity to purchase shares at \$6.00 per share prior to June 15.

David L. Helliwell
President and Chief Executive Officer

March 1, 1979

British Columbia Resources Investment Corporation
2600–1177 West Hastings Street,
Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

B.C. RESOURCES
A brief history

British Columbia Resources Investment Corporation is one of the province's larger corporations, with interests in forest products, a pipeline utility, and in energy exploration and development.

The company was established to provide an investment opportunity for British Columbians and to create a new pool of investment capital that is owned and managed in the province.

As a profit-oriented company, B.C. Resources' primary objective is to earn for its shareholders a profitable return on their investment.

Funds which are being raised by the current share sale will be used for additional investments, including the development of the company's gas and oil activities in northeastern B.C.

The company was incorporated on February 22, 1978, and in the following month it purchased its present holdings — which include interests in Canadian Cellulose Company, Limited, Kootenay Forest Products Ltd., Plateau Mills Ltd., Westcoast Transmission Company Limited and oil and gas exploration rights — from the provincial government for $151.5 million.

Under the legislation governing B.C. Resources, only Canadian citizens or residents may hold voting shares of the company. No individual may hold more than one per cent of the company's voting shares, and no mutual or pension fund or health plan may hold more than three per cent. The legislation also prohibits the government from electing a majority of the board of directors of the company while the government holds more than 10 per cent of the company's voting shares.

The present board of directors is composed entirely of successful British Columbia businessmen.

The head office of B.C. Resources is located at the Board of Trade Tower in Vancouver's business district. The company also maintains a gas and oil exploration office in Calgary.

B.C. RESOURCES

Our holdings

Canadian Cellulose

B.C. Resources owns 81 per cent of the shares of Canadian Cellulose, a forest products company with some 2,700 employees in its pulp, lumber and logging operations in British Columbia. It is among Canada's largest exporters of market pulp.

Bleached softwood kraft pulp from Canadian Cellulose mills at Prince Rupert and Castlegar is marketed in 19 countries. The company's lumber production sold in the United States and Canada.

In addition to its two kraft pulp mills, Canadian Cellulose operates lumber mills and logging divisions in the northwest and southern interior regions of British Columbia.

The company recently completed a $145 million modernization and conversion program at its Prince Rupert pulp mill which has increased kraft pulp capacity at the mill from 680 to 1,100 tonnes per day.

In 1978, Canadian Cellulose had net sales of $175,490,000 and net earnings of $6,774,000 after providing for income tax and after an extraordinary item. In the first 10 months of 1978, B.C. Resources received dividends totalling $3,164,000 from Canadian Cellulose.

Plateau Mills

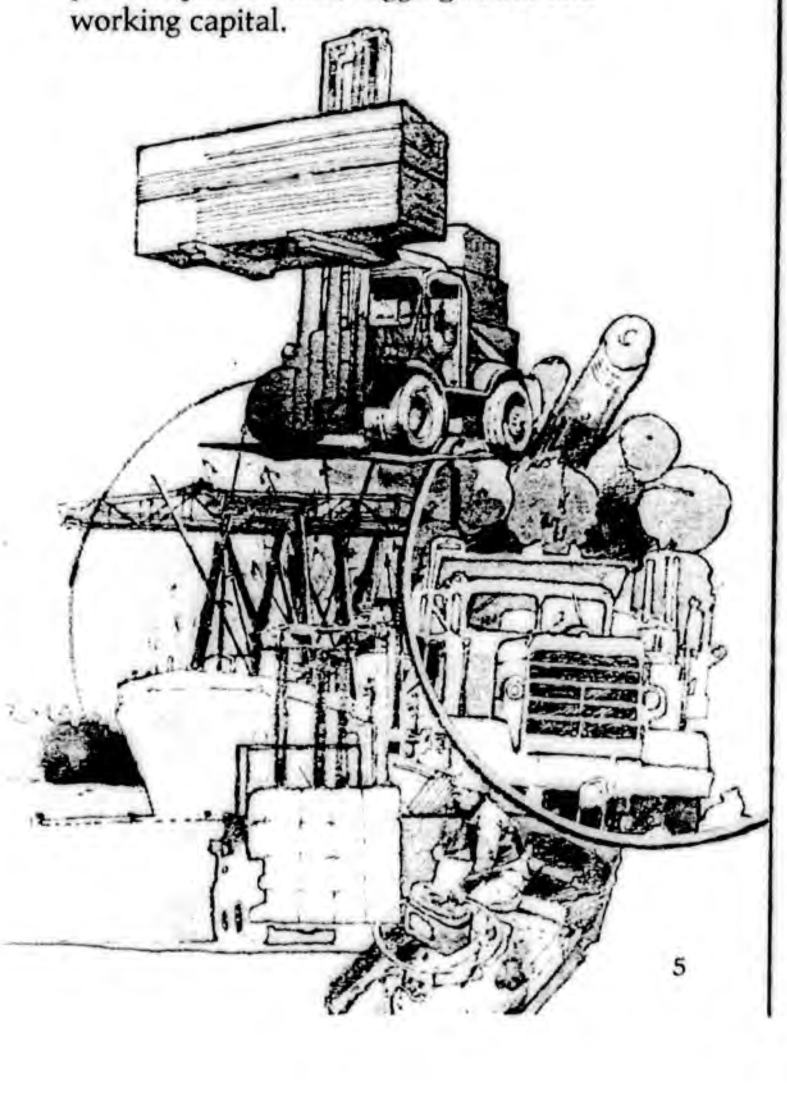
B.C. Resources owns 100 per cent of the shares of Plateau Mills, a lumber manufacturer employing about 300 people at its two sawmills located at Engen in the Vanderhoof area.

The company produces dimension lumber and ships it to markets primarily in the United States. The company had sales of $28,224,000 and net earnings of $4,432,000 in 1978. Rather than pay dividends to B.C. Resources in 1978, Plateau used the funds for debt retirement and sawmill expansion.

Kootenay Forest Products

B.C. Resources owns 100 per cent of the shares of Kootenay Forest Products, a lumber and plywood manufacturer with about 500 employees at its plants in Nelson.

Kootenay produces sheathing plywood primarily for the Canadian market and dimension lumber for markets in Canada and the United States. The company had sales of $28,560,000 and net earnings of $3,896,000 in 1978. B.C. Resources did not receive any dividends from Kootenay in 1978 because cash was conserved to finance plant improvements, logging roads and working capital.



B.C. RESOURCES

Our holdings

Westcoast Transmission

B.C. Resources owns about 10 per cent of the common shares of Westcoast Transmission, a major pipeline utility operating primarily in British Columbia.

This holding of 3,471,375 common shares of Westcoast generates dividend income for B.C. Resources which amounted to $2,394,000 in 1978.

Through a system of pipelines and associated facilities, Westcoast gathers and processes natural gas from northeastern British Columbia, the Yukon and the Northwest Territories and transports the gas to markets in British Columbia and in the United States.

Westcoast Transmission owns 50 per cent of Foothills Pipe Lines (Yukon) Ltd., which is responsible for the construction and operation of the Canadian portion of the Alaska Highway Pipeline Project.

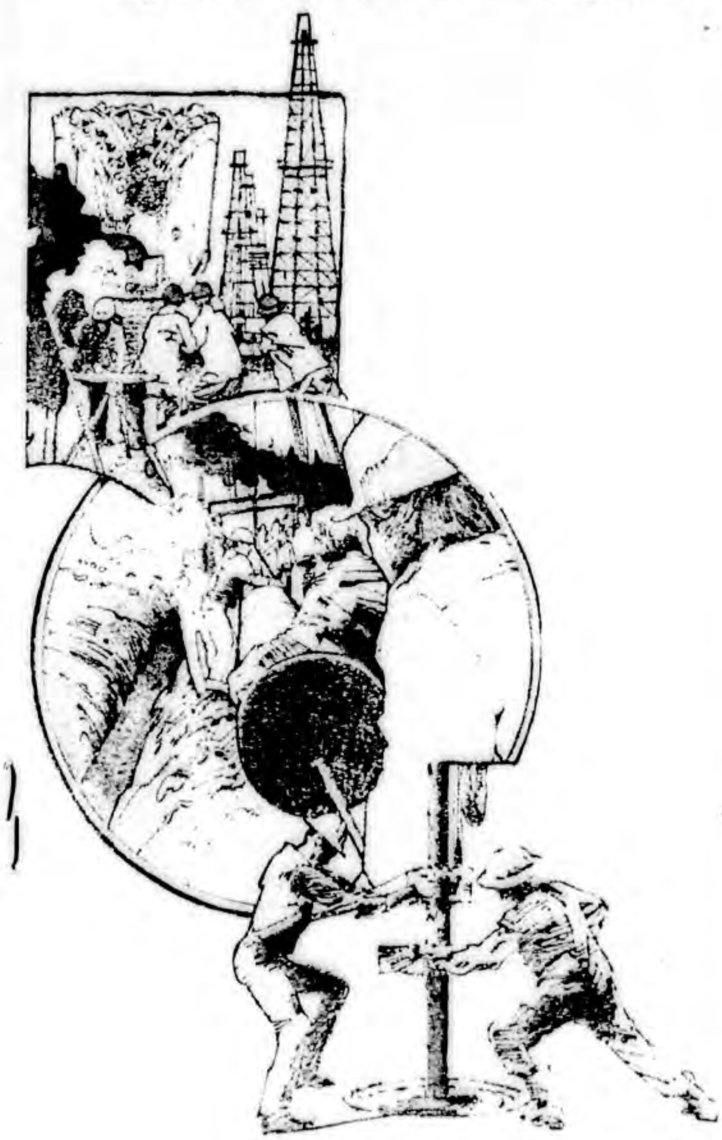
Operating revenues of Westcoast in 1978 were $843,902,000 and the company had net earnings, after taxes, of $41,938,000.

Gas and Oil Division

B.C. Resources' gas and oil division holds a petroleum and natural gas licence on 2.3 million acres of Crown land in northeastern British Columbia, where much of the province's present production of oil and gas is located.

The company has a five-year licence to explore this land for oil and gas. Under the terms of the licence, B.C. Resources does not drill for oil and gas itself, but makes agreements with other companies to do so (called "farmout agreements") under which both companies share in any discovery.

By early 1979, farmout agreements had been negotiated to explore on about 90 per cent of the land. These agreements cover the drilling of 18 wells over the next 3½ years. Four of these wells are being drilled in the 1978-79 winter drilling season, and in the first well drilled a gas-bearing section was found. Additional testing will be required to determine if there are sufficient quantities of gas to make the well commercially viable.



B.C. RESOURCES

A summary of our financial affairs

The following is intended to be a limited summary of the financial affairs of B.C. Resources. For complete financial statements, please refer to the prospectus.

The term "consolidated", used in describing the information which follows, means that the assets, liabilities, revenues and expenses of B.C. Resources have been combined with those of the companies which it controls (Canadian Cellulose, Kootenay and Plateau).

Our Consolidated Earnings in 1978

Revenues	
Sales of pulp, lumber and plywood	$202,659,000
Other	10,960,000
	213,619,000
Expenses	
The cost of the pulp, lumber and plywood sold	184,130,000
Selling and administration expenses	9,603,000
Interest expense on long term debt.	4,715,000
Other expenses, including income taxes of $303,000	1,997,000
	200,445,000
Revenues less expenses	13,174,000
Deduct minority shareholders' interest in revenues less expenses shown above	494,000
Our earnings before the following extraordinary item	12,680,000
B.C. Resources' share of an extraordinary recovery by Canadian Cellulose in 1978 of some of its logging taxes of prior years	3,242,000
Our consolidated earnings in 1978	**$ 15,922,000**

Our Consolidated Assets and Liabilities

What we owned at December 31, 1978

Cash and short-term investments, amounts owed to us, and inventories ("current assets")	$138,630,000
Pulp mills and sawmills and supporting facilities and equipment ("property, plant, and equipment")	198,773,000
Oil and gas exploration rights	40,959,000
Investment in Westcoast Transmission	37,364,000
Other	9,342,000
	$425,068,000

What we owed to others, excluding the Province of British Columbia at December 31, 1978

Amounts owed to suppliers and others, short-term loans, and other liabilities payable in 1979 ("current liabilities")	$ 60,808,000
Long-term debt	168,247,000
Ownership of 19% of CanCel by minority shareholders	23,066,000
Other	5,492,000
	257,613,000

Investment in B.C. Resources by the Province at December 31, 1978

Note payable to the Province	
(B.C. Resources has agreed that it will issue 15,000,000 common shares to the Province in exchange for the note. The Province's announced distribution of free shares to eligible residents will be made from this allotment.)	151,533,000
Assets minus liabilities ("shareholder's equity")	
Shares issued to the Province on February 22, 1978 for $5 cash	
Our consolidated earnings in 1978	15,922,000
	167,455,000
	$425,068,000

B.C. RESOURCES

A Shareholder: What it means

Assets . . . Liabilities . . . Dividends. These and many other technical terms are often used in the board rooms of business and in the stock market. But to the person who has never been a share owner before, they can be confusing.

These pages present some of the more common terms and a simple explanation of what they mean.

Shareholder — Each shareholder has an interest in the business of the company through his or her investment in shares. Shareholders are entitled to dividends if declared by the directors. Registered shareholders are entitled to vote at shareholders' meetings.

Directors — Directors are elected by the voting shareholders and are responsible for the over-all policy and direction of the company. It is the board of directors that decides on behalf of the shareholders what uses will be made of the company's money and other assets, what dividends will be paid to the shareholders, and what new investments or projects the company will undertake. The officers are appointed by the directors and are in charge of the day-to-day affairs of the company.

Annual and Interim Reports — These are made available on a regular basis to registered shareholders. They contain a review of the company's affairs, a financial report, and the outlook for the future.

Assets — Everything a company owns.

Liabilities — Everything a company owes to someone else.

Board Lot — A block of shares, usually 100, which is the common trading unit on a stock exchange.

Odd Lot — A number of shares, usually less than 100, that can also be traded on a stock exchange but at a lower net price to the seller than a board lot.

Book Value per Share — What the company owns, less what it owes, as shown in its accounting statement, divided by the number of shares outstanding.

Market Price — The price at which a share can be sold. This price fluctuates and may be higher, or lower, than the book value per share or the original issue price.

Dividend — The portion of the company's net earnings that the directors decide to pay to the shareholders. In determining that amount, directors must also consider the cash resources and needs of the company for such items as debt repayment, investment in new ventures and expansion of facilities. For new companies, like B.C. Resources, dividends are often not paid for several years after startup.

Net Earnings — The amount of profit the company has made after paying all expenses and taxes.

Retained Earnings — The cumulative amount of net earnings that is not paid in dividends but that is retained by the company to pay for modernization, expansion or new investment.

Prospectus — A detailed and technical document describing the company's financial and business affairs. A prospectus is prepared prior to the sale of shares to the public and is intended to help prospective shareholders evaluate the shares and the company before investing.

How to acquire shares

To purchase shares from B.C. Resources, you must be eligible for the five free shares offered by the government. You may purchase up to 5,000 shares in B.C. Resources at $6.00 per share at any time up to June 15, 1979. Every man, woman and child who has lived in the province since birth or for the year preceding the date of application, and who holds or has qualified and applied for Canadian citizenship, is eligible. Application forms and prospectuses are available at banks, trust companies, credit unions and investment dealers in the province.

All you need to do is the following:

a) Go to the local branch of the financial institution you wish to deal with and fill out an application form.

Those 16 years of age and over should apply in their own name. Children under 16 are also eligible but the application must be made by the mother or guardian who becomes the legal owner of the shares based on the child's entitlement.

b) Provide any two of the following pieces of identification — driver's licence, social insurance card, medical plan card.

For children, the mother need only furnish a medical plan number or a birth certificate. If you are 65 years of age or over, and do not have two of the three identification documents, one will be acceptable, including your Pharmacare card. Those unable to apply in person may delegate an individual to act on their behalf, using a power of attorney form which is available where applications are made.

c) The financial institution you wish to use will assist you in filling out the application form.

If you apply for 100 shares or more, your shares will be registered and you will be entitled to vote your shares. Because registering shares takes additional time, purchasers of shares which will be registered are urged to apply before May 15, 1979.

B.C. RESOURCES

Board of Directors

John W. Pitts,
Chairman of British Columbia Resources Investment Corporation; Chairman and President, Okanagan Helicopters Ltd.

David L. Helliwell,
President and Chief Executive Officer, British Columbia Resources Investment Corporation.

Trevor W. Pilley,
Chairman and Chief Executive Officer, Bank of British Columbia.

John W. Poole,
President and Chief Executive Officer, Daon Development Corporation

Charles N. Woodward,
Chairman and Chief Executive Officer, Woodward Stores Limited.

W. Maurice Young,
Chairman and Chief Executive Officer, Finning Tractor & Equipment Company Limited.

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REMARKS TO THE

CANADIAN PENSION CONFERENCE

SPRING MEETING

BY

DAVID L. HELLIWELL
PRESIDENT & CHIEF EXECUTIVE OFFICER
BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

MAY 15, 1979

FOUR SEASONS HOTEL
VANCOUVER, B.C.

I WAS DELIGHTED WHEN GERRY DORSET AND DON LARGE INDICATED TO ME THAT YOUR CONFERENCE MIGHT BE INTERESTED IN B.C. RESOURCES. ITS ALWAYS A PLEASURE FOR ME TO TALK ABOUT THE BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION........AND I'M PLEASED THAT SUCH AN IMPORTANT GROUP OF PEOPLE IS INTERESTED IN US.

THE INTEREST AND ATTENTION THE B.C. RESOURCES INVESTMENT CORPORATION HAS OCCASIONED HAS BEEN AMAZING TO ME AND MY COLLEAGUES. THIS ATTENTION HAS COME NOT ONLY FROM BRITISH COLUMBIA, BUT FROM MANY PARTS OF CANADA. AND LATERALLY FROM OTHER POINTS IN THE WORLD AS WELL.

I'M NOT CERTAIN WHETHER THIS IS A RESULT OF THE PHILOSOPHICAL UNDERPINNINGS OF THE CORPORATION......THAT IS, IN PART THAT THIS IS A DELIBERATE ATTEMPT TO <u>RETURN</u> TO THE PRIVATE SECTOR WHAT HAS BEEN ACQUIRED BY GOVERNMENT.....OR WHETHER ITS SIMPLY THAT PEOPLE LOVE TO BE TOLD THEY'RE GOING TO BE GIVEN SOMETHING FREE, IN THIS CASE FREE SHARES.

WHATEVER THE REASON, THE RESPONSE TO B.C. RESOURCES INVESTMENT CORPORATION HAS BEEN SIGNIFICANT. IN FACT, IN A FEW MINUTES I WILL GIVE YOU SOME FIGURES WHICH WILL INDICATE THE DEGREE OF RESPONSE WE HAVE BEEN GETTING IN THIS PROVINCE.

BUT FIRST, LET ME SET THE SCENE BY TELLING YOU WHAT THE B.C. RESOURCES INVESTMENT CORPORATION IS, AND WHAT ITS DOING.

B.C. RESOURCES OR "BCRIC" AS IT HAS BECOME KNOWN, CAME TO BE WHEN THE PRESENT PROVINCIAL GOVERNMENT DECIDED TO RETURN TO THE PRIVATE SECTOR A NUMBER OF CORPORATE INVESTMENTS THAT WERE INHERITED FROM A PREVIOUS ADMINISTRATION. THERE WERE OBVIOUSLY SOME PHILOSOPHICAL REASONS FOR DOING SO, BUT THERE WAS ALSO THE IMPORTANT FACTOR OF TRYING TO AVOID SOME CONFLICTS OF INTEREST....CONFLICTS WHICH COULD ARISE, FOR EXAMPLE, WHERE THE GOVERNMENT HAD REGULATORY AUTHORITY

...3/

OVER THE FOREST INDUSTRY AND YET AT THE SAME TIME HAD A DIRECT HOLDING IN SOME FORESTRY COMPANIES AND AS WELL ESSENTIALLY THE SAME SORT OF AUTHORITY OVER WESTCOAST TRANSMISSION BY B.C. PETROLEUM CORP., ANOTHER CROWN AGENCY.

THERE WAS ALSO ANOTHER REASON FOR THE FORMATION OF "BCRIC". THE GOVERNMENT FELT THIS ALSO WOULD BE AN OPPORTUNITY TO CREATE IN THIS PROVINCE A LARGE NEW POOL OF INVESTMENT CAPITAL, AND THAT THIS CAPITAL COULD THEN BE UTILIZED TO DEVELOP INVESTMENTS FOR THE BENEFIT OF ALL BRITISH COLUMBIANS.

SO THE GOVERNMENT PASSED THE NECESSARY LEGISLATION AND B.C. RESOURCES WAS INCORPORATED JUST OVER A YEAR AGO. SHORTLY AFTERWARD, OUR PRESENT INVESTMENTS WERE TRANSFERRED TO US IN EXCHANGE FOR A PROMISSORY NOTE FOR 151.5 MILLION DOLLARS. THOSE INVESTMENTS ARE:

- 81 PERCENT OF CANADIAN CELLULOSE, A PUBLIC COMPANY AND A MAJOR PULP AND LUMBER PRODUCER IN THE PROVINCE.
- 100 PERCENT OF TWO MEDIUM-SIZED LUMBER PRODUCERS, KOOTENAY FOREST PRODUCTS AND PLATEAU MILLS.

- 10 PERCENT OF THE SHARES OF WESTCOAST TRANSMISSION, A NATURAL GAS PIPELINE FIRM.
- AND, TO GIVE THAT 'GRAB BAG' SOME SIZZLE--A LICENCE TO EXPLORE FOR GAS AND OIL ON SOME 2.3 MILLION ACRES OF LAND IN NORTHEASTERN BRITISH COLUMBIA.

THEN, THE CONUNDRUM OF HOW TO GO ABOUT THE MECHANICS OF ACHIEVING THOSE SIMPLE BUT WHEN INTERRELATED, COMPLEX OBJECTIVES.....THE SOLUTION TO THAT PROBLEM WAS WHAT PUT US IN THE HEADLINES..... THE GOVERNMENT DECIDED THAT INSTEAD OF HAVING US SELL BACK TO THE CITIZENS OF THE PROVINCE WHAT THEY ALREADY OWNED, THEY WOULD SIMPLY CHANGE AN INDIRECT, AND NON-TRANSFERRABLE COLLECTIVE TITLE, TO A DIRECT AND NEGOTIABLE FORM OF OWNERSHIP.

LAST JANUARY, THE GOVERNMENT ANNOUNCED A PLAN UNDER WHICH IT WOULD GIVE EVERY ELIGIBLE MAN, WOMAN AND CHILD IN THE PROVINCE FREE SHARES OF "BCRIC".

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THOSE SHARES WOULD COME FROM AN ISSUANCE BY US OF 15,000,000 COMMON SHARES THAT WE WOULD EXCHANGE IN FULL PAYMENT FOR OUR PROMISSORY NOTE THAT GOVERNMENT HELD FOR 151.5 MILLION DOLLARS. THE GOVERNMENT SAID THEY THEN WOULD GIVE 12,000,000 OF THOSE 15,000,000 AWAY AND IF ALL OF THE 2.4 MILLION PEOPLE WHO ARE ELIGIBLE APPLY FOR THEIR FIVE FREE SHARES, THE GOVERNMENT'S OWNERSHIP IN OUR CORPORATION WILL BE REDUCED TO 20 PERCENT FROM THE PRESENT 100 PERCENT.

THEN, AT THE SAME TIME AS THE FREE SHARES WHERE BEING MADE AVAILABLE B.C. RESOURCES WOULD BE SELLING ADDITIONAL SHARES FROM ITS OWN TREASURY. THE NUMBER TO BE SOLD WILL DEPEND ENTIRELY ON THE DEMAND.

BUT THIS SALE WILL PROVIDE THE COMPANY WITH ITS UNCOMMITTED INVESTMENT CAPITAL AND, AT THE SAME TIME, REDUCE EVEN FURTHER THE GOVERNMENT'S PERCENTAGE OWNERSHIP IN "BCRIC".

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THE FREE SHARES AND THE SHARES FOR SALE ARE EXACTLY THE SAME IN ALL RESPECTS. HOWEVER, IN ORDER TO HAVE SHARES REGISTERED, AND THUS BE ELIGIBLE FOR VOTING PURPOSES AT MEETINGS OF THE SHAREHOLDERS AND TO BE ENTITLED TO RECEIVE DIRECTLY REPORTS AND NOTICES, A PERSON MUST HAVE AT LEAST 100 SHARES. OTHERWISE, THE SHARES WILL BE IN BEARER FORM; BOTH THE 5 FREE AND ANY ADDITIONAL PURCHASES AGGREGATING LESS THAN 100. THIS UNUSUAL STEP IS OF COURSE NECESSARY TO SAVE THE CORPORATION THE EXPENSE OF THE DIRECT SERVICE COST OF THIS LARGE SHAREHOLDER LIST RELATIVE TO THE SIZE OF THE CORPORATION.

THIS BRINGS ME TO THE ISSUE PRICE FOR THE PURCHASED SHARES. THE DECEMBER, 1978, BOOK VALUE OF THE 15,000,000 SHARES I MENTIONED WAS $11.16 PER SHARE. OUR BOARD OF DIRECTORS DECIDED THAT WE WOULD SELL ADDITIONAL SHARES AT A PRICE OF $6 PER SHARE.

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AT THAT PRICE A BRITISH COLUMBIAN QUALIFYING FOR FIVE FREE SHARES WILL BE ABLE TO ACQUIRE 100 SHARES FOR $570....A PRICE THAT WILL, I BELIEVE, MAKE A REGISTERED HOLDING OF SHARES ACCESSIBLE TO ALMOST EVERYBODY WITH ANY FUNDS AVAILABLE FOR INVESTMENT.

HOW DID WE DECIDE UPON $6 PER SHARE?

THERE WERE A NUMBER OF REASONS. SOME REDUCTION FROM UNDERLYING VALUE HAD TO BE MADE BECAUSE IN THE STOCK MARKET, HOLDING COMPANIES SUCH AS WE ARE PRESENTLY PERCEIVED, TRADITIONALLY SELL AT BELOW UNDERLYING VALUE. WE WERE ALSO MINDFUL OF THE FACT THAT THERE IS NO MARKET FOR OUR SHARES AT PRESENT AND WHEN TRADING DOES BEGIN, THERE WILL BE SOME PEOPLE WHO WILL WANT TO SELL THEIR FREE SHARES WHICH COULD DEPRESS AND DISTORT AN INITIAL MARKET. ANOTHER CONSIDERATION WAS THAT AS THIS IS AN UNLIMITED SHARE SALE, OTHER THAN A 5,000

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MAXIMUM FOR EACH ELIGIBLE RESIDENT, IT WOULD BE DIFFICULT TO DETERMINE HOW MUCH THE BOOK VALUE MIGHT BE DILUTED. AND FINALLY, WE DO NOT INITIALLY INTEND TO PAY DIVIDENDS.

ALL OF THESE CONSIDERATIONS TENDED TO PUSH THE PRICE DECISION TO THE LOWER END OF A POSSIBLE RANGE AND HAVE CONSEQUENTLY RESULTED IN WHAT MOST ANALYSTS HAVE ALREADY CALLED AN ATTRACTIVE DEAL.

ONE OF THE KEYS TO THE FUTURE SUCCESS OF ANY COMPANY ARE THE PEOPLE WHO MAKE THE DECISIONS AND GIVE IT DIRECTION. I BELIEVE OUR BOARD OF DIRECTORS IS AN EXCEPTIONAL ONE. ALL OF THEM ARE CHIEF EXECUTIVE OFFICERS OF THEIR OWN SUCCESSFUL COMPANIES:

- TREVOR PILLEY, CHAIRMAN OF THE BANK OF BRITISH COLUMBIA;
- JOHN PITTS, CHAIRMAN AND PRESIDENT OF OKANAGAN HELICOPTERS;
- JACK POOLE, PRESIDENT OF DAON DEVELOPMENT;

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- CHUNKY WOODWARD, CHAIRMAN OF WOODWARD'S STORES; AND
- MAURY YOUNG, CHAIRMAN OF FINNING TRACTOR AND EQUIPMENT COMPANY.

THEY AREWELL POSITIONED TO ADVISE US ON FUTURE OPPORTUNITIES.

IT IS VERY CLEAR ALREADY THAT BRITISH COLUMBIANS ARE RESPONDING IN LARGE NUMBERS TO THE CONCEPT OF "BCRIC". AND ON THE BASIS OF NUMBERS ALONE, THIS CORPORATION ALREADY HAS BECOME--OR WILL BECOME WHEN THE ACTUAL SHARE CERTIFICATES ARE ISSUED--A CORPORATION WITH ONE OF THE LARGEST GROUPS OF SHAREHOLDERS IN THE WORLD.

THE NUMBERS ARE STILL BEING TABULATED, BUT I CAN TELL YOU THAT AT THIS POINT IN TIME WELL OVER ONE MILLION BRITISH COLUMBIANS HAVE ALREADY APPLIED FOR THEIR SHARES.

THAT REPRESENTS ABOUT 44 PERCENT OF THE AVAILABLE FREE SHARES......AND WE STILL HAVE ABOUT A MONTH TO GO BEFORE THE JUNE 15 DEADLINE.

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SHARE PURCHASES STARTED TO DECLINE BECAUSE OF THE INTERRUPTION OF A PROVINCIAL ELECTION CAMPAIGN AND ALL OF THE UNCERTAINTIES THAT AROUSES IN INVESTORS. BUT NOTWITHSTANDING THAT, TO DATE OVER TWO MILLION SHARES, HAVE BEEN PURCHASED - YIELDING 12 MILLION PLUS TO OUR BANK.

BUT WHAT ABOUT B.C. RESOURCES AS A COMPANY? WHAT HAVE WE SET AS OBJECTIVES FOR OURSELVES?

WHILE WE WERE BORN OUT OF GOVERNMENT POLICY WE HOPE SOON TO EARN A MEASURE OF RESPECT FOR OUR POSITION IN THE PRIVATE SECTOR. WE WANT TO MAINTAIN AN ALERTNESS THAT WILL ALLOW US TO BE QUICKLY REACTIVE TO THE DRAMATICALLY CHANGING ATTITUDES AND EXPECTATIONS OF SOCIETY TODAY.

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IT IS OUR INTENTION TO BE A HIGHLY ACCOUNTABLE COMPANY. THAT IS, WE INTEND TO KEEP FOREFRONT IN MIND OUR RESPONSIBILITIES TO OUR SHAREHOLDERS, EMPLOYEES, COMMUNITIES WHERE WE OPERATE AND TO THE PROVINCE GENERALLY. WE WILL KEEP THOSE INTERESTED IN OUR AFFAIRS WELL INFORMED.

AS A COMPANY CREATED IN BRITISH COLUMBIA FOR INVESTMENT INITIALLY BY BRITISH COLUMBIANS, WE WILL BE KEEPING THAT ORIGIN IN MIND WHEN WE ASSESS NEW INVESTMENT OPPORTUNITY......OPPORTUNITY OF COURSE THAT MAY ALSO TAKE US TO OTHER AREAS.

THE FINAL, MOST IMPORTANT, AND OVER-RIDING CORPORATE OBJECTIVE IS THIS: WE ARE OUT TO MAKE A PROFIT FOR THOSE WHO ARE WILLING TO INVEST THEIR MONEY IN "BCRIC".

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BY DOING SO WE HOPE TO MAKE THE EXPERIENCE REWARDING FINANCIALLY.....AND TO AWAKEN AND ENCOURAGE OTHER INVESTMENT IN THIS PROVINCE BY ITS CITIZENS.

LET ME EXPAND UPON THIS LAST POINT FOR A MOMENT, BECAUSE I THINK IT IS A VERY SIGNIFICANT ONE.

THERE IS NO NEED FOR ME TO EXPOUND TO YOU ABOUT THE NEED FOR INVESTMENT CAPITAL IN THIS COUNTRY. IT IS OBVIOUS THAT CANADA WILL NEED LITERALLY HUGE AMOUNTS OF CAPITAL TO EXPAND AND DEVELOP IN ALL OF THE AREAS THAT YOU'RE FAMILIAR WITH.....ENERGY, TRANSPORTATION, COMMUNICATIONS, HOUSING AND SO ON.

TO ENCOURAGE INDIVIDUAL CANADIANS TO INVEST IS A PROBLEM THAT POLITICIANS, ECONOMISTS, BUSINESS PEOPLE AND OTHERS HAVE BEEN WRESTLING WITH FOR SOME TIME. ALL OF US HAVE HEARD NUMEROUS IDEAS FROM THESE GROUPS.

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IT SEEMS TO ME THAT WHILE MANY OF THE PROPOSED SOLUTIONS HAVE MERIT, WHAT IS REALLY NEEDED IS TO SOMEHOW MAKE THE AVERAGE PERSON--THE MAN OR WOMAN WHO NOW BUYS A SAVINGS BOND EVERY YEAR, AND HAS SOME BANK DEPOSITS BUT HAS NEVER BOUGHT STOCKS BEFORE--AWARE OF THE OPPORTUNITY....AND TO SHOW THEM HOW TO GO ABOUT IT.

I THINK THE AVERAGE PERSON WOULD RESPOND, PROVIDED IT IS MADE EASY ENOUGH TO DO, THAT THE INVESTMENT IS ATTRACTIVE, AND THAT ADVICE IS AVAILABLE TO THEM IN THE SAME WAY IT'S AVAILABLE TO WEALTHIER OR MORE KNOWLEDGEABLE INDIVIDUALS.

IN FACT, I SUGGEST THIS IS A CHALLENGE THAT CORPORATIONS AND THEIR ADVISORS MUST MEET, FOR IN THE END IT IS THEIR FUTURE THAT IS AT STAKE. I DO NOT THINK A PROPER EFFORT HAS BEEN MADE IN THE PAST TO REACH AVERAGE CITIZENS, AND TO MAKE IT EASY FOR THEM TO INVEST. I BELIEVE THE TIME HAS COME TO DO SO.

THIS LEADS ME TO ANOTHER POINT I'D LIKE TO MAKE, AND ONE THAT I KNOW IS ON YOUR MINDS AS ADMINISTRATORS OF LARGE AMOUNTS OF INVESTMENT FUNDS.

OVER THE LAST FEW YEARS, WE HAVE SEEN IN THE WESTERN WORLD A REMARKABLE DEGREE OF CONTRACTION OF CORPORATE OWNERSHIP. IN CANADA, IT HAS BEEN PARTICULARLY PRONOUNCED, WITH A FLURRY OF CORPORATE TAKEOVERS. THE RESULT IS A MARKED TREND TOWARD FEWER, AND LARGER, CORPORATIONS CONTROLLING INDUSTRY.

THE BROAD PUBLIC OWNERSHIP CONCEPT THAT IS, IN MY OPINION SO HEALTHY, IS SLOWLY DIMINISHING. AS ADMINISTRATORS OF PENSION FUNDS, I KNOW THIS IS OF CONCERN TO YOU. THE COMPANIES IN WHICH YOU CAN INVEST YOUR AVAILABLE FUNDS ARE BECOMING FEWER. THE MARKET, IN TERMS OF LIQUIDITY, IS ALSO BECOMING SMALLER FOR LARGE FUND INVESTORS....AND THAT IS BAD NOT ONLY FOR YOU BUT FOR ALL INVESTORS, LARGE AND SMALL.

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AND THE TREND FOR THE FUTURE SEEMS THE SAME.

BUT LET ME ASK YOU TO WIDEN THE HORIZONS LITTLE..... CONSIDER THE BROADER SOCIAL IMPLICATIONS OF FEWER AND FEWER CORPORATIONS....LARGER AND LARGER COMPANIES, WITH FEWER AND FEWER INDIVIDUAL OWNERS OF SHARES IN THE MARKET. SURELY, THAT IS NOT HEALTHY FOR OUR PENSION FUNDS, OUR ECONOMY OR EVEN OUR LONG-TERM SOCIAL WELL-BEING AS A SOCIETY.

PEOPLE MUST FEEL THEY HAVE A STAKE IN THE RESOURCE RICHES AND INDUSTRIAL BASE OF OUR COUNTRY. THEY MUST FEEL THEY OWN PART OF IT, THAT THEY PARTICIPATE IN IT. SO EFFORTS MUST BE MADE TO REVERSE THAT TREND TOWARD CONCENTRATION, AND WE MUST FIND WAYS OF ENCOURAGING PARTICIPATION IN SHARE OWNING BY THE AVERAGE PERSON.

OBVIOUSLY, I THINK B.C. RESOURCES IS A STEP IN THAT DIRECTION. BUT MORE IS NEEDED.

...16/

IT IS THROUGH B.C. RESOURCES THAT SOME COMPANIES THAT PREVIOUSLY WERE OWNED BY GOVERNMENT IN THIS PROVINCE ARE NOW BEING RETURNED TO INDIVIDUAL OWNERSHIP. AND IT IS THROUGH B.C. RESOURCES THAT THE AVERAGE BRITISH COLUMBIAN--PERHAPS FOR THE FIRST TIME IN THEIR LIFE--IS BEING GIVEN A CHANCE TO INVEST IN THE RESOURCE RICHES OF THE PROVINCE. IT IS FROM THESE TWO FEELINGS, THE ONE ABOUT THE RETURN OF INVESTMENTS TO THE PRIVATE SECTOR AND THE OTHER ABOUT THE AVERAGE PERSON NEVER HAVING A REAL OPPORTUNITY IN TERMS OF INVESTING, THAT YOU CAN TRACE THE PHILOSOPHICAL UNDERPINNINGS OF THE BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION.

SO "BCRIC" HAS NOW EMBARKED ON AN EXCITING NEW COURSE. WE WILL BECOME ONE OF THE MOST WIDELY HELD COMPANIES IN THE WORLD. WE WILL HAVE MORE SHAREHOLDERS THAN ALL

BUT THE VERY LARGEST CORPORATIONS. WE WILL ALSO BE EMBARKING ON A NEW ADVENTURE FOR MANY PEOPLE WHO HAVE NEVER BEFORE BEEN AN OWNER OF SHARES.

IN SOME CASES, THE REASON PEOPLE HAVE NOT INVESTED IN EQUITIES IS BECUASE THEY FEEL THEY HAVE NEVER HAD THE CHANCE; EITHER THEY DON'T KNOW HOW, OR THEY HAVE LOST CONFIDENCE IN THE INVESTMENT PROCESS.

IF THERE EVER WAS AN OPPORTUNITY CORRECT THAT SITUATION, I BELIEVE IT IS HERE NOW.

PLEASE LET ME HAVE ANY QUESTIONS YOU MAY HAVE.

REMARKS FOR THE

ANNUAL DINNER OF THE VANCOUVER STOCK EXCHANGE

BY

DAVID L. HELLIWELL

PRESIDENT & CHIEF EXECUTIVE OFFICER

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

JUNE 15, 1979
HYATT REGENCY
VANCOUVER, B.C.

GENTLEMEN, (AND LADIES) I AM PLEASED TO BE HERE TONIGHT AND VERY FLATTERED THAT YOU ASKED ME TO SPEAK TO YOU. HOWEVER, AS SOMEBODY CAUTIONED ME THE OTHER DAY, I SHOULD BE CONSCIOUS THAT I AM BEING OFFERED AN OPPORTUNITY TO PONTIFICATE TO A GROUP OF PEOPLE WHO HAVE TO SELL WHAT WE'VE BEEN GIVING AWAY FREE. AND THAT'S SORT OF AN UNFAIR STARTING POINT.

I WANT TO TALK TO YOU TONIGHT ABOUT PEOPLE AND SHARES, AND HOW THE INVESTMENT COMMUNITY IN THIS PROVINCE -- INDEED, IN THIS COUNTRY -- IS FACED WITH AN ENORMOUS CHALLENGE....HOW TO BRING PEOPLE AND SHARES TOGETHER IN A MEANINGFUL WAY.

NOW I CAN ALREADY IMAGINE SOME OF YOU THINKING THAT BRINGING PEOPLE AND SHARES TOGETHER IS WHAT ALL OF YOU DO EVERY DAY. YOU DO. BUT LET ME SAY, IN A POLITE WAY, THAT THE INVESTMENT COMMUNITY AS A WHOLE HAS NOT BEEN DOING A VERY GOOD JOB OF IT, JUDGING BY SOME OF THE NUMBERS INVOLVED.

LET ME EXPLAIN.

THERE IS NO NEED FOR ME TO POINT OUT TO MEMBERS OF THE FINANCIAL COMMUNITY THE NEED FOR INVESTMENT CAPITAL IN THIS

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PROVINCE AND THIS COUNTRY. IN ALMOST EVERY SECTOR OF OUR ECONOMY.....ENERGY, TRANSPORTATION, COMMUNICATIONS, HOUSING ......VERY LARGE AMOUNTS OF CAPITAL WILL BE NEEDED OVER THE NEXT DECADE.

FUNDAMENTAL TO A HEALTHY CAPITAL MARKET IS A STRONG PRIVATE ENTERPRISE SYSTEM. AND THAT IN TURN REQUIRES ACTIVE SUPPORT AND PARTICIPATION BY MANY PEOPLE....PEOPLE WHO FEEL THEY HAVE A STAKE IN THE SYSTEM, WHO BENEFIT FROM IT, AND WHO ARE THEREFORE WILLING TO PUT THEIR MONEY INTO IT.

BUT HOW MANY PEOPLE TODAY PARTICIPATE? HOW MANY PEOPLE DIRECTLY BUY AND HOLD SHARES IN OUR MAJOR INDUSTRIES? HOW MANY PEOPLE THEREFORE FEEL THEY HAVE A STAKE IN THE SYSTEM?

LET ME GIVE YOU A SOBERING STATISTIC. DESPITE THE EFFORTS OF THE INVESTMENT COMMUNITY, ONLY ABOUT ONE IN 35 BRITISH COLUMBIANS IN 1978 DIRECTLY OWNED SHARES IN PUBLICLY TRADED COMPANIES.

LET ME REPEAT THE FIGURE. ONLY ABOUT ONE IN 35 BRITISH COLUMBIANS DIRECTLY HOLDS SHARES.

....3/

TO MY MIND THAT IS COURTING DISASTER. THOSE WHO ARE ON THE "OUTSIDE" -- AND REMEMBER, WE ARE TALKING ABOUT THE VAST MAJORITY OF CITIZENS -- HAVE NO DIRECT INTEREST IN SHARES, COMPANIES, PROFITS OR BUSINESS. AS A RESULT, THEIR USUAL REACTION IS ONE OF INDIFFERENCE. LET ME SUGGEST THE NEXT STAGE IS RESENTMENT. THEN HOSTILITY. THEN PRESSURE FOR INTERVENTION BY GOVERNMENT.

WHAT IS NEEDED IS TO SOMEHOW MAKE THE AVERAGE PERSON -- THE MAN OR WOMAN WHO NOW BUYS A SAVINGS BOND EVERY YEAR, AND HAS SOME DEPOSITS BUT HAS NEVER BOUGHT STOCKS BEFORE -- AWARE OF THE OPPORTUNITY....AND TO SHOW THEM HOW TO GO ABOUT IT.

IN THE CASE OF B.C. RESOURCES INVESTMENT CORPORATION, WE THINK WE HAVE SHOWN THE WAY. WE NOW HAVE IN EXCESS OF 1.75 MILLION UNREGISTERED SHAREHOLDERS, EACH WITH FIVE FREE SHARES. IN ADDITION, THROUGH INDIVIDUAL PURCHASES OF 100 OR MORE SHARES WE WILL HAVE, AT LEAST BY YESTERDAY'S FIGURES, 62,000 REGISTERED SHARHOLDERS AND THAT NUMBER IS CERTAIN TO BE MUCH LARGER.

MANY OF BOTH OUR REGISTERED AND OUR 1.75 MILLION UNREGISTERED SHAREHOLDERS HAVE NEVER OWNED SHARES BEFORE. THAT PLACES

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A SPECIAL RESPONSIBILITY ON BCRIC TO COMMUNICATE WITH THEM......TO TELL THEM WHAT'S GOING ON WITH THEIR COMPANY, TO SHOW THEM THE DIRECTIONS IN WHICH WE'RE MOVING AND WHY, AND TO PROVE TO THEM THAT THEIR STAKE IN THIS COMPANY IS WORTHWHILE AND OF BENEFIT TO THEM AND SOMETHING THEY WILL WANT TO CONTINUE TO OWN.

DEVISING EFFECTIVE COMMUNICATIONS TO OUR SHAREHOLDERS IS GOING TO BE A MAJOR CHALLENGE FOR THIS COMPANY. WE'LL NOT ONLY HAVE TO USE THE TRADITIONAL MEANS BUT WE'RE GOING TO HAVE TO LOOK AT NEW AND PERHAPS INNOVATIVE AVENUES TO DO THE JOB EFFECTIVELY, NOT ONLY FOR THE SOPHISTICATED INVESTOR BUT ALSO THE NOVICE INVESTOR, WHETHER HE'S IN VANCOUVER, VICTORIA, POUCE COUPE OR CANAL FLATS.

I KNOW THAT A FEW OF YOU HAVE A POSSIBLE CONCERN THAT WHAT IS PERCEIVED AS A SUCCESSFUL CAPITAL RAISING EXERCISE HAS IN FACT BEEN TOO SUCCESSFUL AND COULD LEAD TO POSSIBLE AFTERMARKET PROBLEMS. I DON'T SHARE THAT CONCERN BECAUSE, IN PART, OF THE CROSS-CANADA INTEREST BY INDIVIDUALS IN BCRIC BUT MORE IMPORTANTLY, THE FACT THAT THIS OVERWHELMING RESPONSE HAS NOW OPENED UP FOR BCRIC AN ENTIRELY NEW HORIZON OF INVESTMENT POSSIBILITY. WE ARE A TIGHTLY DIRECTED

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CORPORATION WITH NO INHERITED PROBLEMS AND A VIRTUALLY UNFETTERED MANDATE TO SEEK PROFITABLE OPPORTUNITY ON BEHALF OF OUR OWNERS.

THIS CHALLENGE OF NOW MEETING THE EXPECTATIONS OF OUR SHAREHOLDERS IN TERMS OF PERFORMANCE IS NOT ONLY ANOTHER STORY BUT ONE IN ITSELF THAT CAN ONLY BE ADDRESSED AFTER WE ARE OUT OF PRIMARY DISTRIBUTION.

BUT WHAT WE HAVE DONE TO DATE AT BCRIC IS TO REACH A VAST GROUP OF PEOPLE WHO HAVE NEVER PARTICIPATED IN SHAREOWNING BEFORE. AND HERE'S WHERE I SUGGEST THE INVESTMENT COMMUNITY FACES A GREAT CHALLENGE.

COMMUNICATING WITH THESE NEW SHAREHOLDERS, ADVISING THEM, KEEPING THEM AWARE OF WHAT'S HAPPENING.....ALL OF THESE TASKS FACE NOT ONLY BCRIC BUT YOU AS INVESTMENT DEALERS. IN FACT, I SUGGEST THAT THE ULTIMATE FUTURE OF YOUR INDUSTRY DEPENDS ON MEETING THAT CHALLENGE, BECAUSE THE PRIVATE ENTERPRISE SYSTEM IN CANADA TODAY NEEDS A STRONG SUPPORTIVE CONSTITUENCY FOR SURVIVAL IN THE YEARS AHEAD.

I AM AWARE OF WHAT'S INVOLVED, FOR US AS WELL AS FOR YOU. I KNOW IT WILL COST MONEY AND TAKE TIME. BUT IT MUST BE DONE.

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I SUGGEST TO YOU THAT BROKERAGE HOUSES WILL HAVE TO ALLOCATE THE RESOURCES NECESSARY TO AGAIN PREPARE TO SERVICE SMALL RETAIL ACCOUNTS, EVEN THOUGH THEY ARE NOT AS LUCRATIVE AS LARGER OR INSTITUTIONAL ACCOUNTS.

FOR THOSE WHO MAY THINK THEIR FIRMS ARE ALREADY DOING THIS, LET ME PASS ON TO YOU A SMALL, UNSCIENTIFIC BUT I BELIEVE SIGNIFICANT SAMPLING.

LESS THAN TWO MONTHS AGO, A BUSINESS ACQUAINTANCE OF MINE TELEPHONED TWO OF THE LARGER BROKERAGE FIRMS IN THIS CITY AND ASKED, AS A POTENTIAL SMALL RETAIL CUSTOMER, FOR INFORMATION AND ADVICE ABOUT STOCK PURCHASES. IN ONE CASE HE WAS TOLD SOMEBODY WOULD CALL HIM BACK. IN THE SECOND CASE HE WAS TOLD THE INFORMATION WOULD BE MAILED TO HIM AND THE DEALER WOULD FOLLOW UP BY TELEPHONE FOR THE ORDER. THIS PERSON IS STILL WAITING TO HEAR FROM EITHER FIRM.

IT IS TRUE THAT THIS MAY BE AN ISOLATED INCIDENT. IT'S ALSO POSSIBLE THAT THE INQUIRIES WERE MADE DURING A BUSY TIME AND SOMEHOW SOMEBODY FAILED TO FOLLOW THROUGH. AND, FINALLY, IT'S INDISPUTABLE THAT TWO INQUIRIES CAN HARDLY BE THE BASIS FOR A BLANKET JUDGEMENT ABOUT THE ENTIRE VANCOUVER INVESTMENT COMMUNITY.

.....7/

BUT I LEAVE TO YOUR OWN JUDGEMENT HOW THIS POTENTIAL SHAREHOLDER VIEWED THE WELCOME SIGN TO INVESTING.

SO I COME BACK TO THE CHALLENGE FACING THE INVESTMENT COMMUNITY.....BRINGING PEOPLE AND SHARES TOGETHER. IT IS A CHALLENGE I PLACE BEFORE YOU, AS WELL AS B.C. RESOURCES INVESTMENT CORPORATION.

This prospectus constitutes a public offering of these securities only in British Columbia.

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

New Issue

British Columbia Resources Investment Corporation

Common Shares

(without par value)

This offer is made only to individuals who have qualified for free common shares of British Columbia Resources Investment Corporation ("BCRIC") to be distributed by the Province of British Columbia as described under "Distribution of Free Common Shares" on page 23. This offer commences on March 15, 1979 and will expire on June 15, 1979 unless extended by BCRIC. Up to 5,000 common shares may be purchased, in integral multiples of five, by or in respect of each eligible resident of British Columbia. Bearer share certificates will be issued on all applications for less than 100 common shares. See "Plan of Distribution".

Price: $6.00 per share

No market has been established for the common shares of BCRIC, but application will be made to list the common shares on the Vancouver Stock Exchange. The offering price for the common shares was determined by BCRIC and the Province of British Columbia was notified of this price. BCRIC has agreed to pay an agents' commission of $0.25 per common share purchased pursuant to this offer. The net proceeds to BCRIC from this offer will be $5.75 per common share sold, before deducting expenses of issue payable by BCRIC estimated at $2,500,000. Other expenses common to the distribution of free common shares by the Province of British Columbia will be borne by the Province.

The common shares are not guaranteed in any manner by the Province of British Columbia or any other government, nor has any government any direct or indirect obligation with respect to them. The common shares are subject to certain risk factors as described under "Risk Factors Affecting Common Shares" on page 23. If a material change occurs during the offering period that makes untrue or misleading any statement of a material fact contained in this prospectus, an amendment will be filed with the Superintendent of Brokers of British Columbia.

These common shares are conditionally offered if, as and when issued by BCRIC subject to enabling legislation and the distribution of free common shares by the Province, all as more particularly set out under "Plan of Distribution" and "Details of the Offering".

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BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

British Columbia Resources Investment Corporation ("BCRIC") was incorporated under the Companies Act of British Columbia on February 22, 1978. The British Columbia Resources Investment Corporation Act (the "BCRIC Act"), which was proclaimed in parts on September 14, 1977 and March 9, 1978 and was amended on August 24, 1978, contains provisions relating to BCRIC, including conditions concerning the ownership and voting of its shares. Reference is made to "British Columbia Resources Investment Corporation Act" on page 21.

The head office and registered office of BCRIC is located at Suite 2600, 1177 West Hastings Street, Vancouver, British Columbia, V6E 3Y3.

Objective

The objective of BCRIC is to operate profitably and to maximize the value of BCRIC for the benefit of the shareholders through growth in earnings and asset values. BCRIC was established in part to encourage British Columbians to participate individually in equity investments based in British Columbia. The first efforts of BCRIC will be directed towards identifying additional investment or business opportunities within British Columbia which are consistent with its objective. However, BCRIC has the same unlimited investment opportunity available to it as any Canadian company and may vary or extend its investments in a manner that the directors believe will benefit the shareholders of BCRIC.

Dividend Policy

BCRIC has not paid dividends on its common shares and does not expect to pay dividends in the early years of its operation. All available funds are expected to be used by BCRIC to finance expansion and new investment until dividends from existing holdings improve or satisfactory cash returns are developed. This policy will be reviewed from time to time by the directors of BCRIC and any change in policy will be influenced by the level of earnings available for distribution in BCRIC, financial market and economic conditions in general, and the degree to which funds should be retained to finance internal requirements such as debt repayment, capital expenditures or working capital.

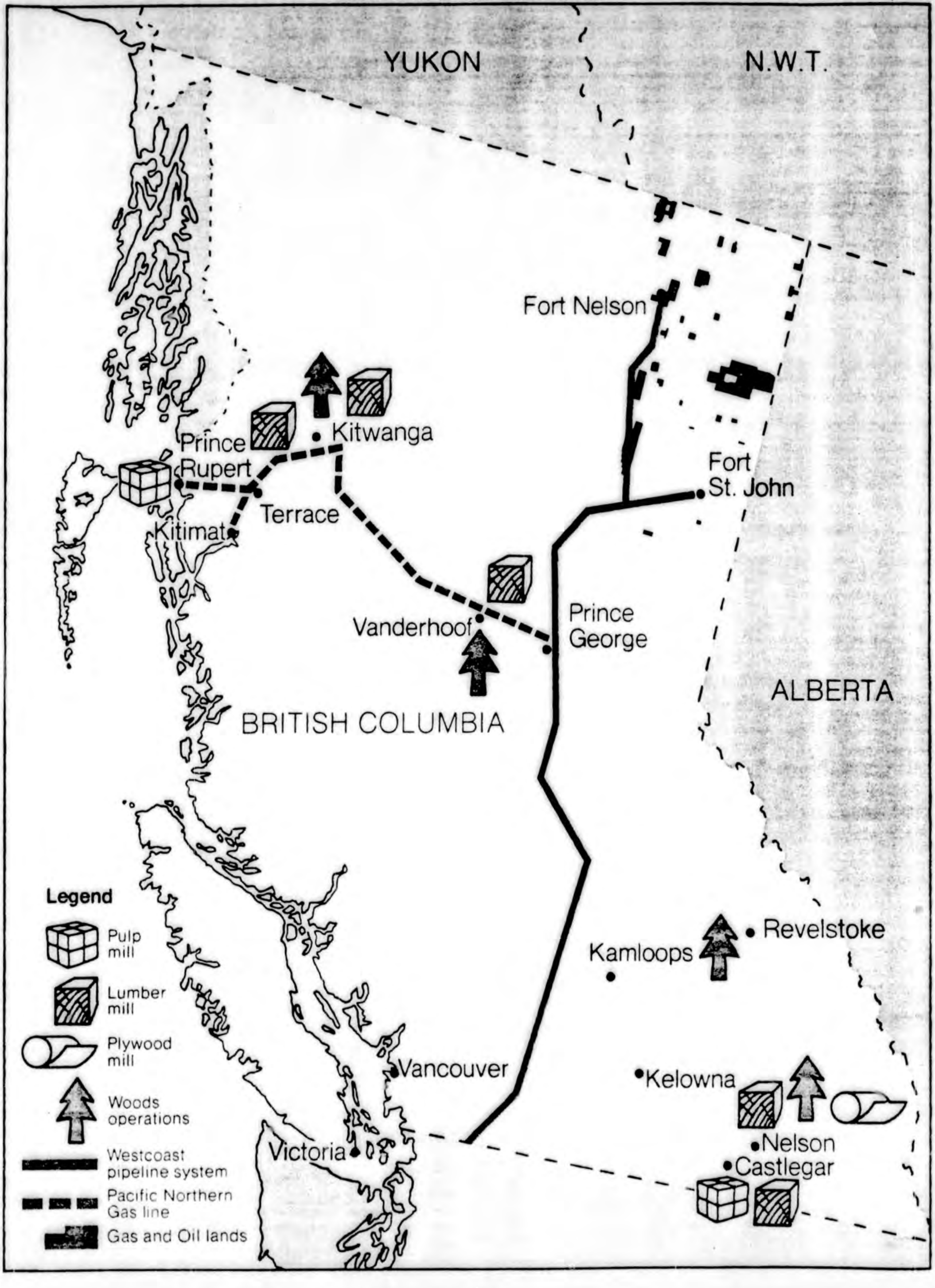
BUSINESS AND PROPERTIES OF BCRIC

BCRIC has to date acquired investments in the forest products industry, which involve the manufacture and sale of pulp, lumber and plywood, and in the energy industry, which involve the exploration, development and transmission of energy resources. The forest products investments consist of approximately 81% of the shares of Canadian Cellulose Company, Limited and all of the shares of Kootenay Forest Products Ltd. and Plateau Mills Ltd. The energy investments include a licence to explore for petroleum and natural gas over approximately 2.3 million acres of land located in northeastern British Columbia and approximately 10% of the common shares in Westcoast Transmission Company Limited.

These investments were acquired on March 9, 1978 from the Province of British Columbia at a transfer price of $151,532,930. As consideration for these interests BCRIC issued to the Province a non-interest bearing demand note which will be exchanged for 15,000,000 common shares of BCRIC. Reference is made to "Consolidated Capitalization", "Plan of Distribution" and Note 2 to the Consolidated Financial Statements.

Each of these investments is described in more detail below. However, BCRIC is not limited to these investments or industries and may invest in a broad spectrum of ventures. A sketch of the location of BCRIC's properties is presented on page 4.

SKETCH OF BCRIC PROPERTIES



FOREST PRODUCTS INVESTMENTS

CANADIAN CELLULOSE COMPANY, LIMITED

Canadian Cellulose Company, Limited ("CanCel") produces bleached softwood kraft pulp in British Columbia at Prince Rupert and Castlegar for sale in North America, Europe and the Far East. CanCel also manufactures lumber at Castlegar, Terrace and Kitwanga in British Columbia, for sale principally in North America.

CanCel's business had its origins in operations in British Columbia formerly controlled by Celanese Corporation of New York. These consisted of a sulphite pulp mill constructed near Prince Rupert in 1951, two bleached softwood kraft pulp mills, one constructed at Castlegar in 1961 and the other at Prince Rupert in 1966, and three sawmills at Castlegar, Terrace and Kitwanga. On June 29, 1973 the Province of British Columbia acquired 79% of the Common Shares and all of the 39,750 Non-Voting Shares of CanCel from Celanese Corporation in exchange for the Province's guarantee of $68,000,000 (U.S.) of First Mortgage Bonds of CanCel, formerly guaranteed by Celanese Corporation. There was no cash outlay by the Province. The remaining 21% of CanCel's Common Shares were received by the public and the Common Shares were listed on the Toronto, Montreal and Vancouver stock exchanges. In 1975 the Province acquired an additional 2% of the Common Shares from the public. In October 1976 production of sulphite pulp was discontinued.

Financial Summary

CanCel's net sales, earnings and dividends paid in each of the past five fiscal years ended December 31 were as follows:

	1978	1977	1976	1975	1974
		(in millions of dollars)			
Net sales	$175.5	$161.1	$177.6	$156.0	$191.5
Earnings before income taxes and extraordinary items	3.4	23.5	29.4	29.5	54.6
Provision for income taxes	.6	10.9	14.8	14.2	25.6
Earnings before extraordinary items	2.8	12.6	14.6	15.3	29.0
Extraordinary items (1)	4.0	4.7	11.5	12.2	21.9
Net earnings	$ 6.8	$ 17.3	$ 26.1	$ 27.5	$ 50.9
Dividends	$ 3.9	$ 3.9	$ 3.7	$ 3.7	$ 0.6

(1) In each of the years 1974 to 1977, the extraordinary item was a tax credit arising from prior years' losses. In 1978 the extraordinary item represented a reduction of provincial logging taxes of prior years due mainly to adjustment of tax depreciation claims.

CanCel's financial performance is dependent upon the demand for and supply of market pulp, the value of the Canadian dollar in terms of United States currency and, to a lesser extent, lumber prices. In the 1974 - 1976 period CanCel's results largely reflected a strong pulp market, offset in 1975 by low lumber prices and an industry-wide labour dispute and in 1976 by the closure of the sulphite mill and unfavourable foreign exchange. The pulp market weakened during 1977 and 1978. Earnings in 1977 were reduced by lower pulp prices, partially offset by fire insurance proceeds, foreign exchange gains and higher lumber sales and prices. A continuation of poor pulp prices into the third quarter of 1978 significantly lowered 1978 earnings. In addition, higher manufacturing costs at Prince Rupert associated with tie-ins and startup of the kraft pulp mill modification described under "Pulp Operations" below, failure of a turbo-generator, a major fire at the Castlegar sawmill and a disruption in operations and damage to logging roads and bridges caused by a severe winter flood in the northwestern region all contributed to the substantial earnings decline. Higher lumber prices and favourable foreign exchange partly offset these factors.

Sales and Marketing

CanCel's net sales by principal product, after deducting freight and delivery charges, in each of the last five years were as follows:

	1978	1977	1976	1975	1974
		(in millions of dollars)			
Kraft pulp	$126.0	$103.0	$112.1	$102.4	$106.7
Lumber	49.5	51.7	40.9	22.6	34.7
Sulphite pulp (1)	—	6.4	24.6	31.0	50.1
Total	$175.5	$161.1	$177.6	$156.0	$191.5

(1) Production of sulphite pulp was discontinued in October 1976.

The following table shows the geographic distribution of CanCel's net sales by principal product during the past five years:

	1978		1977		1976		1975		1974	
					(in millions of dollars)					
Pulp:										
Canada	—	—	$ 4.0	4%	$ 8.2	6%	$ 11.2	8%	$ 11.2	7%
United States	$ 33.5	27%	36.2	33	48.2	35	49.4	37	63.0	40
Europe	64.7	51	55.6	51	51.3	38	49.3	37	52.4	34
Far East	25.4	20	11.3	10	26.6	19	21.4	16	27.7	17
Other	2.4	2	2.3	2	2.4	2	2.1	2	2.5	2
	$126.0	100%	$109.4	100%	$136.7	100%	$133.4	100%	$156.8	100%
Lumber:										
Canada	$ 15.6	32%	$ 11.9	23%	$ 10.1	25%	$ 6.5	29%	$ 9.2	27%
United States	33.9	68	39.8	77	30.8	75	16.1	71	25.5	73
	$ 49.5	100%	$ 51.7	100%	$ 40.9	100%	$ 22.6	100%	$ 34.7	100%
Total	$175.5		$161.1		$177.6		$156.0		$191.5	

With the substantial completion of the kraft pulp mill modification at Prince Rupert in late 1978, CanCel has increased its kraft pulp capacity by approximately 35%. CanCel is susceptible to the cyclical demand and price trends of pulp markets as it lacks the product diversification and secondary manufacturing facilities of more integrated competitors. CanCel has attempted to minimize the effects of non-integration by negotiating longer term contracts and broadening its customer base. Approximately 90% of pulp production in 1979 and 1980 has been committed under contracts for fixed terms of between three and seven years, compared to virtually none before 1973. CanCel has broadened its customer base to more than 100 customers in 19 countries and operates sales offices in Vancouver, Montreal and Brussels.

Kraft pulp prices are principally determined by world market factors. CanCel's sales are based on its announced prices in force at the date of customers' requisitions, but some are subject to discounts based on volume and to meet competitive situations.

The principal market for pulp produced at Castlegar is the United States, where it is shipped by rail. Castlegar pulp also moves by rail to Vancouver for shipment to Southeast Asia, Europe and South America. Pulp manufactured at Prince Rupert is transported by bulk ocean carrier to Western Europe, the Mediterranean, China and Japan. CanCel maintains inventories at key distribution points in the United States and Europe.

All lumber is sold in the North American market by sales staffs at the Terrace and Castlegar sawmills.

Pulp Operations

The Prince Rupert pulp mill, located on Watson Island eight miles south of Prince Rupert, has a daily capacity of 1100 tonnes. In 1976 a modification project was undertaken which incorporated usable portions of the adjacent sulphite pulp mill into the kraft pulp mill and increased its capacity. The modified mill has been in a run-in phase since October 1978 and average daily production at Prince Rupert in the first two months of 1979 was 964 tonnes. The Castlegar pulp mill, completed in 1961, has a daily capacity of 515 tonnes.

Production of kraft pulp and sulphite pulp over the past five years was as follows:

	1978	1977	1976	1975(1)	1974
		(in thousands of tonnes)			
Kraft pulp					
Prince Rupert	195.6(2)	155.0(3)	200.5	143.3	194.2
Castlegar	171.2	164.0	164.8	126.2	176.7
Sulphite pulp					
Prince Rupert (4)	—	—	66.9	79.3	141.7

(1) Operations were suspended for 95 days due to a strike.

(2) Production was affected by power outages and the mill modification project.

(3) Production was affected by a shortage of chemicals due to a strike in the chemical industry and by a shutdown of approximately two months primarily for major improvements.

(4) Sulphite pulp production ceased in October 1976.

Lumber Operations

The Terrace sawmill produces annually 120 million board feet of dimension lumber and the Kitwanga mill, located on 22 acres of leased land, produces annually 40 million board feet of green dimension lumber. The Castlegar sawmill consists of a large log facility which produces annually 100 million board feet of lumber and a small log facility constructed in 1978 with an estimated annual capacity of 35 million board feet. The output of the Castlegar mill is approximately evenly divided between boards and dimension lumber.

On June 17, 1978 the Castlegar sawmill, including the just completed small log facility, was severely damaged by fire. Reconstruction of the sawmill was substantially completed in late 1978. Production from the large log facility reached approximately 80% of design capacity by the end of January 1979 and the small log facility commenced production in February 1979.

Production of lumber over the past five years was as follows:

	1978	1977	1976	1975(1)	1974
		(in millions of board feet)			
Terrace	122.5	127.2	111.8	66.6	93.6
Kitwanga	40.3	36.8	35.7	16.6	32.3
Castlegar	49.2(2)	94.0	102.5	83.9	116.8
	212.0	258.0	250.0	167.1	242.7

(1) Operations were curtailed by a labour dispute.

(2) Sawmill closed by fire on June 17, 1978.

Timber Resource

The Province of British Columbia owns approximately 95% of all forest lands in British Columbia and grants licences to harvest timber from these lands. CanCel holds tenure in the form of two tree farm licences ("TFLs") and three timber sale harvesting licences ("TSHLs"). Both TFLs were granted for terms of 21 years and were stipulated to be renewable. The present Forest Act, which came into force on January 1, 1979, provides that both TFLs will expire within the next five years and gives CanCel the right to replace them on expiry with new 25 year TFLs. A TFL grants to its holder the exclusive right to harvest timber from a designated area of forest land, under short term cutting permits, at a rate, called the "allowable annual cut" ("AAC"), that is calculated according to sustained yield forestry principles. The licensee is responsible for managing the licence area for timber production and forest renewal under the general supervision of the British Columbia Forest Service and has obligations respecting recreation, fish, wildlife and associated resources. Under its TFLs CanCel is obliged to pay to the Province annual rent, based on the AAC, and stumpage for timber harvested from the licence area. Stumpage rates fluctuate according to the market values of forest products, estimated logging, production and forest management costs and allowances for profit, risk and incentive.

TSHLs typically are for terms of ten years, although some are longer. The licensee is granted the right to harvest an AAC in a designated Public Sustained Yield Unit ("PSYU"), which is an area of forest land managed according to sustained yield forestry principles by the Forest Service. In almost all PSYUs harvesting rights are held concurrently by a number of licensees. The licence itself does not specify areas within the PSYU where the licensee will carry out his logging operations. Short term cutting permits are issued from time to time by the Forest Service to identify specific areas to be logged. The holder of a TSHL is obliged to pay annual rent based on the AAC specified in the licence, and stumpage on timber harvested. The holder of a TSHL has the right to obtain a new form of tenure, a forest licence with a 15 year term, as a replacement for the TSHL when it expires or is surrendered.

The AAC authorized under an existing or replacement TFL, a TSHL or a forest licence may be reduced permanently by the Province if the licensee undercuts. Where the volume of timber actually harvested under the licence during a five year cut control period is less than the minimum volume required to be harvested during that period, the AAC may be reduced by as much as the deficiency. In the case of a TFL the Province may delete land from the licence area sufficient to account for the reduction in AAC or as an alternative grant timber sale licences in the TFL authorizing the reduction in the original holder's AAC to be harvested by others.

Northern Operations

CanCel harvests its wood supply for its northern operations (the Prince Rupert pulp mill and Terrace and Kitwanga sawmills) primarily from TFL No. 1 under which CanCel has exclusive cutting rights over certain forest lands in the Skeena and Nass river valleys in northwestern British Columbia. During 1978 CanCel and the Province agreed to reduce the area of the TFL from approximately 2,300,000 productive acres to approximately 935,000 productive acres and the AAC from 72,000,000 cubic feet to 45,606,000 cubic feet. The licence expires in 1983 and CanCel has the right to a replacement TFL. The three TSHLs held by CanCel have an aggregate AAC of 16,200,000 cubic feet. CanCel also manages two TSHLs held by others with a combined AAC of 3,253,000 cubic feet. The sulphite pulp mill, which has now been phased out, required chips produced from roundwood at the mill whereas approximately 45% of the future requirements of the modified kraft pulp mill are anticipated to be supplied by residual chips produced as a lumber by-product by sawmills. CanCel believes that the reduced AAC for TFL No. 1, the AAC of the other tenures available to CanCel and purchased pulp logs and residual chips are sufficient to meet the requirements of its mills. Logs are transported to the mills by road, on the Canadian National Railway and by towed booms.

Interior Operations

TFL No. 23 grants CanCel cutting rights over approximately 968,000 productive acres of forest lands in the basin of the Columbia River. Timber from the TFL supplies logs for the Castlegar sawmill, which in turn supplies residual chips to the adjacent pulp mill. The balance of the requirement of the pulp mill is met by purchasing residual chips from other sawmills in the area and from pulp logs from the TFL. Logs are transported by truck to dumps along the Columbia River below Revelstoke and are towed to the mills in log booms. The construction of the Revelstoke Dam, two miles north of Revelstoke on the river, will affect log transport from the north block of the TFL. The conditional licence issued by the Comptroller of Water Rights to British Columbia Hydro and Power Authority ("B.C. Hydro") for the dam authorizes provision for such log handling facilities as the Comptroller may order.

In 1978 the Province amended TFL No. 23 to provide for licences to an independent sawmill operator to harvest timber in a designated area comprising approximately 112,000 productive acres of the TFL. Such a licence has been granted with an AAC of 5,660,000 cubic feet, effectively reducing CanCel's AAC from 41,500,000 cubic feet to 35,840,000 cubic feet in 1979. CanCel believes that this reduced AAC and available log inventory will provide sufficient wood for the mills in 1979 because the sawmill has not yet reached full production and CanCel is entitled to cut up to 50% in excess of the AAC in one year. When the sawmill achieves full production, CanCel believes that it will require approximately 46,000,000 cubic feet of AAC under the TFL to maintain full production at its mills. TFL No. 23 expires on December 31, 1979 and CanCel has the right to a replacement TFL. The AAC under the replacement TFL has not yet been determined, but will be based on the latest independent inventory of the TFL made in 1975. In CanCel's opinion this inventory substantiates an increase in the AAC for the TFL and CanCel anticipates that, subject to the concurrence of the Minister of Forests, its AAC will be increased under the replacement TFL to meet its wood requirements.

Employee Relations

CanCel employs approximately 2,700 people, of whom approximately 2,200 are represented by industrial unions. There are ten collective agreements involving four unions, the International Woodworkers of America (the "IWA"), the Pulp, Paper and Woodworkers of Canada (the "PPWC"), the British Columbia Government Employees Union, and the Canadian Merchant Service Guild, which directly affect CanCel's operations. The IWA is the certified bargaining agent for approximately 1,080 employees engaged in logging and sawmill activities and the PPWC bargains for approximately 1,025 employees at the pulp mills. Negotiations with the IWA and the PPWC are conducted on an industry-wide basis in British Columbia through employers' organizations of which CanCel is a member. Both unions are operating under two year contracts which were negotiated under federal anti-inflation controls without work stoppages and expire in June 1979.

In July 1975 a Province-wide pulp and paper workers' strike shut down CanCel's pulp mills. This strike also forced curtailment of CanCel's logging and sawmill operations. The strike continued until mid-October 1975 when the Province enacted "back-to-work" legislation. Operations may be affected by work

stoppages in other industries on which CanCel depends, such as the chemical, towboat, shipping and rail transportation industries. In early 1977, the pulp mill at Prince Rupert was shut down for about 20 days due to a shortage of chemicals caused by a strike in the chemical industry.

Environment

In the forest products industry, pollution control is primarily regulated provincially under the Pollution Control Act, 1967 and federally under the Fisheries Act and the Clean Air Act. CanCel's operations do not currently comply with certain requirements of its permits and pollution control standards. CanCel is modifying its facilities to comply with some of the requirements and is evaluating alternatives for compliance with others.

During the last five years CanCel has expended approximately $6,200,000 on projects involving pollution abatement. In addition the modification project at Prince Rupert avoided pollution abatement requirements for the sulphite mill which were estimated in 1975 to cost $80,000,000. CanCel estimates that it may be required to expend during the period 1979 to 1987 approximately $40,000,000 (in 1978 dollars) primarily to meet existing and anticipated pollution control requirements. The specific facilities required and the amounts and timing of expenditures have not been determined and will be subject to the requirements of regulatory authorities and approval by CanCel's directors.

Additions to Property, Plant and Equipment

Capital expenditures on property, plant and equipment during the five fiscal years ended December 31, including expenditures on roads to the extent not offset against provincial stumpage payments, were as follows:

	1978	1977	1976	1975	1974	Total
			(in millions of dollars)			
Logging	$ 4.8	$ 7.2	$ 4.5	$ 9.9	$ 7.9	$ 34.3
Lumber	7.9	2.5	0.5	1.1	3.5	15.5
Pulp	67.6	68.0	22.2	3.9	3.2	164.9
Other	0.1	0.2	0.3	—	—	0.6
Total	$80.4	$77.9	$27.5	$14.9	$14.6	$215.3

Included in the above table are $133,000,000 of construction costs and $11,800,000 of interest and other capitalized costs relating to the modification of the pulp mill at Prince Rupert, $7,400,000 relating to the new small log facility at the Castlegar sawmill, and $22,100,000 relating to logging roads net of stumpage offsets. The balance relates mainly to logging operations, pollution abatement and plant replacement and improvement.

CanCel has planned capital expenditures of $12,600,000 in 1979 for additions to property, plant and equipment including an estimated $2,200,000 to complete the pulp mill modification. In addition expenditures of approximately $7,000,000 will be made in 1979 for logging roads, part of which will be eligible for stumpage offset. The planned expenditures may be increased as described under "Environment".

Energy

CanCel utilizes hydro-electric power, natural gas, petroleum products and hog fuel in its manufacturing processes. Natural gas, the price of which is set by the British Columbia Energy Commission, is supplied through pipelines to Prince Rupert and Terrace by Pacific Northern Gas Ltd. and to Castlegar by Inland Natural Gas Co. Ltd. Oil is supplied to Prince Rupert by barge and to Castlegar by rail. At Prince Rupert and Castlegar, part of CanCel's electrical energy requirements is met from its own steam driven turbo-generators and the balance is supplied at Castlegar by Cominco Ltd. and at Prince Rupert by B.C. Hydro. It is expected that a recent connection to the Peace River generating facilities through the provincial power grid will reduce disruptions in the supply of purchased power to Prince Rupert.

Investment

CanCel has a 24% interest in Babine Forest Products Limited ("Babine") which owns a sawmill, opened in 1975, at Burns Lake in the central interior of British Columbia. The sawmill's annual production is 100 million board feet of dimension lumber and 24% of its residual chips are committed for sale to CanCel's Prince Rupert pulp mill. In 1978 CanCel's equity in Babine's net earnings amounted to $1,230,000.

KOOTENAY FOREST PRODUCTS LTD.

Kootenay Forest Products Ltd. ("Kootenay") commenced sawmill operations in 1952 at Nelson in the Kootenay Lake area of British Columbia. In 1967 a plywood plant was added to the sawmill operations. In 1974 Kootenay was acquired by the Province of British Columbia.

Kootenay's net sales and earnings in each of the fiscal periods from 1975 to 1978 inclusive were as follows:

	12 months ended December 31		10 months ended December 31	12 months ended February	
	1978	1977	1976	1976	1975
			(in thousands of dollars)		
Net sales	$28,560	$21,522	$16,031	$15,263	$12,385
Earnings (loss) before extraordinary items (1) (3)	3,896	(11)	530	601	(4,210)
Extraordinary items (2)	—	848	—	84	1,284
Net earnings (loss) (3)	$ 3,896	$ 837	$ 530	$ 685	($2,926)

(1) Kootenay received a non-interest bearing advance of approximately $11.6 million from the Province in March 1974. This advance was repaid in March 1978 out of the proceeds of an issue of common shares to the Province. As part of these arrangements Kootenay agreed to transfer certain of its freehold lands to the Province.

(2) Gains arising on sale of private land to the Province.

(3) No provision has been made for income taxes as Kootenay has been exempt since March 1974 due to its status as a Crown corporation. Kootenay will lose this exemption in 1979.

Strong demand and higher prices for both plywood and lumber in 1978, the beneficial effects of the substantially lower value of the Canadian dollar in terms of U.S. currency, and improved productivity combined to increase Kootenay's sales and earnings over previous years. These favourable factors were partially offset by higher operating and stumpage expenses.

Business of Kootenay

Kootenay carries on logging operations primarily through independent contractors and operates a sawmill, a plywood plant and related facilities in Nelson on approximately 30 acres of land and nine acres of leased foreshore lots served by two railway lines. The sawmill has an annual capacity of 55 million board feet of dimension lumber and the annual capacity of the plywood plant is 570 million square feet (1/16th inch) of sheathing plywood.

Production, sales volumes and sales revenues by product for the past five years were as follows:

	Twelve months ended December 31				
	1978	1977	1976	1975	1974
Lumber					
Production (MMFBM)	52.2	52.8	38.8	25.2	32.1
Sales volume (MMFBM)	54.4	51.1	37.7	29.5	34.0
Sales revenue (millions)	$12.8	$9.9	$6.2	$3.9	$5.1
Plywood					
Production (MMSF 1/16") (1)	530.7	504.4	552.4	452.1	412.9
Sales volume (MMSF 1/16")	533.3	500.5	554.5	466.2	413.0
Sales revenue (millions)	$15.7	$11.6	$13.1	$9.9	$7.9

(1) Includes purchased veneer.

(2) MMFBM means millions of board feet and MMSF 1/16" means millions of square feet on a 1/16 inch basis.

Inadequate log supply resulted in curtailed production in 1974 and 1975. Increased expenditures on logging and road construction together with sawmill modifications have led to increased sawmill production.

Kootenay's lumber and plywood production is marketed by its own sales staff at Nelson. Lumber is sold primarily to wholesalers and is shipped by both rail and truck. In 1978, approximately 22% of lumber

was sold in Canada and 78% in the United States. The majority of Kootenay's plywood is transported by rail and sold in Eastern Canada. In 1978, 90% of plywood was sold to Canadian purchasers and 10% was exported.

Kootenay also sells wood chips to CanCel's pulp mill at Castlegar and to Georgia-Pacific Corporation in Bellingham, Washington. In 1978, wood chip sales revenues were approximately $959,000.

Kootenay employs approximately 500 people of whom 82% are union members represented by the IWA. The present collective agreement, which was negotiated under federal anti-inflation controls, expires on June 30, 1979. Collective bargaining is conducted by the Interior Forest Labour Relations Association which represents Kootenay and other forest industry employers in the southern interior region. Kootenay may be affected by work stoppages in other services on which it depends such as transportation.

Kootenay is subject to various environmental protection laws and regulations and is currently installing emission control devices at an estimated cost of $200,000 to meet provincial requirements. Additional expenditures to meet environmental protection requirements in 1979 are projected to be $160,000.

Timber Resource

Kootenay holds two TSHLs expiring in 1981 and 1982 which it expects to replace with a forest licence having a 15 year term. The present AAC is approximately 12,600,000 cubic feet. The timber consists of many species and contains a high proportion of small, over-mature and decadent trees. Harvesting operations are conducted in steep terrain at relatively long distances from conversion facilities resulting in high raw material costs. Logs are transported by truck and by towing on Kootenay Lake.

In previous years Kootenay has logged its private timberlands to supplement its AAC by between 900,000 and 3,200,000 cubic feet per annum. These private lands were recently transferred to the Province. Kootenay retains harvesting rights on these lands and is preparing a plan for logging operations over a maximum of twenty years. Kootenay anticipates continuing to cut approximately 1,200,000 cubic feet per year for its mills from these lands.

Kootenay's conversion facilities annually require approximately 14,500,000 cubic feet of timber composed of 7,500,000 cubic feet of peeler logs and 7,000,000 cubic feet of saw logs. Logging operations have generally yielded an insufficient supply of peeler logs and an excess of small saw logs. To overcome this wood imbalance, Kootenay has had to purchase peeler logs. As a result of inadequate log handling and log preparation facilities it has also had to purchase green veneer. Both these problems have contributed to excessive saw log inventory. Kootenay expects to continue to depend upon purchases of between 3,500,000 and 4,500,000 cubic feet of peeler logs per annum for the foreseeable future as well as purchasing varying quantities of veneer.

Kootenay has increased expenditures on roads to improve its access to timber stands with a higher peeler log content. Continued substantial expenditures are anticipated because of the imbalance between Kootenay's timber resources and its conversion facilities.

Capital Expenditures

Total capital expenditures during the five years ended December 31, 1978, including expenditures on roads to the extent not offset against provincial stumpage payments, were as follows:

1978	1977	1976	1975	1974
		(in thousands of dollars)		
$1,515	$1,996	$2,317	$2,256	$1,464

Capital expenditures in recent years have been directed primarily to renovation of the sawmill in 1975 and 1976 and development of logging roads. BCRIC and Kootenay are studying plans to adapt facilities for better use of the timber resource and to improve log handling and log preparation. These plans, if implemented, would increase sawmill capacity, reduce inventory and eliminate purchases of veneer. Current projections for such expenditures through 1980 amount to approximately $10 million. In addition Kootenay expects to spend an average of $1.7 million annually, before stumpage offsets, over the next three years on road development to provide access to better stands of timber suitable for plywood manufacture as well as

to increase the supply of harvestable timber. Roads currently developed permit access to sufficient timber which, together with purchases of peeler logs and veneer at present levels, will supply present mill requirements for approximately one and one-half years.

PLATEAU MILLS LTD.

Plateau Mills Ltd. ("Plateau"), incorporated in 1967, has sawmill operations at Engen, twelve miles west of Vanderhoof, British Columbia. The Province of British Columbia acquired control of Plateau in 1973 and the remaining minority interest in 1974.

Plateau's net sales and earnings in each of the past five fiscal years ended December 31 were as follows:

	1978	1977	1976	1975	1974
		(in thousands of dollars)			
Net sales	$28,224	$21,826	$11,573	$8,624	$9,385
Earnings (loss) before extraordinary item (1)	4,432	4,378	1,937	68	(316)
Extraordinary item (2)	—	—	—	—	229
Net earnings (loss) (1)	$ 4,432	$ 4,378	$ 1,937	$ 68	$ (87)

(1) Plateau has been exempt from income taxes since 1974 due to its status as a Crown corporation. Plateau will lose this exemption in 1979.

(2) Reduction of deferred income taxes upon acquiring status as a Crown corporation.

Plateau's results in 1978 compared to 1977 were favourably affected by strong demand and higher prices for lumber, as well as by exchange gains resulting from the lower value of the Canadian dollar. Earnings were affected adversely by higher stumpage, logging and operating costs and by marketing and productivity problems.

Business of Plateau

Plateau operates two sawmills and related facilities in Engen on its 1,080 acre site adjacent to the Canadian National Railway and the Yellowhead Highway. The older mill, constructed in 1970, handles larger diameter logs and the newer mill, constructed in 1976, handles small logs. The combined annual capacity of these mills is 149 million board feet of dimension lumber. The newer mill is being expanded so as to be able to process both small and large logs. Upon completion of the expansion in March 1979, the older mill will be phased out. The designed annual capacity of the expanded mill is 156 million board feet. Plateau anticipates a reduction of unit costs and an improvement in timber utilization as a result of the expansion.

Lumber production and sales volumes for the past five years ended December 31 have been as follows:

	1978	1977	1976	1975	1974
		(in millions of board feet)			
Production	133.9	142.6	95.5	66.8	86.3
Sales	141.7	138.4	89.3	82.3	84.7

Plateau's sales staff at Engen markets its lumber to wholesalers, retailers and industrial users. In 1978, approximately 6% was sold in Canada and 94% in the United States. Wood chips are sold to Prince George Pulp and Paper Ltd. In 1978 wood chip sales revenues amounted to $2,068,000.

Plateau employs approximately 330 full-time employees of whom 85% are represented by the IWA. The collective agreement which was negotiated under federal anti-inflation controls expires on August 31, 1979. Collective bargaining is conducted by the North Cariboo Forest Labour Relations Association on behalf of Plateau and many of the forest employers in the northern interior region. Shortages of skilled labour and a high turnover rate have adversely affected productivity. Plateau expects that the improvement in working conditions associated with the sawmill expansion will reduce turnover.

Plateau depends on outside sources for transportation of lumber products and for supply of energy. Plateau is pioneering a wastewood burner as a heat source for two of its six kilns used for drying lumber. If this process is commercially successful, Plateau will significantly reduce natural gas purchases.

Plateau is subject to various environmental protection laws and regulations. Plateau believes its operations are generally in compliance with all requirements.

Timber Resource

Plateau holds three TSHLs and one timber sale licence with a total AAC of 26,468,000 cubic feet and annually harvests approximately another 720,000 cubic feet under a private agreement. Licences for 63% of the AAC have been extended under the new Forest Act to expire in 1981 and the other licences expire in 1988. Plateau intends to replace its existing licences with a forest licence having a term of 15 years.

Plateau's timber consists of accessible stands of lodgepole pine, spruce and balsam fir. Most logging operations and log transport are carried out by independent contractors. Plateau does not foresee any shortage of suitable wood for its existing facilities.

Capital Expenditures

Total capital expenditures during the past five years ended December 31, including expenditures on roads to the extent not offset against provincial stumpage payments, have been as follows:

1978	1977	1976	1975	1974
		(in thousands of dollars)		
$8,814	$4,291	$4,069	$4,537	$2,750

This table includes approximately $6.3 million relating to construction of a new sawmill completed in November 1976 and $5.7 million relating to the current mill expansion. Road expenditures in recent years have been increased to support the increase in production. Existing logging roads provide access to sufficient timber to supply the present mill requirements for approximately four years. Plateau anticipates that total capital expenditures in 1979 will be approximately $4.5 million, including about $2 million for the sawmill expansion and log yard improvements.

ENERGY INVESTMENTS

GAS AND OIL DIVISION

On March 9, 1978, the Province of British Columbia issued to BCRIC a petroleum and natural gas licence (the "Licence") under which BCRIC has the exploration rights described below covering 2,343,667 acres of unproven and undeveloped land in northeastern British Columbia ("the Licenced Lands"). BCRIC paid $40,896,043 for the Licence. The location of the Licenced Lands is illustrated on the map on page 15.

The Licence

The Licence stipulates that BCRIC may undertake geological and geophysical methods of exploratory work, alone or in conjunction with others, but may not drill, in its own right, exploratory wells for petroleum and natural gas on the Licenced Lands. In order to drill and prove potentially productive geological horizons, farmout agreements must be negotiated with third parties who undertake the drilling operation on behalf of themselves and BCRIC. This provision ensures that the oil and gas industry will have the opportunity to participate in the exploration and development of the Licenced Lands.

During the five year term of the Licence, BCRIC has the exclusive right to receive petroleum and natural gas permits from the British Columbia Ministry of Energy, Mines and Petroleum Resources for any portion of the Licenced Lands which will be evaluated under a farmout agreement. Each permit will cover a land area specified by BCRIC in its application and will be issued for a term of eight years where the permit relates to blocks designated "A" on the map on page 15 or for a term of ten years where the permit relates to blocks designated "B" on the same map. The Licence makes provision for the renewal of a permit for a five year term if a subsequent agreement is entered into for further exploration. Land under permit may be surrendered by BCRIC at any time subject to outstanding farmout agreements.

The right to produce from the Licenced Lands may be granted by way of leases issued pursuant to the Petroleum and Natural Gas Act, 1965 of British Columbia (the "PNG Act") after a well has been drilled. The area covered by these leases will be determined by the geographical location and depth of the well and its capability of producing.

Most of the provisions of the PNG Act and the regulations thereto will apply to BCRIC under the terms of the Licence. However, there are provisions of the Licence which supersede provisions of the PNG Act, including reduced rentals, the elimination of work obligations while under permit and enhanced lease entitlements.

The properties included in the Licenced Lands were valued in a report dated February 15, 1978 and prepared for the Minister of Energy, Mines and Petroleum Resources of British Columbia by D & S Petroleum Consultants (1974) Ltd. and D & S Geological Services Ltd. of Calgary, Alberta and London, England. The report set out appraised values for each of the tracts of land comprising the Licenced Lands and established a total value for the Licenced Lands of $40,896,043 or an average price of $17.45 per acre ($43.11 per hectare). (A hectare is a metric unit of area which equals 10,000 square metres or 2.471 acres.) Because much of the Licenced Lands was remote from exploration activity in 1977, the valuation was based on a variety of factors including the results of recent land sales in the area, prevailing land prices for unproven wildcat acreage, the results of drilling on offsetting lands which might indicate reservoirs which could be encountered on the Licenced Lands, and the general level of exploration activity in the area.

Industry Price and Drilling Statistics

As BCRIC has no existing production or established oil and gas reserves on the lands managed by it, the following statistical information is provided in connection with land value and drilling activity trends in British Columbia. The bonuses paid on the sale of Crown reserve petroleum and natural gas rights for each of the last five years by type of disposition are set out below.

Crown Reserve Disposition Bonuses

	1978	1977	1976	1975	1974
			(in millions of dollars)		
Permits	$ 49.5	$ 60.0	$27.5	$ 6.6	$15.4
Drilling reservations	64.5	30.6	6.2	2.7	2.7
Leases	63.5	34.8	9.5	3.4	4.9
Total	$177.5	$125.4	$43.2	$12.7	$23.0

During 1978, monies paid by the oil and gas industry to acquire petroleum and natural gas permits covering British Columbia Crown lands amounted to $49.5 million or $61.14 per acre, which compared to a total of $60.0 million in 1977 on significantly more land area for an average of $38.31 per acre. While the rights obtained by BCRIC under the Licence are not directly comparable to any of the disposition categories shown above, the bonus amounts realized on permit dispositions represent most closely the trend in values which might apply to the Licenced Lands.

The following table sets out a review of drilling activity and results over the past five years in British Columbia.

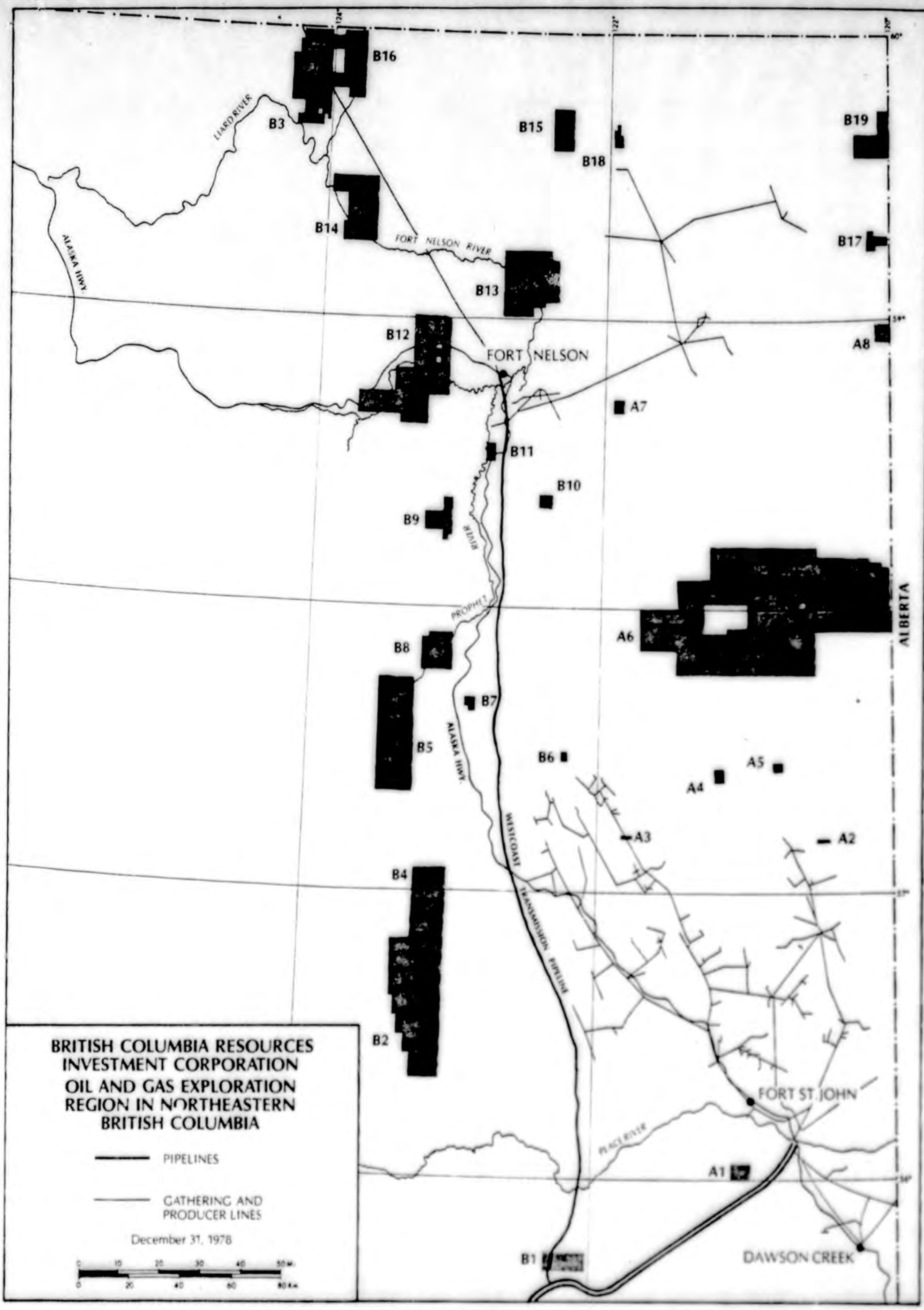
Drilling Activity in British Columbia

	1978	1977	1976	1975	1974
Oil wells	72	38	13	2	6
Gas wells	201	165	95	31	51
Dry holes	129	118	71	44	84
Servicing and standing wells	6	7	5	4	6
Total wells completed	408	328	184	81	147

Operating Strategies

BCRIC opened a Gas and Oil Division office in Calgary in June 1978. A small staff of experienced professionals is pursuing the following operating strategies and priorities for the Gas and Oil Division:

- — to negotiate farmout agreements requiring farmees to provide all exploratory funds for seismic and drilling activity on Licenced Lands so that these lands are fully and expeditiously explored;
- — to participate fully in development activity with others on the Licenced Lands;
- — to pursue exploration prospects on other than Licenced Lands;
- — to acquire selectively both semi-proven and unproven acreage in order to offset the dilution of BCRIC's land inventory which results from farmout agreements on the Licenced Lands; and
- — to pursue opportunities to acquire interests in producing properties.



B16
B3
LIARD RIVER
B15
B18
B19
B14
FORT NELSON RIVER
B17
ALASKA HWY.
B13
B12
FORT NELSON
A8
A7
B11
B10
B9
RIVER
PROPHET
A6
ALBERTA
B8
B7
B5
ALASKA HWY.
B6
A5
A4
WESTCOAST
A3
A2
B4
TRANSMISSION PIPELINE
B2
BRITISH COLUMBIA RESOURCES
INVESTMENT CORPORATION
OIL AND GAS EXPLORATION
REGION IN NORTHEASTERN
BRITISH COLUMBIA
PIPELINES
GATHERING AND
PRODUCER LINES
December 31, 1978
FORT ST. JOHN
PEACE RIVER
A1
B1
DAWSON CREEK

Farmout Agreements

All farmout agreements negotiated to date essentially provide that the third party farmee absorb all costs of exploratory activities on the Licenced Lands, although BCRIC has undertaken some minor seismic programs for control purposes on Licenced Lands prior to farmout. In addition, each farmee must drill one or more wells to a prescribed depth to earn a 50% interest in any leases which may issue from a permit. The interest earned extends down only to the depth or geological horizon penetrated by the well. Since a field discovered on Licenced Lands may extend to adjacent areas, another feature of most agreements is that an area of mutual interest is established covering the petroleum and natural gas rights on land adjacent to the farmout block. BCRIC will attempt to protect its interest in the related lands by participating with its farmee in any subsequent development work.

Twenty-two of the twenty-seven blocks comprising the Licenced Lands have been committed to farmout agreements, although formal agreements have not been signed in every case. Over 89% of the Licenced Lands are covered by these commitments. To this date in negotiations, farmees are obligated to conduct a minimum of 1,460 kilometres of seismic and to drill 18 wells over the next three and one-half years. Farmees on commitments negotiated to date include a broad range of experienced exploration companies.

Block A-6, the largest block in the Licenced Lands consisting of 905,019 acres, was divided into eleven parcels and farmed out to a number of operators in order to generate more concentrated exploration activity. One parcel has been retained by BCRIC. Some of the operators on Block A-6 have subsequently joined with others to explore jointly on this land. Approximately 550 kilometres of seismic line and nine wells have been committed on this block.

Drilling Activity

Four of the wells referred to above under "Farmout Agreements" are being drilled in the 1978-1979 winter drilling season. The first well on the Licenced Lands was Wainoco BCRIC Sojer, drilled in November 1978 on Block A-3 in the Nig Creek area 120 kilometres northwest of Fort St. John. An area of mutual interest was established adjacent to Block A-3. Consequently three parcels of land were purchased jointly by Wainoco Oil & Gas Limited and BCRIC at the November 22, 1978 Crown sale. The Sojer well found a gas-bearing section capable of commercial production and has been capped.

Gulf BCRIC Cheves, a 3,140 metre test, has been drilled on Block B-9 and is currently testing. This well is 3.5 kilometres south southeast of an earlier Gulf Cheves well which was drilled in early 1978.

Esso BCRIC Stanislas, a 3,000 metre test, commenced drilling operations on January 19, 1979 on Block B-15.

Czar BCRIC Dobin, a 1,000 metre test, commenced drilling operations on February 15, 1979 at the southwest extremity of Block B-19.

As the first investment in BCRIC's strategy to expand its activities beyond the Licenced Lands and related mutual interest lands, BCRIC has entered into a farmin agreement on a parcel of land located in the Sahtaneh area east of Fort Nelson. By paying 12½% of well costs, BCRIC will earn a 6¼% interest in production from the well after well costs have been recovered. The well, known as Tri Star et al Sahtaneh, is currently drilling and offsets Mobil Sahtaneh to the southwest, a well which flowed gas at a rate in excess of 11.5 million cubic feet per day.

Oil and gas exploration involves a high degree of risk, which can be reduced by a combination of experience, knowledge and careful evaluation. BCRIC intends to engage in the drilling of both exploratory and development wells. There is no assurance that commercial quantities of gas or oil will be discovered by BCRIC. The marketability of gas and oil which may be acquired or discovered by BCRIC will be affected by market fluctuations, the proximity and capacity of gas and oil pipelines and processing equipment and government regulations, including regulations related to prices, taxes, royalties, land tenure, methods of operation, allowable production, importing and exporting of oil and gas and environmental protection. Hazards such as unusual or unexpected formations, high pressures or other anomalous conditions are encountered in drilling and operating wells. BCRIC will have the benefit of insurance placed in such amounts as it considers adequate. BCRIC may become subject to liability for pollution, blow outs or other hazards against which it is not fully insured.

Expenditure Plans

BCRIC has established a preliminary five year expenditure plan totalling approximately $55 million. This amount is allocated approximately equally to expenditures on Licenced Lands and to expenditures for or on other lands. The amount of actual expenditures will depend upon many factors including the success of prior expenditures in this program, the cash flow which may result from these expenditures, the amount of net proceeds from the present sale of BCRIC common shares which can be dedicated to this program and the opportunities for expenditure which become available to or are developed by BCRIC's Gas and Oil Division.

As part of this five year plan, BCRIC has developed an expenditure budget of $8.3 million for 1979. These expenditures may include seismic and drilling work and land acquisition costs and will be allocated to participating in joint operations on Licenced Lands and mutual interest lands, the purchase of semi-proven and wildcat acreage not related to the Licenced Lands, and exploratory drilling on new acreage. The 1979 program will be financed from internal cash flow of BCRIC, the proceeds from the sale of common shares offered by this prospectus and debt capital where the expenditure plan will support such financing.

Government Regulation

All of BCRIC's present exploration activities are being conducted in British Columbia. The exploratory work carried out by BCRIC and its farmees and any production of petroleum or natural gas will be governed by the PNG Act as modified by the Licence.

The PNG Act and regulations prescribe royalties payable in respect of the sale of natural gas, natural gas by-products and petroleum produced in British Columbia. Virtually all natural gas and by-products produced in the Province are sold under contract with the British Columbia Petroleum Corporation ("BCPC"), a Crown corporation, and are exempt from royalties. The price payable to producers is based upon a "field price" reviewed annually by the British Columbia Energy Commission and is adjusted in accordance with changes in the average market value and volume of export and domestic gas sales, transmission costs and federal taxes. In December 1978 the price payable for "new gas" (generally, gas drawn from a pool which did not flow prior to November 14, 1973) was fixed at $1.046 per thousand cubic feet and the price payable for "old gas" was fixed at $0.766 per thousand cubic feet, at wellhead. The time of completion of a well also determines the royalty payable on "new oil" and "old oil". New pool discovery wells are exempt from royalties for the first three years of production and royalties on "new oil" (generally, oil drawn from a pool which did not contain a completed well prior to November 1, 1975) are usually less than those levied on "old oil". Royalty rates are also determined by the volume of monthly production from a particular well.

The Federal Government regulates the prices of crude oil and natural gas in interprovincial and export trade and controls the volumes of crude oil and natural gas exported from Canada.

WESTCOAST TRANSMISSION COMPANY LIMITED

BCRIC owns 3,471,375 common shares (approximately 10% of the outstanding common shares and the second largest shareholding) in the capital of Westcoast Transmission Company Limited ("Westcoast"). Westcoast is primarily engaged in purchasing, gathering, processing, transmitting and selling natural gas.

The following table sets out a five year history of Westcoast's operating revenues, net income, cash flow, net income per common share (weighted average) and dividends per common share and the high and low prices for Westcoast's common shares on The Toronto Stock Exchange.

	Year ended December 31				
	1978	1977	1976	1975	1974
Operating revenues (in thousands)	$843,902	$780,164	$579,276	$416,677	$266,600
Net income after preferred dividends (in thousands)	41,538	39,450	36,059	29,619	25,172
Cash flow (in thousands)	85,805	81,419	75,867	55,060	47,161
Net income per common share	1.21	1.19	1.11	0.99	0.97
Dividends per common share	0.69	0.653	0.612	0.60	0.433
Common share price high—low	12¾-10⅜	11¾-8⅞	9⅜-7⅜	7¾-6⅛	8⅝-4⅞

The Pipeline System

Westcoast, together with two wholly-owned subsidiaries, owns and operates a natural gas pipeline system (the "Pipeline System") consisting on May 31, 1978 of 1,400 miles of main transmission pipeline in British Columbia with 17 mainline compressor stations, 1,101 miles of gathering lines in British Columbia, Alberta, the Yukon Territory and the Northwest Territories with 13 field compressor stations, three gas processing plants located at Fort Nelson, Taylor and Boundary Lake, British Columbia with a total marketable gas capacity of 1,430 million cubic feet per day and two elemental sulphur recovery plants located at Fort Nelson and Taylor. The main transmission pipeline runs from Fort Nelson and Taylor in northern British Columbia to a point on the United States border near Huntingdon, British Columbia where it connects with the pipeline system of Northwest Pipeline Corporation ("Northwest"). The Pipeline System has a mainline transmission capacity (mainline sales plus compressor fuel) of approximately 1,360 million cubic feet per day.

Westcoast is in the midst of an extensive construction program involving expenditures in the order of $225,000,000 during 1978 and 1979. Major projects completed in 1978 include the Grizzly Valley—Sukunka pipeline, the Silver—Dahl pipeline and the Clarke Lake South and Red Creek gas field connections. Scheduled for completion in 1979 are a processing plant near Chetwynd associated with the Grizzly Valley—Sukunka pipeline and other gathering facilities and additions to the Pipeline System.

Gas Supply, Cost of Service and Rate of Return

Westcoast has, in connection with the operation of the Pipeline System, entered into an agreement (the "BCPC Agreement") with BCPC. Under the BCPC Agreement substantially all of the gas produced in British Columbia is sold by the producers to BCPC which, in turn, commits and sells the gas to Westcoast. In addition, approximately 22% of Westcoast's gas is purchased from producers in northwestern Alberta, the Yukon Territory and the Northwest Territories.

Under the BCPC Agreement the price paid by Westcoast for the gas purchased from BCPC is an amount equal to the gross revenues received by Westcoast from the sale of gas transmitted through the Pipeline System and gas by-products from the processing and sulphur recovery plants, less both the cost incurred in purchasing gas from sources other than BCPC and the cost of service, including a return on rate base.

The rate base consists of actual investment in plant, property and equipment in service less depreciation plus working capital. The BCPC Agreement provides that the rate of return on rate base is subject to change by agreement or by arbitration. The present 11% rate of return has been in effect since January 1, 1977. Because operating income is generated by a return on rate base, the net income of Westcoast is not affected by fluctuations in the price or volume of gas sold and delivered through the Pipeline System. Net income is increased with additions to rate base by expansion of the Pipeline System.

National Energy Board Rate Application

Westcoast's tariffs, tolls and charges applicable to its customers are subject to the jurisdiction of the National Energy Board ("NEB"). The price payable for gas purchased outside British Columbia is governed by The Petroleum Administration Act.

In 1977 Westcoast filed its first rate application to be heard by the NEB. The application is being heard in three phases. Phase I which dealt with the depreciation and income tax components of cost of service has been heard. The NEB has approved an alteration of Westcoast's accounting treatment of depreciation, effectively increasing the recovery of depreciation, and a change from flow-through to normalized income tax accounting. A decision on methods of allocating these costs to domestic and export sales was postponed until Phase II. The components of rate base and the remaining components of the cost of service, including the return on rate base, are being considered in Phase II which is scheduled to be completed in March 1979. The design of rates and tolls charged to domestic customers will be considered in Phase III which is scheduled to be completed in April 1979.

Substantially all the decisions of the NEB as to depreciation, amortization and income taxes will be given effect to by the BCPC Agreement for purposes of determining the price to be paid by Westcoast for gas purchased from BCPC. Any increase in Westcoast charges authorized by the NEB will not necessarily result in additional after tax net profits.

Gas Sales

All gas transported through the Pipeline System, other than compressor fuel, is either exported to Northwest or sold to distributors in British Columbia, primarily B.C. Hydro, Inland Natural Gas Co. Ltd. ("Inland") and Pacific Northern Gas Ltd. ("Pacific Northern").

B.C. Hydro, Inland and Pacific Northern distribute approximately 95% of all the natural gas distributed to consumers in British Columbia. B.C. Hydro distributes gas throughout the lower mainland area of British Columbia including the metropolitan area of Vancouver. Inland carries on a gas distribution business principally in central and southern British Columbia. Pacific Northern carries on a gas distribution business in northwestern British Columbia as referred to under "Other Businesses" on page 20. Westcoast sells gas to B.C. Hydro, Inland and Pacific Northern pursuant to agreements each of which terminates on October 31, 1991.

Northwest, which is Westcoast's largest customer, owns and operates a gas transmission system in the United States serving markets in the States of Washington, Oregon, Idaho, Colorado, Utah, Nevada and Wyoming. Westcoast and Northwest have the necessary regulatory authorizations to export and import natural gas near Huntingdon under a contract which terminates on October 31, 1989. This contract provides for delivery of a maximum volume of 809.2 million cubic feet of gas per day.

Alaska Highway Pipeline Project

Westcoast owns 50% of the voting shares of Foothills Pipe Lines (Yukon) Ltd. ("Foothills Yukon") which, through its subsidiaries, is responsible for the construction and operation of the Canadian portion of the Alaska Highway Pipeline Project (the "Project"). The Project is sponsored by Westcoast, The Alberta Gas Trunk Line Company Limited and Northwest Alaskan Pipeline Company, an affiliate of Northwest, and will comprise a gas transmission system totalling 2,759 miles of large diameter pipe extending from Alaska through Canada to the lower 48 States with a throughput capacity of approximately 2.4 billion cubic feet of gas per day. Approximately 2,000 miles of the pipeline will be located in Canada. Completion of the Project is scheduled for the winter of 1984-85.

Five subsidiaries of Foothills Yukon, each of which will be owned to the extent of at least 51% of its voting shares by Foothills Yukon, will construct separate segments of the Canadian portion of the Project. Westcoast will be responsible for construction and operation of the northern British Columbia segment (approximately 440 miles) and will hold the remaining 49% voting interest in Foothills Pipe Lines (North B. C.) Ltd., the subsidiary company handling this phase of the Project.

The capital costs of the Project were estimated in mid-1978 to be approximately $8.1 billion of which approximately $4.4 billion was to be expended by Foothills Yukon and its subsidiaries for the Canadian portion of the Project. The foregoing capital cost estimates are currently being revised upward due to delays in the scheduled completion of the Project. These estimates are also subject to definitive design, timing and certain other factors affecting the Project and do not include capital cost estimates for a pipeline system from the Mackenzie Delta/Beaufort Basin along the route of the Dempster Highway to connect with the Project at Whitehorse, Yukon Territory.

As of December 31, 1978 Westcoast's total expenditures in respect of Foothills Yukon and its subsidiaries were $24.5 million. Westcoast will continue to contribute its proportionate share to cover the costs to be incurred by Foothills Yukon and its subsidiaries to develop the Project. The amount and timing of any commitment with respect to Project construction will be subject to a number of factors including regulatory approvals, the execution of gas sales and transportation contracts and the financing of the Project. Westcoast estimated in mid-1978 that its equity contribution to Foothills Yukon and its subsidiaries in connection with the construction of the Project would be approximately $440 million. This estimate will be updated based upon the revised capital cost estimates for the Project. Westcoast proposes to fund its equity contribution by means of a combination of debt issues, preferred share issues and funds received upon the exercise of outstanding share purchase warrants as well as cash flow which may result from the early construction and operation of the southern Alberta, southern British Columbia, and Saskatchewan sections of the Project or cash flow from other operations.

Feasibility studies are also progressing through Foothills Oil Pipe Line Ltd. on a concept to carry Alaskan oil through the same Alaska Highway transportation corridor to supply markets in the mid-western United States.

Other Businesses

Westcoast Petroleum Ltd. ("Westpete"), which is 59.8% owned (including 57.6% of the voting shares as at December 31, 1978), is engaged in oil and gas exploration, development and production and as at December 31, 1978 had interests in 8,249,090 gross acres (2,304,571 net acres) of prospective oil and gas lands in western Canada, the Yukon Territory, the Northwest Territories and the Arctic Islands. Westpete also owns and operates an oil pipeline extending for 505 miles between Taylor and Kamloops, British Columbia. Westpete accounted for approximately 10.6% of Westcoast's 1978 net income after tax.

Pacific Northern, which is 45% owned (including 100% of the voting shares), is a gas transmission and distribution company serving communities along its system which extends from a point on the Westcoast main transmission line near Summit Lake to Prince Rupert and Kitimat on the Pacific Coast as shown on the sketch on page 4.

The foregoing information with respect to Westcoast's business and operations was obtained from or based upon publicly available documents and records, particularly reports and other information which Westcoast has filed with the Superintendent of Brokers of the Province of British Columbia or the United States Securities and Exchange Commission, the 1977 Annual Report, the 1978 Mid-Year Update, the 1978 Third Quarter Interim Report to Shareholders and Westcoast's announcement of preliminary results for 1978.

CONSOLIDATED CAPITALIZATION

	Authorized	Outstanding as at December 31, 1978	Outstanding as at January 31, 1979
		(in thousands of dollars)	
Indebtedness			
Indebtedness of BCRIC			
Non-interest bearing promissory note payable (1)	$151,533	$151,533	$151,533
Long term debt of CanCel			
6⅛% Bonds due January 2, 1981 (2)	$ 71,136	$ 14,202	$ 9,531
5⅜% Bonds due July 1, 1985 (2)	$ 47,424	$ 26,664	$ 26,807
10½% Promissory notes due December 15, 1992 (2)	$ 59,288	$ 59,288	$ 59,570
11½% Promissory notes due December 15, 1992	$ 20,000	$ 20,000	$ 20,000
Bank loans (3)	$ 65,000	$ 50,000	$ 55,000
Sundry indebtedness		$ 7,377	$ 7,369
Minority interest in a subsidiary			
Common shares and retained earnings		$ 23,066	$ 23,101
Share capital (4)			
Common shares without par value (1)	100,000,000 shs.	5 shs. ($5.00)	5 shs. ($5.00)

NOTES:

(1) The Province of British Columbia which holds the note has agreed to exchange it for 15,000,000 fully paid common shares of BCRIC. Reference is made to "Plan of Distribution".

(2) Payable in U.S. dollars. Amounts shown are the Canadian dollar equivalents translated on the basis set out in Note 1 to the Consolidated Financial Statements.

(3) Reference is made to Note 7 to the Consolidated Financial Statements for further details.

(4) In addition to the stated dollar value for capital stock as indicated above, BCRIC had consolidated retained earnings of $15,922,000 at December 31, 1978.

(5) Reference is made to Note 9 to the Consolidated Financial Statements for particulars of long term leases.

DETAILS OF THE OFFERING

Common Shares

The authorized capital of BCRIC consists of 100,000,000 common shares without par value. The holders of common shares are entitled to dividends as and when declared by the board of directors; are entitled upon liquidation to receive pro rata such assets of BCRIC as are distributable to the holders of common shares; and have no pre-emptive, conversion or subscription rights. The common shares offered hereby will be fully paid and non-assessable. The holders of common shares are subject to the provisions of the BCRIC Act which are summarized below under "British Columbia Resources Investment Corporation Act".

Holders of common shares who hold registered share certificates are "members" of BCRIC for the purposes of the British Columbia Companies Act, are entitled to attend meetings of shareholders of BCRIC and will have one vote for each registered common share held. **The holder of common shares represented by a bearer share certificate will not be a "member" of BCRIC and will not be entitled to notice of or to attend at meetings of shareholders of BCRIC nor to vote as a shareholder.**

Bearer Share Certificates

Bearer share certificates will be issued on all applications for less than 100 common shares, including free common shares received from the Province of British Columbia as described under "Plan of Distribution". Holders of common shares represented by bearer share certificates will have the rights and restrictions summarized below. Amendments to the BCRIC Act will be required to authorize the issue by BCRIC of bearer share certificates. For full particulars reference should be made to the BCRIC Act and the Articles of BCRIC when amended and to the Companies Act of British Columbia.

Shareholder Rights

The holder of common shares represented by a bearer share certificate will be entitled to the principal rights and protections afforded individual registered shareholders under the Companies Act of British Columbia except the right to attend shareholders' meetings and to vote as a shareholder and the right to receive information mailed by BCRIC.

Share Registration

The bearer of bearer share certificates aggregating at least 100 common shares of BCRIC may become a registered shareholder of BCRIC by having such shares registered in his or her name subject to the restrictions on share ownership and share holdings described below.

Dividends

Declaration of dividends will be advertised and dividends payable on common shares represented by bearer share certificates will be paid to the bearer on presentation of such certificates to any dividend paying agent named in such advertisements. Dividends declared and not claimed within six years following their respective payment dates will be paid to the Minister of Finance to be held pursuant to the Unclaimed Money Deposits Act.

Loss or Destruction

Bearer share certificates will not be replaced by BCRIC if lost, stolen or destroyed.

British Columbia Resources Investment Corporation Act

Restrictions on Share Ownership

Only Canadian citizens or residents of Canada are eligible to purchase, own, or hold voting shares of BCRIC. Common shares of BCRIC represented by bearer share certificates will, by definition, not be voting shares. Voting shares may not be purchased or held in right of or for the use or benefit of a non-resident of Canada who is not a Canadian citizen.

For this purpose a resident of Canada is a person other than any of the following:

- — an individual who is not ordinarily resident in Canada;
- — a corporation that is incorporated, formed or otherwise organized elsewhere than in Canada or that is controlled directly or indirectly by non-residents or by a non-resident trust or of which the majority of directors are non-residents;

— the government of a foreign state or a political subdivision thereof, or an agent of either;

— a trust established by a non-resident (other than a trust for the administration of a pension fund for the benefit of individuals, a majority of whom are residents of Canada) or in which non-residents have more than 50% of the beneficial interest.

Maximum Share Holdings

The maximum number of voting shares of BCRIC which may be owned by or held for the use or benefit of any person or associated group of persons, other than the Province of British Columbia or a mutual fund, or pension or other similar fund, is 1% of the outstanding voting shares of BCRIC. A mutual fund or pension or other similar fund may hold up to 3% of the total number of the outstanding voting shares. The Lieutenant-Governor in Council is authorized by the BCRIC Act to change these limits.

Disposal of Excess Shareholding

Where voting shares of BCRIC are held in contravention of the BCRIC Act, BCRIC may require the holder to dispose of such shares to an eligible holder within a specified period of not less than sixty days. Failing compliance with such requirement, the voting shares may be redeemed for cancellation by BCRIC at its option at a price which is the lesser of the issue price on the initial issue of shares of that class or the market price prevailing at the time of redemption.

Voting Restrictions

The Province of British Columbia, while it owns 10% or more of the outstanding voting shares of BCRIC, may not vote those shares for the election of directors but may appoint:

— one director if the number of directors is four or less;

— two directors if the number of directors is five, six, seven or eight; and

— three directors if the number of directors is more than eight.

Where any of the shares of BCRIC are held or deemed to be held in contravention of the BCRIC Act, the voting rights attaching to those shares shall not be exercised, and any proceeding at a meeting at which voting rights pertaining to shares of BCRIC so held are exercised is, at any time within one year after the commencement of that meeting, voidable at the option of the directors.

Declarations

To ensure compliance with the restrictions imposed by the BCRIC Act on the holding and ownership of shares, BCRIC is entitled to receive, as a condition of registration of any shares of BCRIC on any subscription or transfer or on registration of bearer share certificates and at any time after registration, a declaration confirming that the subscriber or transferee or shareholder meets the requirements of the BCRIC Act. When a declaration is not received within 30 days after being requested, shares are deemed to be held in contravention of the BCRIC Act until the declaration is filed.

Redemption of Shares Held by the Province

BCRIC may redeem for cancellation voting shares held by or on behalf of the Province of British Columbia at a price per share agreed upon between BCRIC and the Minister of Finance, and approved by the Lieutenant-Governor in Council.

Company Meetings

BCRIC is seeking an amendment to the BCRIC Act which would provide that where the Supreme Court of British Columbia determines that it is impracticable to call or to conduct any general meeting of registered shareholders in the usual manner, or for any other reason the Court considers appropriate, the Court may order that the business to be transacted or the votes to be cast at the meeting be transacted or taken in such manner, and with or without the holding of a meeting, as the directors or the Court may prescribe. BCRIC is also seeking amendments to the BCRIC Act which would permit the directors of BCRIC to publish materials usually mailed to registered shareholders where they consider the cost of producing and mailing such material to be excessive or for any other reason they consider appropriate.

Winding Up

Proceedings to wind up BCRIC are invalid unless approved by the Lieutenant-Governor in Council.

Risk Factors Affecting Common Shares

The common shares are not guaranteed in any manner by the Province of British Columbia or any other government, nor has any government any direct or indirect obligation with respect to them. Future prices of the common shares will be determined by such factors as the selling intentions of persons receiving free common shares from the Province, the general economic climate, conditions in financial markets and the success or otherwise of BCRIC and its subsidiaries in attaining their objectives. Since BCRIC has only recently commenced operations, potential projects and investments in which BCRIC may participate or which may be acquired by it are not yet known. In addition results experienced by BCRIC's subsidiaries over the past five years are not necessarily indicative of future performance. No representations can be made as to the future influence of these factors on prices for BCRIC's common shares.

PLAN OF DISTRIBUTION

General

The common shares offered by this prospectus are offered for sale to individuals who qualify for free common shares of BCRIC to be distributed by the Province of British Columbia as described below. This offer is conditional upon such distribution being made by the Province.

An application for free common shares must be completed and validated before the expiry of this offer to establish qualification to purchase additional common shares. Each qualified applicant may purchase common shares in integral multiples of five, up to a total of 5,000 in respect of each eligible resident of British Columbia named in the application. The purchase price must be deposited with the application and will be invested by BCRIC in short term securities of Canadian financial institutions or governments until share certificates are available for delivery. Any interest earned from the time of deposit will accrue to BCRIC.

If any cheque tendered in payment with an application for common shares is returned "N.S.F.", the purchase is voidable at the option of BCRIC. Free common shares applied for in the same application must be re-applied for through the office of the Minister of Finance after October 1, 1979.

Distribution of Free Common Shares

On January 11, 1979 the Province of British Columbia announced its intention to make a gift of five common shares to each eligible resident of British Columbia. An eligible resident is an individual who is a Canadian citizen, or has qualified and applied for Canadian citizenship, and has either (i) ordinarily resided in British Columbia for at least the immediately preceding twelve months or has so resided since birth, or (ii) not met the qualifications in (i) but is otherwise qualified by residency as determined by the Minister of Finance.

Applicants must be 16 years of age or older. The parent or guardian is qualified to apply for and receive common shares in respect of eligible residents born after June 15, 1963. Applications to obtain free common shares may be made only at offices in British Columbia of participating chartered banks, trust companies, credit unions and registered investment dealers and at government offices designated by the Minister of Finance. The application period for free common shares is stated to commence on March 15, 1979 and to close on June 15, 1979, subject to the processing of appeals.

At the date of this prospectus the Province is the beneficial owner of the five outstanding common shares in the capital of BCRIC, which are held of record in the names of five of the directors of BCRIC. Pursuant to the BCRIC Act, on March 1, 1979 the Lieutenant-Governor in Council authorized the Minister of Finance to exchange the non-interest bearing demand note of BCRIC in the amount of $151,532,930 described under "Business and Properties of BCRIC" for 15,000,000 fully paid common shares of BCRIC. The Province's gift of common shares will be distributed from these common shares to be issued by BCRIC. The Province estimates that there are approximately 2,400,000 residents of British Columbia who are eligible for free common shares. If free common shares are distributed to or in respect of all such eligible residents, the Province will continue to hold approximately 3,000,000 common shares of BCRIC and has announced that it intends to retain beneficial ownership of any free common shares not distributed.

Dilution

After the issue of the 15,000,000 fully paid common shares of BCRIC, the pro forma net book value per common share of BCRIC, based on the Consolidated Balance Sheet of BCRIC as at December 31, 1978, would be $11.16 per share. The increment to the net book value of BCRIC for common shares sold on this offering is $6.00 per share, less agents' commissions and expenses of issue. The sale of each common share will result in immediate dilution of the pro forma net book value per share referred to above. The full

extent of the dilution resulting from this offering cannot be determined until the offering is completed and the number of common shares sold is known.

Necessary Legislation

The offering of common shares by BCRIC by this prospectus is conditional upon the necessary amendments to the BCRIC Act being passed to authorize the issue by BCRIC of bearer share certificates representing common shares of BCRIC. For particulars of the proposed bearer share certificates see "Details of the Offering".

Agents

Participating chartered banks, credit unions, trust companies and registered investment dealers have agreed in principle to act as agents of the Province in connection with the distribution of free common shares and as agents of BCRIC for the sale of the common shares offered by this prospectus. BCRIC has agreed to pay to the agents a commission of $.25 per common share purchased.

Delivery of Share Certificates

Share certificates will be available for delivery between August 7 and September 28, 1979 at the point of application and through the office of the Minister of Finance from October 22 to December 31, 1979. If the total of free and purchased common shares covered by any application form is less than 100, the common shares will not be registered in the name of the applicant but will be delivered in the form of bearer share certificates.

USE OF PROCEEDS

The proceeds to be derived from the sale of common shares offered hereby will depend upon the degree to which BCRIC's offer is accepted by qualified purchasers. BCRIC estimates that its expenses associated with this offering will amount to approximately $2,500,000, which amount and commissions will be deducted from the proceeds.

BCRIC proposes to allocate a portion of the net proceeds to expenditures of its Gas and Oil Division as described under "Expenditure Plans" on page 17. The balance will be applied towards future expenditures, investments and projects related to both the presently owned interests and ventures hereafter acquired or participated in by BCRIC. The exact timing, amount and identification of these expenditures or investments cannot be determined at this time and accordingly no amount has been allotted to any particular project. Pending such expenditures or investments, the net proceeds of this offering will be deposited with or invested in instruments issued by Canadian financial institutions and in such marketable securities as from time to time are approved by the directors of BCRIC.

TAXATION MATTERS

Taxation of BCRIC

At the present time, BCRIC and its wholly-owned subsidiaries are exempt from tax under the Income Tax Act (Canada) and the Income Tax Act (British Columbia) (the "Tax Acts") because all the shares of BCRIC are owned by the Province of British Columbia. BCRIC and its wholly-owned subsidiaries will lose this exemption during 1979 because of the distribution of the free common shares and the sale of additional common shares.

Taxation of a BCRIC Shareholder

A tax ruling has been received from the Department of National Revenue to the effect that a recipient of free common shares of BCRIC will have received them as a gift with no immediate tax consequences. The cost of the free common shares for tax purposes will be equal to their fair market value at the time of receipt, which value has yet to be determined. Where such common shares are capital property to a shareholder resident in British Columbia, no Canadian tax consequences will arise (except with respect to any dividends which may be paid in the future) until such time as the common shares are, or are deemed to be, disposed of under the provisions of the Tax Acts or any other applicable legislation. Where such shareholder has also purchased common shares of BCRIC, the purchase price of these shares will be averaged with the fair market value of free common shares for the purpose of computing any gain or loss on disposition. If BCRIC pays a dividend, such dividend will be subject to the normal rules respecting the taxation of dividends in the hands of a shareholder.

DIRECTORS AND MANAGEMENT

Directors and Officers

Name and Address	Office	Principal Occupation
JOHN WILSON PITTS 4391 Agar Drive, Richmond, British Columbia	Chairman of the Board and Director	Chairman, President and Chief Executive Officer, Okanagan Helicopters Ltd.
DAVID LEEDOM HELLIWELL 2600 - 1177 West Hastings Street, Vancouver, British Columbia	President and Director	President and Chief Executive Officer, BCRIC
TREVOR WILLIAM PILLEY 555 Burrard Street, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, a Canadian chartered bank
JOHN WILSON POOLE 1050 West Pender Street, Vancouver, British Columbia	Director	President and Chief Executive Officer, Daon Development Corporation
CHARLES NAMBY WYNN WOODWARD 101 West Hastings Street, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Woodward Stores Limited
WILLIAM MAURICE YOUNG 555 Great Northern Way, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Finning Tractor & Equipment Company Limited
RICHARD ARTHUR DANIEL COMMERFORD 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Vice President and Controller	Vice President and Controller, BCRIC
ROBERT GORDON SCOTT CURRIE 200 - 355 - 4th Avenue S.W. Calgary, Alberta	Vice President	Vice President, Gas and Oil Division, BCRIC
MICHAEL GILDAY MCKIBBIN 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Vice President and Treasurer	Vice President and Treasurer, BCRIC
GEORGE BUCHAN MCINTOSH 2800 - 650 West Georgia Street, Vancouver, British Columbia	Secretary	Barrister and Solicitor, Partner, Lawson, Lundell, Lawson & McIntosh
DAVID JOHN ROBERT PETITPIERRE 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Assistant Secretary	Assistant Secretary, BCRIC

During the last five years, all of the directors and officers have been associated in various capacities with the companies or firms listed opposite their names except Mr. Helliwell who prior to March 1978 was employed by Steel Brothers Canada Ltd., Mr. Pilley who prior to May 1974 was employed by another Canadian chartered bank, Mr. Commerford who prior to June 1978 was employed by CanCel and prior to July 1975 was employed by MacMillan Bloedel Limited, Mr. Currie who prior to June 1978 was employed by Panarctic Oils Ltd., Mr. McKibbin who prior to March 1978 was employed by Okanagan Helicopters Ltd. and prior to September 1976 was employed by Wood Gundy Limited, and Mr. Petitpierre who prior to October 1978 was employed by The White Pass and Yukon Corporation Limited and prior to November 1975 was employed by the Canadian Cancer Society — British Columbia and Yukon Division.

Messrs. Helliwell and Poole, directors of BCRIC, are also directors of CanCel. Mr. Woodward, a director of BCRIC, is also a director of Westcoast and Mr. Helliwell has been proposed by management of Westcoast for election as a director of that company.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by BCRIC and its subsidiaries to the directors and senior officers of BCRIC was $262,684 for the ten months ended December 31, 1978 and was $31,667 for the month ended January 31, 1979.

STOCK OPTIONS

Under the employee stock option plan of CanCel, as of January 31, 1979 there were options outstanding for senior officers of CanCel to purchase an aggregate of 19,900 Common Shares of CanCel and for other employees of CanCel to purchase an aggregate of 55,500 Common Shares of CanCel as shown in the following table:

Date of Grant	Held by Senior Officers	Held by Other Employees	Option Price
February 26, 1974	12,660	38,060	$6.375
April 23, 1974	—	1,140	$6.375
July 29, 1974	—	1,500	$5.562
August 1, 1974	440	—	$5.687
November 12, 1974	—	800	$4.325
August 3, 1976	—	1,300	$6.875
November 30, 1976	700	1,500	$6.250
July 25, 1977	600	—	$7.375
August 2, 1977	—	300	$7.438
November 28, 1977	—	5,800	$5.312
February 28, 1978	400	2,500	$6.375
March 1, 1978	5,000	—	$6.875
August 22, 1978	100	2,600	$7.625
	19,900	55,500	

In each case the option price is the average of the high and low prices on The Toronto Stock Exchange on the date of grant. The options expire ten years after the date of grant subject to earlier expiration in the event of death or cessation of employment and may be exercised on a cumulative basis to the extent of 20% each year commencing one year after the date of grant. The closing price of the Common Shares of CanCel on The Toronto Stock Exchange on January 31, 1979 was $9.625 per share.

MATERIAL CONTRACTS

The only contracts entered into by BCRIC and its subsidiaries within the two years prior to the date of this prospectus, other than in the ordinary course of business, which could reasonably be regarded as presently material to the purchasers of the common shares offered hereby are the following:

(1) Two note agreements, each dated April 15, 1977, entered into by CanCel with The Prudential Insurance Company of America and Metropolitan Life Insurance Company, respectively, providing for the issue and sale by CanCel of $50,000,000 (U.S.) 10½% Notes due December 15, 1992 and $20,000,000 11½% Notes due December 15, 1992, and amending agreements dated June 15, 1978 and December 15, 1978.

(2) Agreement dated March 9, 1978 between the Province of British Columbia and BCRIC providing for the acquisition of assets by BCRIC from the Province. See "Business and Properties of BCRIC".

(3) The Petroleum and Natural Gas Licence dated March 9, 1978 issued by the Province of British Columbia to BCRIC. See "Gas and Oil Division".

(4) Three loan agreements, each dated May 1, 1978, entered into by CanCel with three Canadian chartered banks, respectively, establishing lines of credit aggregating $45,000,000 and amending agreements dated December 15, 1978 increasing the lines by an aggregate of $20,000,000. See Note 7 to the Consolidated Financial Statements.

(5) Agreement dated March 1, 1979 between the Province of British Columbia and BCRIC providing for the exchange of BCRIC's non-interest bearing demand note for 15,000,000 common shares of BCRIC, the introduction of enabling legislation including a provision that the issue of common shares at the offering price is deemed to be in the best interests of BCRIC and in compliance with sections 41 and 42 of the Companies Act, the establishment of procedures for the distribution of common shares and the allocation of the costs of the distribution.

Copies of these contracts except item (4) may be examined during ordinary business hours at the head office of BCRIC during primary distribution of the common shares offered by this prospectus. When the agreements with the financial institutions referred to under "Agents" on page 24 have been entered into, copies of these agreements may also be so examined.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Within the three years preceding the date of this prospectus, there have been no material transactions with BCRIC or its subsidiaries in which any of the directors, senior officers or any associate thereof has any material interest, direct or indirect. The Province of British Columbia, the holder of all of the outstanding common shares of BCRIC, has a material interest in the material transactions described under "Business and Properties of BCRIC" and "Plan of Distribution".

Within the three years preceding the date of this prospectus, the Province, B.C. Hydro and other governmental agencies of, and corporations beneficially owned by, the Province have entered into certain leases, licences, permits, contracts and other instruments with CanCel, Kootenay and Plateau in relation to timber rights and forest products, the supply of electricity and water and other matters, all in connection with, and in the ordinary course of, their respective businesses and which may materially affect them.

The Province, as guarantor of the 6⅛% and 5⅜% Bonds of CanCel, assented to the release on February 1, 1977 of all property mortgaged by CanCel as security therefor, and to the amendment on June 15, 1978 and December 15, 1978 of the trust deed relating to such Bonds to permit CanCel to incur indebtedness under the bank lines of credit referred to in Note 7 to the Consolidated Financial Statements.

In February 1979, Kootenay completed the transfer to the Province of approximately 32,900 acres of timber and other lands. This transfer was made pursuant to commitments arising out of the purchase of Kootenay and the loan of $11.6 million to Kootenay by the Province in 1974. On the condition that Kootenay transfer these lands, the Province subscribed in 1978 for 11,602,729 common shares of Kootenay with a par value of $1.00 each, the proceeds of which were used to repay the Province's loan. Kootenay retained certain harvesting and other rights on the lands. In addition, Kootenay sold approximately 337 acres of land to the Province in 1977 for approximately $920,000.

LEGAL MATTERS

BCRIC has advised General Telephone & Electronics Corporation that it is prepared, in principle, to act as a voting trustee in respect of certain ordinary shares of British Columbia Telephone Company ("B.C. Tel") which may be issued by B.C. Tel to GTE International Incorporated in exchange for shares in GTE Automatic Electric (Canada) Ltd. The latter company owns all the issued shares of GTE Lenkurt Electric (Canada) Ltd. If the transaction does proceed, BCRIC would have no beneficial interest in those shares.

BCRIC is not party to nor is its property the subject of any pending legal proceedings nor are any such proceedings known to be contemplated. The only proceedings to which any subsidiary of BCRIC is a party or to which any of its property is subject, and the only such proceedings known to BCRIC to be contemplated, other than proceedings the outcome of which is not considered material to BCRIC, are as follows:

(1) CanCel commenced an action against B.C. Hydro on June 28, 1977 in the Supreme Court of British Columbia for damages for additional costs to transport logs arising out of the operation of the Mica Dam on the Columbia River and consequent deprivation from 1973 of rights to float logs down the river. The claim for damages is estimated at approximately $1,000,000.

(2) The Supreme Court of British Columbia has found Star Bulk Shipping Company liable to CanCel for breach of a contract of affreightment. The original claim was for approximately $1,300,000, but the estimate of damages, not yet determined, on the basis of the present finding is approximately $100,000. On February 8, 1978, CanCel commenced an appeal in the British Columbia Court of Appeal.

(3) CanCel commenced an action against Royal Insurance Company of Canada, The Boiler Inspection and Insurance Company of Canada and New Hampshire Insurance Company on January 19, 1979 in the Supreme Court of British Columbia claiming approximately $309,000 under contracts of insurance. The claim concerns costs and damages to CanCel resulting from a spill of polychlorinated biphenyls into Porpoise Harbour at Prince Rupert.

(4) CanCel is contemplating proceedings against Brown Boveri Canada Limited, the supplier of a turbo-generator at its Prince Rupert pulp mill which failed in July 1978. The contemplated proceedings are to recover partial reimbursement of total costs of approximately $2,800,000. The supplier has denied liability.

Legal matters in connection with this offering have been approved on behalf of BCRIC by Lawson, Lundell, Lawson & McIntosh, Vancouver. Mr. G. B. McIntosh, the Secretary of BCRIC, is a partner of Lawson, Lundell, Lawson & McIntosh.

AUDITORS

The auditors of BCRIC are Clarkson, Gordon & Co., Chartered Accountants, 700 West Georgia Street, Vancouver, British Columbia.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the common shares will be Montreal Trust Company at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal.

PURCHASER'S RIGHTS OF RESCISSION

An applicant may rescind the purchase of common shares to which this prospectus relates if written notice of the intention to rescind is received by BCRIC before the earlier of:

(a) seven days after the date of the application covering the purchase of such shares, or

(b) June 15, 1979.

For these purposes, a notice of rescission received by BCRIC by mail at P.O. Box 4800, 349 West Georgia Street, Vancouver, B.C. V6B 4A4, shall be deemed to be received on the date postmarked on the enclosing envelope.

An applicant may also rescind the purchase of common shares to which this prospectus relates, while still the owner of the shares, if the prospectus and any amended prospectus filed with the Superintendent of Brokers of British Columbia as of the date of application for the shares contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement contained therein not misleading in the light of the circumstances in which it was made. No action for rescission under this paragraph may be commenced after September 15, 1979, nor may any action be commenced under this paragraph if the purchaser knew of the untruth of the statement or knew of the omission at the time he made application for the shares. It shall be a good defence to an action for rescission under this paragraph if the untruth of the statement or the fact of the omission was unknown to BCRIC at the time the application was filed and, in the exercise of reasonable diligence, could not have been known to BCRIC.

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Consolidated Statement of Earnings and Retained Earnings

For the Period from Incorporation on February 22, 1978 to December 31, 1978

(in thousands of dollars)

Revenues	
Sales of forest products	$ 202,659
Other income (Note 10)	10,960
	213,619
Costs and expenses	
Cost of goods sold	184,130
Selling and administration	9,603
Interest on long term debt	4,715
Other	1,694
	200,142
Earnings before the undernoted items	13,477
Provision for income taxes (Note 8)	303
Earnings before minority interest and extraordinary item	13,174
Minority interest in earnings of subsidiary	494
Earnings before extraordinary item	12,680
Recovery of logging taxes, net of minority interest - $758 (Note 8)	3,242
Net earnings and retained earnings at end of the period	$ 15,922

See accompanying notes

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION
(Incorporated under the laws of British Columbia)

Consolidated Balance Sheet

December 31, 1978

(in thousands of dollars)

Assets

Current	
Cash and short term investments	$ 9,787
Accounts receivable (Note 3)	52,040
Inventories (Note 4)	75,475
Prepaid expenses	1,328
	138,630
Investments and advances (Note 5)	41,067
Fixed	
Property, plant, and equipment (Note 6)	198,773
Petroleum and natural gas rights	40,959
	239,732
Unrealized foreign exchange losses	5,639
	$425,068

Liabilities

Current	
Bank loans	$ 7,017
Accounts payable and accrued charges	44,507
Current portion of long term debt	9,284
	60,808
Long term debt (Note 7)	168,247
Promissory note payable to the Province of British Columbia (Note 13)	151,533
Deferred income taxes (Note 8)	5,492
Minority interest in subsidiary	23,066

Shareholders' Equity

Share capital (Note 13)	
Authorized - 5 common shares without par value	
Issued - 5 common shares for one dollar each	
Retained earnings	15,922
Commitments (Note 9)	
	$425,068

See accompanying notes

Approved by the Board of Directors:

(Signed) D. L. HELLIWELL, Director

(Signed) JOHN W. PITTS, Director

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Consolidated Statement of Changes in Financial Position

For the Period from Incorporation on February 22, 1978 to December 31, 1978

(in thousands of dollars)

Source of funds			
From operations			
Earnings before extraordinary item			$ 12,680
Charges to earnings not requiring an outlay of funds			
Depreciation, amortization and depletion			12,207
Deferred income taxes			256
Other			(591)
			24,552
Recovery of logging taxes (Note 8)			4,000
Acquisition of assets from the Province of British Columbia (Note 2)			
Promissory note issued as consideration		$151,533	
Less assets acquired			
Investment in Westcoast Transmission Company Limited	$37,364		
Petroleum and natural gas licence	40,896		
Net long term assets of subsidiary companies	21,722	99,982	
Working capital of subsidiary companies acquired			51,551
Issue of long term debt			79,998
Proceeds on sale of fixed assets			591
Other			571
			161,263
Application of funds			
Additions to fixed assets			77,669
Reduction in long term debt			5,031
Dividends paid to minority shareholders			741
			83,441
Working capital at end of the period			$ 77,822

See accompanying notes

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements using information available up to February 27, 1979, except for Note 13 which was prepared as of March 1, 1979. Because a precise determination of many assets and liabilities is dependent upon future events, estimates and approximations have been used where necessary. The financial statements have been prepared within the framework of the accounting policies summarized below:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries (see Notes 2 and 14).

Translation of foreign currencies

Transactions in foreign currencies are translated at rates in effect on the dates of the transactions. Cash, receivables, payables and other assets and liabilities carried at current prices are translated at the rate at the end of the period. Unrealized gains or losses are included in income except for those related to long term debt which are amortized over the remaining term of the debt. This policy conforms to the recommendations of the Canadian Institute of Chartered Accountants on foreign currency translation.

Inventories

Logs, pulp chips and other raw materials are valued at the lower of average cost and replacement cost. Finished products (pulp, lumber and plywood) are valued at the lower of average cost and net realizable value.

Property, plant and equipment

These assets are stated at cost less accumulated depreciation, amortization and depletion. Depreciation, amortization and depletion are computed as follows:

Asset	Rate and Method
Pulp mills	4% composite rate; straight-line
Sawmills	4% to 6% composite rate; straight-line
Logging equipment	10% to 20% rate; diminishing balance
Timber cutting rights, roads and related facilities	unit of production method, using current log production as a percentage of estimated total log production available from such assets.

Petroleum and natural gas rights

The gas and oil operations of the Corporation are in the exploratory stage. The costs of acquiring petroleum and natural gas rights, including the licence acquired from the Province of British Columbia (see Note 2), and exploration costs are being capitalized.

2. INCORPORATION AND ACQUISITION OF ASSETS

On September 1, 1977, the British Columbia Resources Investment Corporation Act was enacted. The Act authorized the incorporation of British Columbia Resources Investment Corporation under the Companies Act (British Columbia). Incorporation took place on February 22, 1978 and 5 common shares were issued for $1 each.

Effective March 9, 1978, the Corporation acquired the following assets from the Province of British Columbia:

- 81% of the outstanding shares of Canadian Cellulose Company, Limited, a pulp and lumber manufacturer ("CanCel")
- 100% of the outstanding shares of Kootenay Forest Products Ltd., a lumber and plywood manufacturer ("Kootenay")
- 100% of the outstanding shares of Plateau Mills Ltd., a lumber manufacturer ("Plateau")
- 10% of the outstanding shares of Westcoast Transmission Company Limited, a gas transmission company ("Westcoast")
- A petroleum and natural gas licence covering 2.3 million acres in northeastern British Columbia.

In consideration for the above, the Corporation issued a non-interest bearing promissory note payable on demand to the Province of British Columbia in the amount of $151,532,930 (see Note 13). The purchase price was allocated as follows:

	(in thousands)
CanCel, Kootenay and Plateau	$ 73,273
Westcoast	37,364
Petroleum and natural gas licence	40,896
	$151,533

The acquisition of CanCel, Kootenay and Plateau has been accounted for by the purchase method and the results of operations and the changes in financial position of these companies since the date of acquisition have been consolidated with those of the Corporation. A summary of the net assets acquired is as follows.

	CanCel	Kootenay	Plateau	Total
		(in thousands)		
Working capital	$ 41,998	$ 4,435	$ 5,118	$ 51,551
Net book value of fixed assets	157,256	9,162	11,193	177,611
Less long term debt, deferred income taxes and minority interest	103,068	2,226	5,347	110,641
Book value of net assets	$ 96,186	$11,371	$10,964	$118,521
Excess of book value of net assets acquired over the consideration paid				45,248
Consideration				$ 73,273

The excess of book value of net assets acquired over the consideration paid, less $4,217,000 which has been allocated to increase long term debt, is not allocable to specific assets or liabilities. The balance of $41,031,000 has been deducted from the net book value of fixed assets and is being amortized as a reduction of depreciation expense over the remaining lives of these assets, estimated at fifteen years (see Note 6).

3. ACCOUNTS RECEIVABLE

	(in thousands)
Trade	$ 40,700
Insurance claims	5,112
Other	6,228
	$ 52,040

4. INVENTORIES

	(in thousands)
Logs, pulp chips and other raw materials	$ 48,877
Pulp, lumber and plywood	18,106
Supplies	8,492
	$ 75,475

5. INVESTMENTS AND ADVANCES

	(in thousands)
Investment in Westcoast, at cost (quoted market value of $40,784,000 which does not necessarily reflect the realizable value of this investment)	$ 37,364
Investment in an associated company, at cost plus equity in earnings less dividends received	2,117
Other	1,586
	$ 41,067

6. PROPERTY, PLANT AND EQUIPMENT

	(in thousands)
Pulp mills	$325,876
Sawmills	64,466
Timber cutting rights, roads and related facilities	58,722
Logging equipment and other facilities	21,369
	470,433
Less accumulated depreciation, amortization and depletion	272,956
	197,477
Land	1,296
	$198,773

Accumulated depreciation, amortization and depletion has been increased by $38,731,000 which represents an allocation of the excess of the book value of acquired net assets of subsidiary companies over the consideration paid, net of the $2,300,000 amortization of this excess for the period ended December 31, 1978 (see Note 2).

7. LONG TERM DEBT

CanCel	(in thousands)
6⅛% Bonds due January 2, 1981 with annual principal payments (U.S. $12,000,000)	$ 14,202
5⅜% Bonds due July 1, 1985 with annual principal payments (U.S. $22,500,000)	26,664
10½% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983 (U.S. $50,000,000)	59,288
11½% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983	20,000
Bank loans on revolving credit facilities, with interest at various rates	50,000
Other	527
	170,681
Other subsidiaries	
Term bank loan with repayments in 1979 and 1980, with interest at bank prime plus ¾%	2,200
Term loan with quarterly principal payments to 1986 with interest at bank prime plus ½%	4,650
	177,531
Less amounts due within one year	9,284
	$168,247

CanCel has bank lines of credit of $45,000,000 on revolving credit facilities with any loans at June 30, 1981 converting into term loans repayable over periods of up to nine years in equal semi-annual or annual installments, and an additional $20,000,000 on a revolving credit facility repayable by December 15, 1980. At December 31, 1978 the outstanding loans under these facilities were $45,000,000 and $5,000,000 respectively.

The bonds, promissory notes and bank loans on revolving credit facilities are unsecured. Certain assets have been pledged as collateral for the term loan and the term bank loan.

CanCel's trust deed relating to its bonds and the agreements relating to its promissory notes, in general terms, restrict dividends and certain other payments by CanCel to a maximum of $4,000,000 plus 50% of its net earnings after December 31, 1976. The amount available for payment of dividends at December 31, 1978 was $6,985,000.

Principal payments required on long term debt in each of the next five years with the United States dollar component translated at the December 31, 1978 rate of exchange are:

	(in thousands)
1979	$ 9,284
1980	$14,529
1981	$10,075
1982	$ 9,771
1983	$17,711

8. INCOME TAXES

The Corporation and two of its subsidiaries were exempt from income taxes in 1978 because not less than 90% of their outstanding shares were owned by the Province of British Columbia. When this condition is no longer met the companies will become taxable and will provide for income taxes based on the earnings reported in their accounts. The companies will be able to deduct from future taxable income various amounts comprised primarily of depreciation which were charged to earnings while the companies were exempt from income taxes. The potential future tax reduction is estimated to be $5,400,000 at December 31, 1978. Had the Corporation and its two subsidiaries not been exempt from income taxes in 1978, and on the basis that the potential tax reduction will be accounted for as realized, the provision for income taxes in the Consolidated Statement of Earnings and Retained Earnings would have been increased by $3,000,000, there would have been an extraordinary credit in the amount of $2,400,000 and net earnings for the period would have been decreased by $600,000.

In prior years, CanCel claimed depreciation for tax purposes in excess of depreciation recorded in its accounts in order to maximize the deferral of liability for income taxes. This resulted in increased liability for logging taxes. In 1978 the liability for such logging taxes was reduced by $4,000,000 due to revision by CanCel of its tax depreciation claims as a consequence of the high level of capital expenditures in recent years and other factors. These revisions have been accepted by the taxing authorities. The logging tax reduction has been shown as an extraordinary item.

CanCel has made fixed asset acquisitions qualifying for federal investment tax credits which would enable it to reduce income tax expense by approximately $6,000,000 if sufficient income taxes became payable prior to December 31, 1983. These benefits will not be recorded in the consolidated accounts of the Corporation until they are realized.

9. COMMITMENTS

Rental obligations under long term leases amount to approximately $2,600,000 in each of the years 1979, 1980 and 1981, $2,200,000 in 1982 and $1,100,000 in 1983.

At December 31, 1978 commitments for expenditures on fixed assets amounted to $4,400,000.

10. OTHER INCOME

	(in thousands)
Insurance proceeds relating to estimated loss of earnings due to a fire at CanCel's Castlegar sawmill	$3,570
Income related to cancellation of a sales contract	3,370
Equity in earnings of an associated company	1,104
Income from other investments	2,916
	$10,960

11. INSURANCE DEDUCTIBLES

During 1978 CanCel experienced a major fire, a severe storm and the failure of a major piece of equipment. The estimated insurance recoveries have been recorded as other income or as reductions in cost of goods sold, as appropriate. The deductible portion of the losses has been included as a reduction of earnings and amounts to approximately $5,000,000.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable to directors and senior officers amounted to $262,684 in 1978.

13. SUBSEQUENT EVENT

The Corporation has increased its authorized common shares to 100,000,000 and has agreed to carry out the following in 1979:

(a) issue 15,000,000 common shares to the Province of British Columbia in exchange for the promissory note of $151,532,930, and

(b) subject to enabling legislation being passed, offer for sale up to 5,000 common shares to or in respect of each eligible resident of British Columbia at a price of $6.00 per share. Management anticipates that, in addition to agents' commissions which are dependent on the number of shares sold, expenses of approximately $2,500,000 will be incurred in connection with the share offering.

14. SUBSIDIARY COMPANIES

Canadian Cellulose Company, Limited
- Calum Lumber Limited
- Canadian Cellulose International S.A.
- Celgar Properties Limited
- Celtran Equipment Limited
- High Arrow Limited
- Pohle Lumber Co. Ltd.
- Twinriver Timber Limited

Kootenay Forest Products Ltd.

Plateau Mills Ltd.
- Plateau Timber Ltd.
- Nechako Valley Pulp Mill Ltd.

AUDITORS' REPORT

To the Directors of
British Columbia Resources Investment Corporation:

We have examined the consolidated balance sheet of British Columbia Resources Investment Corporation as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the period from incorporation on February 22, 1978 to December 31, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Vancouver, Canada,
February 27, 1979
(except for note 13 which is
dated March 1, 1979).

(Signed) CLARKSON, GORDON & Co.
Chartered Accountants

CERTIFICATES

Dated: March 1, 1979

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act (British Columbia) and the regulations thereunder.

(Signed) JOHN W. PITTS
Director

(Signed) D. L. HELLIWELL
Director

(Signed) T. W. PILLEY
Director

(Signed) J. W. POOLE
Director

(Signed) C. N. W. WOODWARD
Director

(Signed) W. M. YOUNG
Director

PRINTED IN BRITISH COLUMBIA

BRITISH COLUMBIA

739

APPROVED AND ORDERED MAR 13 1979

Lieutenant-Governor

EXECUTIVE COUNCIL CHAMBERS, VICTORIA MAR 13 1979

On the recommendation of the undersigned, the Lieutenant-Governor, by and with the advice and consent of the Executive Council, orders that the attached British Columbia Resources Investment Corporation (Free Shares) Regulation be made.

Minister of Finance

Presiding Member of the Executive Council

(This part is for administrative purposes and is not part of the Order.)

Authority under which Order is made:

Act and section British Columbia Resources Investment Corporation Act, sections 17 (3) and 23.

Other (specify)

British Columbia Resources Investment Corporation (Free Shares) Regulation

Interpretation

1. In this regulation,

"Act"
: means the British Columbia Resources Investment Corporation Act;

"age"
: means the age of an individual attained on his or her last birthday preceding June 16, 1979;

"attorney"
: means a person appointed as the attorney of an applicant for shares of British Columbia Resources Investment Corporation by instrument in writing required by this regulation and who furnishes the identification required by the instrument or this regulation;

"authorized agents"
: means the persons authorized to receive and stamp applications as provided by this regulation;

"corporation"
: means British Columbia Resources Investment Corporation;

"eligible resident"
: means a Canadian citizen or individual qualified to be a Canadian citizen who has applied for Canadian citizenship, and who

(a) has ordinarily resided in British Columbia for at least the immediately preceding 12 months, or has so resided since birth, or

(b) is

(i) a member of the Canadian Forces,

(ii) an agent-general, officer or servant of the Province,

(iii) performing services in a country other than Canada under a program of the Government of Canada, or

(iv) attending an educational institution outside of the Province,

and before his posting, appointment or attendance described in subparagraphs (i) to (iv) inclusive, has ordinarily resided in British Columbia for the preceding 36 consecutive months, or

(c) has ordinarily resided in British Columbia for at least 10 consecutive years before leaving the Province for not more than 60 months and who before January 1, 1979 has returned to and has resumed permanent residence in British Columbia, or

(d) is the spouse living with, or is the child under the age of 16 years of, an individual described in paragraph (b) (i), (ii), (iii), (iv) or (c);

"minister"
: means the Minister of Finance.

Applications

2. (1) The Final Date for applications for free shares of the corporation is June 15, 1979 or such later date as the minister may, before that date, specify.

(2) The application form must be in Form A to this regulation and must be presented and stamped by an authorized agent on or before the Final Date.

(3) Applications may be presented at locations in British

Columbia specified by the minister before the close of business of the respective branches or offices on the Final Date.

(4) Employees of the institutions and civil servants at the locations specified under subsection (3) shall be referred to as "authorized agents" and are authorized to stamp applications that comply with this regulation and are received at the specified locations before the close of business on the Final Date.

(5) The documents that must be presented to an authorized agent in support of an application for shares of the corporation on the application being made at a branch of a bank, trust company or credit union or at an office of an investment dealer shall be:

- (a) where an applicant is over 15 years old but less than 65 years old, any 2 of the following:
  - (i) the applicant's British Columbia driver's licence;
  - (ii) the applicant's medical services plan card;
  - (iii) the applicant's social insurance card;
- (b) where an applicant is 65 years of age or older, any one of the applicant's British Columbia driver's licence, medical services plan card, social insurance card or pharmacare card;
- (c) where an applicant makes application based on child entitlement, the documents required by paragraph (a) or (b), and
  - (i) a medical services plan card showing a separate dependent number for the child, or
  - (ii) a Canadian birth certificate for the child, or
  - (iii) a certificate of Canadian citizenship of the child;
- (d) where an application is made by an attorney, the documents respectively specified in paragraphs (a), (b) or (c), as the case may require, and either
  - (i) any 2 of the following:
    - (A) the attorney's British Columbia driver's licence;
    - (B) the attorney's medical services plan card;
    - (C) the attorney's social insurance card, or
  - (ii) where the attorney is 65 years of age or older, any one of the items listed in subparagraph (i) (A), (B) or (C) or the attorney's pharmacare card.

(6) The application must be signed by the applicant or his attorney in the presence of the authorized agent.

(7) Where the application is made

- (a) at a branch of a bank, trust company or credit union or at an office of an investment dealer, the appointment of attorney must be in Form B to this regulation, or
- (b) at a government office for an Appeal Approval Notification, the appointment of attorney must be in Form B or another written instrument acceptable to the authorized appeal agent.

(8) Where the parents of an eligible resident under 16 years of age are not divorced or separated and such eligible resident is in their custody, or where the mother has custody of such eligible resident, application must be made by the mother or her attorney.

(9) Where the mother does not have custody of an eligible resident under 16 years of age, application must be made by the person who has custody of the eligible resident or that person's attorney.

(10) An eligible resident who is 16 years of age or older may appoint an attorney who is 19 years of age or older for the purpose of applying for shares and the person so appointed may present the identification, complete the application form and take delivery of the share certificates as provided in the power of attorney.

Appeal procedure

3. (1) Where an application is made on or before the Final Date at a branch of a bank, trust company or credit union, or at an office of an investment dealer and is rejected or not stamped by the authorized agent, the applicant or the attorney may appeal

at a designated government office by completing an Appeal Approval Notification in Form C to this regulation.

(2) Where an Appeal Approval Notification has been stamped by the authorized appeal agent designated by the minister, and is presented at a location specified by the minister before the Final Date, the applicant, attorney or trustee signing the Appeal Approval Notification may complete an application for free shares to the extent approved in the notification.

(3) Where an application for free shares is made after the Final Date the application shall be made by completing an Appeal Approval Notification at an office designated by the minister.

(4) Where an Appeal Approval Notification has been stamped by the authorized appeal agent and is not presented at a bank, trust company, credit union or investment dealer's office before the Final Date, the applicant, attorney or trustee may, before a date specified by the minister, complete an application for free shares to the extent approved in the notification at an office designated by the minister.

Procedure to receive shares applied for

4. (1) Either the applicant or his attorney may receive the share certificates for the total shares applied for as shown in the space designated "Total Shares This Application" on the application form.

(2) Subject to paragraph 4 (7), the share certificates for the shares applied for will be available for delivery to the applicant or his attorney at the branch or office where the application was made on or after August 7 and before September 28, 1979.

(3) If the shares are applied for before the Final Date and the total shares applied for exceeds 99 shares, the shares shall be registered in the name of the applicant in the register of members of the corporation, the address of the applicant shown in the application form shall be entered in the register, and the share certificate delivered to the applicant or his attorney shall be a registered certificate in the name of the applicant.

(4) If the total shares applied for are less than 100 shares, the shares will not be registered in the name of the applicant in the register of members of the corporation and the share certificates delivered to the applicant or his attorney will be bearer share certificates.

(5) In order to receive the share certificates the applicant or attorney must surrender his copy of the application form and sign for receipt at the branch or office where the application was made.

(6) If the applicant or attorney has not taken delivery of the share certificates by September 28, 1979, the share certificates will be made available for delivery to the applicant or his attorney at an office designated by the minister.

(7) Where the application includes purchased shares and the payment is dishonoured or the purchase is rescinded the free shares applied for in the application may be reapplied for after October 1, 1979 at a Government office designated by the minister.

(8) If the applicant or attorney has not taken delivery of the share certificates for free shares by December 31, 1979, the right to receive the free shares applied for shall lapse.

(9) Where the application includes purchased shares and the applicant or his attorney has not taken delivery of the share certificates by December 31, 1979, the share certificates will be made available for delivery to the applicant or his attorney on surrender to the corporation at its offices of his copy of the application and signing for receipt.

PLEASE PRINT AND PRESS FIRMLY

FORM A

APPLICATION FOR COMMON SHARES

British Columbia Resources Investment Corporation

DO NOT WRITE IN THIS SPACE

"As a shareholder in the B.C. Resources Investment Corporation, you'll have a real stake in resource development throughout our province. I urge you, your family and friends to take advantage of this unique offer . . . and to participate directly in the future growth of British Columbia."

Bill Bennett

DATE OF APPLICATION (DAY / MO / YR)	APPLICATION ENTITLEMENT: SELF / CHILDREN / BOTH / OTHER / PURCHASE ONLY	AGENCY NUMBER	PREVIOUS APPLICATION NO	APPLICATION NO
7 9	☐ ☐ ☐ ☐ ☐			2086018

IDENTIFICATION OF APPLICANT (TWO PIECES OF IDENTIFICATION REQUIRED)

B.C. DRIVER'S LICENCE NO	MSP IDENTITY NO (FULL NO INCL DEPENDENT NO)	SOCIAL INSURANCE NO	BIRTHDATE (DAY / MO / YR)	APPEAL NO

APPLICANT'S SURNAME

APPLICANT'S FIRST NAME FOLLOWED BY INITIAL(S)

APPLICANT'S ADDRESS

POSTAL CODE

APPLICANT'S PHONE NO

NOT VALID UNLESS STAMPED BY AUTHORIZED AGENT

AGENT'S VALIDATION

FREE SHARES

X 5 SHARES =

CHILD ENTITLEMENT (CANADIAN CITIZENS BORN AFTER JUNE 15, 1962)

	NAME	RELATIONSHIP	BIRTHDATE (DAY / MO / YR)	MSP IDENTITY NO (FULL NO INCL DEPENDENT NO)	CITIZEN	FREE SHARES
1					☐	X 5 SHARES =
2					☐	X 5 SHARES =
3					☐	X 5 SHARES =
4					☐	X 5 SHARES =

TOTAL NO. OF ADDITIONAL COMMON SHARES PURCHASED = X PRICE PER SHARE = TOTAL COST OF PURCHASE SHARES

IF TOTAL SHARES THIS APPLICATION IS 100 OR MORE, SHARES WILL BE REGISTERED

CERTIFICATES REGISTERED ☐

TOTAL FREE SHARES APPLIED FOR ▶ 0 0 0

NAME OF ATTORNEY

PHONE NO

TOTAL PURCHASE SHARES APPLIED FOR ▶

ADDRESS

TOTAL SHARES THIS APPLICATION ▶

CERTIFICATION

I HEREBY CERTIFY AND CONFIRM THAT:

1. the information given in this application is true and correct and is made for the purpose of acquiring common shares of British Columbia Resources Investment Corporation;
2. the applicant is 16 years of age or older and each person in respect of whom common shares are hereby applied for is an ELIGIBLE RESIDENT as described on the back of this form;
3. if this application is for free common shares, no such application has previously been made by or in respect of the applicant or any child named in this application;
4. the additional common shares set out above are purchased in accordance with the terms on the back of this form; and
5. I am aware it is a serious offence to obtain common shares of British Columbia Resources Investment Corporation for or in respect of a person who is not an eligible resident or to obtain free common shares for a person who has previously obtained free common shares or in respect of a child named in another application.

APPLICANT'S/ATTORNEY'S SIGNATURE

DATE

DATA ENTRY

YOUR SHARE CERTIFICATES WILL BE AVAILABLE AUG. 7, 1979 TO SEPT. 28, 1979 AT POINT OF APPLICATION

RIC 003

POWER OF ATTORNEY

British Columbia Resources Investment Corporation

DO NOT WRITE IN THIS SPACE

I ______________________ (FULL NAME OF APPLICANT) ______________________ HEREBY IRREVOCABLY

CONSTITUTE AND APPOINT ______________________ (FULL NAME OF ATTORNEY)

OF ______________________ (ADDRESS OF ATTORNEY)

MY TRUE AND LAWFUL ATTORNEY FOR ME AND IN MY NAME AND ON MY BEHALF TO PRESENT MY IDENTIFICATION,* TO APPLY FOR FREE COMMON SHARES AND PURCHASE COMMON SHARES OF BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION AND TO RECEIVE MY SHARE CERTIFICATES FOR SUCH COMMON SHARES AND CERTIFY THAT:

1. I AM 16 YEARS OF AGE OR OLDER;
2. I HAVE NOT PREVIOUSLY APPLIED AS AN APPLICANT OR BASED ON CHILD ENTITLEMENT, OR AUTHORIZED ANY OTHER PERSON TO SO APPLY FOR FREE COMMON SHARES OF BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION; AND
3. THE FOLLOWING IS THE TRUE SIGNATURE OF MY ATTORNEY:

______________________ (SIGNATURE OF ATTORNEY) DATED THIS ________ (DAY) OF ______________ (MONTH) 1979

*TWO PIECES OF IDENTIFICATION REQUIRED, CHOICE OF:
1. B.C. DRIVER'S LICENCE
2. MSP CARD (FULL NO. INC. DEPENDENT NO.) OR PHARMACARE CARD
3. SOCIAL INSURANCE CARD
4. BIRTHDATE (AGE 65 AND OVER ONLY)

______________________ (SIGNATURE OF APPLICANT)

CERTIFICATION OF ATTORNEY (TO BE COMPLETED AT TIME OF APPLICATION)

I HEREBY CERTIFY THAT:

1. I AM THE ATTORNEY APPOINTED ABOVE AND THAT MY APPOINTMENT IS VALID AND HAS NOT BEEN REVOKED; AND
2. I AM 19 YEARS OF AGE OR OLDER.

DATED THIS ________ (DAY) OF ______________ (MONTH) 1979 ______________________ (SIGNATURE OF ATTORNEY)

IDENTIFICATION OF ATTORNEY (TWO PIECES OF IDENTIFICATION REQUIRED)

B.C. DRIVER'S LICENCE NO.	MSP IDENTITY NO	SOCIAL INSURANCE NO.

RIC 007

FORM C

APPEAL APPROVAL NOTIFICATION

British Columbia Resources Investment Corporation

DO NOT WRITE IN THIS SPACE

APPEAL NUMBER

DATE OF APPEAL (DAY, MONTH) 17.9 | APPEAL AGENCY NUMBER | APPEAL AGENT NAME | AGENT'S TELEPHONE NO

B.C. DRIVERS LICENCE NO | M.S.P. IDENTITY NO (FULL NO. INCL. DEPENDENT NO.) | SOCIAL INSURANCE NO | BIRTHDATE (DAY, MONTH, YEAR) | APPLICATION NUMBER

APPLICANT'S SURNAME

NOT VALID UNLESS STAMPED BY AUTHORIZED APPEAL AGENT

APPEAL AGENT VALIDATION

APPLICANT'S FIRST NAME FOLLOWED BY INITIAL(S)

APPLICANT'S ADDRESS

POSTAL CODE

APPLICANT'S PHONE NO

APPROVAL OF APPLICANT

APPROVAL JUSTIFICATION (IF NECESSARY ATTACH A SEPARATE PAGE)

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

CHILD ENTITLEMENT (CANADIAN CITIZENS BORN AFTER JUNE 15, 1963)

NAME	RELATIONSHIP	BIRTH DATE	M.S.P. IDENTITY NO (FULL NO. INCL. DEPENDENT NO.)

APPROVAL OF DEPENDENT 1

1. APPROVAL JUSTIFICATION -

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

APPROVAL OF DEPENDENT 2

2. APPROVAL JUSTIFICATION -

☐ SAME AS DEPENDENT 1

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

APPROVAL OF DEPENDENT 3

3. APPROVAL JUSTIFICATION -

☐ SAME AS DEPENDENT 1

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

APPROVAL OF DEPENDENT 4

4. APPROVAL JUSTIFICATION -

☐ SAME AS DEPENDENT 1

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

CERTIFICATION: I HEREBY CERTIFY THE INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT

PRINT NAME AND ADDRESS (ONLY REQUIRED FOR POWER OF ATTORNEY OR TRUSTEE)

TELEPHONE NO.

SIGNATURE OF ☐ APPLICANT ☐ POWER OF ATTORNEY ☐ TRUSTEE

C 004

SHARE APPLICATION CAN BE MADE BETWEEN MARCH 15/79 AND JUNE 15/79 AT ANY FINANCIAL AGENCY

APPLICANT: RETAIN THIS COPY — IT MUST BE SURRENDERED WHEN YOU APPLY FOR SHARES

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

KNOWLEDGE OF
AND
ATTITUDES TOWARDS
BCRIC

July, 1979

RA664/675/JM/MM

Prepared by
Canadian Facts

Presented to:

British Columbia Resources
Investment Corporation
Vancouver, B. C.

Canadian Facts
1112 W. Pender Street
5th Floor
Vancouver, B.C. V6E 2S1
(604) 669-3344

FOREWORD

Purpose

To provide an assessment of shareholder attitudes and knowledge of selected key issues of concern to BCRIC management with a view of providing guidance and establishing "actionable" priorities for the near term.

The issues examined in the research are:

(1) What are shareholders intending to do on August 7 when trading commences: Hold or sell?

(2) What motivated people to buy additional shares?

(3) The perceived risk in buying BCRIC shares.

(4) B. C. Government role.

(5) Perceptions of the dollar value of the subscription, the size and its leverage potential.

(6) Opinions regarding the investment of the funds.

Management also expressed interest in obtaining information on the degree of borrowing to finance share purchases. Research conducted to this point in time does not answer this question; however, some relevant information was obtained that will be commented on later in this report.

Methodology

The research was divided into two phases.
Phase I consisted of a brief random telephone survey in the Greater Vancouver free calling area. 150 interviews were conducted alternately with male and female heads of household. The main purpose was to determine what people expect that they will do with their shares when trading commences.

Phase II, exploratory in nature, was designed to obtain an indication of the level of knowledge and current attitudes of BCRIC shareholders (free only, bought and bought registered). This was in order to obtain an understanding of shareholder expectations. Additionally, this phase provides input for the development of a questionnaire to be used in a follow-up statistically valid quantitative study.

Five focus group discussions were conducted as follows:

2 "Free only" shareholders } both males and females
2 "Bought" shareholders }

1 Loans officers

Further, 4 individual depth interviews were conducted with men in upper middle management positions.

All research was conducted from July 5 to 13, 1979 in Vancouver, B. C..

Results

A summary of the overall results is provided herein along with the detailed tables from the survey.

Note: this research could not reach a sizeable number of purchasers of large blocks of shares and therefore may not be representative of the attitudes and level of information of this specific group. We believe, however, that because of the consistency in the findings to date, there is no reason to conclude that their opinions and attitudes are materially different.

SUMMARY AND COMMENTS

1. What are shareholders intending to do on Aug. 7 when trading commences: Hold or sell?

It is clear from the qualitative and quantitative phases that virtually all shareholders intend to HOLD their shares for the next few months in spite of anticipated fluctuations in the market price above or below the initial $6 purchase price. This is in anticipation of long term gains which are expected to flow from development of B. C. resources.

While most shareholders expect fluctuations in the $ 5 - $7 range, they are unconcerned because they are convinced that this venture cannot fail.

2. What motivated people to buy additional shares?

The underlying reason for the purchase of BCRIC shares is PROFIT.

Shareholders are apparently not looking for short term gain. They view BCRIC as a long term investment which will grow at a better than average rate over the next 5 - 10 years. There is little understanding of whether this growth will come in the form of capital appreciation or dividends. They have little concept of profit levels except that they feel BCRIC will perform better than some investments like term deposits and Canada Savings Bonds.

The assurance of profit derives from an unquestioning faith in B. C. resources development and concommitant government sponsorship and support.

3. The perceived risk in buying BCRIC shares

There appear to be no risks associated with the purchase of these shares because of the underlying government sponsorship and support, the resource base, and the perceived good management of the Corporation. In particular, the Board of Directors is seen to be a group of "go ahead people with solid reputations".

These factors were further enhanced by the momentum of interest generated by the advertising, publicity, "word-of-mouth" and "last minute stampede to buy". In sum, there was a band wagon effect "to get in on a good deal"; "a fantastic investment"; one in which "you can't lose".

The overwhelming faith in the venture is further exemplified by the point of view that "if BCRIC goes down the tube, then B. C. goes too".

The one area of risk associated with the purchase concerns those people who may have over-extended themselves in order to buy in anticipation of short term gain. The consensus is that this was "a foolish thing to do".

Borrowing is considered acceptable by those who recognize that some investors could write off the interest expense as a tax deduction and as a possible contribution to a self-administered RRSP. Further, there is evidence that bank promotion and credit also stimulated demand.

4. The role of the B. C. government

Most shareholders reacted to the original share offer with some degree of skepticism because they feel it was politically motivated.

"Political gimmick, giving (us) back what we already own."

"You're crazy not to apply for free shares, you're paying for it anyway"

This cynicism may still remain amongst some of those who hold free shares only; however, for those who actually purchased shares, such an attitude has been offset by the unqualified faith in B. C. It is seen to be a chance to parallel the Alberta experience.

There is very little understanding of the role of government and its legal and financial relationship to the Corporation.

Many believe that the Provincial government still directly controls the Corporation. Most of these are in the free share only category although some who have purchased shares are also of this belief.

A few individuals who are relatively better informed and have an understanding of BCRIC as a private corporation still exhibit surprising information gaps with regard to the legal and financial relationship between the government and BCRIC.

There is a general feeling that the Social Credit government will "watchdog" the corporation because of a heavy moral and political commitment to the success of the project.

"Socreds have got to make this work, they'll throw the government out if it doesn't."

Government intervention is not desirable; however, if "things go wrong" it would be expected.

There is some sentiment that if government were involved in the day to day management Directors wouldn't stay, shareholders would sell out etc. Interference would be counter-productive.

5. Perceptions of the Dollar Value of the subscription: the size and its leverage potential.

Virtually, no one understands the term or the concept of dilution - in general or with specific reference to BCRIC.

There is a universal awareness that the subscritpion for shares was substantially larger than projected and this is viewed positively. It is interpreted as support by B. C. residents for the development of their province.

The approximate amount of cash raised by the subscription, although well known, has little meaning to these shareholders. They recognize it as "a lot of money" but they have no idea of what it will buy. The only context it has, if it has one at all, is analagous to the Alberta Heritage Fund.

There is no understanding at all of the concept of leverage.

Further, with regard to the current portfolio, there is limited knowledge and much confusion. As would be expected, the purchasers generally know more than the free share holders.

6. Opinions regarding the investment of the funds.

The name, B. C. Resources Investment Corporation itself, inherently sums up the company's mandate. The first priority has to be investment in British Columbia.

People participated because they were able "to have a piece of (valuable) B. C.". There is resistance to any suggestions of investment outside Canada. The priorities are clear: B. C., followed by Alberta. "At least we've got the money. Let's use it here in B. C."

Holders of the free shares have few ideas about the types of development that would be suitable and profitable. Purchasers by enlarge, seem to have more ideas on the subject.

Overall, they consider the best opportunities for development to be oil and gas, coal and alternate forms of energy. They also see the development of secondary industry in B. C. to be very important. There should be more processing of local resources prior to export.

Suggestions for secondary industry activities include steel mill, fish processing plants, furniture, automobiles, an airline ("Alberta bought P.W.A.").

Underlying these suggestions is a desire for B. C. (or Western) self-sufficiency - even to the extent of some reduction in profit. Also, some consider that profitability can be measured in terms other than BCRIC's bottom line i.e., in job creation, additional tax base, reduction in welfare costs etc.

None of these opportunities are viewed as having any degree of substantial risk, including oil and gas exploration. Undoubtedly, this is a reflection of the overall lack of sophistication exhibited by the general public on this topic.

7. Conclusions

In general, there is a very low level of valid information; there is, instead, misinformation, confusion, conflicting opinions and real information gaps. Perhaps, this has been due to, in part, the absence of the major daily newspapers in the Lower Mainland during the sale period. Nonetheless, the shareholders are not well informed.

There is however, a tremendous belief in the future of British Columbia. Participation in BCRIC appears therefore to be an act of faith rationalized on the basis of "there's gold in them thar hills".

DETAILED TABLES

Telephone Survey

TABLE 1

RA675

FINANCIAL INSTITUTIONS USED

Q. 2 Which of the following types of financial institutions do you, yourself use?

	Total	Sex	
		Male	Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Financial Institutions Used:			
Banks	(128) 85	(64) 85	(64) 85
Trust Companies	(17) 11	(11) 15	(6) 8
Credit Unions	(59) 39	(31) 41	(28) 37
Other	(3) 2	(1) 1	(2) 3
Refused	(1) 1	(1) 1	(0) -

TABLE 2

PERSONAL INVESTMENTS

Q. 3 And which, if any, of the following types of investments do you personally have?

	Total	Sex: Male	Sex: Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Personal Investments:			
Bonds	(49) 33	(29) 39	(20) 27
Term Deposits From Banks/ Trust Companies/Credit Unions	(46) 31	(21) 28	(25) 33
Stocks/Shares	(47) 31	(26) 35	(21) 28
Other	(8) 5	(6) 8	(2) 3
None Of The Above	(52) 35	(25) 33	(27) 36
Don't Know	(1) 1	(0) -	(1) 1
Refused	(8) 5	(3) 4	(5) 7

TABLE 3

RA675

RESPONDENT APPLIED FOR THE FIVE FREE SHARES RECENTLY OFFERED BY THE B. C. RESOURCES INVESTMENT CORPORATION

Q. 4 (a) Did you, yourself apply for the five free shares recently offered to B. C. residents by the B. C. Resources Investment Corporation?

		Sex	
	Total	Male	Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Applied For Five Free Shares:			
Yes	(119) 79	(57) 76	(62) 83
No	(30) 20	(17) 23	(13) 17
Refused	(1) 1	(1) 1	(0) -

REASONS FOR NOT APPLYING FOR THE FIVE FREE SHARES

Q. 4 (b) Why did you not apply for these shares?

	Total	Sex: Male	Sex: Female
Total Respondents	(31) 100%	(18) 100%	(13) 100%
Reasons:			
Did Not Qualify	(13) 42	(6) 33	(7) 54
Never Got Around To It	(3) 10	(1) 6	(2) 15
Couldn't Afford To Buy	(2) 6	(0) -	(2) 15
Not Interested	(2) 6	(0) -	(2) 15
Thought A Lot Of Money Was Wasted	(1) 3	(0) -	(1) 8
I Don't Need Them	(1) 3	(0) -	(1) 8
Waste Of Time	(1) 3	(0) -	(1) 8
I Don't Believe In Them	(1) 3	(0) -	(1) 8
It's A Political Game/Will Not Support The Social Credit Party In Any Shape Or Form	(1) 3	(0) -	(1) 8
Too Lazy To Get Them/It Seemed Like A Bunch Of Socred Bullshit	(1) 3	(0) -	(1) 8
Figured It Was A Hoax	(1) 3	(0) -	(1) 8
Did Not Know More Than One Person In Household Could Get Them	(1) 3	(1) 6	(0) -
Didn't Know About It	(1) 3	(0) -	(1) 8
Don't Know	(2) 6	(2) 11	(0) -
Refused	(1) 3	(1) 6	(0) -

TABLE 5

RA675

OUTLET APPLIED FOR BCRIC SHARES AT

Q. 4 (c) At which of the following did you apply for your BCRIC shares?

	Total	Sex: Male	Sex: Female
Total Respondents	(119) 100%	(57) 100%	(62) 100%
Outlet Applied For BCRIC Shares At:			
Bank	(84) 71	(40) 70	(44) 71
Trust Company	(6) 5	(2) 4	(4) 6
Credit Union	(24) 20	(14) 25	(10) 16
Investment Dealer	(3) 3	(1) 2	(2) 3
Other	(2) 2	(0) -	(2) 3
Don't Know/Don't Remember	(0) -	(0) -	(0) -

TABLE 6

PURCHASED ADDITIONAL BCRIC SHARES

Q. 5 (a) You just mentioned that you did apply for the five free shares. Did you also buy any additional BCRIC shares? (or were additional shares purchased for you?)

	Total	Sex: Male	Sex: Female
Total Respondents	(119) 100%	(57) 100%	(62) 100%
Purchased Additional BCRIC Shares:			
Yes	(20) 17	(15) 26	(5) 8
No	(97) 82	(41) 72	(56) 90
Refused	(2) 2	(1) 2	(1) 2

TABLE 7

RA675

PURCHASE OF BCRIC SHARES NOW IF HAD THE OPPORTUNITY

Q. 5 (b) Would you buy additional BCRIC shares now if you had the opportunity?

	Total	Sex: Male	Sex: Female
Total Respondents	(97) 100%	(41) 100%	(56) 100%
Purchase Of BCRIC Shares Now If Had The Opportunity:			
Yes	(27) 28	(12) 29	(15) 27
No	(52) 54	(20) 49	(32) 57
Don't Know	(18) 19	(9) 22	(9) 16

TABLE 8

REASONS FOR PURCHASING OR NOT PURCHASING BCRIC SHARES

Q. 5 (c) Why do you say that?

	Total	Sex: Male	Sex: Female
Total Respondents	(27) 100%	(12) 100%	(15) 100%
Yes Reasons:			
Good Investment	(13) 48	(3) 25	(10) 67
Faith In B. C./Canada	(4) 15	(3) 25	(1) 7
Expect To Trade	(3) 11	(2) 17	(1) 7
I Would Like To Own As Many Shares As Possible	(1) 4	(1) 8	(0) -
Would Like To Get A 100 So I Could Be A Stock Holder	(1) 4	(1) 8	(0) -
Add To What I Have Now	(1) 4	(1) 8	(0) -
For The Chance	(1) 4	(1) 8	(0) -
Had Money/Hope Worth Something	(1) 4	(0) -	(1) 7
Have Only Got A Pension And Not Much Money	(1) 4	(1) 8	(0) -
Future Investment For Children	(1) 4	(0) -	(1) 7
Don't Know	(1) 4	(0) -	(1) 7

TABLE 8 (CONTINUED)

REASONS FOR PURCHASING OR NOT PURCHASING BCRIC SHARES

	Total	Sex: Male	Sex: Female
Total Respondents	(52) 100%	(20) 100%	(32) 100%
No Reasons:			
Can't Afford	(14) 27	(5) 25	(9) 28
It's A Long Term Investment	(6) 12	(2) 10	(4) 13
Waiting To See How They Do On The Market	(6) 12	(4) 20	(2) 6
I Don't Think It's A Feasible Thing	(1) 2	(1) 5	(0) -
I'm Not Too Sure About It Yet	(1) 2	(1) 5	(0) -
It's Not A Sure Thing	(1) 2	(1) 5	(0) -
I Don't Feel It's A Good Investment	(1) 2	(1) 5	(0) -
Other Things To Invest In	(4) 8	(0) -	(4) 13
Too Many Holders That It Wouldn't Be Worth Much	(2) 4	(1) 5	(1) 3

TABLE 8 (CONTINUED) RA675

REASONS FOR PURCHASING OR NOT PURCHASING BCRIC SHARES

		Sex	
	Total	Male	Female
Total Respondents	(52) 100%	(20) 100%	(32) 100%
No Reasons: (Continued)			
When Prices Drop	(1) 2	(0) -	(1) 3
No Use To Me	(2) 4	(0) -	(2) 6
I Have Other Things To Do With My Money	(1) 2	(1) 5	(0) -
I Don't Agree With Them - It's A Way Of Selling Off Resources To A Wealthy Section Of The Population	(1) 2	(1) 5	(0) -
Bunch Of Baloney/It's All Our Money Anyways So Why Are They Selling Them To Us	(1) 2	(1) 5	(0) -
It Was A Gimmick And The Only Ones Who Made Any Money Were Agents	(1) 2	(1) 5	(0) -
It All Depends On Our Income	(1) 2	(0) -	(1) 3
We Don't Go In For Buying Shares	(1) 2	(0) -	(1) 3
Not Interested	(3) 6	(0) -	(3) 9
Don't Trust It	(1) 2	(0) -	(1) 3
Don't Know	(4) 8	(0) -	(4) 13

TABLE 8 (CONTINUED)

REASONS FOR PURCHASING OR NOT PURCHASING BCRIC SHARES

	Total	Sex: Male	Sex: Female
Total Respondents	(18) 100%	(9) 100%	(9) 100%
Don't Know Reasons:			
Have To Know More About It	(5) 28	(2) 22	(3) 33
Couldn't Afford It	(1) 6	(0) -	(1) 11
Depends On Price	(2) 11	(2) 22	(0) -
They're Pretty High/Everyone Has Them/ Too Many On Market	(1) 6	(1) 11	(0) -
Depends On What Is Involved In Buying Them	(1) 6	(0) -	(1) 11
If Young Would Go Out And Buy More	(1) 6	(0) -	(1) 11
People Say They May Go Up In Price	(1) 6	(0) -	(1) 11
Maybe A Person Should Cause They Might Go Up	(1) 6	(0) -	(1) 11
Going Down In Value, So I'd Have To Think About It	(1) 6	(1) 11	(0) -
Haven't Decided Yet	(1) 6	(1) 11	(0) -
Not Sure	(1) 6	(1) 11	(0) -
Don't Know	(3) 17	(2) 22	(1) 11

TABLE 9 RA675

INVESTMENT RATIONALE

Q. 5 (d) Would you say you bought these additional shares in anticipation of an immediate gain or of a long-term gain?

	Total	Sex: Male	Sex: Female
Total Respondents	(20) 100%	(15) 100%	(5) 100%
Immediate Gain	(0) 0	(0) 0	(0) 0
Long Term Gain	(20) 100	(15) 100	(5) 100

TABLE 10

APPROXIMATE DOLLAR VALUE OF EACH BCRIC SHARE

Q. 6 What do you think the approximate dollar value of each share is?

	Total	Sex: Male	Sex: Female
Total Respondents	(119) 100%	(57) 100%	(62) 100%
Value Of BCRIC Share:			
$2.00 Or Less	(0) -	(0) -	(0) -
$3.00 Or Less	(2) 2	(0) -	(2) 3
$4.00 Or Less	(1) 1	(1) 2	(0) -
$5.00 Or Less	(14) 12	(8) 14	(6) 10
$6.00 Or Less	(34) 29	(14) 25	(20) 32
$7.00 Or Less	(7) 6	(4) 7	(3) 5
$8.00 Or Less	(5) 4	(4) 7	(1) 2
$9.00 Or Less	(2) 2	(0) -	(2) 3
$10.00 Or Less	(1) 1	(0) -	(1) 2
$11.00 Or Less	(1) 1	(1) 2	(0) -
$12.00 Or Less	(3) 3	(0) -	(3) 5
Over $12.00	(3) 3	(1) 2	(2) 3

TABLE 10 (CONTINUED)

APPROXIMATE DOLLAR VALUE OF EACH BCRIC SHARE

	Total	Sex: Male	Sex: Female
Total Respondents	(119) 100%	(57) 100%	(62) 100%
Value Of BCRIC Share:			
Between $5.00 To $6.00	(2) 2	(2) 4	(0) -
Between $6.00 To $7.00	(7) 6	(7) 12	(0) -
Between $7.00 To $8.00	(1) 1	(1) 2	(0) -
Don't Know	(35) 29	(14) 25	(21) 34
Nothing	(1) 1	(0) -	(1) 2

TABLE 11

INTENTION TO HOLD ONTO OR SELL BCRIC SHARES IN NEXT FEW MONTHS

Q. 7 (a) Do you intend to hold onto or sell your BCRIC shares in the next few months?

	Total	Sex: Male	Sex: Female
Total Respondents	(119) 100%	(57) 100%	(62) 100%
Intention Of Shares In The Next Few Months:			
Hold Onto All	(102) 86	(47) 82	(55) 89
Sell All	(4) 3	(3) 5	(1) 2
Sell Some	(1) 1	(1) 2	(0) -
Don't Know/Depends	(11) 9	(5) 9	(6) 10
Refused	(0) -	(0) -	(0) -
Give Them To My Wife	(1) 1	(1) 2	(0) -

TABLE 12

RA675

REASONS FOR HOLDING ONTO OR SELLING BCRIC SHARES IN THE NEXT FEW MONTHS

Q. 7 (b) Why do you say that?

	Total	Sex: Male	Sex: Female
Total Respondents	(102) 100%	(47) 100%	(55) 100%
Hold Onto/All Reasons:			
Think They Will Increase	(15) 15	(9) 19	(6) 11
Wait And See What They Do Later-If Go Up	(19) 19	(5) 11	(14) 25
Long Term Investment	(13) 13	(6) 13	(7) 13
Plan To Give To Grandson/Son/Kids One Day	(7) 7	(1) 2	(6) 11
Government Gives Something Free Take It/They Were Free/Nothing To Lose	(8) 8	(6) 13	(2) 4
Believe In B. C./Support The Province	(4) 4	(2) 4	(2) 4
Didn't Need The Money	(7) 7	(2) 4	(5) 9
Money Value Not That Great	(4) 4	(2) 4	(2) 4
Good Investment To Invest In	(2) 2	(1) 2	(1) 2
What's The Point In Buying If You Don't Hang Onto Them	(1) 1	(0) -	(1) 2
Couldn't Be Bothered To Sell For $30.00	(1) 1	(0) -	(1) 2

REASONS FOR HOLDING ONTO OR SELLING BCRIC SHARES IN THE NEXT FEW MONTHS

Q. 7 (b) Why do you say that?

	Total	Sex: Male	Sex: Female
Total Respondents	(102) 100%	(47) 100%	(55) 100%
Hold Onto All Reasons:			
My Money's Tied Up In Them	(1) 1	(0) -	(1) 2
Still Have Stocks From Years Ago/ Don't Play The Stock Market	(1) 1	(0) -	(1) 2
Would Not Buy Any If I Was Going To Sell	(1) 1	(1) 2	(0) -
They Would Be Just Cashed At The Banks And Finally It Would Be The Banks That Control BCRIC	(1) 1	(1) 2	(0) -
They Are Shares In The Government And I Would Like To Have My Foot Somewhere In There	(1) 1	(1) 2	(0) -
Want To Keep Them Out Of The Hands Of Small Minorities	(1) 1	(1) 2	(0) -
It's A Souvenir	(1) 1	(1) 2	(0) -
Like Having Shares	(1) 1	(0) -	(1) 2
I Wouldn't Make No Money If I Sold Them Now	(1) 1	(1) 2	(0) -
I Am Trying To Collect Some For My Brothers And Sisters To Become A Full Member - So The Family Is A Member	(1) 1	(1) 2	(0) -

TABLE 12 (CONTINUED)

REASONS FOR HOLDING ONTO OR SELLING
BCRIC SHARES IN THE NEXT FEW MONTHS

	Total	Sex: Male	Sex: Female
Total Respondents	(102) 100%	(47) 100%	(55) 100%
Hold Onto/All Reasons:			
Not Costing Me Anything To Keep Them	(1) 1	(1) 2	(0) -
It Keeps Up The Empty Space In The Drawer	(1) 1	(1) 2	(0) -
Just Keep Them	(1) 1	(0) -	(1) 2
That's What I Want To Do	(1) 1	(1) 2	(0) -
In No Hurry To Get Rid Of Them	(1) 1	(1) 2	(0) -
Don't Have To Do Anything About It	(1) 1	(0) -	(1) 2
Don't Want To Sell	(2) 2	(0) -	(2) 4
No Reason To Sell	(4) 4	(1) 2	(3) 5
Don't Know Anyone Who Wants To Buy Them	(2) 2	(0) -	(2) 4
Seems Like An Easy Answer	(1) 1	(0) -	(1) 2
Don't Know	(2) 2	(2) 4	(0) -

TABLE 12 (CONTINUED)

REASONS FOR HOLDING ONTO OR SELLING BCRIC SHARES IN THE NEXT FEW MONTHS

	Total	Sex: Male	Sex: Female
Total Respondents	(4) 100%	(3) 100%	(1) 100%
Sell/All Reasons:			
Do Not Feel It Is A Good Investment	(1) 25	(1) 33	(0) -
I Wanted A 100 Of Them So They Could Be Registered But Pretty Soon They Will Be Flooding The Market	(1) 25	(1) 33	(0) -
If Could Make A Buck Or Two Would Sell	(1) 25	(1) 33	(0) -
Don't Want Them	(1) 25	(0) -	(1) 100

TABLE 12 (CONTINUED) RA675

REASONS FOR HOLDING ONTO OR SELLING BCRIC SHARES IN THE NEXT FEW MONTHS

	Total	Sex: Male	Sex: Female
Total Respondents	(1) 100%	(1) 100%	(0) 100%
Sell Some/Reasons:			
In Anticipation Of Any Gain-I Will Buy Some More When The Price Drops	(1) 100	(1) 100	(0) -

TABLE 12 (CONTINUED) RA675

REASONS FOR HOLDING ONTO OR SELLING BCRIC SHARES IN THE NEXT FEW MONTHS

	Total	Sex: Male	Sex: Female
Total Respondents	(11) 100%	(5) 100%	(6) 100%
Don't Know/Depends Reasons:			
If Go Up In Price	(1) 9	(0) -	(1) 17
They May Go Up Or They May Go Down	(1) 9	(1) 20	(0) -
Depends On Market If Price Was Rising I Would Not Sell	(1) 9	(1) 20	(0) -
Depends On Market	(1) 9	(1) 20	(0) -
If I Could Make A Profit On Them I Would Sell Them	(1) 9	(1) 20	(0) -
Be Interesting To Hold And See If They Become Valuable	(1) 9	(0) -	(1) 17
Haven't Studied The Facts Of It	(1) 9	(0) -	(1) 17
Haven't Discussed With Husband	(1) 9	(0) -	(1) 17
I Don't Know If I Will Be Alive Tomorrow	(1) 9	(1) 20	(0) -
Not Stated	(1) 9	(0) -	(1) 17
Don't Know	(1) 9	(0) -	(1) 17

TABLE 13

INTENTION TO SELL BCRIC SHARES IF RISE ABOVE THE $6.00 PRICE

Q. 8 (a) If in the near future, the value of BCRIC shares rise above the $6.00 price that people have just paid per share, would you sell your shares?

		Sex	
	Total	Male	Female
Total Respondents	(119) 100%	(57) 100%	(62) 100%
Intention To Sell BCRIC Shares If Rise Above $6.00 Price:			
Yes	(13) 11	(10) 18	(3) 5
Depends On How High It Rises	(9) 8	(4) 7	(5) 8
No	(88) 74	(43) 75	(45) 73
Don't Know	(9) 8	(0) -	(9) 15

PRICE AT WHICH WOULD SELL
SHARE AT

Q. 8 (b) At what price per share do you think you would sell?

	Total	Sex: Male	Sex: Female
Total Respondents	(22) 100%	(14) 100%	(8) 100%
Price At Which Would Sell Share At:			
Between $6.00 To $7.00	(2) 9	(1) 7	(1) 13
$ 7.00	(3) 14	(2) 14	(1) 13
$ 8.00	(1) 5	(1) 7	(0) -
$ 9.00	(0) -	(0) -	(0) -
$10.00	(3) 14	(3) 21	(0) -
$11.00	(0) -	(0) -	(0) -
$12.00	(0) -	(0) -	(0) -
$13.00	(0) -	(0) -	(0) -
$14.00	(0) -	(0) -	(0) -
$15.00 Or More	(2) 9	(1) 7	(1) 13
Don't Know	(11) 50	(6) 43	(5) 63

TABLE 15

RA675

INTENTION TO SELL BCRIC SHARES IF DROPPED BELOW THE $6.00 PRICE

Q. 9 (a) And, in the near future, if the value of BCRIC shares decreases below the $6.00 price per share, would you sell your shares?

	Total	Sex: Male	Sex: Female
Total Respondents	(119) 100%	(57) 100%	(62) 100%
Intention To Sell BCRIC Shares If Dropped Below The $6.00 Price:			
Yes	(5) 4	(3) 5	(2) 3
Depends On How Low It Decreases	(3) 3	(0) -	(3) 5
No	(103) 87	(53) 93	(50) 81
Don't Know	(8) 7	(1) 2	(7) 11

TABLE 16

PRICE AT WHICH WOULD SELL SHARES

Q. 9 (b) At what price per share do you think you would sell?

	Total	Sex: Male	Sex: Female
Total Respondents	(8) 100%	(3) 100%	(5) 100%
Price At Which Would Sell Shares:			
Between $ 5.00 To $6.00	(3) 38	(1) 33	(2) 40
$5.00	(2) 25	(1) 33	(1) 20
$4.00	(1) 13	(0) -	(1) 20
$3.00	(0) -	(0) -	(0) -
$2.00	(0) -	(0) -	(0) -
$1.00	(1) 13	(1) 33	(0) -
Less Than $1.00	(0) -	(0) -	(0) -
Don't Know	(1) 13	(0) -	(1) 20

TABLE 17 RA675

BASIC DATA

Q. 10 (a) Not counting yourself, how many other people in your immediate household applied for the five free BCRIC shares?

	Total	Sex: Male	Sex: Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Number Of Other Members Of Immediate Family Who Applied For Five Free BCRIC Shares:			
None	(40) 27	(17) 23	(23) 31
One	(50) 33	(27) 36	(23) 31
Two	(18) 12	(12) 16	(6) 8
Three	(20) 13	(9) 12	(11) 15
Four	(7) 5	(2) 3	(5) 7
Five	(7) 5	(2) 3	(5) 7
Six	(2) 1	(1) 1	(1) 1
Don't Know	(4) 3	(3) 4	(1) 1
Refused	(2) 1	(2) 3	(0) -

TABLE 18 RA675

BASIC DATA

Q. 10 (b) Did anyone else in your household buy any additional BCRIC shares?

	Total	Sex: Male	Sex: Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Anyone Else In Household Buy Additional BCRIC Shares:			
Yes	(14) 9	(7) 9	(7) 9
No	(127) 85	(60) 80	(67) 89
Don't Know	(7) 5	(6) 8	(1) 1
Refused	(2) 1	(2) 3	(0) -

TABLE 19 RA675

BASIC DATA

Q. 10 (c) Is there anyone in your household, including yourself, who will be a registered owner of BCRIC shares, that is, has at least 100 shares?

	Total	Sex: Male	Sex: Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Member In Household Who Owns At Least 100 BCRIC Shares:			
Yes	(17) 11	(11) 15	(6) 8
No	(123) 82	(58) 77	(65) 87
Don't Know	(8) 5	(4) 5	(4) 5
Refused	(2) 1	(2) 3	(0) -

TABLE 20

RA675

BASIC DATA

Q. 11 SEX: DO NOT ASK
Q. 12 Into which of the following age categories may I place you?

	Total	Sex: Male	Sex: Female
Total Respondents	(150) 100 %	(75) 100 %	(75) 100 %
Sex:			
Male	(75) 50	(75) 100	(0) -
Female	(75) 50	(0) -	(75) 100
Age:			
Under 25 Years	(24) 16	(10) 13	(14) 19
25 To 34 Years	(45) 30	(26) 35	(19) 25
35 To 44 Years	(31) 21	(13) 17	(18) 24
45 To 54 Years	(11) 7	(5) 7	(6) 8
55 To 64 Years	(18) 12	(6) 8	(12) 16
65 Years Or Over	(17) 11	(12) 16	(5) 7
Refused	(4) 3	(3) 4	(1) 1

BASIC DATA

Q. 1 First of all,

(a) What is your occupation?

	Total	Sex: Male	Sex: Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Occupation:			
Professional	(15) 10	(8) 11	(7) 9
Business Executive (Owners-Managers)	(10) 7	(7) 9	(3) 4
Salespeople	(9) 6	(6) 8	(3) 4
Clerical Workers	(21) 14	(7) 9	(14) 19
Skilled Labourer	(24) 16	(21) 28	(3) 4
Unskilled Labourer	(11) 7	(9) 12	(2) 3
Farmer	(0) -	(0) -	(0) -
Homemaker	(29) 19	(0) -	(29) 39
Retired, Pension	(24) 16	(13) 17	(11) 15
Unemployed	(5) 3	(2) 3	(3) 4
Students	(2) 1	(2) 3	(0) -

TABLE 20 (CONTINUED)

BASIC DATA

Q. 1 (c) Is there anyone else in the household who is employed?

	Total	Sex: Male	Sex: Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Occupation:			
Professional	(10) 7	(3) 4	(7) 9
Business Executive (Owners-Managers)	(4) 3	(1) 1	(3) 4
Salespeople	(10) 7	(5) 7	(5) 7
Clerical Workers	(16) 11	(14) 19	(2) 3
Skilled Labourer	(29) 19	(8) 11	(21) 28
Unskilled Labourer	(7) 5	(3) 4	(4) 5
Farmer	(0) -	(0) -	(0) -
Homemaker	(0) -	(0) -	(0) -
Retired, Pension	(0) -	(0) -	(0) -
Unemployed	(0) -	(0) -	(0) -
Students	(0) -	(0) -	(0) -
No One Else Works	(74) 49	(41) 55	(33) 44

BASIC DATA

Q. 13 And finally, into which of the following broad categories, does your total annual family income fall before taxes?

	Total	Sex: Male	Sex: Female
Total Respondents	(150) 100%	(75) 100%	(75) 100%
Annual Family Income:			
Under $ 8,000	(18) 12	(8) 11	(10) 13
$ 8,000 To $11,999	(19) 13	(6) 8	(13) 17
$12,000 To $14,999	(14) 9	(7) 9	(7) 9
$15,000 To $19,999	(21) 14	(15) 20	(6) 8
$20,000 To $24,999	(19) 13	(8) 11	(11) 15
$25,000 Or More	(32) 21	(18) 24	(14) 19
Refused	(21) 14	(12) 16	(9) 12
Don't Know	(6) 4	(1) 1	(5) 7

APPENDIX

1. Group Discussion Guide
2. Screening Questionnaire for Group Discussions
3. Survey Questionnaire

B. C. R. I. C.

Group Discussion Guide

I. Introduction to Canadian Facts
   Who we are
   What we do.

II. Nature of group discussion/Role of moderator

III. Purpose of discussion

   (a) to obtain (your) opinions and/or point of view about personal and family financial planning ...
   (b) what it means to you, over both the short term and the long term.

IV. Discussion of "the economy"

   (a) world influences/factors
   (b) Canadian/North American influences/factors
   (c) British Columbian (Canadian regional) influences/factors
       *probe impact of oil pricing
       (*Note: mention of B.C. generally and BRIC specifically will be held in abayance until such time that wide point of view or expressed by everyone who wishes to do so.

V. Role of Banks, Credit Unions, Trust Companies, in the context of the above plus new points of reference as they arise.

   probe: - where do the respondents obtain investment counsil
   - what is their personal attitude to investment per se and how do they define it in terms of actual practice. Do their stated arguments support their practice?
   - who has "investments", ask for examples of same. Amounts?

VI. Introduce BCRIC
   "What about the recent share offering to residents of B. C.
   probe: Who sponsored it?
   What is the governments role?
   What should be the governments role?

VII. Lets talk about this further now.
   What are (your) expectations of BCRIC?
   Do they know the size of the subscription?
   What are the advantages/disadvantages to the size?

VIII. Role of BCRIC in before mentioned economic areas, generally.
Role BCRIC might take in oil and gas development.
Attendent impact on oil pricing domestically.

IX. Probe:
Is BCRIC a secure investment
How safe is it/How risky?
(If not already mentioned) "Who is managing BCRIC"
Is it a good team? Why/Who not? How competent?
If not, who should it be?
Is there a guarantor (the government)

Role of the government in
A. Security
B. Day to day management
C. Intervention

(Probe: do they care about the above, does it matter to them?)

X. A. Has August 7 any significance?
Probe: What will happen: Dilution/factor, opportunities to invest the "bag"
(i) short term
(ii) long term
What can it do/buy (a) in B.C.
(b) in Canada
(c) in foreign areas

B. Probe: comfort/discomfort index

(i) if value remains same
(ii) goes up
(iii) goes down
(iv) projections/on each, above, if time permits
In other words probe:
(Is a price increase/decrease perceived to be significant in the longer or shorter term)

XI. BCRIC
Probe if possible
Segmentation of expectations according to the quantity of shares bought.
Long term vs quick turn around
(capital appreciation or income via earnings.

XII. "Overall the mandate is to make a profit through B.C. Resources
Does it matter if the development (and control of same) is exclusively in B. C. and must it be resource oriented?"
Probe: attitudes toward risk ventures, social benefit programmes.

Screening Questionnaire

Hello. We are conducting a survey among B. C. adults 18 years of age and over about financial services and planning.

1. Do you or anyone in your household work in an occupation related to any form of media such as radio, T.V., newspaper, advertising, public relations, marketing research or in a financial field such as banking or investments.

   YES........ ☐ END INTERVIEW

   NO......... ☐

2. Which of the following financial institutions do you use: (READ LIST)

   Banks................... ☐
   Trust Companies......... ☐
   Credit Unions........... ☐
   Loan Co's............... ☐

3 (a) Do you have any investments at all?

   NO............ ☐ END INTERVIEW

   YES........... ☐ CONTINUE

(b) Which of the following types of investments do you have: (READ LIST)

   Bank term deposit......... ☐
   Stocks/Shares............. ☐ END INT. IF DO NOT MENTION
   Loans..................... ☐
   Other..................... ☐

(c) Which of the following companies do you have any investments in: (READ LIST)

   MacMillan Bloedel .... ☐
   B. C. Tel................. ☐
   B. C. Resources Investment Corporation...... ☐
   (pronounced BRIC)

(d) Do you have just the 5 free shares in BRIC or have you bought shares in BRIC?

   5 shares only.......... ☐ Recruit for Gr. 1 & 2.
   Bought shares.......... ☐ Recruit for Gr. 3 & 4

A. In which of the following age categories may I place you? (READ LIST)

Under 18 years.............	14 - 1	END INTERVIEW
18 - 24 years...............	2	WATCH QUOTAS
25 - 34 years...............	3	
35 - 44 years...............	4	
45 - 54 years...............	5	
55 - 64 years...............	6	
65 years or over...........	7	

B. SEX: (DO NOT ASK)

MALE.......	15 - 1	WATCH QUOTAS
FEMALE.....	2	

C. Into which of the following broad categories, does your total annual family income fall before taxes?

Under $ 8,000...........	☐	WATCH QUOTAS
$ 8,000 - $11,999.......	☐	
$12,000 - $14,999.......	☐	
$15,000 - $19,999.......	☐	
$20,000 - $24,999.......	☐	
$25,000 or more.........	☐	
REFUSED.................	☐	

INVITATION

The Company I work for is interested in learning more about people's involvement with financial services and institutions. In order to do this, we will be holding a group discussion with people like yourself. About 10 people will meet with our moderator to participate in a discussion which will take approximately an hour and a half.

In appreciation of your assistance, our company gives each participant in this discussion a small gift of $15.00.

Would you be willing to participate in this group discussion?

Yes........ ☐

No......... ☐

It will be held on: (WRITE IN DATE AND TIME FOR WHICH RESPONDENT QUALIFIES)

PLACE: Canadian Facts
4th Floor
1112 West Pender St.
Vancouver, B. C.

DATE OF GROUP: ____________________ TIME: ________________________

RESPONDENT'S NAME: ____

ADDRESS: ____

CITY: ____ TEL NO.: __________

Recruited by: ____________________________________ Date: ____________

Confirmed by: ____________________________________ Date: ____________

CANADIAN FACTS
Vancouver, B. C.

RA 675

Study No. 1 - A
2 - 6
3 - 7
4 - 5
5 -
6 -
Serial No. 7 -
Version 8 -

ASK TO SPEAK TO MALE/FEMALE HEAD OF HOUSEHOLD.

Hello. I'm ______________ of Canadian Facts, a market research firm. We are conducting a survey on financial services and planning including Investments and we'd like to ask you a few questions.

1. First of all,

   (a) What is your occupation?

   ______________________ IN ______________________ 9 -
   (TYPE OF JOB) (TYPE OF COMPANY) 10 -

   ☐ HOMEMAKER ONLY - GO TO 1 (c)

   (b) What type of product or service does this involve?

   ____

   (c) Is there anyone else in the household who is employed?

   YES.............. ☐ NO......... ☐

   What type of product or service (does this) (do these) position/s involve?

   ____

   ____

IF THERE IS ANY INDICATION OF ASSOCIATION WITH AN ADVERTISING AGENCY, FINANCIAL INSTITUTION, MARKETING RESEARCH, RADIO, TELEVISION, NEWSPAPER OR MAGAZINES IN Q. 1 (a) (b) (c), END INTERVIEW, ERASE. THIS IS <u>VERY IMPORTANT</u>. INTERVIEWS WITH PEOPLE IN THESE BUSINESSES CANNOT BE USED.

2. Which of the following types of financial institutions do you, yourself, use? (READ LIST)

Banks................	11 - 1
Trust Companies......	2
Credit Unions........	3
OTHER................	4

3. And which, if any, of the following types of investments do you personally have? (READ LIST)

Bonds................	12 - 1
Term deposits from Banks/Trust Companies/ Credit Unions........	2
Stocks/Shares........	3
OTHER................	4
NONE OF THE ABOVE....	5

4 (a) Did you, yourself apply for the five free shares recently offered to B. C. residents by the B. C. Resources Investment Corporation? (ALSO PRONOUNCED BRIK)

Yes........... 13 - 1 - Go to Q. 4 (c)

No............ 2

(b) Why did you not apply for these shares? (PROBE FULLY)

____

______________________________ 14 -

______________________________ 15 -

☐ DID NOT QUALIFY NOW GO TO BASIC DATA

(c) At which of the following did you apply for your BCRIC shares? (READ LIST)

Bank......................	16 - 1
Trust Company.............	2
Credit Union..............	3
Investment Dealer.........	4
Other.....................	5
DON'T KNOW/DON'T REMEMBER.	6

5 (a) You just mentioned that you did apply for the five free shares. Did you also buy any additional BCRIC shares? (or were additional shares purchased for you?)

Yes........... 17 - 1 - Go To Q. 5 (d)

No............ 2 - Go To Q. 5 (b) & c)

REFUSED....... 3 Go To Q. 6

(b) Would you buy additional BCRIC shares now if you had the opportunity?

Yes .... 18 - 1

No............ 2 Go to Q. 5 (c)

Don't Know ... 3

(c) Why do you say that? (PROBE FULLY)

____

______________________________ 19 -

______________________________ 20 -

NOW GO TO Q. 6

(d) Would you say you bought these additional shares in anticipation of an immediate gain or of a long-term gain?

IMMEDIATE GAIN............	21 - 1
LONG TERM GAIN............	2

6. What do you think the approximate dollar value of each BCRIC share is?

$2.00 or less............	22 -	1
$3.00		2
$4.00		3
$5.00		4
$6.00		5
$7.00		6
$8.00		7
$9.00		8
$10.00		9
$11.00		0
$12.00		X
Over $12.00..............		Y

OTHER (SPECIFY) ______________________________ 23 -

7 (a) Do you intend to hold onto <u>or</u> sell your BCRIC shares in the next few months?

HOLD ONTO ALL..........	24 -	1
SELL ALL...............		2
SELL SOME..............		3
DON'T KNOW/DEPENDS.....		4
REFUSED................		5 - Go to Q. 8

(b) Why do you say that? (PROBE FULLY)

____

______________________________ 25 -

______________________________ 26 -

8 (a) If in the near future the value of BCRIC shares rises above the $6.00 price that people have just paid per share, would you sell your shares?

Yes.................	27 -	1	Go to 8 (b)
Depends on how high it rises..........		2	Go to 8 (b)
No.................		3	Go to Q. 9
DON'T KNOW.........		4	Go to Q. 9

(b) At what price per share do you think you would sell?

Between $ 6 - $ 7........	28 -	1
$ 7.........		2
$ 8.........		3
$ 9.........		4
$10.........		5
$11.........		6
$12.........		7
$13.........		8
$14.........		9
$15 or more.		0
DON'T KNOW..		X

9 (a) And, if in the near future the value of BCRIC shares decreases below the $ 6.00 price per share, would you sell your shares?

Yes..............................	29 - 1	Go to 9 (b)
Depends on how low it decreases.....	2	
No..................................	3	Go To Q. 10
DON'T KNOW..........................	4	

(b) At what price per share do you think you would sell?

Between $ 5 - $ 6..................		30 - 1
	$ 5..................	2
	$ 4..................	3
	$ 3..................	4
	$ 2..................	5
	$ 1..................	6
Less than	$ 1..................	7

BASIC DATA

10 (a) Not counting yourself, how many other people in your immediate household applied for the five free BCRIC shares?

__________WRITE IN NO. 31 -

(b) Did anyone else in your household buy any additional BCRIC shares?

Yes.........	32 - 1
No..........	2
DON'T KNOW..	3

(c) Is there anyone in your household, including yourself, who will be a registered owner of BCRIC shares, that is, has at least 100 shares?

Yes...........	33 - 1
No............	2
DON'T KNOW....	3

Now, just a few more questions to help us classify our data.

11. SEX: DO NOT ASK:

MALE........	34 - 1
FEMALE......	2

12. Into which of the following age categories may I place you? Are you:

Under 25 years...........	35 - 1
25 - 34 years............	2
35 - 44 years............	3
45 - 54 years............	4
55 - 64 years............	5
65 years or over.........	6
REFUSED..................	7

13. And finally, into which of the following broad categories, does your total annual family income fall before taxes?

Under $ 8,000.............	36 - 1
$ 8,000 - $11,999.........	2
$12,000 - $14,999.........	3
$15,000 - $19,999.........	4
$20,000 - $24,999.........	5
$25,000 or more...........	6
REFUSED...................	7

Thank you for your co-operation.

Name:______________________ Tel. No.:__________

Address:______________________ Date:__________

Interviewed by:______________________

BRANCH TRANSFER AGENT

(Where Shareholders' ledger is not maintained)

Minimum annual fee for maintenance of Agency $350.00

Issuing certificates: This service includes the examination of certificates for endorsement, transfer tax and guarantees, the preparation of new share certificates, recording certificates cancelled and issued, delivering to and receiving certificates from the Registrar where applicable and effecting over-the-counter deliveries, etc., each certificate ......$ 1.15

Examining of documents supporting transfer of certificate(s) (i.e. estates or the replacing of lost certificates), each transaction .....$ 7.50

Examining of documents supporting the transfer of certificates other than estates or replacements (i.e. legals), each transaction .....$ 2.50

The placement and maintenance of stop transfer orders, each transaction .....$ 1.00

Removal of stop transfer orders, each transaction .....$ 1.00

Certificates received for transfer and returned through the mail, each transaction .....$ 1.00

Dispatching daily reports of transfers, annual fee per addressee (depending on volume)......$75.00-$150.00

REGISTRAR SERVICES

Annual retainer fee for maintenance of registrar agency and general services including enquiries, correspondence, etc. per annum $250.00

For registering each certificate, dispatching daily reports of registrations, the placement and maintenance of stop transfer orders, removal of stop transfer orders.

An all inclusive fee for the above services, each certificate registered ......$ 0.25

Closing of an Agency or retiring of stock....an appropriate charge will be made.

EXPENSES

All out-of-pocket expenses, including printing and stationery, postage, telephone, telegraph charges, storage of records, cost of material for new accounts, etc., are assessed at cost.

Appropriate charges will be made for the preparation of statistical returns and for information required by government authorities, stock exchanges, etc.

DIVIDEND DISBURSING

Computing, preparing and mailing dividend cheques to shareholders, checking bank statements, reconciling negotiated cheques, computing tax deduction from the gross dividend paid to non-resident shareholders, and the remitting of non-resident tax.

first 5,000	$	0.40
next 5,000	$	0.35
balance	$	0.30

Minimum charge for disbursing any one dividend .... $ 50.00

Maintenance of tax records reflecting names, addresses and amounts of dividends disbursed to shareholders during calendar year, including preparation of returns, each account .... $ 0.35

LISTINGS AND MAILINGS

Preparing list of shareholders showing names, addresses and number of shares held,

1st copy each name	$	0.05
2nd copy each name	$	0.02
3rd copy each name	$	0.01

An appropriate charge will be made for any additional copies.

Preparing a selective list of shareholders, i.e. only those shareholders holding more than a specified number of shares registered in their names.

Maximum charge half of total cost of a full shareholders' list.

Preparing shareholders' list segregated by geo. code, postal code or classification code, selective or full list. An appropriate charge will be made.

Minimum charge for shareholders' list .... $ 50.00

Addressing envelopes and like material (name and address only), Each .... $ 0.05

Addressing proxies, recording share holdings, and, if possible, related punched information, each proxy .... $ 0.07½

Inserting one enclosure (no matching), including stamping and mailing, up to and including size #10 envelope, each .... $ 0.03

Over size #10 envelope, each .... $ 0.05

Additional enclosure (no matching), up to and including size #10 envelope, each .... $ 0.02

Over size #10 envelope, each .... $ 0.03

Inserting one enclosure and matching, including stamping and mailing, each .... $ 0.10

When duplicate names of holders of more than one class of stock are to be eliminated, an extra charge above the normal charge may be made.

SHAREHOLDERS' MEETINGS

Receiving, examining and tabulating of proxies, covering one election,

punch card	$	0.20
paper	$	0.40

Each additional election .... $ 0.05

Scrutineer Services, one scrutineer $100.00

Additional scrutineers, each .... $ 50.00

Clerical assistance, per hour .... $ 15.00

OR

Inclusive fee re annual or special meeting—mailing of material, receiving examining and tabulating proxies, preparing voting list of shareholders, preparation and filing of affidavits, filling brokers requests for additional material, and providing for the service of two scrutineers plus necessary clerical assistants, an appropriate charge wil be made.

TRANSFER AGENT

(Where Shareholders' ledger is maintained)

A special assessment will be made to cover initial service on new appointments or underwritings.

Minimum annual retainer fee for maintenance of an Agency $350.00

Issuing certificates:
This service includes the examination of certificates for endorsement, transfer tax and guarantees, the preparation of new share certificates, recording certificates cancelled and issued, delivering to and receiving certificates from the Registrar where applicable and effecting over-the-counter deliveries, etc.,
each certificate ......$ 1.15

Examining of documents supporting transfer of certificate(s) (i.e. estates or the replacing of lost certificates),
each transaction .....$ 7.50

Examining of documents supporting the transfer of certificates other than estates or replacements (i.e. legals),
each transaction ....$ 2.50

The placement and maintenance of stop transfer orders,
each transaction .....$ 3.00

Removal of stop transfer orders,
each transaction $ 3.00

Certificates received for transfer and returned through the mails,
each transaction .....$ 1.00

Dispatching daily reports of transfers:
annual fee per addressee (depending on volume)......$75.00-$150.00

MAINTAINING SHAREHOLDERS' LEDGER ACCOUNTS

On the first 5,000,
each account ....$ 0.80
on the next 5,000,
each account ....$ 0.75
on the next 5,000,
each account ....$ 0.70
on the balance (over 15,000),
each account ....$ 0.60

This service includes checking and balancing of the records.

Posting fee,
each certificate posted ....$ 0.25
Receipt and application of shareholder's change of address and/or dividend instructions, including confirmation to the shareholder,
each transaction .....$ 1.00

Montreal Trust

FEES FOR SERVICES AS TRANSFER AGENT OR REGISTRAR

STOCK TRANSFER SERVICES

General Services:

Maintenance of shareholders' records

Issuance of certificates

Dividend disbursing agent

Tax reporting

Co-transfer agent

Mailing services

Registrar

Co-registrar

Shareholders' meetings

Special Services:

Full and integrated services re acquisitions

Redemption agent

Stock splits

Stock exchanges

Stock dividends

Right issues

Proxy solicitations

Trustee under a purchase warrant indenture

Escrow agent

Analytical reports

Dividend re-investment services

LOCATION OF OFFICES

Head Office:

MONTREAL, QUE.

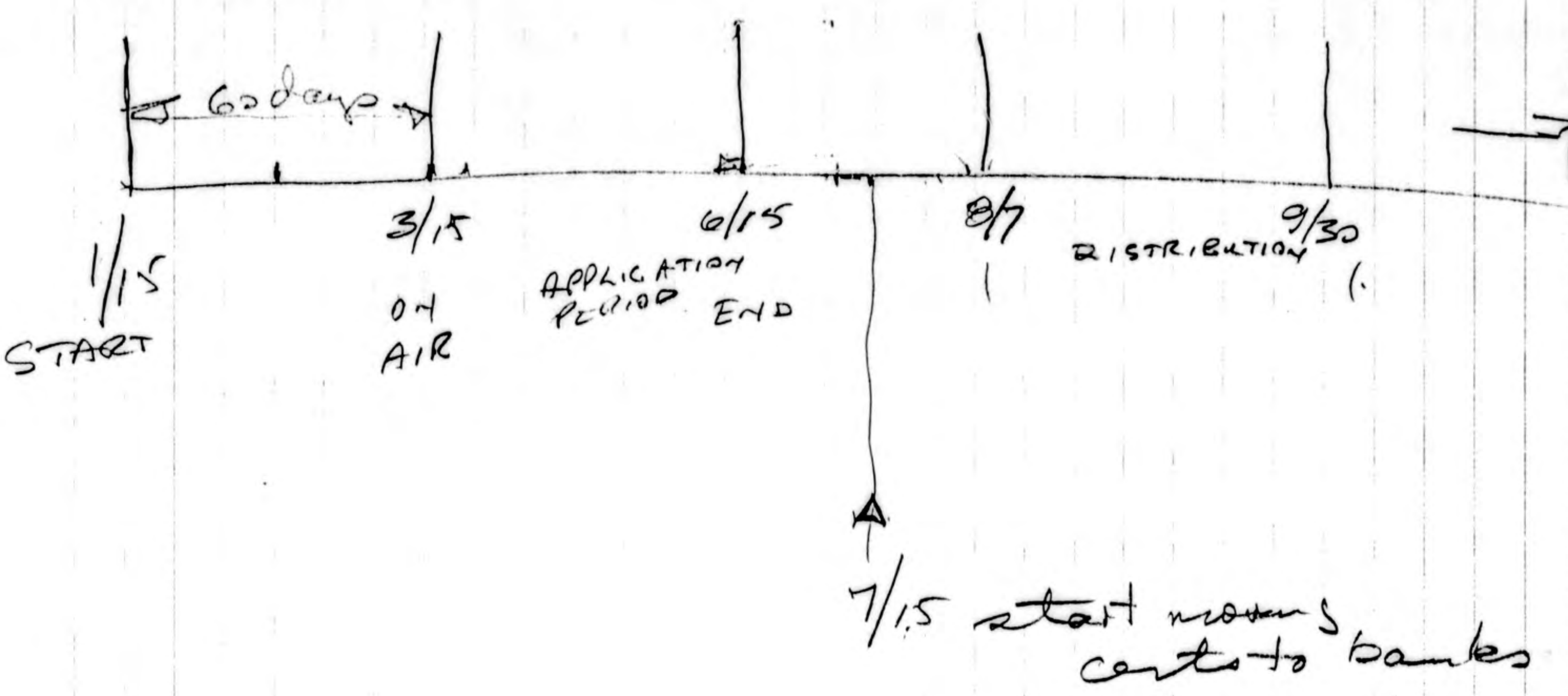
Other Offices:

BROCKVILLE, Ont.
CALGARY, Alta.
CHARLOTTETOWN, P.E.I.
EDMONTON, Alta.
HALIFAX, N.S.
HAMILTON, Ont.
KELOWNA, B.C.
KINGSTON, Ont.
KITCHENER, Ont.
LONDON, Ont.
MONTREAL, Que.
OTTAWA, Ont.
QUEBEC, Que.
REGINA, Sask.
SAINT JOHN, N.B.
ST. JOHN'S, Nfld.
SASKATOON, Sask.
SUDBURY, Ont.
TORONTO, Ont.
TRURO, N.S.
VANCOUVER, B.C.
VICTORIA, B.C.
WINDSOR, Ont.
WINNIPEG, Man.

Overseas

HAMILTON, Bermuda
NASSAU, Bahamas

1979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British Columbia Resources Investment Corporation Act

[Consolidated for convenience only, August 24, 1979.]

Interpretation

1. In this Act

"agent"

means,

(i) in respect of the Crown in right of the Province, or in right of Canada, or in right of another province, an agent of the Crown in that right, and includes a municipal or public body empowered to perform a function of government in Canada, a corporation empowered to perform a function or duty on behalf of the Crown in that right, or a corporation controlled directly or indirectly by the Crown in that right; but does not include a member of the Executive Council or a person performing a function or duty in connection with

(A) the administration or management of an estate or property of an individual, or

(B) the administration, management, or investment of a fund established to provide compensation, hospitalization, medical care, annuity, pension, or similar benefits to an individual or particular classes of individuals, or money derived from that fund, and

(ii) in respect of the government of a foreign state or a political subdivision of it, a person empowered to perform a function or duty on behalf of the government of the foreign state or political subdivision;

"articles"

means the articles of the company;

"board"

means the board of directors of the company;

"business day"

means a day on which a stock exchange designated by the board is open for trading in securities;

"charter",

in relation to the company, means this Act together with the memorandum and articles of the company;

"company"

means the company incorporated pursuant to section 2;

"free shares"

means the shares of the company disposed of by gift by the Minister of Finance pursuant to section 17 (3);

"member" means a subscriber of the memorandum of the company and includes every other person who agrees to become a member and whose name is registered in its register of members or a branch register of members;

"minister"

means that member of the Executive Council charged by order of the Lieutenant-Governor in Council with the administration of this Act;

"non-resident of the Province"

means

(i) an individual who is not ordinarily resident in the Province, or
(ii) a corporation having its head office outside the Province, or
(iii) the Crown or its agent in right of a province outside the Province, the Crown or its agent in right of Canada, or the government of a foreign state or a political subdivision of it or an agent of either, or
(iv) a corporation controlled directly or indirectly by non-residents of the Province as defined in this section, or
(v) a trust
(A) established by a non-resident of the Province as defined in this section, other than a trust for the administration of a pension fund for the benefit of individuals, a majority of whom are residents of the Province, or
(B) in which non-residents of the Province as defined in this section have more than 50% of the beneficial interest, or
(vi) a corporation of which the majority of the directors, or persons occupying the position of directors by whatever name called, are non-residents of the Province as defined in this section, or
(vii) a corporation that is controlled directly or indirectly by a trust defined in this section as a non-resident of the Province;

"non-resident of Canada"
means
(i) an individual who is not ordinarily resident in Canada, or
(ii) a corporation incorporated, formed, or otherwise organized elsewhere than in Canada, or
(iii) the government of a foreign state or a political subdivision of it, or an agent of either, or
(iv) a corporation that is controlled directly or indirectly by non-residents of Canada as defined in this section, or
(v) a trust
(A) established by a non-resident of Canada as defined in this section, other than a trust for the administration of a pension fund for the benefit of individuals, a majority of whom are residents of Canada, or
(B) in which non-residents of Canada as defined in this section have more than 50% of the beneficial interest, or
(vi) a corporation of which the majority of the directors, or persons occupying the position of directors by whatever name called, are non-residents of Canada as defined in this section, or
(vii) a corporation that is controlled directly or indirectly by a trust defined in this section as a non-resident of Canada;

"person"
includes the Government of the Province, any other government, and their respective agents;

"resident of the Province"
means a person who is not a non-resident of the Province;

"resident of Canada"
means a person who is not a non-resident of Canada;

"securities"
means bonds, debentures, notes, or other evidences of indebtedness;

"shares of the company"
means shares in the authorized share capital of the company;

"voting share"

means a share of the company that has attached to it a right to vote, whether on the happening of a stated event or otherwise, but does not include a share represented by a bearer share certificate. 1977, c. 47, s. 1; 1979, c. 5, s. 1 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

PART I

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Company established

2. (1) The Lieutenant-Governor in Council may appoint 5 individuals to incorporate a company under the Companies Act.

(2) The name of the company shall be "British Columbia Resources Investment Corporation".

(3) The individuals appointed under subsection (1) shall, in accordance with this Act and the Companies Act,

(a) determine the contents of the memorandum and articles of the company,

(b) be the first directors of the company,

(c) while they remain in office, each be deemed to be the holder of one common share of the company on behalf of the Crown in right of the Province, and

(d) cease to hold office when the board is elected unless they are elected or appointed under this Act.

1977, c. 47, s. 2.

Company not Crown agent

3. The company is not an agent of the Crown.
1977, c. 47, s. 3.

4. [Repealed. 1979, c. 5, s. 2 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).]

PART II

CONDITIONS AFFECTING ACQUISITION AND HOLDING OF VOTING SHARES

Canadians to hold shares

5. No person other than a Canadian citizen or a person who is a resident of Canada is eligible to purchase, own, or hold voting shares of the company.
1977, c. 47, s. 5.

No trust for non-Canadians

6. No person shall purchase or hold voting shares of the company in right of or for the use or benefit of a non-resident of Canada unless the non-resident is a Canadian citizen.
1977, c. 47, s. 6.

Total share entitlement

7. (1) The total number of voting shares that may be held
(a) in the name or right of or for the use or benefit of a person, or
(b) in the name or right of or for the use or benefit of that person and either or both of the following:
(i) members associated with that person;
(ii) any other persons who are associated, or who would be deemed under this Part to be associated, with that person, if both he and the other persons were members,

shall not exceed 1% of the total number of the issued and outstanding voting shares of the company or such other percentage as may be prescribed by the Lieutenant-Governor in Council.

(2) Subsection (1) does not apply in respect of voting shares held by or on behalf of the Government.

(3) The total number of voting shares of the company that may be held
(a) in the name or right of or for the use or benefit of the Crown in right of Canada, or
(b) in the name or right of or for the use or benefit of the Crown in right of Canada and either or both of the following:
(i) an agent of the Crown in right of Canada;
(ii) a person associated with the Crown in right of Canada or with that agent,

shall not exceed 1% of the total number of the issued and outstanding voting shares of the company or such other percentage as may be prescribed by the Lieutenant-Governor in Council.

(4) The total number of voting shares of the company that may be held
(a) in the name or right of or for the use or benefit of the Crown in right of a province other than British Columbia, or
(b) in the name or right of or for the use or benefit of the Crown in right of a province other than British Columbia and either or both of the following:
(i) an agent of the Crown in right of that other province;
(ii) a person associated with the Crown in right of that other province or with that agent,

shall not exceed 1% of the total number of the issued and outstanding voting shares of the company or such other percentage as may be prescribed by the Lieutenant-Governor in Council.

(5) Notwithstanding subsection (1), the total number of voting shares that may be held
(a) in the name or right of or for the use or benefit of a mutual fund trust or mutual fund corporation, each as defined in the Income Tax Act (Canada), or a person investing money derived from funds established to provide compensation, hospitalization, medical care, annuity, pension, or similar benefits to an

individual or particular classes of individuals, or
(b) in the name or right of or for the use or benefit of such trust, corporation, or person and either or both of the following:
(i) members associated with that trust, corporation, or person;
(ii) any other persons who are associated, or who would be deemed under this Part to be associated, with the trust, corporation, or person, if both the trust, corporation, or person and the other person were members,

shall not exceed 3% of the total number of the issued and outstanding voting shares or such other percentage as may be prescribed by the Lieutenant Governor in Council.

1977, c. 47, s. 7; 1978, c. 28, s. 2.1 (proc. eff. Aug. 24, 1978).

Crown agent not to hold shares

8. No voting shares of the company shall be held in the name or right of or for the use or benefit of an agent of the Crown in right of the Province.

1977, c. 47, s. 8.

Associated members

9. (1) For the purposes of this Part, a member shall, except as provided in section 10, be deemed to be associated with another member if
(a) one member is a corporation of which the other member is an officer or director, or
(b) one member is a partnership of which the other member is a partner, or
(c) one member is a corporation that is controlled directly or indirectly by the other member, or
(d) both members are corporations and one member is controlled directly or indirectly by the same individual or corporation or the same government in Canada that controls directly or indirectly the other member, or
(e) both members are members of a voting trust where the trust relates to voting shares of the company, or
(f) both members are agents of the Crown in right of Canada, or
(g) both members are persons performing on behalf of the Crown in right of Canada a function or duty in connection with the administration, management, or investment of a fund or money referred to in subparagraph (i) (B) of the definition of "agent", or
(h) both members are agents of the Crown in right of the same province, or
(i) both members are persons performing on behalf of the Crown in right of another province a function or duty in connection with the administration, management, or investment of a fund or money referred to in subparagraph (i) (B) of the definition of "agent", or

(j) both members are associated with the same member within the meaning of paragraphs (a) to (i), or

(k) both members are parties to an agreement or arrangement a purpose of which, in the opinion of the board, is to require the members to act in concert with respect to their interests in the company.

(2) For the purposes of this Part, where a share of the company is held jointly and one or more of the joint holders is a non-resident of Canada, the share shall be deemed to be held by a non-resident of Canada.

(3) For the purposes of this Part, a corporation shall be deemed to be controlled by another corporation, individual, trust, or government if at any time, in the opinion of the board, it is at that time in fact effectively controlled by the other corporation, individual, trust, or government either directly or indirectly through the holding of shares of the corporation or any other corporation, through the holding of a significant portion of the outstanding debt of a corporation, trust, or individual, or by any other means whether of the same or a different nature.

(4) For the purposes of this Act, where a corporation or trust that was at any time a resident of Canada becomes a non-resident of Canada, shares of the company acquired by the corporation or the trust while it was a resident of Canada and held by it while it is a non-resident of Canada shall be deemed to be shares held by a resident of Canada for the use or benefit of a non-resident of Canada.

(5) For the purposes of this Act, a person is associated with another person if, by agreement or arrangement, both act in concert with respect to their interests in the company.

1977, c. 47, s. 9; 1978, c. 28, s. 2.1 (proc. eff. Aug. 24, 1978); 1979, c. 5, s. 3 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Declaration of non-association

10. Notwithstanding section 9 (1),

(a) where one member who is a resident of Canada and who, but for this section, would be deemed to be associated with another member, submits to the company a declaration stating that none of the voting shares of the company held by him or to be held by him, is or will be, to his knowledge, held in the right of or for the use or benefit of himself or a person with whom, but for this section, he would be deemed to be associated, neither member shall be deemed to be associated with the other so long as the voting shares of the company from time to time held by the member who made the declaration are not held contrary to the statements made in the declaration, or

(b) 2 members that are corporations and residents of Canada shall not be deemed to be associated with each other under section 9 (1) (j) by reason only that each is deemed under section 9 (1) (a) to be associated with the same member, or

(c) where it appears from the register of members of the company that not more than 20 000 of the voting shares of the company are held by a member, he shall not be deemed to be associated with any other members, and no other members shall be deemed to be associated with him.

1977, c. 47, s. 10; 1978, c. 28, s. 2.1 (proc. eff. Aug. 24, 1978); 1979, c. 5, s. 3.1 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Stock depositories

10.1 (1) A stock depository approved by and on terms specified by the board may, during such period as the board authorizes and notwithstanding section 7 (1), hold in its name for the use and benefit of others voting shares in excess of the percentage prescribed in or under section 7 (1), of the total number of the issued and outstanding voting shares of the company.

(2) Where the shares held in the name of the stock depository exceed the percentage referred to in subsection (1), the voting rights attached to those shares shall not be exercised.

1979, c. 5, s. 4 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

PART III

TRANSFER, VOTING AND REDEMPTION OF SHARES

Transfer of shares

11. (1) Subject to this section and the charter, the shares of the company are transferable in accordance with the Companies Act.

(2) A member of the company shall, on the request of the board made in accordance with the articles, submit a declaration to the company with respect to

(a) his direct or indirect ownership of shares of the company,

(b) whether or not he and the person in whose right or for whose use or benefit the share is held are residents of Canada or Canadian citizens,

(c) whether or not he is associated with another shareholder,

(d) whether or not he is a Canadian citizen,

(e) if the member is a corporation or trust, information establishing that it is a resident of Canada, and

(f) such other matters as the board may consider relevant for the purposes of determining whether the member complies with the conditions contained in Part II.

(3) Where

(a) a declaration has been requested by the board from a member under this section, and

(b) the member fails or neglects to submit to the board a declaration satisfactory to it within 30 days after the day the declaration was sent to the member,

the shares of the company held by that member shall be deemed to be held in contravention of the charter until a declaration satisfactory to the board has been submitted to it.

(4) It is a condition of
   (a) every subscription for a share of the company,
   (b) registration of shares represented by a bearer share certificate, and
   (c) every transfer of a share to be made or recorded in a register of members of the company,

that the subscriber, bearer or transferee shall, at the request of the board, submit to it a declaration to the same effect as the declaration referred to in subsection (2).

(5) Subject to subsection (7), where the board has requested a declaration under subsection (4), it shall not accept a subscription for a share of the company, register shares represented by a bearer share certificate or allow a transfer to be made or recorded in a register of members of the company unless
   (a) the declaration has been submitted to the board, and
   (b) it appears from the declaration that the subscriber, bearer or transferee would not, by the acceptance of the subscription for the shares being subscribed for, the registration of the shares represented by the bearer share certificate or the entry in a register of members of the shares being transferred, hold those shares in contravention of the charter.

(6) Where, in the case of a subscription for, registration of or transfer of shares of the company, it appears to the board that the total number of shares held by the subscriber, bearer or transferee, as shown by a register of members of the company, would not exceed 20 000 if the subscription were accepted, the registration completed or the transfer allowed, the board is entitled to assume
   (a) that the subscriber, bearer or transferee is not and will not be associated or deemed to be associated with another holder of shares of the company, and
   (b) unless the address to be recorded in the register of members of the company for the subscriber, bearer or transferee is outside Canada, that the shares will not be held in contravention of the charter.

(7) Where there is a subscription for shares of the company pursuant to an offer of shares by way of rights granted by the company to holders of its shares to purchase additional shares, the company may count as shares issued and outstanding all the shares included in the offer.

1977, c. 47, s. 11; 1978, c. 28, s. 2.1 (proc. eff. Aug. 24, 1978); 1979, c. 5, s. 5 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

No voting rights if excess share holdings

12. (1) Where any of the shares of the company are held in contravention of the charter, the voting rights attaching to those shares shall not be exercised.

(2) Shares held in contravention of the charter include shares that are deemed to be so held.

(3) The validity of
   (a) a transfer of shares of the company that has been made or recorded in a register of members of the company,
   (b) the acceptance of a subscription for shares of the company, or

(c) the registration of shares that were represented by a bearer share certificate

is not affected by the fact that those shares are held in contravention of the charter.

(4) Where voting rights pertaining to shares of the company held in contravention of the charter are exercised at a general meeting of the shareholders of the company, no proceeding, matter, or thing at the meeting is void for that reason; but the proceeding, matter, or thing is, at any time within one year after the commencement of the general meeting at which the voting rights were exercised, voidable at the option of the board by a resolution of the board.

1977, c. 47, s. 12; 1979, c. 5, s. 6 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Order for disposal of excess share holdings

13. (1) Where voting shares of the company are held in contravention of the charter, the company may, on notice to such persons and in such manner as may be directed by the board, require the holder of the voting share to dispose of it to another person who may hold voting shares of the company, within such period, not less than 60 days, as may be limited by the notice.

(2) Where voting shares referred to in subsection (1) have not been disposed of within the time limited by the notice, the company may, at its option and at any time while those shares continue to be held in contravention of the charter, redeem them for cancellation on

(a) deposit by the company of the amount of their redemption price in a special account with a savings institution, and

(b) giving notice of redemption to the persons and in the manner prescribed by the articles, including notice of the deposit referred to in paragraph (a),

and, on the giving of the notice, the rights of the holder and beneficial owner of them shall cease, except the right of a beneficial owner to receive out of the amount so deposited, without interest, the redemption price payable with respect to the shares on presentation and surrender of the certificates representing the shares.

(3) Interest payable by the savings institution on the deposit made under subsection (2) (a) shall be paid to the company.

(4) Notwithstanding the Companies Act, the company

(a) is not bound to see to the application of the amount deposited or to the execution of a trust, whether express, implied, or constructive in respect of voting shares redeemed for cancellation under this section, and

(b) is not estopped by certificates outstanding in respect of voting shares redeemed for cancellation.

(5) The powers of the company under this section may be exercised at its option; but where voting shares of the company have, to its knowledge, been held in contravention of the charter for 10 years or such lesser period as may be fixed by the articles, the company shall, in the manner provided by this section, redeem those voting shares for cancellation.

(6) For the purposes of this section, the redemption of voting shares of the company shall be the lesser of

(a) the issue price per share on the initial issue of shares of that class, or

(b) the closing price per share of the shares of that class on the stock exchange designated by the board on the business day immediately preceding the date of giving notice of redemption, or

(c) if there is no sale of them on that stock exchange on that business day, the average of the closing asked price and the closing bid price of them on that exchange on that business day, or

(d) if no bid price and asked price of them on that exchange are quoted for that business day, the last closing sale price of them on that exchange recorded before that business day.

(7) This section and section 7 shall be set out in each share certificate issued by the company representing a voting share or by a writing attached to the share certificate.

(8) Shares redeemed under this section do not reduce the total number of issued and outstanding voting shares for the purposes of sections 7 and 16.

1977, c. 47, s. 13.

Determination of excess share holdings

14. In determining for the purposes of this Act whether or not

(a) shares are held in contravention of the charter, or

(b) a person is a resident of Canada, or

(c) an individual is a Canadian citizen, or

(d) a member is associated with another member, or

(e) a corporation is directly or indirectly controlled by persons who are not residents of Canada,

or any other circumstances relevant to the performance of the duties of the board under this Act, the company and a director, officer, employee, or agent of the company may rely on

(f) a statement made in a declaration submitted under section 11, or

(g) the knowledge of a director or officer of the circumstances, and the company, directors, officers, employees, or agents are not liable in an action for anything done or omitted by them in good faith as a result of conclusions made by them on the basis of the statement or knowledge.

1977, c. 47, s. 14.

PART IV

DIRECTORS

Director to be Canadian citizen

15. (1) Subject to the Companies Act, an individual who

(a) is a Canadian citizen, and

(b) otherwise qualifies under the articles,

is qualified to be a director of the company.

(2) An individual ceases to be a director if he ceases to be qualified under subsection (1).

(3) At least 60% of the members of the board shall at all times be residents of the Province.

(4) No member of the Legislative Assembly is eligible to be appointed as a senior officer, as defined in the Companies Act, or to be elected or appointed or to act as a director of the company.

1977, c. 47, s. 15.

Crown appointment of directors

16. (1) So long as the Government owns or controls 10% or more of the issued and outstanding voting shares of the company, notwithstanding the Companies Act or the charter, the Government shall not vote its shares for the election of directors; but the minister may annually, with the approval of the Lieutenant-Governor in Council and effective at the time the annual general meeting is held, by notice in writing to the company, appoint

(a) one director if the number of directors on the board is 4 or less,

(b) 2 directors if the number of directors on the board is 5, 6, 7, or 8, and

(c) 3 directors if the number of directors on the board is more than 8,

and may, by similar notice, remove those persons so appointed.

(2) An appointment under subsection (1) shall be made by notice in writing to the company at least 45 days before the date of the annual general meeting.

(3) Where a director appointed to the board under this section ceases to be a director the minister may, by notice in writing, appoint a person to replace that director.

(4) Directors appointed under this section cease to hold office, unless reappointed for a further term, at the time the directors elected at the next annual general meeting assume office.

(5) For the purpose of this section, the board shall notify the minister at least 56 days before the date of the annual general meeting.

(6) If the Government holds less than 10% of the voting shares, it may vote its shares in the ordinary way for the election of directors.

1977, c. 47, s. 16.

PART V

TRANSFER OF GOVERNMENT ASSETS AND REDEMPTION OF SHARES

Transfer of property for shares

17. (1) The Government shall transfer, convey and dispose of to the company on the coming into force of this section the assets and rights in

the Schedule, on the terms and conditions and at the price, if any, prescribed by the Lieutenant-Governor in Council, and shall accept the equivalent value in shares or securities of the company.

(2) A share or security held by or for the Government other than those referred to in section 2 (3) shall be registered in the records of the company in the name of Her Majesty the Queen in the right of British Columbia, and the voting rights attached to the shares or securities shall be exercised by the minister or his proxy in accordance with this Act and the regulations.

(3) The Minister of Finance may, with the approval of the Lieutenant-Governor in Council, dispose of a share or security held by or for the Government.

1977, c. 47, s. 17.

Government share holdings

18. The company may, notwithstanding the Companies Act, redeem for cancellation voting shares of the company held by or on behalf of the Government at a price per share agreed on between the company and the Minister of Finance and approved by the Lieutenant-Governor in Council.

1977, c. 47, s. 18.

Part VI

BEARER SHARE CERTIFICATES AND COMPANY PROCEEDINGS

Bearer shares

18.1 (1) The company, if so authorized by its articles, and in accordance with their terms, may issue a bearer share certificate certifying that the bearer of the certificate is the holder of the shares specified in it, and may provide, by legend, coupon or otherwise, for the payment of dividends on the shares specified in the certificate.

(2) A bearer share certificate issued by the company and signed as required by subsection (4) is proof of due allotment and issue of the shares specified in it as fully paid and nonassessable and of the title of the bearer to the shares.

(3) The articles may also provide that the bearer of a bearer share certificate, if not prohibited under Part II of this Act from purchasing, owning or holding shares of the company, is entitled, on surrendering share certificates, in bearer or registered form, representing at least a minimum number of shares specified in the articles or such lesser number as may be authorized by the board, to have his name entered as a member in a register of members and to receive a registered share certificate representing such shares held by him.

(4) Every bearer share certificate shall contain

(a) the name of the company and the words "Incorporated in the Province of British Columbia" or, if such is the case, "Amalgamated in the Province of British Columbia",

(b) the number and class and, if applicable, series of shares and whether the shares are with or without par value and, if with par value, their par value,
(c) the date of issue of the bearer share certificate,
(d) the number or other designation by which the bearer share certificate is identified, and
(e) a reference to a place where the bearer may inspect the Companies Act and charter,

and shall be signed by the facsimile signature of at least one officer or director of the company, and if so signed shall be valid as if signed manually, and in addition to bearing the facsimile signature may be signed manually by or on behalf of a registrar, branch registrar, transfer agent or branch transfer agent of the company.

(5) The bearer of a bearer share certificate shall not by reason of being the bearer of the certificate be or be deemed to be a member of the company under this Act or the Companies Act and in particular shall not be entitled as such to receive notice of or to attend, any meeting of members or to vote as a member.

(6) Notwithstanding subsection (5), sections 27, 37B (4), 43, 53, 82, 149 (5), 187 (2), 201 (5), 221 (1), (2), (3) and (5), 222, 227 (1), 230, 243, 262 (1), 273, 274, 275, 283, 292, 293, 303 (d), 307 (1) (b), 310, 311 and 361 of the Companies Act apply in respect of the bearer of a bearer share certificate in the same way as they apply in respect of a member, but

(a) the bearer may only exercise a right given by those sections where he proves that at the relevant time he owned the shares represented by the certificate, and
(b) this subsection does not give the bearer any voting right.

(7) Notwithstanding subsection (5), sections 15, 254 and 272 of the Companies Act apply in respect of the bearer of a bearer share certificate as if he were a member.

(8) Subject to this Act, section 14 of the Companies Act applies in respect of the bearer of a bearer share certificate as if he were a member.

(9) Sections 46 to 52, 56 to 68 and 303 (c) of the Companies Act do not apply in respect of bearer share certificates of the company or the shares specified in them and section 47 (1) does not apply in respect of additional shares of the company purchased for delivery with the free shares.

(10) The shares specified in a bearer share certificate may be transferred by delivery of the certificate.

(11) On the issue of a bearer share certificate in respect of shares previously entered in a register of members, the company shall remove from the register the share or shares specified in the bearer share certificate and shall enter in such register the following particulars:

(a) the bearer share certificate number;
(b) the date of the bearer share certificate;
(c) the number of shares specified in the bearer share certificate.
1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Sections of Companies Act excluded

18.11 Sections 172, 194 (4), 195, 216 (2), 258 (1) and 315 of the

Companies Act do not apply to the company.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Disposal of undistributed assets

18.12 (1) In the application of section 127 of the Companies Act to the company, the reference in it to "twelve months" shall be read as a reference to 24 months.

(2) Where the company distributes among the bearers of bearer share certificates moneys or assets in specie, including dividends or the proceeds of a redemption or reduction of capital, and a bearer has not presented his bearer share certificate in order to receive the moneys or assets distributable in respect of the shares represented by it within 72 months after the date on which the distribution or payment is first available on presentation of bearer share certificates, the company shall publish

(a) in each county in a daily or weekly newspaper published and circulating there, and

(b) if the directors think fit elsewhere and in such manner as the directors may specify,

a statement with respect to bearer share certificates, of

(c) the amount of money or the assets retained,

(d) the amount of money or assets due in respect of each share represented by a bearer share certificate,

(e) the procedure for a bearer to claim the unclaimed money or assets, and

(f) the date, not earlier than 60 days nor later than 120 days after the publication, on which the company will pay or deliver the moneys and assets to the Minister of Finance.

(3) On the date specified under subsection (2) (f) the company shall pay or deliver the unclaimed moneys or assets to the Minister of Finance and he shall give the company a receipt for them, which shall be an effectual discharge to it in respect of them.

(4) Section 127 (2) of the Companies Act applies to moneys and assets paid or delivered to the Minister of Finance under this section.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Powers of court

18.13 (1) Where for any reason the Supreme Court determines that it is impracticable to call a general meeting or a class meeting of the company in the manner in which meetings of a company are normally called, or to conduct or continue the meeting or adjourned meeting in the manner specified by the articles or the Companies Act, or for any other reason the court considers appropriate, the court may, on application of the company, a director, a member entitled to vote at the meeting, or on its own motion, order that the business required to be transacted at such meeting or the votes to be cast at it be transacted or taken in a manner specified by the directors or that a general meeting or a class meeting of the company be called, held and conducted in such manner as the court considers appropriate, and may give such directions as it considers necessary.

(2) Business transacted, votes taken or meetings called, held and conducted in accordance with an order under subsection (1) shall be deemed to be transacted at, taken at or to be a general meeting or a class meeting of the company duly called, held and conducted.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Application of sections 174 to 180 of Companies Act

18.14 (1) Where the board determines that the cost of producing and mailing the notice of meeting, information circular and form of proxy referred to in sections 174 to 180 of the Companies Act is excessive or for any other reason considers it appropriate the company may, instead of mailing the notice of meeting, information circular and form of proxy, publish them in each county of the Province, in a daily or weekly newspaper published and circulating there, or may publish or distribute them in such manner as the Supreme Court, on application of the company, orders.

(2) While 10% or more of the issued shares of any class are represented by bearer share certificates, the company shall, for the purpose of informing the bearers of proposed material changes in the capital, business or board, publish in each county, in a daily or weekly newspaper published and circulating there, extracts from information circulars sent to its members by management.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Inspection of accounting records

18.15 Subject to the articles or an ordinary resolution, the directors may determine to what extent, at what times and places and under what conditions the accounting records of the company shall be open to the inspection of members and the bearers of bearer share certificates.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Mailing of financial statements to members or publication

18.16 (1) The company shall, at least 10 days before the date of its annual general meeting, either

(a) send, by prepaid post, to the auditor and to each member at his latest address as shown on the register of members a copy of the financial statement referred to in section 168 of the Companies Act and the report of the auditor on it, and, while 10% or more of the issued shares of any class are represented by bearer share certificates, publish

(i) in each county, in a daily or weekly newspaper published and circulating there, and
(ii) if the directors think fit elsewhere and in such manner as the directors may specify

a copy of the financial statement or a summary of it and the report of the auditor on it if the report is qualified, or

(b) publish
(i) in each county in a daily or weekly newspaper published and circulating there, and
(ii) if the directors think fit elsewhere and in such manner as the directors may specify,

a copy of the financial statement or a summary of it and the report of the auditor on it if the report is qualified.

(2) The company shall, on demand by a bearer of a bearer share certificate or a debentureholder of the company, furnish him with a copy of its latest financial statement and a copy of the report of the auditor on it.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Publication of interim financial statement

18.17 The company may publish the comparative interim financial statement referred to in section 196 (2) of the Companies Act

(a) in each county, in a daily or weekly newspaper published and circulating there, and
(b) if the directors think fit elsewhere and in such manner as the directors may specify

instead of sending it to every member.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Auditor not disqualified

18.18 Notwithstanding any other Act, the application for or the holding of free shares by any person does not make an auditor of the company not independent of the company, nor an auditor of an affiliate of the company not independent of that affiliate.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Amendment of financial statements and report

18.19 (1) Where facts described in section 216 (1) (a) and (b) of the Companies Act come to the attention of the auditor of the company, he shall, if in his opinion it is necessary, amend his report in respect of the financial statement referred to in section 168 of the Companies Act so that it complies with Part 6 of the Companies Act and the directors shall either

(a) send to the members by prepaid post, and, while 10% or more of the issued shares of any class are represented by bearer share certificates, publish
   (i) in each county in a daily or weekly newspaper published and circulating there, and
   (ii) if the directors think fit elsewhere and in such manner as the directors may specify

   a copy of the amended report and a statement explaining the effect of the amendment on the financial position and results of the operations of the company, or

(b) publish the amended report and the statement referred to in paragraph (a)
   (i) in each county, in a daily or weekly newspaper published and circulating there, and
   (ii) if the directors think fit elsewhere and in such manner as the directors may specify.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Dissent by bearer

18.2 Section 228 of the Companies Act applies to a bearer of a bearer share certificate of the company as if he were a member except that where he gives notice of dissent he shall state in it his name and address, the number of shares in respect of which he is exercising his right and the certificate numbers of the bearer share certificates representing those shares.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Notice of meeting

18.21 A notice of a general meeting of the company to consider a resolution as a result of which a notice of dissent may be filed by a bearer of a bearer share certificate shall be published

(a) in each county, in a daily or weekly newspaper published and circulating there, and
(b) if the directors think fit elsewhere and in such manner as the directors may specify

with a statement advising the bearer of his right to give a notice of dissent, the procedure to be followed by him and the consequences of giving the notice.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Shares to be purchased pro rata

18.22 (1) Where a proposed purchase by the company of its shares

(a) is not to be made through a stock exchange, or
(b) is not to be made from a bona fide employee or bona fide former employee
   (i) of the company, or

(ii) of an affiliate of the company,

or his personal representative, in respect of shares beneficially owned by the employee or former employee,

the company shall, subject to subsection (2), make its offer to purchase pro rata to every member who holds shares of the class or series to be purchased.

(2) Where the shares of a class or series proposed to be purchased under subsection (1) include shares represented by bearer share certificates the directors shall apportion the offer between the members and the bearers of bearer share certificates based on the respective holdings of shares of the class or series and shall

(a) make the offer for members' shares pro rata to each member who holds shares of the class or series, and

(b) make the offer for bearers' shares to the bearers pro rata to each bearer in the proportion that the number of shares apportioned to bearers is of the total number of shares represented by bearer share certificates outstanding at the commencement of the offer, and, if any shares remain after a stipulated expiration date, then pro rata to members.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5. s. 10).

Bearers and court approval of amalgamation

18.23 Section 270 of the Companies Act applies to a bearer of a bearer share certificate of the company as if he were a member, except that where he gives a notice specified in section 270 (2) of the Companies Act he shall state in it his name and address, the number of shares in respect of which he is exercising his right and the certificate numbers of the bearer share certificates representing those shares.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Unclaimed or undistributed assets

18.24 (1) Where a liquidator has or controls any unclaimed or undistributed assets or moneys of the company that have remained unclaimed or undistributed for more than 6 months after the date on which any dividend declared by him became payable, the liquidator shall publish in one or more newspapers selected by him a statement of

(a) the assets or moneys unclaimed or undistributed,

(b) the assets or moneys due in respect of each share of the company,

(c) the procedure required to claim the unclaimed or undistributed assets or moneys, and

(d) the date, not earlier than 60 days nor later than 120 days after the publication, on which the liquidator will pay or deliver the assets or moneys to the Minister of Finance.

(2) On the date specified under subsection (1) (d) the liquidator shall forthwith pay or deliver the unclaimed assets or moneys to the Minister of Finance with a statement showing, to the extent known to him, the full

names and last known addresses of the persons appearing to be entitled to the assets or moneys and the amounts to which they appear to be respectively entitled and a list of the bearer share certificates identified by number in respect of which assets or moneys have not been claimed, and the Minister of Finance shall give him a receipt which shall be an effectual discharge to him in respect of them.

(3) The Minister of Finance may, in respect of any assets or moneys paid or delivered to him under this section, invest the moneys or realize the assets and invest the proceeds, and the moneys so received or realized by him shall be deemed to be unclaimed money deposits within the meaning of the Unclaimed Money Deposits Act, and that Act shall apply to them.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Nature of bearer shares

18.25 The rights of and restrictions on bearers of bearer share certificates are not special rights or restrictions for purposes of the Companies Act, and the shares represented by bearer share certificates shall not be a separate class of shares for the purposes of the Companies Act.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Part VII

FREE SHARES AND FIRST OFFERING

Limitation on disabilities

18.26 (1) Every individual who is authorized under a regulation passed pursuant to this Act to apply for free shares has been since March 14, 1979 and shall continue to be, notwithstanding Part II of this Act, eligible to acquire, own and hold free shares and additional shares of the company to be delivered with free shares, and has had since March 14, 1979 and shall continue to have, capacity to give a power of attorney for those purposes.

(2) Every individual has, on and after his 16th birthday, notwithstanding that he has not reached the age of majority, but subject to Part II of this Act, capacity to acquire, hold, own and dispose of shares of the company.

(3) The Lieutenant Governor in Council may make regulations respecting individuals who are, or would but for this section be, under a disability or lack capacity, and the regulations may

(a) prescribe how and under what circumstances the individuals may exercise their rights to acquire, hold, own and dispose of shares,

(b) provide for assistance, advice and counselling for the individuals, and

(c) authorize the Public Trustee or other persons to acquire, hold and dispose of shares on their behalf.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Validation of issue

18.27 The offer, sale, allotment and issue of shares of the company at the offered price of $6 a share to individuals who purchase shares of the company to be delivered with free shares shall be deemed to be in the best interests of the company, and to be in compliance with this Act and sections 41 and 42 of the Companies Act.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Rescission

18.28 (1) An individual may rescind a contract to purchase additional shares of the company to be delivered with free shares if he gives and the company receives from him written notice of the intention to rescind before the earlier of

(a) 7 days after the date of the application covering the purchase of the shares, or

(b) June 15, 1979.

(2) For the purpose of subsection (1), a notice received by the company by mail at P.O. Box 4800, 349 West Georgia Street, Vancouver, V6B 4A4, shall be deemed to be received on the date postmarked on the enclosing envelope.

(3) An individual entitled to free shares who purchases additional shares of the company on or before June 15, 1979 or any later date to which an offer of additional shares is extended has the right to rescind the contract of purchase of such shares, while still the owner of them, if the prospectus and any amended prospectus filed with the Superintendent of Brokers of British Columbia as of the date of application for the shares contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement contained in it not misleading in the light of the circumstances in which it was made.

(4) No individual may commence any action for rescission under subsection (3) after September 15, 1979, nor may he commence any action under this section if he knew of the untruth of the statement or knew of the omission at the time he applied for the shares.

(5) It shall be a good defence to an action for rescission under subsection (3) that the untruth of the statement or the fact of the was unknown to the company at the time the application was made, and, in the exercise of reasonable diligence, could not have been known to the company.

(6) Other than those set out in this section, no right of rescission exists at law, in equity or under any enactment, in respect of a contract to purchase additional shares of the company to be delivered with free shares.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

Late delivery of share certificates

18.29 The government, the company or any person acting as agent for either is not liable for loss suffered by an applicant for free shares or by a purchaser of additional shares of the company to be delivered with free shares, caused by any delay in the delivery to the applicant or purchaser of share certificates for the shares.

1979, c. 5, s. 7 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

PART VIII

GENERAL

Winding-up

19. Proceedings to wind up the company under Part 9 of the Companies Act are, notwithstanding the Companies Act, invalid unless approved by the Lieutenant-Governor in Council.

1977, c. 47, s. 19.

This Act paramount

20. Where there is a conflict between this Act and

(a) the Companies Act as it applies to the company, or
(b) the articles, or
(c) the memorandum of the company,

this Act prevails.

1977, c. 47, s. 20.

Securities Act

21. The registration provisions of the Securities Act do not apply to savings institutions in the Province in respect of the primary distribution to the public of the first offering of shares of the company.

1977, c. 47, s. 21.

Authorized investments

22. Shares of the company are authorized for the investment of

(a) moneys owned by a trust company as defined in the Trust Companies Act,
(b) funds of a Provincial company as defined in the Insurance Act, and
(c) funds of a trust of which at least one trustee is a trust company as defined in the Trust Companies Act, except where a contrary intention appears in the trust instrument.

1979, c. 5, s. 8 (eff. Mar. 1, 1979 for certain purposes,; see 1979, c. 5, s. 10).

Regulations

23. The Lieutenant-Governor in Council may make regulations.
1977, c. 47, s. 23.

No disqualification

24. (1) Except where a regulation made under this Act provides otherwise, the holding of any office or employment does not prevent an individual from holding shares of the company.

(2) The holding of shares of the company or voting at any meeting of the company does not disqualify an individual from any office or employment, prevent him acting in it or make him ineligible for it.

(3) "Office" in this section includes membership of the Legislative Assembly.

(4) In this section, "office or employment" does not include the office or employment of auditor in relation to the company under section 204 of the Companies Act.

(5) This section applies notwithstanding any other enactment.
1979, c. 5, s. 9 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

False information

25. (1) A person who, having furnished false information in an application for shares of the company, obtains free shares or additional shares of the company pursuant to that application, commits an offence and is liable to a fine of not more than $2 000.

(2) A person who obtains free shares or additional shares of the company to be delivered with them

(a) while he is not entitled to do so, or
(b) pursuant to an application in which he furnished false information

shall return the shares to the government or if the shares are not held by him shall pay to the government an amount equal to the current fair market value of the shares, and the government may recover the amount by action as a simple contract debt due to the government.

(3) In an action under subsection (2) to recover shares or their value, the certificate of the Minister of Finance that a person was not entitled to obtain free shares or to purchase additional shares of the company to be delivered with them shall be prima facie proof that he was not entitled.
1979, c. 5, s. 9 (eff. Mar. 1, 1979 for certain purposes; see 1979, c. 5, s. 10).

SCHEDULE

1. Shares and securities representing the interest of the Government in

(a) Canadian Cellulose Company Ltd.,
(b) Plateau Mills Ltd.,
(c) Kootenay Forest Products Ltd.,
(d) Westcoast Transmission Company Limited.

2. Notwithstanding the Petroleum and Natural Gas Act, 1965, such leases, licences, reservations, or permits respecting petroleum or natural gas rights as the Lieutenant-Governor in Council may determine, on such terms and conditions as he may approve.

1977, c. 47, Sch.

[NOTE.--Act, except section 17, proclaimed in force Sept. 14, 1977, B.C. Reg. 385/77, Part II Gazette Vol. 20, p. 734. Section 17 proclaimed in force Mar. 9, 1978, B.C. Reg. 107/78, Part II Gazette Vol. 21, p. 556.]

The British Petroleum Company Limited

SECOND SUPPLEMENT TO PROSPECTUS DATED JUNE 27, 1977

BUSINESS AND PROPERTY

Crude Oil

MIDDLE EAST AND NIGERIA

As discussed on page 25 of the Prospectus dated June 27, 1977, at a meeting held in mid-December 1976, all OPEC members except Saudi Arabia and the United Arab Emirates (which include Abu Dhabi) decided to increase the price of their crude oil by approximately 10% on January 1, 1977 and by a further approximately 5% on July 1, 1977. On June 29, 1977 OPEC headquarters announced that, except for Iraq and Libya, the OPEC members which had decided to increase their prices on July 1, 1977 had resolved to forego such increase. On July 5, 1977 Iraq announced that it would also forego such increase. On July 3, 1977 Saudi Arabia and the United Arab Emirates, which had increased the price of their crude oil by only 5% with effect from January 1, 1977, announced that they intended to increase their price by an additional 5% with effect from July 1, 1977, thereby bringing the price of their crude oil into line with the level established by the other OPEC members as of January 1, 1977. The foregoing measures should eliminate the two-tier price system and the BP Group's competitive disadvantage arising therefrom. Possible adjustments to the price differentials between certain grades of OPEC members' crude oils remain for discussion at the OPEC meeting in Stockholm which commences July 12, 1977.

Interests in the United States

INTEREST IN SOHIO

Projected West Coast Crude Oil Surplus and Proposed West Coast-Midcontinent Pipeline System. On July 10, 1977, James R. Schlesinger, an adviser to the President of the United States, stated that the President has determined not to recommend the export of North Slope crude oil to Japan in exchange for foreign crude oil imports to the Gulf and East Coasts of the United States.

INTEREST IN TAPS

On July 8, 1977 an explosion and fire occurred at a TAPS pump station located approximately 490 miles south of Prudhoe Bay which resulted in the suspension of the filling of the pipeline and a shutdown of the Prudhoe Bay Field. Damage to the station's main pump building and pumping equipment was extensive. The exact cause of the explosion and fire has not been determined. Based on an initial review of the damage, Alyeska estimated that the filling of the pipeline can be resumed by bypassing the damaged

(Over)

pump building and commissioning another pump station ahead of the original schedule. Alyeska estimates that it would be possible to resume filling the pipeline within one week; however, such resumption may be subject to obtaining certain approvals from Federal and state regulatory agencies. The Secretary of the Interior has stated that the Department of the Interior will not permit such resumption until it has conducted an inquiry into the causes of the explosion and fire.

Reconstruction of the damaged pump building and replacement and repair of pumping equipment has initially been estimated to require a minimum of six to eight months. A more precise estimate cannot be made until the full extent of the damage is known. Until the damaged pump station is recommissioned, throughput at the initial design capacity of TAPS of 1,200,000 barrels per day cannot be attained. Maximum throughput capacity prior to such recommissioning is currently estimated at approximately 800,000 barrels per day. Commercial operations of TAPS are still expected to commence in the third quarter of 1977.

U.S. Regulation of Pipeline Carriers

Interstate Commerce Act. On July 11, 1977 Sohio Pipe Line filed a motion to appear as a party in a proceeding brought on July 6, 1977 in the United States Court of Appeals for the Fifth Circuit by Mobil Alaska Pipeline Company ("Mobil Alaska") to annul, set aside and enjoin the enforcement of the order of the Interstate Commerce Commission entered June 28, 1977 in the proceeding relating to TAPS tariffs which is described in the Supplement dated June 30, 1977 to the Prospectus dated June 27, 1977. Mobil Alaska has requested such relief on the grounds that the ICC order unlawfully exceeds the ICC's authority under the Interstate Commerce Act, violates Mobil Alaska's constitutional right to due process of law and constitutes gross abuse of discretion.

On July 8, 1977 BP Pipelines filed with the United States Court of Appeals for the Fifth Circuit a separate petition seeking substantially the same relief as that sought by Mobil Alaska. BP Pipelines contends in its petition that the ICC is not permitted by law to suspend an initial tariff or to prescribe interim rates without a full hearing or evidentiary record and that the ICC's order is confiscatory and would deprive BP Pipelines of its property without due process of law in violation of its rights under the Fifth Amendment to the Constitution of the United States in that said order would require BP Pipelines to render transportation services during the seven months ended January 29, 1978 at a rate which would not permit the recovery of BP Pipelines' costs.

July 11, 1977

The British Petroleum Company Limited

SUPPLEMENT TO PROSPECTUS DATED JUNE 27, 1977

On June 28, 1977, the Interstate Commerce Commission issued an order in the proceeding (described in the second full paragraph on page 44 of the Prospectus dated June 27, 1977) relating to the tariffs filed by BP Pipelines, Sohio Pipe Line and the other TAPS owners for transportation of crude oil through TAPS. Such order (i) suspends for seven months the effectiveness of the tariff rates filed by BP Pipelines, Sohio Pipe Line and five of the other TAPS owners, (ii) orders an investigation with respect to the lawfulness of the tariff rates filed by the TAPS owners and (iii) authorizes the TAPS owners to file interim tariff rates, which could be placed in effect on one day's notice, not exceeding levels which are substantially lower than the tariff rates previously filed by such companies. The maximum interim tariff rates specified by the ICC range from \$4.68 to \$5.10 per barrel; the TAPS owners had previously filed tariff rates ranging from \$6.04 to \$6.44 per barrel. For BP Pipelines and Sohio Pipe Line, the maximum interim tariff rates specified by the ICC are \$4.68 per barrel and \$4.70 per barrel, respectively. The tariff rates previously filed by BP Pipelines and Sohio Pipe Line are \$6.35 per barrel and \$6.16 per barrel, respectively. The ICC order also requires that any interim tariff contain a provision for refunds, with interest, to shippers in the event that any interim tariff rates exceed the tariff rates ultimately authorized by the ICC.

BP and Sohio are each studying the terms of the ICC order and the various courses of action which might be taken in response to it. Neither BP nor Sohio has determined what action it will take in response to such order. Alyeska is now filling the pipeline, but commercial transportation of crude oil through TAPS cannot commence until tariffs are in effect.

June 30, 1977

File
Revenue
ss GSOP

PROSPECTUS

13,357,000 American Depositary Shares

Representing

13,357,000 £1 UNITS OF ORDINARY STOCK

The British Petroleum Company Limited

The American Depositary Shares offered hereby will represent presently outstanding £1 units of Ordinary Stock ("Ordinary Shares") of The British Petroleum Company Limited ("BP"). Such American Depositary Shares will be represented by American Depositary Receipts ("ADRs") and are being acquired by the several Underwriters from the United Kingdom Government. Such American Depositary Shares are listed on the New York Stock Exchange. The last reported sale price of the American Depositary Shares on the New York Stock Exchange on June 27, 1977 immediately prior to the determination of the public offering price of the American Depositary Shares offered hereby was $16¼. The middle market quotation for Ordinary Shares on the London Stock Exchange, as shown by its Daily Official List, as of 3:30 P.M., London time, on June 27, 1977 was £9.30 (equivalent to $16.00 based on the noon buying rate for pounds sterling in New York City on such date).

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICE $16⅛ AN AMERICAN DEPOSITARY SHARE

	Price to Public	Underwriting Discounts(1)	Proceeds to United Kingdom Government(2)
Per Share	$16.125	$.800	$15.325
Total	$215,381,625	$10,685,600	$204,696,025

(1) See "Underwriters" herein with respect to indemnity provided by the United Kingdom Government.

(2) Before deduction of expenses payable by the United Kingdom Government, estimated at $1,550,000.

The United Kingdom Government has recently completed a public offering (the "U.K. offering") in the United Kingdom and elsewhere outside the United States, its territories and possessions and Canada ("North America") pursuant to which it has sold 53,428,591 Ordinary Shares of BP at a price determined on June 14, 1977 of £8.45 per Ordinary Share (equivalent to $14.53 based on the noon buying rate for pounds sterling in New York City on June 27, 1977). The U.K. offering was not made in North America or to any national or resident thereof. See "Offering of Ordinary Shares in the United Kingdom" and "Ownership of Ordinary Shares and Selling Shareholder".

The American Depositary Shares are offered by the several Underwriters named herein, subject to prior sale, when, as and if delivered to the Underwriters, but subject to no other conditions to closing. It is expected that delivery of the ADRs will be made on or about July 1, 1977 at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, N. Y., against payment therefor.

MORGAN STANLEY & CO.
Incorporated

THE FIRST BOSTON CORPORATION **GOLDMAN, SACHS & CO.**

MERRILL LYNCH, PIERCE, FENNER & SMITH *Incorporated* **SALOMON BROTHERS**

June 27, 1977

No person has been authorized to give any information or to make any representation not contained in this Prospectus in connection with the offer contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by The British Petroleum Company Limited ("BP"), the United Kingdom Government or any Underwriter. This Prospectus does not constitute an offer of any securities other than those to which it relates, or an offer of those to which it relates to any person in any jurisdiction where such offer would be unlawful. The delivery of this Prospectus at any time does not imply that information herein is correct as of any time subsequent to its date.

BP is an English corporation, all the directors of BP and certain of the experts named in this Prospectus are residents of England and all or a substantial portion of the assets of each of them are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon BP or such persons with respect to matters arising under the United States Securities Act of 1933, or to enforce against them judgments of courts of the United States predicated upon civil liability under that Act. BP has been advised by its English solicitors, Linklaters & Paines, that there is doubt as to the enforceability in England, in original actions or in actions for enforcement of judgments of United States courts, of liabilities predicated solely upon such Securities Act.

In this Prospectus, except as otherwise indicated, United States dollar amounts have been presented solely for convenience at the rate of £1 = $1.70, the noon buying rate for pounds sterling for cable transfers in New York City as reported by the Federal Reserve Bank of New York (the "Noon Buying Rate") on December 31, 1976 (the date of the latest balance sheet of BP and its subsidiary companies) in accordance with the general policy of the staff of the Securities and Exchange Commission. Such presentation should not be construed as a representation that the pound sterling amounts represent, or have been or could be converted into United States dollars at this or any other rate. The Noon Buying Rate varied between $2.64 and $2.33 in 1972, between $2.58 and $2.31 in 1973, between $2.44 and $2.17 in 1974, between $2.43 and $2.02 in 1975, between $2.03 and $1.57 in 1976, between $2.03 and $1.91 from January 1, 1976 through March 31, 1976 and between $1.72 and $1.70 from January 1, 1977 through March 31, 1977. From April 1, 1977 through June 27, 1977 such rate was $1.72.

In this Prospectus, metric tons have been converted into barrels at the rate of 7.5 barrels per metric ton. A barrel contains 42 U.S. gallons.

The American Depositary Shares offered hereby are not being offered or sold outside the United States, its territories and possessions and Canada, except to nationals or residents thereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE ORDINARY SHARES OR THE AMERICAN DEPOSITARY SHARES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, THE LONDON STOCK EXCHANGE, ANY OTHER STOCK EXCHANGE ON WHICH THE ORDINARY SHARES HAVE BEEN ADMITTED TO TRADING PRIVILEGES OR IN THE OVER-THE-COUNTER MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY INFORMATION

Issuer—The British Petroleum Company Limited. The BP Group, a major integrated petroleum organization operating internationally, is the largest industrial concern in the United Kingdom, the third largest outside the United States and the eighth largest in the non-communist world on the basis of 1976 gross sales proceeds.

Selling Shareholder—The United Kingdom Government.

The Offering—13,357,000 American Depositary Shares which are represented by American Depositary Receipts for the same number of £1 units of Ordinary Stock of BP.

Selected Financial Information Relating to BP and Subsidiary Companies:

	Years ended December 31			Three months ended March 31 (unaudited)	
	1974	1975	1976	1976	1977
	(£ million, except per share amounts)				
Net sales proceeds	7,810.1	7,781.4	10,581.1	2,337.6	2,994.4
Income before extraordinary items	475.8	144.9	179.8	20.2	90.5
Net income applicable to ordinary stock units	486.7	165.5	179.1	20.0	90.3
Per ordinary stock unit:					
Income before extraordinary items	123.0p	37.3p	46.4p	5.2p	23.4p
Extraordinary items	3.1p	5.5p	—	—	—
Net income	126.1p	42.8p	46.4p	5.2p	23.4p
Cash dividends declared	16.860p	17.990p	19.789p	—	—
Average number outstanding of £1 ordinary stock units (in millions)	386	386	386	386	386
Approximate net income (loss) applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles(1)	483.1	55.5	53.1	(62.0)	95.3
Per ordinary stock unit as so adjusted(1)	125.1p	14.4p	13.8p	(16.1p)	24.7p

	December 31, 1976
	(£ million)
Working capital	1,274.7
Total assets	8,774.8
Total finance debts (excluding maturities due within one year)	1,511.4
Stockholders' interest	2,858.4

(1) As indicated in notes (a) and (b) to The British Petroleum Company Limited and Subsidiary Companies Consolidated Statement of Income and in note (b) to the Results of the BP Group for the Three Months Ended March 31, 1977, the application of generally accepted United States accounting principles would have materially affected net income as stated therein.

The above summary is qualified in its entirety by reference to the detailed information and financial statements appearing elsewhere in this Prospectus.

THE BRITISH PETROLEUM COMPANY LIMITED AND THE BP GROUP

The British Petroleum Company Limited ("BP") and its subsidiaries (collectively the "BP Group") form the largest industrial concern in the United Kingdom, the third largest outside the United States and the eighth largest in the non-communist world on the basis of 1976 gross sales proceeds.

The BP Group is one of the major integrated petroleum organizations operating internationally, being engaged in all phases of the petroleum industry, including exploration for oil and natural gas, and production, transportation, refining and marketing of petroleum, petroleum products and chemicals. Many of these activities are also carried on by the BP Group through associated companies, i.e., companies in which the BP Group's interest is 50% or less, particularly The Standard Oil Company, an Ohio corporation ("Sohio"). The BP Group's interests in the United States consist primarily of its interest in Sohio and its interest in the Trans Alaska Pipeline System ("TAPS" or the "System"). By the middle of 1978 if, as expected, the BP Group's interest in Sohio has increased to over 50%, BP will include the accounts of Sohio in its consolidated accounts. BP believes that in balance sheet terms over 40% of the BP Group's properties and operating assets attributable to BP will then be located in the United States. See "Business and Property—Interests in the United States".

Although at all times since 1914 the United Kingdom Government has held a substantial interest in BP and after completion of the sales of Ordinary Shares described herein 30.87% of the outstanding Ordinary Shares of BP will be held by the Government and 20.13% by the Bank of England (excluding Ordinary Shares held by the Bank of England's Pension Fund or by the Bank of England's nominee companies for others), BP has always been managed and operated as a private business enterprise. The United Kingdom Government has recently reaffirmed its intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of BP as a commercial concern. See "Ownership of Ordinary Shares and Selling Shareholder".

BP was incorporated under the laws of England in 1909 and adopted its present name in 1954. It has its head office at Britannic House, Moor Lane, London EC2Y 9BU, England (telephone (01) 920-8000).

CAPITALIZATION OF THE BP GROUP

The following table sets forth the capitalization of the BP Group at December 31, 1976 and as adjusted to give effect to subsequent significant borrowings and repayments by the BP Group to March 31, 1977, together with movements from long-term debt to short-term debt (translation into U.S. dollars is for convenience only and has been made at the December 31, 1976 Noon Buying Rate of £1 = $1.70).

	Approximate Interest Rate (%)(1)	Outstanding Dec. 31, 1976	As Adjusted	Outstanding Dec. 31, 1976	As Adjusted
		(£ million)		($ million)	
Finance debts (including as of December 31, 1976 £764.3 million ($1,299 million) subject to repayment by December 31, 1977):					
Long-term debts(1):					
The British Petroleum Company Limited:					
6% Swiss franc bonds due 1987		19.2	19.2	33	33
7⅞% U.S. dollar loan due 1982		8.8	8.8	15	15
7¾% U.S. dollar loan due 1983		8.9	8.9	15	15
7% U.S. dollar loan due to 1984		22.5	22.5	38	38
Sterling loans due 1983—at London interbank rate plus agreed differential		20.0	20.0	34	34
Total BP long-term debts		79.4	79.4	135	135
Subsidiary companies:					
Australian dollars	7.9	10.2	10.2	17	17
Belgian francs	7.5	10.9	6.1	19	10
Canadian dollars	6.9	32.8	32.0	56	55
Deutschemarks	7.0	36.6	49.0	62	83
Dutch guilders	7.2	119.5	89.6	203	152
French francs	9.9	71.5	61.1	122	104
Sterling	6.0	6.9	6.9	12	12
Swedish kroner	5.6	15.2	15.0	26	26
Swiss francs	7.4	16.5	16.4	28	28
U.S. dollars(2)	9.6	739.5	770.8	1,257	1,310
Other currencies		6.0	6.4	10	11
Total subsidiary companies' long-term debts		1,065.6	1,063.5	1,812	1,808
Total long-term debts (secured as at December 31, 1976 £139.9 million ($238 million))		1,145.0	1,142.9	1,947	1,943
Short-term debts and acceptances(1) (secured as at December 31, 1976 £92.8 million ($158 million) (3))	8.0	1,078.0	1,160.6	1,833	1,973
Bank loans and overdrafts(1)	9.3	52.7	55.9	89	95
Total finance debts(4)		2,275.7	2,359.4	3,869	4,011
Minority stockholders' interest		122.8	122.8	209	209
Stockholders' interest:					
Authorized capital: £500 million(5)					
Issued and outstanding capital:					
8% (now 5.6% + tax credit) Cumulative First Preference Stock		7.2	7.2	12	12
9% (now 6.3% + tax credit) Cumulative Second Preference Stock		5.5	5.5	10	10
Ordinary Stock (386,070,116 units of £1 as of December 31, 1976)		386.1	386.1	656	656
		398.8	398.8	678	678
Paid in surplus		197.4	197.4	336	336
Earned surplus		2,262.2	2,262.2	3,845	3,845
Total stockholders' interest		2,858.4	2,858.4	4,859	4,859
Total capitalization		5,256.9	5,340.6	8,937	9,079

(Continued on following page)

Capitalization of the BP Group—(Continued)

This table should be read in conjunction with the BP Group's Financial Statements and the Notes thereto included elsewhere in this Prospectus, of which Note I gives information regarding the "production payment" method of financing the development of the Forties Field in the North Sea, not included above. The total amounts outstanding under the relevant agreement were:

December 31, 1976	£126.1 million and $327.9 million
March 31, 1977	£105.0 million and $273.0 million

Notes:

(1) Long-term debts are those, as defined by the United Kingdom Companies Act 1967, which are wholly or in part repayable in more than five years from December 31, 1976 and March 31, 1977. Short-term debts and acceptances are those repayable within five years from such dates other than bank loans and overdrafts repayable within one year from such dates. Interest rates are approximate weighted average rates at December 31, 1976.

(2) See Note J of Notes to the BP Group's Financial Statements for additional information regarding long-term debt in U.S. dollars incurred to finance the interest of the BP Group in the Trans Alaska Pipeline System.

(3) The 6% debenture stock, due through 1980, of £8.5 million ($14 million) at December 31, 1976 and £8.3 million ($14 million) at March 31, 1977, together with the 5% debenture stock, due through 1978, of £8.4 million ($14 million) at December 31, 1976 and £8.4 million ($14 million) at March 31, 1977, included in short-term debts and acceptances, are both secured pari passu by a floating charge on all the property and assets, present and future, of BP.

(4) Subsidiary companies' finance debts guaranteed by BP were £1,379 million ($2,344 million) at December 31, 1976 and £1,440 million ($2,448 million) at March 31, 1977.

(5) Includes £43,748 par value of authorized but unissued Preference Stock.

Note H of Notes to the BP Group's Financial Statements gives additional information about finance debts at December 31, 1976, those incurred in currencies other than sterling having been converted into sterling at December 31, 1976 rates of exchange.

See Note R of Notes to the BP Group's Financial Statements for information regarding leased assets.

For information concerning the capitalization of Sohio, see Sohio's Consolidated Financial Statements included elsewhere in this Prospectus.

On June 15, 1977, the City of Valdez, Alaska (the "City") announced that it plans to issue $350 million of marine terminal revenue bonds due 2007 (the "Bonds"), guaranteed as to principal, premium, if any, and interest by BP as to 32.2% and by Sohio as to 67.8%. Issuance of the Bonds is subject to obtaining required consents, including consents from certain lenders. A Preliminary Official Statement relating to the Bonds was issued on June 21, 1977, and the public offering of the Bonds is expected to take place during the week of June 27, 1977. Subject to market conditions, it is contemplated that the City may issue additional revenue bonds in an aggregate amount sufficient, together with the Bonds, to finance all or a portion of the aggregate cost to BP Pipelines Inc., a wholly-owned subsidiary of the BP Group, and Sohio Pipe Line Company, a wholly-owned subsidiary of Sohio, of their undivided interests in a portion of the TAPS Marine Terminal being constructed in the City. Upon completion of the terminal, such aggregate cost is expected to be approximately $675 million. The City expects to use the proceeds of the Bonds, and of any such additional revenue bonds, to make lump sum rental payments to BP Pipelines Inc. (32.2%) and Sohio Pipe Line Company (67.8%) under long-term leases of such undivided interests. The City will in turn sublease such interests, for a term equal to the term of the leases, to BP Pipelines Inc. and Sohio Pipe Line Company which will make sublease payments during the term of the subleases equal to 32.2% and 67.8%, respectively, of all amounts due in respect of principal of and premium, if any, and interest on the Bonds and any such additional bonds. BP Pipelines Inc. and Sohio Pipe Line Company each intends to use any lump sum rental payment so received from the City to repay a portion of the debt heretofore incurred by it to finance its share of the cost of the TAPS Marine Terminal.

DIVIDENDS

BP has paid dividends on its Ordinary Shares in each year since 1917. The following table sets forth dividends (translated in each case into U.S. dollars at the Noon Buying Rates on the respective dates of payment) declared to holders of Ordinary Shares in respect of each of the past five years.

	Pence per Ordinary Share			Cents per Ordinary Share		
	Interim	Final	Total	Interim	Final	Total
1972	3.500	10.950	14.450	8	28	36
1973	4.170	11.000	15.170	10	27	37
1974	5.860	11.000	16.860	14	26	40
1975	6.250	11.740	17.990	13	21	34
1976	6.875	12.914	19.789	11	22	33

For total dividends declared to holders of Ordinary Shares in respect of each of the past five years translated at the December 31, 1976 Noon Buying Rate of £1 = $1.70, see "The British Petroleum Company Limited and Subsidiary Companies Consolidated Statement of Income".

The dividends shown are before deduction of any applicable withholding tax but net of associated tax credits arising from advance payment of corporation tax. See "Taxes". The 1972 interim dividend has been restated to show the amount which would have been declared had the change in the United Kingdom taxation of dividends discussed in Note P of Notes to the BP Group's Financial Statements been effective as to dividends declared in respect of 1972.

Interim dividends are generally paid in November and the final dividend in May of the following year. Holders of record of the American Depositary Shares offered hereby on the applicable record date will be entitled to the interim dividend in respect of the year ending December 31, 1977.

Under the Counter-Inflation Act 1973, the United Kingdom Treasury is empowered to control dividends. The relevant legislation expires on July 31, 1977, but the United Kingdom Government has announced that it will be extended for one year. Under current provisions no company incorporated in the United Kingdom whose equity capital is listed on a stock exchange in the United Kingdom is permitted (with certain limited exceptions) without the prior written consent of the United Kingdom Treasury to declare, in respect of any financial year of such company, dividends in respect of its equity capital of a total amount (inclusive of associated tax credits) which exceeds by more than 10% the total amount of such dividends (inclusive of such tax credits) declared in respect of its preceding financial year.

BP recently made application to the United Kingdom Treasury for permission to increase its total dividends for 1977 to 30 pence (equivalent to $0.52 based on the Noon Buying Rate on June 27, 1977) per Ordinary Share, net of associated tax credits arising from advance payment of corporation tax. On June 9, 1977 BP was informed by the Treasury that BP's application could not be granted under existing dividend controls since such application did not meet any of the normal criteria for increases above the limit.

Future dividends of BP will be dependent upon any United Kingdom governmental restraints as well as the future earnings and the financial condition of the BP Group and other factors. However, BP has announced that, in the absence of unforeseen circumstances, its Directors intend to declare an interim net dividend for 1977 of 6.875 pence (equivalent to $0.12 based on the Noon Buying Rate on June 27, 1977) per Ordinary Share for payment on November 10, 1977 and to include any increase in 1977 dividends allowed under the then current dividend controls with the final dividend for 1977 payable in May 1978. BP has also announced that it is the intention of its Board of Directors to reserve a sum equal to the difference between the 1977 dividends actually paid and those which would have been paid had the application to the United Kingdom Treasury mentioned above been granted, and that when the removal of dividend controls permits, the amount so reserved would be distributed as a special dividend to holders of Ordinary Shares.

PRICE RANGES OF ORDINARY SHARES AND AMERICAN DEPOSITARY SHARES

The principal listing of the Ordinary Shares is on the London Stock Exchange. American Depositary Shares are listed on the New York Stock Exchange.

The following table sets forth for the periods indicated (a) the highest and lowest middle market quotations for the Ordinary Shares on the London Stock Exchange, as shown by its Daily Official List, (b) the same middle market quotations translated into U.S. dollars in each case at the respective Noon Buying Rates on the dates of such quotations, and (c) the highest and lowest sale prices of the American Depositary Shares, as reported by *The Commercial and Financial Chronicle,* through January 23, 1976 on the New York Stock Exchange and thereafter on the composite tape. In the case of American Depositary Shares the prices quoted for 1972 through January 29, 1974 are for American Depositary Shares which had certificates of prior American ownership and were thus exempt from U.S. Interest Equalization Tax; such tax was reduced to zero on January 29, 1974 and ranged between 11.25% and 22.5% of the purchase price prior to such date.

	Ordinary Shares on the London Stock Exchange				American Depositary Shares on the New York Stock Exchange	
	High	Low	High	Low	High	Low
	(pounds)		(translated into U.S. dollars)		(U.S. dollars)	
1972	6.12	4.86	15.96	11.79	16	12⅝
1973	6.00	4.66	14.12	11.35	16⅛	12½
1974	5.90	1.95	13.32	4.52	14⅛	4½
1975: First quarter	4.26	1.86	10.37	4.35	10⅜	4½
Second quarter	5.32	3.33	12.37	8.03	12¼	7⅞
Third quarter	5.68	4.62	11.64	9.90	12⅛	9¾
Fourth quarter	5.97	5.50	12.35	11.21	12⅜	10⅞
1976: First quarter	6.15	5.77	11.79	11.67	12½	11
Second quarter	6.80	5.98	12.10	10.60	12½	10⅜
Third quarter	6.25	5.53	10.49	9.82	11	9⅞
Fourth quarter	8.05	5.70	13.69	9.43	14	9½
1977: First quarter	9.35	7.75	16.04	13.23	16⅜	13⅜
Second quarter (through June 27)	9.55	7.80	16.40	13.41	16¾	13½

The middle market quotation for Ordinary Shares on the London Stock Exchange, as shown by its Daily Official List, as of 3:30 P.M., London time, on June 13, 1977, the day before the announcement of the U.K. offering described under "Offering of Ordinary Shares in the United Kingdom", was £8.92 (equivalent to $15.34 based on the Noon Buying Rate on that date). The London *Financial Times* reported a closing middle market price for Ordinary Shares on June 13, 1977 of £8.84 (equivalent to $15.20 based on such Noon Buying Rate). The last reported sale price of the American Depositary Shares on the New York Stock Exchange on June 13, 1977 was $15⅛.

The middle market quotation for Ordinary Shares on the London Stock Exchange, as shown by its Daily Official List, on June 27, 1977 was £9.30 (equivalent to $16.00 based on the Noon Buying Rate on that date). The last reported sale price of the American Depositary Shares on the New York Stock Exchange on June 27, 1977 immediately prior to the determination of the public offering price of the American Depositary Shares offered hereby was $16¼.

Market prices for the Ordinary Shares on the London Stock Exchange and in after-hours trading off such Exchange, in each case while the New York Stock Exchange is open, and the market prices for American Depositary Shares on the New York Stock Exchange closely parallel one another due to arbitrage between the two markets. The differences which exist between such prices are generally attributable to one or more of the following factors: (a) the U.S. Interest Equalization Tax in respect of the period prior to January 29, 1974, when it was reduced to zero; (b) different stamp duties or transfer taxes and different commissions payable in the two markets; (c) cable charges and the cost of issuance or surrender of American Depositary Receipts; and (d) fluctuations in the exchange rates between pounds sterling and U.S. dollars. In the above table, the U.S. dollar translations of the high and low middle market quotations for the Ordinary Shares on the London Stock Exchange and the sale prices of the American Depositary Shares on the New York Stock Exchange are not identical because of the factors referred to in the preceding sentence and a number of other factors, including: (x) the fact that highs and lows in one market may have been reached at a time when the other market was closed; (y) the fact that the highs and lows shown for the London Stock Exchange relate to middle market quotations rather than sale prices and are only for the time during which trading was being conducted on the London Stock Exchange without reference to after-hours trading in London for which no official quotations exist; and (z) differences between the Noon Buying Rates used in the translation of quotations on the London Stock Exchange and the exchange rates as between pounds sterling and U.S. dollars actually prevailing at the time of such quotations.

At the close of business on June 24, 1977 American Depositary Receipts representing 19,063,918 American Depositary Shares were outstanding.

The consolidated statement of income in pounds sterling of The British Petroleum Company Limited and subsidiary companies for the five years ended December 31, 1976 has been examined by Whinney Murray & Co., independent auditors, whose report thereon appears elsewhere in this Prospectus. As stated in that report, there are certain differences between the accounting principles generally ccepted in the United Kingdom and followed by BP and those generally accepted in the United St..s. The estimated adjustments which would arise from the application of the latter materially affecting the determination of net income are set forth in notes (a) and (b) to the BP Group Consolidated Statement of Income. Under United States generally accepted accounting principles, the profit on disposal of interests during 1974 and 1975 referred to in Notes E and F would have been reflected in income before extra-

	£ million, except per share amounts				
	Years ended December 31				
	1972	1973	1974	1975	1976
Sales proceeds—Note D	3,431.2	4,511.9	9,305.6	9,536.7	12,857.0
Deduct: customs duties and sales taxes	1,147.4	1,359.7	1,495.5	1,755.3	2,275.9
Net sales proceeds—Note T	2,283.8	3,152.2	7,810.1	7,781.4	10,581.1
Dividends and interest from associated companies—Note D	9.6	8.4	12.3	14.5	14.4
Other interest, royalties and miscellaneous income—Notes C and D	41.4	85.8	161.4	163.6	173.9
Net sales proceeds and other income	2,334.8	3,246.4	7,983.8	7,959.5	10,769.4
Cost of oil, ocean freight, refining and chemical manufacturing—Notes D and G	1,000.8	1,373.6	4,798.2	5,420.2	7,634.2
Distribution, selling, administrative and other expenses (includes back service pension charge—1973 £25m., 1974 £54.3m.—Note M)	436.6	548.7	670.8	719.4	909.7
Depreciation and amounts provided re exploration expenditure in non-proven areas	121.0	135.8	163.6	193.5	265.9
Interest and financing costs	62.0	79.8	111.4	149.7	233.0
Less capitalized—Note K	(16.4)	(21.7)	(32.1)	(46.6)	(57.0)
Operating and other costs	1,604.0	2,116.2	5,711.9	6,436.2	8,985.8
Income before taxes and extraordinary items	730.8	1,130.2	2,271.9	1,523.3	1,783.6
Taxes on income—Note O	669.4	824.8	1,770.8	1,374.3	1,597.7
Income applicable to minority interests	2.0	9.9	25.3	4.1	6.1
Income before extraordinary items	59.4	295.5	475.8	144.9	179.8
Extraordinary items:					
Profit on sale of production interests and properties—Notes E and F	1.9	308.0	11.6	21.3	—
Net income	61.3	603.5	487.4	166.2	179.8
Dividend requirements on preference stock	1.0	0.7	0.7	0.7	0.7
Net income applicable to ordinary stock units	60.3	602.8	486.7	165.5	179.1
Per ordinary stock unit:—Note S					
Income before extraordinary items	15.2p	76.3p	123.0p	37.3p	46.4p
Extraordinary items	0.5p	79.8p	3.1p	5.5p	—
Net income	15.7p	156.1p	126.1p	42.8p	46.4p
Cash dividends declared—gross—Note P	5.000p	—	—	—	—
Cash dividends declared—net—Note P	10.950p	15.170p	16.860p	17.990p	19.789p
Average number outstanding of £1 ordinary stock units (in millions)	385	386	386	386	386
Approximate net income applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles (notes (a) and (b))	18.3	602.5	483.1	55.5	53.1
Per ordinary stock unit as so adjusted (notes (a) and (b))	4.8p	156.0p	125.1p	14.4p	13.8p

The Notes to the BP Group's Financial Statements are an integral part of this Statement.

ordinary items in these years, while advance corporation tax of £70.9 million ($121 million) credited to income in 1976 as set forth in Note O would have been treated as an extraordinary item. This statement should be read in conjunction with the BP Group's Financial Statements and Notes included elsewhere in this Prospectus.

This statement is expressed in U.S. dollars at the December 31, 1976 Noon Buying Rate of £1 = $1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate. The Noon Buying Rate on June 24, 1977 was £1 = $1.72. See the third paragraph on page 2 of this Prospectus.

	$ million, except per share amounts, translated as stated above				
	Years ended December 31				
	1972	1973	1974	1975	1976
Sales proceeds—Note D	5,833	7,670	15,818	16,212	21,857
Deduct: customs duties and sales taxes	1,950	2,312	2,541	2,984	3,869
Net sales proceeds—Note T	3,883	5,358	13,277	13,228	17,988
Dividends and interest from associated companies—Note D	16	14	21	25	24
Other interest, royalties and miscellaneous income—Notes C and D	71	146	275	278	296
Net sales proceeds and other income	3,970	5,518	13,573	13,531	18,308
Cost of oil, ocean freight, refining and chemical manufacturing—Notes D and G	1,702	2,334	8,157	9,214	12,978
Distribution, selling, administrative and other expenses (includes back service pension charge—1973 $42m., 1974 $92m.—Note M)	743	933	1,141	1,224	1,547
Depreciation and amounts provided re exploration expenditure in non-proven areas	206	231	279	329	452
Interest and financing costs	104	136	188	254	396
Less capitalized—Note K	(28)	(37)	(54)	(79)	(97)
Operating and other costs	2,727	3,597	9,711	10,942	15,276
Income before taxes and extraordinary items	1,243	1,921	3,862	2,589	3,032
Taxes on income—Note O	1,140	1,403	3,010	2,336	2,716
Income applicable to minority interests	3	17	43	7	10
Income before extraordinary items	100	501	809	246	306
Extraordinary items:					
Profit on sale of production interests and properties—Notes E and F	3	524	19	36	—
Net income	103	1,025	828	282	306
Dividend requirements on preference stock	2	1	1	1	1
Net income applicable to ordinary stock units	101	1,024	827	281	305
Per ordinary stock unit:—Note S					
Income before extraordinary items	$0.26	$1.30	$2.09	$0.64	$0.79
Extraordinary items	0.01	1.35	0.05	0.09	—
Net income	$0.27	$2.65	$2.14	$0.73	$0.79
Cash dividends declared—gross—Note P	$0.09	—	—	—	—
Cash dividends declared—net—Note P	$0.19	$0.26	$0.29	$0.31	$0.34
Average number outstanding of £1 ordinary stock units (in millions)	385	386	386	386	386
Approximate net income applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles (notes (a) and (b))	30	1,023	821	94	91
Per ordinary stock unit as so adjusted (notes (a) and (b))	$0.08	$2.65	$2.13	$0.24	$0.23

The Notes to the BP Group's Financial Statements are an integral part of this Statement.

(a) The following are the estimated material adjustments to net income of the BP Group which would be required if generally accepted accounting principles in the United States had been applied instead of those generally accepted in the United Kingdom.

	Years ended December 31				
	1972	1973	1974	1975	1976
	(£ million, except per share amounts)				
Net income as reported	61.3	603.5	487.4	166.2	179.8
Back service pension charge—Note M	—	23.7	50.4	—	—
Currency fluctuations—note (b)	(42.0)	(11.0)	(15.0)	(110.0)	(126.0)
Deferred tax—Note A	—	(13.0)	(39.0)	—	—
Approximate net income as adjusted to accord with U.S. generally accepted accounting principles	19.3	603.2	483.8	56.2	53.8
Dividend requirements on preference stock	1.0	0.7	0.7	0.7	0.7
Approximate net income applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles	18.3	602.5	483.1	55.5	53.1
Per ordinary stock unit	4.8p	156.0p	125.1p	14.4p	13.8p

	Years ended December 31				
	1972	1973	1974	1975	1976
	($ million, except per share amounts)				
Net income as reported	103	1,025	828	282	306
Back service pension charge—Note M	—	40	86	—	—
Currency fluctuations—note (b)	(71)	(19)	(26)	(187)	(214)
Deferred tax—Note A	—	(22)	(66)	—	—
Approximate net income as adjusted to accord with U.S. generally accepted accounting principles	32	1,024	822	95	92
Dividend requirements on preference stock	2	1	1	1	1
Approximate net income applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles	30	1,023	821	94	91
Per ordinary stock unit	$0.08	$2.65	$2.13	$0.24	$0.23

(b) In accordance with accounting principles generally accepted in the United Kingdom, all assets and liabilities in currencies other than sterling are converted into sterling at the applicable year-end rates of exchange. BP considers that this accounting principle results in a fair statement of the net income of the BP Group, especially as non-sterling borrowing is mainly related to borrowing by BP Group companies in respect of assets and trading activities which will generate the non-sterling currency necessary to effect repayment. Specifically it is expected that the U.S. dedicated financing for TAPS will be repaid out of U.S. dollar revenues generated in the United States. For information concerning the manner in which this accounting principle is reflected in the Consolidated Statement of Earned Surplus, see Note V of Notes to the BP Group's Financial Statements.

U.S. generally accepted accounting principles require that non-monetary balance sheet items in currencies other than sterling be translated at historical exchange rates and that monetary items be adjusted to applicable year-end rates, with the adjustment taken to income. Had the BP Group followed U.S. generally accepted accounting principles, it is estimated that the approximate effect on net income for each of the five years ended December 31, 1976 would have been as follows:

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Charge to income re currency fluctuations:					
U.S. dollar dedicated finance debts	16	3	(2)	30	75
Other finance debts and other items	36	26	41	99	137
	52	29	39	129	212
Estimated reduction in charge for depreciation	(10)	(18)	(24)	(28)	(39)
Effect on inventory valuations	—	—	—	9	(47)
Approximate decrease to net income	42	11	15	110	126

	Years ended December 31				
	1972	1973	1974	1975	1976
			($ million)		
Charge to income re currency fluctuations:					
U.S. dollar dedicated finance debts	27	5	(3)	51	127
Other finance debts and other items	61	44	70	168	233
	88	49	67	219	360
Estimated reduction in charge for depreciation	(17)	(30)	(41)	(47)	(66)
Effect on inventory valuations	—	—	—	15	(80)
Approximate decrease to net income	71	19	26	187	214

BP MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

1973, 1974 and 1975

The primary factor affecting net ales proceeds, cost of oil and income before extraordinary items in the years 1973, 1974 and 1975 was the series of increases in the cost of crude oil to the BP Group in common with the rest of the oil industry. These increases resulted from increased taxation and royalties and higher prices for purchased crude oil imposed by the members of the Organization of Petroleum Exporting Countries ("OPEC") from which the BP Group was obtaining almost all its supplies of crude oil. In addition, there was increased participation in, and nationalization of, the oil industry's, including the BP Group's, interests in concessions by the OPEC members during these years. As a result the average cost of crude oil (including overseas taxation in production areas) to the BP Group increased from about $1.60 per barrel at the beginning of 1973 to about $3.50 per barrel at the end of 1973, $10.50 per barrel at the end of 1974 and $11.50 per barrel during the last quarter of 1975. The cost of oil in terms of pounds sterling per barrel more than quadrupled during 1974 as compared with 1973 and increased by an additional 22% in 1975 as compared with 1974. The volume of crude oil produced by the BP Group for its own account and purchased from OPEC members decreased by approximately 7% in 1974 from 1973 and a further approximately 23% in 1975.

As the cost of crude oil increased, the proceeds from sales of crude oil and refined products also increased, but not always at the same time or in the same amount. During the early part of 1974 market prices rapidly reflected cost increases as demand increased in response to the prospect of limited and uncertain supplies. As a result net sales proceeds increased dramatically and net income reached record levels, particularly in the first quarter when the BP Group benefited from a non-recurring inventory profit estimated at £175 million. (However, the cost to the BP Group to replace such inventories during the remainder of the year required an additional investment of about £500 million.) As the year progressed, however, the increased cost of crude oil, coupled with the onset of a worldwide recession, led to a decline in the demand for oil products for the year of about 3% in the non-communist world and over 6% in Western Europe. In consequence the results for the fourth quarter of 1974 showed a marked decline compared with the earlier three quarters in the year. By year end the increase in income before extraordinary items from 1973 could be attributed almost entirely to the non-recurring inventory profit mentioned above.

In 1975 the continuing recession and fall in demand for oil products, particularly in Western Europe, led to a further decline of about 18% in the volume of crude oil and refined products sold by the BP Group as compared with 1974 and to substantial worldwide surpluses of crude oil and tankers and excess refining capacity, particularly in Western Europe. Nevertheless, net sales proceeds of £7,781 million for 1975 were virtually the same as those for 1974 because of some overall improvement in the market prices which the BP Group was able to obtain for its products, together with translation gains arising from sales in non-sterling currencies. During 1975 the pound sterling depreciated against most other currencies, particularly the U.S. dollar, the exchange rate being £1 = $2.35 at the beginning of 1975 and £1 = $2.02 at the end of the year. However, margins on product sales for 1975 remained at the low level experienced during the last quarter of 1974.

Distribution, selling, administrative and other expenses increased in 1974 and in 1975 largely because of worldwide inflation although in 1974 the charge for back service pension obligations discussed in Note M of Notes to the BP Group's Financial Statements was also a significant factor. Depreciation and amounts provided for exploration expenditure in non-proven areas increased by £28 million in 1974 and by £30 million in 1975 mainly as a result of greater exploration activity and increased investment in properties and operating assets. Interest and financing costs as well as capitalized interest increased in 1974 largely as a result of higher interest rates (which had a substantial effect on interest income in that year as well) but in part due to the financing of the development of the Forties Field and in 1975 primarily because of substantial borrowings to finance the BP Group's interest in the Trans Alaska Pipeline System. The increase in taxes on income in 1974 was largely attributable to increases in taxes imposed by OPEC members on oil produced by the BP Group for its own account whereas the decline in taxes on income in 1975 mainly resulted from the decline in the total volume of crude oil produced by the BP Group for its own account in, and purchased from, OPEC members. The changes in taxes on income in both years also reflected changes in the proportion of crude oil produced by the BP Group for its own account and that purchased from OPEC members.

1976 As Compared With 1975

The economic recovery which began in the last months of 1975 continued into 1976 but its momentum slackened in the second half of that year. The total volume of crude oil produced by the BP Group for its own account and purchased from OPEC members was about the same in 1976 as it had been in 1975. The total volume of sales of crude oil and refined products by the BP Group was also approximately the same in both those years although total sales of refined products rose by 9.7% while sales of crude oil fell by 7.3%. Moreover, neither the cost of crude oil from OPEC countries nor the prices received by the BP Group on sales of crude oil and refined products increased substantially during 1976 in terms of U.S. dollars, the currency in which crude oil is priced by OPEC and in which the BP Group makes nearly all its sales of crude oil and most of its bulk sales of refined products. However, because of the very substantial decline during 1976 in the exchange rate for the pound sterling against other currencies, particularly the U.S. dollar, which was £1 = $2.02 at the beginning of the year and £1 = $1.70 at the end of the year and reached a low of £1 = $1.57 in October 1976, net sales proceeds increased by about 36%, and the cost of oil in terms of pounds sterling per barrel increased by about 29%, in 1976 as compared with 1975. In 1976 net sales proceeds increased more rapidly than the cost of oil primarily as a result of the first full year of production from the Forties Field.

Each of the other principal items in the Consolidated Statement of Income was substantially affected by the decline in the value of the pound sterling against other currencies. Distribution, selling, administrative and other expenses were also affected materially by continuing inflation; depreciation and exploration expenditures by depreciation attributable to the BP Group's operating assets in the Forties Field which had commenced production late in 1975; and interest and financing costs as well as capitalized interest by increased borrowings to finance the BP Group's interest in TAPS. The increase in taxes on income during 1976 is mainly a result of United Kingdom taxation relating to Forties Field production.

Effect of Currency Fluctuations

With the decision of the majority of members of OPEC to seek payment for crude oil in U.S. dollars, the BP Group in common with the rest of the oil industry has increasingly become a dollar trading enterprise. Most payments to producer governments and purchase and sale transactions with other major oil companies for crude oil and refined products are effected in U.S. dollars, giving rise to no currency differences. Product sales by BP Group marketing companies worldwide are made in the appropriate currency of the country concerned. This, however, gives rise to no more currency risk than that to which multinational companies in general are exposed.

The BP Group borrows in what it considers to be the appropriate currency for particular capital projects. Usually this is the currency of the country in which the particular project is planned so far as the cost is not covered by locally generated funds. For example, because U.S. dollar receipts will be generated from the BP Group's involvement in TAPS, the borrowings to finance the BP Group's share of the cost of TAPS have almost entirely been in U.S. dollars.

Borrowings to finance working capital are usually either in U.S. dollars or sterling in accordance with the currency required for payment for crude oil.

Dividends declared are paid in sterling. See "Description of Ordinary Shares and American Depositary Receipts—American Depositary Receipts—Dividends, Other Distributions and Rights" for information concerning the conversion of dividends paid in sterling into U.S. dollars for the account of holders of American Depositary Receipts.

The BP Group's accounting policy with regard to currency fluctuations is described in Note A of Notes to the BP Group's Financial Statements.

See also "Business and Property—Crude Oil—Crude Oil Sources" for information concerning crude oil produced by the BP Group for its own account and purchased by it from governments of producing countries and others, "Business and Property—Sales and Marketing" for information concerning sales by the BP Group of crude oil and refined products, and "Business and Property—Chemicals" for information concerning the financial results of the BP Group's chemical activities. Reference is also made to "Business and Property—Certain Factors Which May Affect Business".

RESULTS OF THE BP GROUP FOR THE THREE MONTHS ENDED MARCH 31, 1977

The following table sets forth the results of the BP Group for the three months ended March 31, 1976 and March 31, 1977. This table is expressed in U.S. dollars at the December 31, 1976 Noon Buying Rate of £1 = $1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate. The Noon Buying Rate on June 27, 1977 was £1 = $1.72. Such results are unaudited but, in the opinion of BP, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for these periods have been included.

	£ million, except per share amounts		$ million, except per share amounts	
	Three months ended March 31 (unaudited)		Three months ended March 31 (unaudited)	
	1976	1977	1976	1977
Sales proceeds	2,795.5	3,610.4	4,752	6,137
Deduct: customs duties and sales taxes	457.9	616.0	778	1,047
Net sales proceeds	2,337.6	2,994.4	3,974	5,090
Dividends and interest from associated companies	2.7	2.9	4	5
Other interest, royalties and miscellaneous income	38.0	56.3	65	96
Net sales proceeds and other income	2,378.3	3,053.6	4,043	5,191
Cost of oil, ocean freight, refining and chemical manufacturing	1,724.9	2,083.4	2,932	3,542
Distribution, selling, administrative and other expenses	196.5	249.1	334	423
Depreciation and amounts provided re exploration expenditure in non-proven areas	49.2	66.8	84	114
Interest and financing costs	46.8	65.5	80	111
Less capitalized	(11.0)	(17.7)	(19)	(30)
Operating and other costs	2,006.4	2,447.1	3,411	4,160
Income before taxes	371.9	606.5	632	1,031
Taxes on income (note (a))	349.8	513.1	595	872
Income applicable to minority interests	1.9	2.9	3	5
Net income	20.2	90.5	34	154
Dividend requirements on preference stock	0.2	0.2	—	—
Net income applicable to ordinary stock units	20.0	90.3	34	154
Per ordinary stock unit:				
Net income	5.2p	23.4p	$ 0.09	$ 0.40
Average number outstanding of £1 ordinary stock units (in millions)	386	386	386	386
Approximate net income (loss) applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles (note (b))	(62.0)	95.3	(105)	163
Per ordinary stock unit as so adjusted (note (b))	(16.1p)	24.7p	($ 0.27)	$ 0.42

(a) **Taxes on income consist of the following:**

	Three months ended March 31 (unaudited)	
	1976	1977
	(£ million)	
Overseas—production taxes	322.8	326.7
—other	19.0	17.8
United Kingdom (see below)	8.0	168.6
	349.8	513.1
The charge for U.K. taxation comprises:		
Corporation tax	175.5	112.0
Overseas tax relief	(157.5)	(29.0)
	18.0	83.0
Advance corporation tax	(17.2)	—
	0.8	83.0
Petroleum revenue tax	7.2	85.6
	8.0	168.6

The charges for the three months ended March 31, 1976 and 1977 include £24.2 million and £58.6 million, respectively, in respect of deferred taxation.

(b) The following are the estimated material adjustments to net income of the BP Group which would be required if generally accepted accounting principles in the United States had been applied instead of those generally accepted in the United Kingdom.

	Three months ended March 31 (unaudited)			
	1976	1977	1976	1977
	(£ million, except per share amounts)		($ million, except per share amounts)	
Net income as above	20.2	90.5	34	154
Currency fluctuations	(82.0)	5.0	(139)	9
Approximate net income (loss) as adjusted to accord with U.S. generally accepted accounting principles	(61.8)	95.5	(105)	163
Dividend requirements on preference stock	0.2	0.2	—	—
Approximate net income (loss) applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles	(62.0)	95.3	(105)	163
Per ordinary stock unit	(16.1p)	24.7p	($0.27)	$0.42

For information concerning the differences in the treatment of currency fluctuations under accounting principles generally accepted in the United Kingdom and those generally accepted in the United States, see note (b) to The British Petroleum Company Limited and Subsidiary Companies Consolidated Statement of Income. Had the BP Group followed U.S. generally accepted accounting principles with respect to currency fluctuations, it is estimated that the approximate effect on net income for the three month periods ended March 31, 1976 and 1977, respectively, would have been as follows:

	Three months ended March 31 (unaudited)			
	1976	1977	1976	1977
	(£ million)		($ million)	
Charge to income re currency fluctuations:				
U.S. dollar dedicated finance debts	22	(8)	37	(14)
Other finance debts and other items	43	(17)	73	(29)
	65	(25)	110	(43)
Estimated reduction in charge for depreciation	(8)	(10)	(14)	(17)
Effect on inventory valuations	25	30	43	51
Approximate decrease (increase) to net income	82	(5)	139	(9)

The net income of the BP Group for the three months ended March 31, 1977 was £90.5 million. The comparable figure for the fourth quarter of 1976 was £55.9 million and for the first quarter of 1976 was £20.2 million.

Compared with the first quarter of 1976, in the first quarter of 1977 the total volume of sales increased by 30,000 barrels per day, an increase of 0.7%. Within the total, sales of crude oil were down by 6.2% and sales of refined products and chemicals were higher by 6.3%.

The greatly improved income before taxes in the first quarter of 1977 was largely attributable to the continuing increase in production from the Forties Field which averaged 378,000 barrels per day in such quarter and to a substantial inventory profit following the rise in the cost of crude oil from OPEC countries effective January 1, 1977. During the second quarter of 1977 a riser was replaced on one of the platforms in the Forties Field, and production had to be reduced while the work proceeded. As a result, production from the Forties Field in the second quarter is expected to average about 400,000 barrels per day. Thereafter production is expected to be increased in the third and fourth quarters of 1977 to a plateau of 500,000 barrels per day by the end of the year. See "Business and Property—Crude Oil—United Kingdom Continental Shelf and Other North Sea Interests—Forties Field". The inventory profit for the first quarter of 1977 is estimated at £25 million after tax, but such profit will be considerably less in the second quarter.

In contrast with the first quarter of 1977 when sales of refined products were made mainly from inventory, net income in the second quarter will be adversely affected by the two-tier pricing system described under "Business and Property—Crude Oil—Middle East and Nigeria" and the failure to recover from the market the full increases in the cost of OPEC crude oil to the BP Group. See also "Business and Property—Sales and Marketing".

Cost of oil, ocean freight, refining and chemical manufacturing for the first quarter of 1977 increased as compared with the same period of 1976 as a result not only of higher prices for OPEC crude oil (see "Business and Property—Crude Oil"), but also the depreciation of the pound sterling against other currencies, particularly the U.S. dollar. The exchange rate for the pound sterling against the U.S. dollar averaged approximately £1 = $2.00 in the first quarter of 1976 as compared with £1 = $1.71 in the first quarter of 1977. The increase in distribution, selling, administrative and other expenses in the first quarter of 1977 as compared with the same period of 1976 was due to continuing worldwide inflation as well as the depreciation of the pound sterling. Depreciation and exploration expenditure, interest and financing costs, capitalized interest and taxes on income increased primarily for the same reasons as those set forth above under "BP Management's Discussion and Analysis of the Consolidated Statement of Income—1976 As Compared With 1975".

The results for the three months ended March 31, 1977 are not necessarily indicative of the results that will be achieved for the entire year.

Reference is made to Note CC of Notes to the BP Group's Financial Statements.

For information concerning the results of Sohio for the three months ended March 31, 1977, see "Operating Results of Sohio for the Three Months Ended March 31, 1977" on page F-41.

BUSINESS AND PROPERTY

The following is a description of the business and property of the BP Group. Information with respect to the BP Group's interests in the United States, which consist primarily of its interest in Sohio and its interest in TAPS, is set forth under "Interests in the United States".

Crude Oil

Since 1971, and particularly since the Middle East conflict of 1973, the members of OPEC have taken a number of actions which have created substantial uncertainties as to the future availability of crude oil to the international oil companies, including BP, from OPEC members and which have substantially increased the cost of such oil. These actions have included increased government participation in, and nationalization of, concessions, unilateral increases in prices and royalty rates, direct sales of crude oil by OPEC members to purchasers other than the international oil companies, increased taxes payable to OPEC members, embargoes and restrictions on production. Primarily as a result of such increased government participation in, and nationalization of, concessions in OPEC countries in which the BP Group had interests, the net proved reserves of crude oil (including condensate and natural gas liquids) owned by the BP Group through its interests in such concessions have been reduced from 66,057 million barrels at December 31, 1971 to 3,378 million barrels at December 31, 1976, and the average cost to the BP Group of crude oil (including overseas taxation in production areas) produced for its own account in, or purchased from, OPEC countries increased from approximately $1.60 per barrel at the beginning of 1973 to approximately $11.50 per barrel at the end of 1976 and approximately $12.60 per barrel in the first quarter of 1977. Because of increased direct sales of crude oil by OPEC members, coupled with a decline in oil demand in Western Europe, the total amount of crude oil which the BP Group has produced for its own account in or purchased from OPEC countries has declined in each year since 1973.

As a result of these developments, the BP Group's exploration and development activities outside of OPEC countries, particularly on the United Kingdom Continental Shelf and, directly and through Sohio, in Alaska, have become increasingly important. Approximately one-third of the BP Group's total proved reserves of crude oil (including condensate and natural gas liquids) at December 31, 1976 were located on the United Kingdom Continental Shelf. BP expects that approximately 14% of the crude oil produced for its own account or purchased by it from others during 1977 will be produced from such reserves. Commercial production from Sohio's Prudhoe Bay Field reserves is expected to commence in the third quarter of this year. When such production reaches 450,000 net barrels per day and is sustained for 90 days, and as a result the BP Group's interest in Sohio exceeds 50%, the BP Group's proved reserves of crude oil in non-OPEC countries are expected to be approximately 55% of its total proved reserves, and non-OPEC sources are expected to account for approximately 21% of the daily average number of barrels of crude oil produced by the BP Group for its own account or purchased by it from others. See "Interests in the United States—Interest in Sohio".

The table below sets forth estimates of the BP Group's proved reserves of crude oil (including condensate and natural gas liquids) as of December 31, 1976. For information with respect to the BP Group's right to purchase crude oil, see "Middle East and Nigeria". The figures in the table include only the BP Group's interests in the various reservoirs and have been calculated on a basis which differs from that used in previous U.S. presentations as a result of new regulations of the Securities and Exchange Commission adopted in June 1976. The amounts shown as gross reserves include crude oil which may be taken by others as royalties in kind. The amounts shown as net reserves exclude such crude oil.

ESTIMATED PROVED RESERVES OF CRUDE OIL(1)

	Developed				Undeveloped		Total	
	Producing		Non-Producing					
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
				(millions of barrels)				
Abu Dhabi(2)	1,634	1,307	333	266	794	635	2,761	2,208
United Kingdom(3)	1,224	1,071	—	—	825	722	2,049	1,793
Nigeria	716	573	360	288	386	309	1,462	1,170
Canada	60	38	—	—	—	—	60	38
Australia and New Zealand	7	6	3	3	113	102	123	111
	3,641	2,995	696	557	2,118	1,768	6,455	5,320

(1) For definitions of "proved reserves", "proved developed reserves", "producing reserves", "non-producing reserves" and "proved undeveloped reserves", see "Certain Definitions".

(2) Excludes an estimated 1,525 gross (1,220 net) million barrels of reserves which are expected to be obtained through the application of pressure maintenance projects.

(3) Includes an estimated 643 gross (563 net) million barrels in proved developed producing reserves and 262 gross (229 net) million barrels in proved undeveloped reserves which are expected to be obtained through the application of an integrated pressure maintenance project currently in operation in the Forties Field, but excludes an estimated 298 gross (261 net) million barrels of reserves expected to be obtained through the application of such projects in other fields.

The only crude oil reserve estimate filed with, or included in any reports to, United States federal or foreign governmental authorities or agencies by the BP Group since January 1, 1976 was an estimate of the crude oil reserves of the Forties Field filed with United Kingdom Department of Energy. Such estimate was the same as that included in the total reserve figures set forth above for the United Kingdom.

The following table shows by source, for the periods indicated, the amounts of crude oil (including condensate and natural gas liquids) either produced by the BP Group for its own account (including crude oil produced by the BP Group subject to options on the part of others to take royalties in kind or in cash, which royalties were in fact taken in cash) or purchased by it from governments of producing countries and others.

CRUDE OIL SOURCES

	1972	1973	1974	1975	1976
		(thousands of barrels per day)			
Iran					
Produced	1,780	470	—	—	—
Purchased	—	1,510	2,000	1,700	1,760
Kuwait					
Produced	1,480	1,320	520	80	—
Purchased	—	—	520	480	480
Nigeria					
Produced	580	460	350	270	280
Purchased	—	160	310	210	140
Abu Dhabi					
Produced	420	300	160	150	150
Purchased	—	100	180	170	130
Iraq					
Produced	240	170	210	140	—
Purchased	—	50	30	—	—
United Kingdom					
Produced	—	—	—	20	180
Purchased	—	—	—	—	—
Other					
Produced	100	80	50	40	30
Purchased	240	160	110	180	390
Total	4,840	4,780	4,440	3,440	3,540

The BP Group has estimated for internal planning purposes that the total quantity of crude oil (including condensate and natural gas liquids) available to it in 1977, whether produced by it for its own account or purchased by it from others, will be substantially the same as in 1976. In 1977 the BP Group expects to produce an average of somewhat more than 400,000 barrels per day in the United Kingdom and to purchase about 80,000 barrels per day from the government of Iraq, but to purchase correspondingly smaller amounts from governments of other producing countries and other sources.

UNITED KINGDOM CONTINENTAL SHELF AND OTHER NORTH SEA INTERESTS

The BP Group's total capital expenditures on the United Kingdom Continental Shelf from 1963 through 1976 have exceeded £945 million and in 1976 its development and production expenditures on the United Kingdom Continental Shelf amounted to £224 million (equivalent to $1,607 million and $381 million, respectively, at the December 31, 1976 Noon Buying Rate of £1 = $1.70).

U.K. Licenses. On the United Kingdom Continental Shelf, including the licenses covering the fields described below, the BP Group holds 13 licenses covering 32 blocks with a total area of 2,295 square miles and, together with other companies, interests in an additional 16 licenses covering 32 blocks with a total area of 2,119 square miles (834 net square miles). Early in 1977 the BP Group, together with The British National Oil Corporation ("BNOC") as a 51% participant in all cases and with other companies in some cases, was awarded additional licenses on the United Kingdom Continental Shelf covering 13 blocks with a total area of 984 square miles (432 net square miles) subject to reaching an operating agreement with BNOC and agreements with the United Kingdom Department of Energy on work programs. BNOC, a corporation wholly owned by the United Kingdom Government, has the power to engage in all phases of the petroleum industry.

Licenses on the United Kingdom Continental Shelf are awarded on the basis of demonstrated ability to explore and develop oil and gas fields, financial capacity and contribution to the United Kingdom economy. Generally bonus payments are not required although work programs for exploration and drilling are agreed upon. Licenses may be forfeited for, among other things, failure to fulfill such programs.

Forties Field. Production from the Forties Field in the United Kingdom sector of the North Sea began in September 1975. Production during the first quarter of 1977 was from three offshore platforms and averaged 378,000 barrels per day. Production from a fourth platform began in April 1977. By the end of 1977 total production from the field is expected to increase to a plateau of approximately 500,000 barrels per day, a rate equivalent to approximately one-fourth of the United Kingdom's estimated daily 1977 crude oil requirements. The BP Group believes that the configuration of the field will permit this rate of production to be maintained for about three years and that it will decline thereafter. At the end of 1976 an integrated pressure maintenance project was implemented and during the first quarter of 1977 approximately 39,000 barrels of water per day were injected into the reservoir.

The Forties Field, which is almost entirely located in a licensed area some 110 miles east-northeast of Aberdeen, Scotland, in which the BP Group has a 100% interest, is estimated to contain remaining gross reserves of some 1.7 billion barrels of crude oil after production of 103 million barrels through March 31, 1977. A 105-mile, 32-inch pipeline links the field to a landfall north of Aberdeen and from there a 129-mile, 36-inch pipeline connects the field to a BP Group refinery located near Edinburgh. See Note I of Notes to the BP Group's Financial Statements for a description of the financing arrangements for the development of the Forties Field.

Ninian Field. The BP Group is also developing, in conjunction with other companies, the Ninian Field in the United Kingdom sector of the North Sea. Although there has been no agreement among holders of interests in the field to operate it as a unit, the BP Group's share of gross crude oil reserves in this field is estimated to be about 160 million barrels, reflecting a one-seventh to one-fifth interest in the field. Production will take place from three platforms, the first of which was installed in May 1977; the second is scheduled for installation later this year or early next year and the third in 1979. Production drilling will commence in early 1978 and production is planned to average approximately 35,000 barrels per day in 1978 increasing to approximately 320,000 barrels per day in 1981. A 110-mile pipeline to transport the oil from the field to a sea loading terminal in the Shetland Islands has been completed. Construction of the terminal, which will also serve other North Sea oil fields, has begun, and it is scheduled to commence operations on a limited scale in 1978. The BP Group is responsible for the construction of both the pipeline and the terminal. The BP Group's share of the cost of the development of the field, the pipeline and the terminal through 1980 (excluding capitalized interest) is currently estimated at the equivalent of approximately $340 million, of which the equivalent of approximately $120 million had been expended through March 31, 1977.

Magnus Field. In 1974 the BP Group announced the discovery of an oil field, subsequently named the Magnus Field, which is located approximately 100 miles northeast of the Shetland Islands in the United Kingdom sector of the North Sea in a licensed area in which the BP Group has a 100% interest. The field is complex geologically and is in water with depths of about 600 feet. In April 1977 the BP Group announced that it expected to proceed with development of the field (probably by means of a single platform), which it then estimated to contain gross crude oil reserves of approximately 400 million barrels which might be expected to be produced at a peak rate of approximately 100,000 barrels per day beginning in the early 1980s.

Other Activities in the United Kingdom Sector of the North Sea. In 1974 the BP Group discovered the Andrew Field which lies partly in a licensed area in which the BP Group has a 100% interest. The BP Group is continuing to study whether or not this field can be developed commercially.

Since 1974 the BP Group has also encountered oil in six other exploration wells in the United Kingdom sector of the North Sea, four of which were joint wells with other companies. The accumulations are not expected to be large and will require further appraisal before any assessment of their commercial significance can be made. During 1976 the BP Group drilled or participated in partnership with others in the drilling of 14 gross exploration and appraisal wells (11.41 net wells) in the United Kingdom sector of the North Sea.

In addition, the BP Group is actively seeking to acquire interests in existing North Sea licenses on a "farm-in" basis. It has already acquired rights to earn interests in several licenses in the United Kingdom sector in return for reimbursing the sellers for portions of expenditures already made and agreeing to pay certain of the costs of drilling wells or to carry out work programs in the licensed areas.

Participation Agreement with the U.K. Government. United Kingdom Government policy has for some time been to achieve majority State participation in United Kingdom offshore commercial oil fields in such a way that the licensees are financially no worse off. On June 1, 1977 BP and two of its subsidiaries entered into a Participation Agreement with the United Kingdom Secretary of State for Energy and BNOC in implementation of the Memorandum of Principles initialled by such parties on June 28, 1976 in pursuance of that policy. The principal terms of the Participation Agreement and related agreements provide that:

(a) BNOC is to acquire from the BP Group, and hold in trust for the BP Group's benefit, 51% of the BP Group's interests in the production licenses for the Forties Field, the Ninian Field and any other offshore commercial oil fields lying in areas licensed on or before June 28, 1976 (whether such interests were held by the BP Group at that date or are acquired by it thereafter), subject to the right of the BP Group to utilize its interests, including interests assigned to BNOC, for financing purposes. The BP Group will remain the beneficial owner of the interests assigned and of any oil produced and will continue to be responsible for development and production costs and royalty and tax payments.

(b) BNOC is granted certain rights to obtain information with respect to each oil field in question and to acquire a vote in the relevant oil field committee or, in the absence of such a committee, to join with the BP Group management team concerned.

(c) BNOC is granted an option for the life of each commercial oil field to buy at international market prices up to 51% of the BP Group's crude oil derived from such field, after any Government royalty taken in kind has been deducted. BNOC is also granted an option to purchase on terms to be agreed 51% of certain natural gas liquids produced by the BP Group on the United Kingdom Continental Shelf.

(d) Pursuant to a crude oil cross-purchase arrangement:

(i) From January 1, 1979 through 1989, BNOC will be required to resell to the BP Group United Kingdom offshore crude oil of a quality comparable to that purchased from the BP Group pursuant to the option described in (c), subject to BNOC's option to retain crude oil so purchased in a quantity equal to up to 12% in 1979 and 1980, 16% in 1981 and 1982 and 12.75% in 1983 through 1989 of the total production from each field. In 1977 and 1978 all oil purchased pursuant to the option described in (c) is to be resold by BNOC to the BP Group and, for the years 1982 through 1989, BNOC is deemed to have exercised in full not only its option described in (c), but also its option to retain crude oil so purchased described in the preceding sentence.

(ii) From January 1, 1979 through 1989, the BP Group will be required to sell to BNOC a quantity of non-United Kingdom crude oil (based on Middle East crude qualities) having a value equal to that sold by BNOC to the BP Group pursuant to (i). (The quantities of oil required to be sold by BNOC to the BP Group may be reduced if the United Kingdom Secretary of State for Energy so directs BNOC in accordance with his statutory powers, in which case the BP Group may elect not to deliver to BNOC non-United Kingdom oil to the extent of such reduction.)

(e) The BP Group's United Kingdom refining and marketing company, BP Oil Limited, undertakes, through 1981, to train BNOC employees in refining, distribution and marketing operations in the United Kingdom, to allow BNOC to be represented at meetings of its managers dealing with such operations, and to "seek to establish a long-term basis for co-operation" with BNOC in such operations.

The Board of Directors of BP is satisfied that these agreements reflect the Government's policy that participation should leave licensees financially no worse off, inasmuch as (i) the BP Group will remain the beneficial owner of the interests assigned to BNOC and of the oil produced therefrom, while continuing to be responsible for development and production costs, (ii) the crude oil cross-purchase arrangements are in general expected to provide for the availability to the BP Group of quantities of United Kingdom Continental Shelf crude oil which will be sufficient for the BP Group's projected requirements and (iii) purchases and sales of crude oil between the BP Group and BNOC are to be at international market prices.

The Petroleum and Submarine Pipe-Lines Act 1975 gives to the Secretary of State for Energy the authority to control the rate of development of United Kingdom oil fields. The Government has, however, stated that no delays will be imposed on the development of fields discovered before the end of 1975, and that no cuts will be made in production from such fields before 1982 or until four years from the start of production, whichever is the later. In addition, the Secretary of State for Energy has wide regulatory powers over the installation, use and tariffs of submarine pipelines and the construction or expansion of refining capacity in the United Kingdom.

Norwegian Sector of the North Sea. In the Norwegian sector of the North Sea a significant oil discovery was made on a block covered by a license in which the BP Group has a 57.5% interest which it acquired in June 1976. Two appraisal wells are scheduled for 1977 on this structure, one of which is now being drilled.

Other North Sea Interests. In the North Sea, outside the United Kingdom Continental Shelf, the BP Group increased its offshore drilling activity during 1976, participating in 10 gross exploration wells (3.03 net wells) in Norwegian, Dutch and German waters. During 1976 the BP Group also acquired interests in eight licenses covering a total area of 2,505 square miles (650 net square miles) in the Dutch sector of the North Sea.

Middle East and Nigeria

The BP Group's only significant remaining equity interests in these areas are a 22½% interest in concessions in Nigeria which expire from 1990 to 2008 (with provisions for renewals) and 9½% and 14⅔% interests, respectively, in onshore and offshore concessions in Abu Dhabi expiring in 2014 and 2018, respectively. At December 31, 1976 the net proved reserves covered by the BP Group's interests in these concessions aggregated 3,378 million barrels. The BP Group was informed by the government of Abu Dhabi in 1974 that it intended to nationalize the BP Group's remaining interest in that country. However, the BP Group has since been informed by the government that it does not intend to take such a step in the foreseeable future. Nevertheless, the Middle East and Nigeria collectively remain the BP Group's largest source of crude oil because of the high volume of purchases made by it from producing countries in these areas.

The BP Group has a 40% interest and Sohio has a 0.4% interest in a consortium of international oil companies which entered into an agreement with the Iranian government in 1973 obligating it to sell to the members of the consortium for a period of 20 years all oil produced in Iran from certain properties formerly operated by the consortium, except oil needed for internal consumption and certain specified quantities of oil (increasing from 200,000 barrels per day in 1973 to 1,500,000 barrels per day in 1981) to be exported by Iran. Under the agreement Iran is assured of receiving prices for its crude oil no less favorable than those received from two or more consortium members by any other oil producing country in the Gulf area. Talks took place in early 1976 between Iran and the consortium in respect of a possible modification of the 1973 agreement, and such talks are expected to be resumed later this year. The quantities of and price differentials for oil to be lifted by the members of the consortium and advances by them of capital for operations under the 1973 agreement (which advances were set by Iran in 1973 at 40% of the annual capital needed, but which have not been made since June 1975) are central issues in these continuing discussions. Of the BP Group's total crude oil produced and purchased in 1976, approximately 50% was purchased pursuant to the agreement with Iran.

The BP Group also purchases crude oil from the Kuwait government pursuant to an agreement between them entered into in 1975 providing for the sale to the BP Group of an average of approximately 450,000 barrels per day during the period from January 1, 1976 to March 31, 1980. In addition, the BP Group has a long-term purchase arrangement with the government of Nigeria pursuant to which the BP Group is to purchase approximately 150,000 barrels per day in 1977 and approximately 100,000 barrels per day in 1978 and subsequent years. The BP Group also has a contract with the government of Abu Dhabi to purchase approximately 88,000 barrels per day in 1977, one with the government of Iraq to purchase approximately 80,000 barrels per day in 1977 and one with the government of Qatar to purchase approximately 30,000 barrels per day in each of the five years ending June 30, 1981. Prices under these contracts are generally fixed quarterly based on prevailing OPEC prices.

At a meeting held in mid-December 1976, all OPEC members except Saudi Arabia and the United Arab Emirates (which include Abu Dhabi) decided to increase the price of their crude oil by approximately 10% on January 1, 1977 and by a further approximately 5% on July 1, 1977 so that their price for the marker crude oil would be increased to $12.70 per barrel on January 1, 1977 and to $13.30 per barrel on July 1, 1977. Saudi Arabia and the United Arab Emirates elected to increase the price of their crude oil by 5% with effect from January 1, 1977, bringing their price for the marker crude oil to $12.09 per barrel. OPEC will reconsider its pricing policy for the second half of 1977 at a meeting to be held in Stockholm commencing on July 12, 1977. The BP Group is unable to predict the eventual outcome of the current two-tier price system. Because about 90% of the BP Group's OPEC crude oil comes from countries which increased their prices by 10%, the BP Group is at a substantial competitive disadvantage as compared with other major oil companies which obtain a lower percentage of their crude oil from such sources, and will continue to be so for as long as the present price system remains in effect.

Natural Gas

The table below sets forth estimates of the BP Group's proved natural gas reserves as of December 31, 1976. The figures in the table include only the BP Group's interests in the various reservoirs. The amounts shown as gross reserves include natural gas which can be taken by others as royalties in kind. The amounts shown as net reserves exclude such natural gas.

ESTIMATED PROVED RESERVES OF NATURAL GAS(1)

	Developed				Undeveloped		Total	
	Producing		Non-Producing					
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(billions of cubic feet)							
United Kingdom	1,184	1,036	—	—	282	247	1,466	1,283
Australia and New Zealand	171	154	59	53	3,857	3,424	4,087	3,631
Germany	71	71	34	34	114	114	219	219
Canada	438	280	203	130	106	68	747	478
Total	1,864	1,541	296	217	4,359	3,853	6,519	5,611

(1) For definitions of "proved reserves", "proved developed reserves", "producing reserves", "non-producing reserves" and "proved undeveloped reserves", see "Certain Definitions". Reserves of natural gas in Nigeria have not been included in the above table because commercial recoverability depends upon agreement with the Nigerian government and others upon the construction and operation of the gas liquefaction plant referred to below.

The BP Group's production of natural gas in 1976 averaged approximately 350 million cubic feet per day, primarily from its 100% interest in the West Sole Field in the North Sea, its interest in Canadian gas fields and its 37.5% interest in the Kapuni Field in New Zealand. Proceeds from sales of natural gas in 1976 were the equivalent of approximately $46 million. The BP Group estimates that the amount of gas produced from its proved reserves in 1977 will be slightly greater than it was in 1976.

The BP Group has an 18.75% interest in the Maui natural gas field, in waters 23 miles west of New Zealand. This field is estimated to contain proved undeveloped reserves of approximately 6.1

trillion cubic feet of natural gas and 250 million barrels of natural gas liquids. The first offshore production platform was installed in January 1976, and production is expected to begin in late 1978.

The BP Group also has a 16.7% interest in five discoveries of natural gas made off the northwest coast of Australia. These discoveries are estimated to contain proved undeveloped reserves aggregating approximately 15 trillion cubic feet of natural gas. The BP Group and other parties having interests in the discoveries, in conjunction with the Australian government, are formulating plans to bring certain of these discoveries into production.

The BP Group has a 16⅓% interest in a company which has been formed to construct a liquified gas plant on Das Island, offshore Abu Dhabi. This plant, which has an input capacity of 550 million cubic feet per day of natural gas, commenced production in April 1977. The BP Group also has a 20% interest in a company which was recently formed to study the economic viability, and to develop plans for the construction and operation of, a gas liquefaction plant at Bonny, Nigeria with an input capacity of approximately one billion cubic feet per day of natural gas.

Transportation

Sea Transportation. At December 31, 1976 the BP Group and its associated companies outside the United States owned or had on bareboat charter a total of 78 ships aggregating about 7.6 million deadweight tons. At that date the BP Group and such associated companies also had under long-term charters (i.e., for more than one year) 63 ships aggregating about 8.1 million deadweight tons. The following table shows the changes that have taken place in the BP Group's fleet (which term as used herein includes ships owned or on bareboat charter or under long-term charters by associated companies outside the United States) over the past five years.

THE BP GROUP'S FLEET

	As at December 31				
	1972	1973	1974	1975	1976
Number of vessels owned or on bareboat charter:					
Up to 25,000 dwt	43	37	38	39	33
25,000 to 80,000 dwt	53	47	52	32	20
80,000 to 160,000 dwt	3	3	3	3	—
160,000 dwt and above	8	12	20	23	25
	107	99	113	97	78
In millions of deadweight tons	5.3	5.9	8.1	8.0	7.6
Number of vessels under long-term charter:					
Up to 25,000 dwt	62	44	25	17	9
25,000 to 80,000 dwt	90	78	17	21	17
80,000 to 160,000 dwt	22	19	11	6	9
160,000 dwt and above	30	34	33	31	28
	204	175	86	75	63
In millions of deadweight tons	14.2	14.0	9.9	9.2	8.1
Total number of vessels in the BP Group's fleet	311	274	199	172	141
Total in millions of deadweight tons	19.5	19.9	18.0	17.2	15.7

World tanker tonnage continued to exceed demand substantially in 1976, and at December 31, 1976 eight ships in the BP Group's fleet were laid up, one of which is a new very large crude carrier due to commence service later this year and seven of which are older products carriers. One products carrier has since been sold and the others are expected to be. Additional reductions in the capacity of the BP Group's fleet resulted principally from slow steaming by its larger ships but also from some short-term chartering out of products carriers. All the larger ships in the BP Group's fleet are expected to continue to operate at less than full speeds throughout 1977. Charters of five products carriers and five medium size crude carriers will expire in 1977. Neither the BP Group nor any of its associated companies (except Sohio) has any new ships on order at the present time.

The BP Group and the Stolt-Nielsen Group have recently signed a letter of intent, subject to the approval of the Stolt-Nielsen shareholders and BP's Board of Directors, which provides for the BP Group's advancing $50 million to Stolt Tankers and Terminals (Holdings) S.A. ("STT"), which advance may at the option of the BP Group be converted after January 1, 1978 into a 50% equity interest in STT. STT, the ship owning, trading and storage terminal company of the Stolt-Nielsen Group, owns or operates 27 chemical and vegetable oil tankers and has 12 additional such tankers on order ranging in size from 23,000 deadweight tons to 37,000 deadweight tons.

Pipelines. The BP Group has interests in many of the major crude oil and product pipeline systems in Western Europe which serve the BP Group's principal inland refining and marketing areas. Such European pipelines include the South-European Pipeline (6%), the Trans-Alpine Pipeline (11%), the Adria-Wien Pipeline (7.5%), the Nord-West Pipeline (25%), the Rotterdam-Antwerp Pipeline (28%) and the Rhein-Main Pipeline (31%).

Refining

At December 31, 1976 the BP Group had 14 wholly-owned refineries and majority holdings in five refineries in which it has 100% processing availability. The net aggregate rated crude oil distillation capacity of these 19 refineries, most of which are located in Western Europe, was approximately 2,370,000 barrels per day. These refineries operated at an average of approximately 70% of available capacity during 1976 as compared with approximately 60% in 1975. On May 1, 1977 the BP Group transferred the ownership of its wholly-owned refinery in Aden (which had a rated crude oil distillation capacity of 150,000 barrels per day) to the South Yemen government. In addition, the BP Group is part owner of 18 other refineries in which its share of the net aggregate rated crude oil distillation capacity amounts to approximately 402,000 barrels per day.

The following table sets forth, by area and for the periods indicated, the approximate quantities of crude oil processed for the BP Group's account (i) in its wholly and partly owned refineries outside the United States and (ii) by other refiners under processing agreements.

CRUDE OIL REFINED

	1972	1973	1974	1975	1976
	(thousands of barrels per day)				
United Kingdom	460	480	420	340	420
France	340	340	320	260	280
Germany	280	280	280	240	260
Netherlands	280	280	260	180	260
Other European countries	360	300	240	180	220
Africa and Middle East	340	240	180	100	80
Canada	80	80	80	100	100
Far East and Australasia	140	160	160	160	160
	2,280	2,160	1,940	1,560	1,780
For the BP Group by other refiners under processing agreements	120	180	160	160	120
	2,400	2,340	2,100	1,720	1,900

In view of the substantial excess refinery capacity currently existing in Western Europe, the BP Group's capital expenditures for refineries in 1976 were, and those to be made in the next few years are expected to continue to be, primarily made to reduce the amount of energy used and to modify or extend existing refineries in order to increase their capacity to produce the lighter, higher value petroleum products for which demand in Western Europe is growing.

Sales and Marketing

The BP Group markets its refined products in Western Europe, most of Africa, Canada, Australasia and parts of the Middle and Far East through various subsidiary companies. Until December 31, 1975 the BP Group's principal product marketing operations in the United Kingdom were conducted through a company in which the BP Group had a 40% equity interest and the Royal Dutch/Shell Group a 60% equity interest. Since that time BP products have been marketed in the United Kingdom exclusively by BP Oil Limited, a wholly-owned subsidiary of BP. In East Africa, marketing is carried on by companies in which the BP Group and the Royal Dutch/Shell Group have equal shares of that part of the equity, usually 50%, not held by the government concerned. In 1976 approximately 75% of the BP Group's product sales were made in Western Europe.

The refined products sold by the BP Group include motor and aviation gasolines, jet fuels, kerosenes, heating oils, diesel fuels, fuel oils, asphalts and a full range of automotive and industrial lubricants and greases. Throughout the world the BP Group's principal trademark consists of the letters "BP" in yellow surrounded by a green shield.

The BP Group, one of the world's principal suppliers of oil products for ships, has bunkering arrangements available at more than 300 ports on world shipping routes. It also operates an extensive aviation fuelling service.

After the substantial increase in crude oil prices imposed by OPEC in 1973, world demand for oil did not grow at the rates previously projected. In fact, in Western Europe such demand declined and has not yet returned to the levels reached in 1973. The resulting worldwide excess of tanker tonnage and, in particular, the substantial excess refinery capacity in Western Europe, as well as increased competition from other fuels and a relatively low level of economic activity, has led to substantial price competition in the European market and to margins in certain European countries, including Germany and France, which have been insufficient since mid-1974 for the BP Group to generate any return on its related transportation, refining and distribution facilities. These conditions are continuing. In addition, the two-tier pricing system introduced by OPEC on January 1, 1977 which is discussed above under "Crude Oil—Middle East and Nigeria" is having a substantial adverse impact on the BP Group's marketing operations in Western Europe because, although prices for refined products in Western Europe have increased by approximately 5% since January 1, 1977, about 90% of the crude oil obtained by the BP Group from OPEC sources is from OPEC members who have raised their prices by 10%. The volume of sales of refined products by the BP Group in Western Europe increased by approximately 13% in 1976 as compared with 1975, in part as a result of some increases in demand for heating oils and to a lesser extent motor gasolines and fuel oils. The volume of sales of refined products outside Western Europe in 1976 was about the same as in 1975, but profit margins on such sales improved.

In addition to sales of refined products, the BP Group sells substantial quantities of crude oil. In 1976 such sales of crude oil accounted for approximately 45% of the total amount of crude oil either sold by the BP Group or used by it in its own operations. Most crude oil sales are under contracts of varying durations with large purchasers under which prices are negotiated quarterly. In 1976 the two largest purchasers, Exxon Corporation and Petrofina S.A., accounted for about 24% and 15%, respectively, and the ten largest purchasers accounted for about 73% by volume of crude oil sales. The present contract with Exxon, which was signed in September 1976, is terminable by either party on any June 30 or December 31 on not less than six months' notice. BP and Petrofina have agreed on the principal terms of a contract which will replace with effect from January 1, 1976 their previous contract, which has been terminated. The new contract, the details of which are being negotiated, will extend through 1982.

The volume of sales of crude oil has been falling since 1973 largely as a result of the increasing volume of direct sales by OPEC countries made possible by the increase in their participation in, or nationalization of, the concessions within their borders which has taken place since then. Such direct sales have also put increased pressure on the profit margins realizable by the BP Group on its crude oil sales. The decline in crude oil sales by the BP Group in 1976 was to some extent offset by increased purchases by customers near the end of the year in anticipation of OPEC price increases and by sales of crude oil from the Forties Field.

The following table sets forth the BP Group's product and crude oil sales for the periods indicated, including the BP Group's sales to associated companies.

PRODUCT AND CRUDE OIL SALES

	1972	1973	1974	1975	1976
	(thousands of barrels per day)				
Products (including chemicals):					
United Kingdom	340	360	360	300	300
France	300	280	260	240	280
Germany	320	340	300	260	280
Other European countries	660	580	460	400	480
Africa and Middle East	120	120	100	100	120
Asia and Australasia	180	160	180	180	160
North and South America	120	120	100	100	100
	2,040	1,960	1,760	1,580	1,720
International bulk trade and bunkers	260	240	200	180	200
Total Products	2,300	2,200	1,960	1,760	1,920
Crude Oil	2,380	2,400	2,240	1,700	1,580
	4,680	4,600	4,200	3,460	3,500

Chemicals

The BP Group through both subsidiary and associated companies in six countries is a major manufacturer of chemicals including ethylene, propylene, butadiene, ethanol, acetic acid and plastics, including polyethylene, polypropylene and polyvinyl chloride.

The principal subsidiary operation is in the United Kingdom, where the BP Group manufactures a wide range of chemicals and plastics, most of which are derived from petroleum feedstocks obtained from BP Group refineries. A new ethylene plant, in which the BP Group has a 50% interest, is under construction near Teesside, England; when this plant is completed, which is expected to occur about mid-1978, it will increase the BP Group's United Kingdom ethylene capacity by 275,000 tons per year to approximately 1,000,000 tons per year. A pipeline, which will link this new plant to the BP Group's chemical plants at Grangemouth, Scotland, is expected to be completed this year. Construction at Grangemouth of a benzene plant with a capacity of 275,000 tons per year and of a Rigidex high density polyethylene plant with a capacity of 59,000 tons per year is scheduled to be completed in 1978. During 1976 construction started on a 165,000 tons per year acetic acid plant at Hull, England. When this plant is completed the BP Group's acetic acid capacity will be 408,000 tons per year, the largest of any company in Western Europe. In addition, through a subsidiary, the BP Group is engaged in the manufacture of chemicals in Australia.

The principal associated companies in the chemicals field in which the BP Group has interests are in Germany and France. In Germany the BP Group has a 50% interest in Erdolchemie G.m.b.H., and in France it has a 30% net interest in Naphtachimie S.A. The BP Group also has a 25% interest in a company which operates an ethylene pipeline system linking major petrochemical centers in Germany, The Netherlands and Belgium and interests in other associated companies which manufacture chemicals in South Africa, the United Kingdom, Germany, France and India.

Chemical sales by the BP Group increased from the equivalent of approximately $559 million in 1975, a level which reflected the world-wide recession during that year, to the equivalent of approximately $842 million in 1976, an increase of 51%, although the volume of sales in terms of tons increased by only 14% from 1975 to 1976. Income before United Kingdom taxation and interest from chemical operations of the BP Group and dividends received from associated companies (except Sohio) which have chemical operations, increased from the equivalent of approximately $50 million in 1975 to the equivalent of approximately $83 million in 1976. Increases in the dollar amount and tonnage of chemical sales in 1976 were largely attributable to increases in economic activity in Western Europe during the year. In 1976 the BP Group's chemical plants operated at approximately 81% of effective capacity compared with a level of 62% in 1975. Since the last quarter of 1976, chemical sales by the BP Group have levelled off in line with economic activity in Western Europe.

Coal

A summary of the estimated merchantable coal reserves of BP associated companies outside the United States by geographical area as of December 31, 1976 is given below. A brief description of the properties follows the summary.

SUMMARY OF ESTIMATED MERCHANTABLE COAL RESERVES(1)
(in thousands of short tons(2))

Geographical Area	Utilization(3)	Assigned(4)	Unassigned(5)	Total
Australia	93.5% metallurgical 6.5% steam	183,747	91,471	275,218
South Africa	100.0% steam	86,152	—	86,152

(1) "Merchantable" coal is recoverable coal believed to be of sufficient grade and thickness so located that it can be mined at a profit in substantial quantities by judicious methods under normal conditions in the industry.

(2) Short tons consist of 2,000 pounds each.

(3) "Metallurgical" coal (also known as coking coal) is coal suitable for metallurgical use because of its coking qualities and chemical characteristics. "Steam" coal is coal not suitable as metallurgical coal because of its non-coking characteristics. It is primarily used for the generation of electric power.

(4) Assigned reserves represent merchantable coal which can be mined on the basis of current mining practices and techniques through the use of mines currently in existence or under construction.

(5) Unassigned reserves represent merchantable coal which would require additional mine facilities for extraction. The extent to which these unassigned reserves will actually be mined depends on future economic and environmental conditions.

Australia. The BP Group acquired a 50% interest in Clutha Development Pty. Ltd. ("Clutha") as of January 1, 1977 for the equivalent of approximately $183 million payable over three years, plus up to the equivalent of an additional $17 million if Clutha's profits during the three years ending December 31, 1979 exceed specified levels. In 1976 Clutha's revenues were the equivalent of approximately $196 million. Of Clutha's assigned coal reserves approximately 10% can be mined from surface mines and 90% can be extracted from deep mines.

Metallurgical coal mined in the Burragorang and Hunter Valleys of New South Wales which is sold under contract to iron and steel producers in Japan and South Korea accounts for over 95% of Clutha's current annual production of some 6.4 million merchantable tons. The balance is steam coal which is mined in the western coal field of New South Wales and sold as steam coal to a local power station.

All of Clutha's merchantable reserves are of a quality which will meet the existing contract specifications, including those for sulphur content, and all are owned by the Commonwealth of Australia and mined under the terms of mining leases with the State of New South Wales.

South Africa. All of the BP Group's South African reserves are assigned to Ermelo Mines which is a joint venture in which the BP Group has a one-third interest. General Mining and Finance Corporation, a South African mining concern with substantial gold and coal mining interests, is the manager of the joint venture, and a wholly-owned subsidiary of Compagnie Francaise des Petroles, another international oil company, is the third partner.

All of the Ermelo Mines' reserves are located in the coal field in the eastern part of the Transvaal Province and will be extracted from deep mines which are currently under construction. As of June 1, 1977 three shafts had been sunk to encounter the coal seam and development work in the seam is under way. Full scale production at a rate of some 3 million tons per annum is planned to commence in 1979.

All the coal reserves of Ermelo Mines are steam coal with an average sulphur content of some one percent after beneficiation by washing. Sales contracts for the planned level of production are currently being negotiated with European electric utilities.

Nutrition

Since the beginning of 1975 the BP Group has become one of the European Economic Community's largest producers of specialized animal feeds through the acquisition of four companies which currently produce at the rate of 350,000 tons per year. Sales of animal feeds by the BP Group aggregated the equivalent of approximately $160 million in 1976.

The BP Group also has a 50% interest in a recently constructed plant in Sardinia designed to produce 100,000 tons per year of animal feed protein from petroleum sources by a BP Group process. The plant commenced operations in December 1976 in order to produce a small quantity of animal feed protein for testing, but operations were suspended in February 1977 at the request of the Italian government pending the completion of further tests regarding the safety of the product and possible modifications of the plant to eliminate alleged environmental hazards. At December 31, 1976 the BP Group's share of the cost of this plant was equivalent to approximately $30 million.

New Activities

A minerals department was established last year by the BP Group initially to investigate the opportunities for uranium and metals exploration. A minority interest has been acquired in an international consortium examining deep sea mining prospects in the Pacific Ocean.

The BP Group's offshore service company activities have been extended in the field of underwater survey. The BP Group is continuing to explore opportunities with other companies interested and active in underwater technology.

Research

The BP Group maintains research staffs at a research center and three factory-based laboratories in the United Kingdom, as well as research facilities in Germany and France. About 650 professional research scientists and engineers are employed by the BP Group in the United Kingdom. Research is concentrated in the areas of offshore oil, alternative energy sources, petroleum refining and marketing and petroleum chemicals. A number of processes and products developed by the BP Group are licensed to others throughout the world. Research and development expenditures were the equivalent of approximately $25 million in 1972, $29 million in 1973, $34 million in 1974, $43 million in 1975 and $43 million in 1976.

Environmental Protection

For many years the BP Group has been engaged in a continuing program to develop effective measures for the protection of the environment. These programs have been directed, among other things, at reducing sulphur levels in heavy fuel oil and gas oil, reducing lead levels in motor gasolines, developing more effective methods of containing and recovering spillage at sea, improving the quality of effluents discharged from the BP Group's refineries and chemical plants, and installing monitoring equipment at a number of the BP Group's facilities. The BP Group's internal procedures also ensure that the environmental aspects of all new developments are fully taken into account before approval for capital expenditure is given.

Employees

At December 31, 1976 the BP Group had approximately 78,000 employees, approximately 32,000 of whom were located in the United Kingdom.

Capital Expenditures

The capital expenditures of the BP Group, including its share of capital expenditures of associated companies (other than Sohio), were as follows for the years indicated.

Capital Expenditures

	1972	1973	1974	1975	1976	Total 1972-1976
			(£ million)			
Expenditures by BP Group Companies:						
Production and Exploration	73.8	139.1	338.2	535.8	609.9	1,696.8
Tankers	33.1	73.5	59.3	9.8	12.2	187.9
Refineries	27.6	37.7	25.1	31.9	30.8	153.1
Marketing	42.6	42.5	58.5	61.4	108.0	313.0
Chemicals	29.5	7.4	11.3	29.8	46.9	124.9
Total	206.6	300.2	492.4	668.7	807.8	2,475.7
Retirements and Other Deductions	66.0	239.1	96.7	135.9	137.5	675.2
BP Group Share of Expenditures by Associated Companies (other than Sohio):						
Production and Exploration	57.9	38.1	36.6	52.4	68.8	253.8
Refineries	19.1	19.9	38.6	24.2	30.7	132.5
Marketing	24.7	20.0	23.0	28.7	19.3	115.7
Chemicals	16.4	6.3	9.0	15.2	49.7	96.6
Total	118.1	84.3	107.2	120.5	168.5	598.6

	1972	1973	1974	1975	1976	Total 1972-1976
	($ million, translated for convenience only at the December 31, 1976 Noon Buying Rate £1 = $1.70)					
Expenditures by BP Group Companies:						
Production and Exploration	126	236	576	912	1,038	2,888
Tankers	56	126	100	17	20	319
Refineries	48	64	43	54	52	261
Marketing	72	72	100	104	184	532
Chemicals	50	12	19	50	79	210
Total	352	510	838	1,137	1,373	4,210
Retirements and Other Deductions	112	406	164	231	233	1,146
BP Group Share of Expenditure by Associated Companies (other than Sohio):						
Production and Exploration	98	65	62	89	117	431
Refineries	32	35	66	41	52	226
Marketing	42	33	39	49	32	195
Chemicals	28	12	15	26	86	167
Total	200	145	182	205	287	1,019

It is currently expected that the BP Group's capital expenditure program for 1977 and 1978 (excluding Sohio) will be at a level substantially the same in terms of 1976 dollars as that of 1976 although because of inflation and currency fluctuations the amounts actually expended will increase. The largest single category of expenditures in 1977 and 1978 will continue to be for production and exploration, mainly in the North Sea and decreasingly for TAPS. There are also increased expenditures planned for chemical projects, particularly in the United Kingdom, and for modifications of existing refineries throughout Western Europe during these years. Estimated expenditures for 1977 include the cost of the investment in Clutha Development Pty. Ltd. referred to under "Coal".

Funds generated internally by the BP Group provided a substantial proportion of the finance required to meet capital expenditures and other needs during the five years 1972-1976 and are expected to continue to do so in 1977 and 1978.

For information regarding the BP Group's estimated construction expenditures for TAPS, see "Interests in the United States—Interest in TAPS".

Interests in the United States

INTEREST IN SOHIO

On January 1, 1970, the BP Group acquired 1,000 shares of Special Stock of Sohio in exchange for the BP Group's principal operating subsidiary in the United States. As a result of this acquisition, Sohio acquired leases presently covering 135,313 net acres on the North Slope of Alaska, including 96,396 net acres in the Prudhoe Bay Field, as well as marketing, refining and transportation properties which had originally been acquired by the BP Group from Atlantic Richfield Company ("ARCO") in 1969. The Sohio Special Stock is pledged as collateral to secure notes issued to ARCO by a wholly owned BP Group subsidiary in connection with the acquisition of these properties. See Note C of Notes to the BP Group's Financial Statements. Pursuant to the agreement under which the Sohio Special Stock was issued, the BP Group has the right to purchase up to 54% of any Common Stock issued by Sohio for cash (with certain exceptions), and on October 9, 1975 it acquired for $68 per share 1,080,000 (54%) of the 2,000,000 shares of Common Stock sold by Sohio on that day.

The Sohio Special Stock at present entitles the BP Group to all the rights of a holder of 8,932,000 shares of Common Stock of Sohio, which, together with the additional 1,080,000 shares of Sohio Common Stock, gives the BP Group the equivalent of an approximate 26% Common Stock interest in Sohio. The share equivalent of the Sohio Special Stock will rise with increases in the "sustainable net production" (defined below) of crude oil from Sohio's Prudhoe Bay leases. BP's interest in Sohio will increase to the equivalent of an approximate 34% Common Stock interest when sustainable net production from such leases reaches 200,000 barrels per day, and will increase in agreed steps thereafter to a maximum of approximately 54% when such production reaches 600,000 barrels per day. When sustainable net production from such leases reaches 450,000 barrels per day, BP's interest in Sohio is expected to exceed 50%. The final interest in Sohio represented by the Sohio Special Stock will be determined on or before January 1, 1984, according to the highest rate of sustainable net production achieved at any time before that date. "Sustainable net production" means the daily average over any period of 90 consecutive days of crude oil produced and saved which is delivered to pipeline or tanker for refining, sale or exchange, and for use, in the United States or Canada, net of the 12½% royalty interest of the State of Alaska.

Following is a description of the business of Sohio.

Reserves and Production. On November 1, 1976, DeGolyer and MacNaughton, independent petroleum engineers, estimated the proved ultimate recoverable reserves of the entire Prudhoe Oil Pool and its associated gas cap at 9.2 billion barrels of crude oil, 500 million barrels of condensate, 8.5 trillion cubic feet of solution gas and 16.9 trillion cubic feet of gas cap gas. For these purposes, the term "Prudhoe Oil Pool and its associated gas cap" includes the Sag River sandstone, the Shublik Formation and the Sadlerochit Formation, which together comprise the main reservoir in the Prudhoe Bay Field.

In order to maximize ultimate recovery of the oil and gas reserves, the holders of interests in the main reservoir in the Prudhoe Bay Field have agreed effective April 1, 1977 to operate the field as a unit. Such holders have signed a unit agreement and a unit operating agreement which establish separate production participations in the oil rim (which contains the crude oil and solution gas) and the gas cap (which contains the condensate and gas cap gas). The agreements provide that Sohio will have production participations of approximately 53.155% in the oil rim and 14.818% in the gas cap, in each case before deduction of the royalty interest of the State of Alaska described below and the interests of the BP Group described under "Business and Property—Interests in the United States—Other Interests in the United States".

Under the unit operating agreement, the obligations of participants in production from the gas cap to contribute costs allocated to the gas cap will be in proportion to their respective production participations in the gas cap. However, Sohio's cost obligation, as a participant in production from the oil rim, for investment costs allocated to the oil rim will be slightly less than its production participation in the oil rim during the first ten years of oil production. Thereafter, all investment costs allocated to the oil rim will be shared by the oil rim participants on the basis of their respective production participations, as will any operating and maintenance costs allocated to the oil rim during all periods of production.

For the purpose of development and operation, the Prudhoe Bay Field has been divided into two areas of approximately equal size. BP Alaska Inc. ("BP Alaska"), a wholly-owned subsidiary of BP, is the operator of the western portion and ARCO is the operator of the eastern portion of the field. Prior to unitization of the field, the cost of the initial phase of development of the western portion of the field was borne by Sohio, together with a share of the cost of the construction of a power station and a gas compression plant which will service the entire field. Equalization of pre-unitization costs will be accomplished through a reduction in future development expenditures by Sohio of approximately $57.5 million. Through December 31, 1976 Sohio had expended approximately $1,351 million for initial Prudhoe Bay Field development, and Sohio expects to expend approximately $430 million for such development in 1977 (after giving effect to the reduction described in the preceding sentence).

Provision is made in the unit operating agreement for the possibility that from time to time a participant might not be able to take in kind or otherwise dispose of its full entitlement to the crude oil and condensate production capability level of the reservoir (defined as the maximum efficient rate of production or the design capacity of pipelines servicing the Prudhoe Bay Field, whichever is less). Any participant who at any time fails to take in kind or otherwise dispose of its full entitlement is obligated to maintain a standing offer to sell, at a price not greater than fair market value, to any other participant or any third party any oil not so taken or otherwise disposed of by such participant. The unit operating agreement provides for an initial period during which Sohio may take, on a cumulative basis, up to ten million barrels less than its full entitlement (lesser cumulative amounts are applicable to other participants). Once a participant reaches its cumulative amount, if it is still unable to take in kind or otherwise dispose of its full entitlement, it has the right at any time thereafter to cause the unit operator to adjust the level of total production from the reservoir to a level at which the quantity of crude oil and condensate delivered to such participant is equal to its full production participation in the reduced level of total production. Notwithstanding the foregoing, each participant always has the right to take at least 80% of its full entitlement. In general, a participant may recoup at any time any production from the field to which it was entitled but did not in fact take or otherwise dispose of, out of spare production capacity (if any) or, if not enough spare capacity is available, out of up to 10% of production. See "Projected West Coast Crude Oil Surplus and Proposed West Coast-Midcontinent Pipeline System".

Production facilities capable of handling at least 600,000 barrels per day of crude oil output are ready for operation, and such facilities capable of handling 1,200,000 barrels per day are scheduled to be operational in the third quarter of 1977. During 1978 and 1979 the capacity of the production facilities will be increased to 1,500,000 barrels per day. Any increase in production would require an expansion of TAPS to a capacity of more than the 1,200,000 barrels per day currently being constructed. Commercial production of Prudhoe Bay oil is expected to commence in the third quarter of 1977. Until a gas pipeline is available, produced gas will be reinjected into the reservoir. A production plan for gas which calls for production to commence at a rate of 2 billion cubic feet per day as soon as gas pipeline facilities are available has been agreed upon by the participants and approved by the State of Alaska. It is anticipated that such pipeline facilities will not be available for at least five years.

The State of Alaska has a 12½% royalty interest in Sohio's Alaskan production. This interest entitles the State either to take in kind 12½% of Sohio's Alaskan production or to receive an amount of cash equivalent to 12½% of the price or value at the wellhead of all such production.

The State of Alaska has a severance tax which was increased in May 1977 to the higher of (a) a specified amount per barrel of oil produced, subject to adjustment in the future based on the value of crude oil produced in Alaska and the general level of prices in Alaska and elsewhere in the United States, or (b) a percentage of the gross wellhead price of oil produced. Such specified amount and such percentage are each related to the average rate of production per well for a field; in the case of the Prudhoe Bay Field, it is estimated that, once commercial production begins, for the next two to three years (a) such specified amount will be approximately $0.76 per barrel and (b) such percentage will be approximately 11.7%. The State of Alaska has also imposed a tax on oil reserves on the North Slope for 1976 and 1977 which will be creditable against future severance taxes. Sohio's reserves tax payment was approximately $121 million in 1976, and Sohio has been assessed approximately $141 million in 1977. The State also imposes an annual ad valorem tax at a rate of 20 mills (two cents) per dollar of assessed valuation on all oil and gas exploration, production and pipeline equipment. In addition, the North Slope Borough has imposed taxes on certain other assets within the Borough at a rate per annum for 1977 aggregating 7.5 mills (0.75 cents) per dollar of assessed valuation.

Several bills were introduced for consideration by the 1977 session of the Alaskan Legislature prior to its adjournment. If enacted, these bills would have substantially increased ad valorem taxes and taxes on receipts or profits derived from Alaskan oil production. Various proposals for substantial increases in the effective rates of corporate income taxes were also introduced. Certain of these bills, if enacted, would have had a material adverse impact on Sohio. Sohio and BP are unable to predict whether any similar proposals will be reintroduced in the future or whether any such proposals might be enacted.

For information concerning advance sales by Sohio of crude oil from its Prudhoe Bay reserves, see Note F of Notes to Sohio's Consolidated Financial Statements.

In April 1973, a Federal court held that the Alaskan Native Claims Settlement Act extinguished, as of the date of its enactment in December 1971, all aboriginal titles claimed by Alaskan natives to certain lands, including Alaskan North Slope lands. However, the court interpreted the Act as not extinguishing certain causes of action for trespasses which may have occurred prior to its enactment. In October 1975, the United States Department of Justice, acting for certain Alaskan natives, filed a suit charging numerous defendants, including subsidiaries of Sohio and BP, with trespasses on lands on the North Slope of Alaska as to which such natives were alleged to have had aboriginal title prior to the passage of the Act. A native association intervened as an additional plaintiff. The plaintiffs sought an unspecified amount of damages. On June 3, 1977, the court granted the defendants' motion to dismiss the suit on the ground that all aboriginal claims were extinguished by the Alaskan Native Claims Settlement Act. It is expected that the plaintiffs will appeal this decision.

Exclusive of reserves under its Alaskan leases described above, as of December 31, 1976 Sohio had estimated net proved reserves (after deducting royalties, quantities estimated to be required to extinguish production payments, and other interests) of approximately 66 million barrels of crude oil, condensate and natural gas liquids, of which 57 million barrels are developed reserves, and approximately 250 billion cubic feet of natural gas, of which 234 billion cubic feet are developed reserves. All of such reserves are located in the contiguous 48 states.

As of December 31, 1976, Sohio's production was being obtained from approximately 1,567 net (10,071 gross) oil wells and 185 net (544 gross) gas wells located in 16 states and Federal offshore properties. At the end of 1976, Sohio held producing leases amounting to approximately 188,000 net (1,284,000 gross) acres. In addition, exclusive of its Alaskan interests, it held non-producing leaseholds on approximately 307,000 net (598,000 gross) acres in the United States. Sohio's net domestic production of crude oil, condensate and natural gas liquids, after deduction of royalities and interests of others, averaged 25,479 barrels per day in 1976, or about 5.7% of its refinery capacity. In addition, Sohio owns a 5/12th of 1% interest in the Iranian consortium which is further described under "Business and Property—Crude Oil—Middle East and Nigeria". Sohio's Iranian liftings averaged 16,448 barrels per day in 1976, or about 3.7% of its refinery capacity. Sohio's net domestic production of natural gas, after deduction of royalties and interests of others, averaged approximately 79 million cubic feet per day in 1976.

In 1976 Sohio purchased an average of approximately 55,700 barrels per day of crude oil from other domestic producers and approximately 277,600 barrels per day from foreign producers including the BP Group. Sohio's principal sources of foreign crude oil are the Middle East, North Africa and West Africa. In addition, Sohio purchased an average of approximately 46,200 barrels per day under the Federal domestic crude oil allocation program. See "U.S. Regulation".

Projected West Coast Crude Oil Surplus and Proposed West Coast-Midcontinent Pipeline System. The principal market for North Slope crude oil will be the West Coast of the United States, where Sohio projects a probable surplus of crude oil with the commencement of North Slope production. Although the extent of the surplus is difficult to estimate precisely, Sohio estimates that operation of TAPS at its initial design capacity of 1,200,000 barrels per day in late 1977 and 1978 would result in a surplus of crude oil available to the West Coast market in the range of 300,000 to 600,000 barrels per day; and Sohio believes that such a surplus would most likely be in the higher end of this range. In view of the expected West Coast surplus, the restriction upon the export of North Slope crude oil contained in the Federal law which authorized the construction of TAPS and the anticipated shortage of crude oil in the midwestern states, a number of proposals have been made for facilities to transport Alaskan and other crude oil from the West Coast to other United States markets. Since Sohio does not own refining and marketing assets on the West Coast, it expects that it will be required to transport a disproportionate amount of any such surplus to other markets. Any marine shipment of crude oil from the West Coast to other United States markets would result in additional transportation cost and would, under current statutory requirements, be required to be in "Jones Act" tankers or in certain other U.S. flag tankers which have been approved for such trade under regulations of the United States Department of Commerce Maritime Administration (described below under "Tankers"). Sohio currently expects that sufficient capacity in such tankers will not be available until mid-1978 to ship all of the potential West Coast surplus through the Panama Canal to other United States markets.

Under the foregoing circumstances, and unless the restriction upon the export of North Slope crude oil or the requirements for marine shipment in Jones Act and other eligible U.S. flag tankers should be waived or modified, it is expected that Sohio will not be in a position until mid-1978 to take or otherwise dispose of its full entitlement of Prudhoe Bay crude oil production at a Prudhoe Bay production level of 1,200,000 barrels per day (approximately 637,860 gross barrels per day). In such a case, pursuant to the provisions of the unit operating agreement described under "Reserves and Production" above, Prudhoe Bay crude oil production might be reduced to a level of less than 1,200,000 barrels per day until mid-1978.

In order to provide efficient transportation of the expected surplus crude oil to other markets, Sohio is pursuing the development of a pipeline system from the West Coast to Midland, Texas. Sohio has reached preliminary agreements with the owners of existing gas transmission pipelines covering the major portion of such distance for conversion and lease of such gas pipelines to Sohio and others for use as a crude oil pipeline. The "abandonment" from natural gas transmission service and the

conversion of certain of these facilities and subsequent lease thereof by Sohio and others are subject, among other things, to receipt of necessary approvals from the Federal Power Commission and the California Public Utilities Commission. In addition, approximately 250 miles of new pipeline would be needed to complete a pipeline system from proposed terminal facilities at Long Beach, California to Midland, Texas, where it would connect with existing pipeline networks. Application has been made to the Bureau of Land Management of the United States Department of the Interior for a right-of-way permit across certain Federal lands in the State of California which would be used for a portion of the route.

The required environmental impact reports for the West Coast-Midcontinent pipeline system [illegible] were approved and issued by the Department of the Interior and the State of California in May and June 1977. Hearings have been held by the Federal Power Commission on the "abandonment" application. The California Air Resources Board has indicated opposition to the proposed Long Beach terminal facilities based upon concerns relating to the impact of such facilities on the quality of air in the Long Beach area. Any terminal facilities in California would also be subject to approvals by the California Coastal Zone Conservation Commission and would be governed by state laws controlling development of the California coastal zone.

The time period required to obtain all of the necessary permits and approvals to proceed with construction of the project cannot be accurately determined at this time. Sohio expects that the pipeline could commence operations at an initial capacity of 350,000 barrels per day within 18 to 20 months after receipt of the necessary approvals. The initial capacity of the pipeline could be expanded to 500,000 barrels per day approximately five months after commencement of commercial operations.

Sohio expects that ownership of the West Coast-Midcontinent pipeline and terminal facilities will be shared with other companies having similar interests in transporting crude oil from the West Coast into the midcontinent area. On June 20, 1977 Exxon Pipeline Company terminated its 20% participation in the pre-construction phase (design, engineering and obtaining of permits) of such system because of what it considered to be unreasonable air quality requirements being proposed by authorities in California. Sohio's ultimate percentage of ownership, the cost and the future of this project are uncertain at this time. With utilization of the leased gas pipeline facilities, an estimated initial investment by the participants of approximately $475 million (not including interest costs during construction or the capitalized value of the leased pipeline) would be required to provide a crude oil transportation system with a throughput capacity of 500,000 barrels per day from Long Beach, California to Midland, Texas. If such facilities were expanded to provide for a capacity of 1,000,000 barrels per day, additional capital investments estimated at approximately $300 million would be required.

Tankers. The tankers required to transport Alaskan crude oil to domestic ports will be subject to the Merchant Marine Act of 1920 (the "Jones Act") which requires that cargo transported between domestic ports be carried in ships built and registered in the United States, owned and operated by United States citizens, manned by United States crews and, except to the extent permitted under Maritime Administration regulations, free of Federal subsidies. On June 24, 1977, the Maritime Administration issued regulations prescribing the circumstances under which owners or bareboat charterers of U.S. flag tankers built with Federal construction subsidies may apply for eligibility to transport, on an interim basis, Alaskan crude oil to the Panama Canal. The Jones Act requirements will also necessitate Sohio's chartering rather than owning such tankers since companies with more than 25% foreign ownership are not considered to be United States citizens for purposes of such Act. The cost of building and operating Jones Act and other U.S. flag tankers is substantially higher than that of foreign flag tankers.

Approximately 1,400,000 deadweight tons of Jones Act and other eligible U.S. flag tankers would be required to transport from the port of Valdez to the West Coast the gross amount of Alaskan crude oil to which Sohio will be entitled at a Prudhoe Bay production level of 1,200,000 barrels per day. Sohio currently has two Jones Act tankers aggregating 160,000 deadweight tons on long-term charter and has reached an agreement whereby another company will provide three Jones Act tankers aggregating 280,000 deadweight tons under a contract of affreightment for a term of three years during the initial years of Prudhoe Bay production. Sohio also holds contracts for the construction of six Jones Act tankers totaling 900,000 deadweight tons for delivery from mid-1977 through mid-1978. Sohio has entered into letters of intent with a company under which such company will operate four of the tankers which are currently under construction. Sohio expects to assign the construction contracts for these four vessels to a United States bank acting as trustee for investors who are United States citizens and who will provide the equity portion of the financing for the vessels under leveraged leasing arrangements and will time charter the vessels to Sohio. A commitment, subject to various conditions, has been received from the Maritime Administration to guarantee the debt portion of the financing for these four vessels under Title XI of the Merchant Marine Act of 1936. Sohio expects that the other two of the six tankers under construction will be financed, chartered and operated in a similar manner.

Sohio has chartered 17 additional tankers for Jones Act service aggregating 1,170,000 deadweight tons for periods of from one to three years beginning in 1977 and early 1978. Sohio has obtained the use of these 17 additional tankers on a short-term basis primarily in order to transport a portion of its share of the anticipated West Coast surplus of crude oil through the Panama Canal. Certain of such tankers may also be utilized to transport crude oil from Valdez to the West Coast. If the West Coast surplus is in the higher end of the projected range, Sohio believes that there will be insufficient capacity in Jones Act and other eligible U.S. flag tankers to transport all of such surplus through the Panama Canal until mid-1978. The impact upon Sohio of any such insufficiency cannot be accurately assessed at the present time.

Sohio currently utilizes foreign flag tankers to transport foreign crude oil to East Coast and Gulf Coast ports of the United States. These operations are carried out primarily under various contractual arrangements with remaining terms of from one to twelve years that provide approximately 1,250,000 deadweight tons of tanker capacity.

Existing Pipeline Systems. In addition to its interests in TAPS, Sohio currently owns and operates crude oil and petroleum product pipelines located in 12 states. These pipeline systems consist of approximately 1,500 miles of crude oil gathering lines and 1,250 miles of crude oil and product trunk lines. Sohio also has direct or indirect interests in various pipelines which operate large-diameter lines and provide Sohio with a means to transport to its Ohio refineries domestic crude oil from southwestern producing areas and foreign crude oil landed on the Gulf Coast. Sohio also owns interests in certain refined products pipelines which serve its marketing areas.

Refining. Sohio currently owns and operates three refineries with an aggregate rated capacity of 449,000 barrels of crude oil per calendar day. Locations of these refineries and their rated crude oil capacities are: Toledo, Ohio—120,000 barrels per day; Marcus Hook, Pennsylvania—161,000 barrels per day; and Lima, Ohio—168,000 barrels per day. During 1976, crude oil processed at Sohio refineries averaged approximately 405,000 barrels per day.

Petroleum Marketing. Sohio is, and for many years has been, the leading marketer of gasoline and other refined petroleum products in Ohio, under the trade name "Sohio". Sohio also markets such products under the trade name "Boron" through its wholly-owned subsidiary, BP Oil Inc., principally in central and western Pennsylvania and southeastern Michigan, and to a limited extent in areas of Kentucky, West Virginia and Indiana adjacent to Ohio. In addition, BP Oil Inc. markets refined petroleum products under the trade names "BP" and "Wm. Penn" through retail outlets in the New England and mid-Atlantic areas of the country. During 1976, petroleum products sold by Sohio averaged approximately 402,500 barrels per day and petroleum sales and operating revenue aggregated approximately $2,444 million. See also Notes P and W of Notes to Sohio's Consolidated Financial Statements.

Chemicals and Plastics. Sohio's chemicals and plastics operations are conducted by Vistron Corporation, a wholly owned subsidiary. Vistron's operations include agricultural chemicals, industrial chemicals and fabricated plastics. Products manufactured by Vistron include acrylonitrile and associated by-products, acrylamide, polyester resins, Barex 210 resin and Catalyst 41, which is used in the production of acrylonitrile. These products are used by Vistron in manufacturing its line of industrial and consumer products or are sold to other manufacturers. Vistron also manufactures and sells ammonia, nitric acid, liquid ammonium nitrate, urea, carbon dioxide and nitrogen solutions and it markets potash, phosphates, pesticides and seed corn. In 1976, Sohio's chemicals and plastics sales and operating revenues aggregated approximately $318 million.

The United States Food and Drug Administration ("FDA") recently stated that it has suspended the issuance of approvals of the use of acrylonitrile in beverage bottles. In addition, Vistron is currently participating in an FDA hearing which could result in restrictions or prohibitions on the use of acrylonitrile in such bottles. Recent private studies have indicated that continued exposure to acrylonitrile at low levels may cause long-term detrimental health effects. Sohio expects continued regulatory action directed at controlling the use and manufacture of acrylonitrile.

Coal Production, Marketing and Reserves. Sohio, through its Old Ben Coal Company division ("Old Ben") of Sohio Petroleum Company, a wholly-owned subsidiary, produces and markets bituminous coal, approximately 60% of which is produced from underground mines and the balance from surface mines. In 1976, Old Ben produced about 9.7 million tons of bituminous coal, and coal sales and operating revenue aggregated approximately $149 million. Approximately 75% of Old Ben's sales is steam coal, which is generally sold to the electric utility industry on the basis of its b.t.u. or heating content. The remainder of Old Ben's coal is metallurgical coal, which is sold principally to iron and steel producers for its coking characteristics and its low ash and sulphur content. Approximately 67% of Old Ben's production is committed under long-term contracts, and the balance is sold under annual or spot arrangements. If proposed or adopted governmental regulations restricting sulfur dioxide emissions prohibit the use of high-sulfur coal, there can be no assurance that all of Old Ben's long-term sales contracts will be enforceable.

Old Ben produces coal from six mines located in Illinois, Indiana and Virginia. All these mines produce steam coal, and three also produce metallurgical coal. Old Ben is adding two deep mines located in Illinois, the first of which is scheduled to begin operation in the third quarter of 1977. The cost of developing these two mines and the accompanying coal preparation plant is estimated at approximately $90 million. It is anticipated that the two new deep mines will reach their total production capacity of 4.5 million tons of steam coal per year by 1981. Old Ben has entered into two agreements which provide for an aggregate of up to $101.7 million of advance payments for the development of new facilities, repayable solely from the proceeds of the sale of coal production from these facilities.

Old Ben controls, by means of fee ownership or lease, bituminous coal estimated at 844 million recoverable tons. Of this total, 276 million tons are reserves assigned to active mines and 178 million tons are unassigned reserves. Assigned reserves represent recoverable coal which can be mined on the basis of current mining practices and techniques through the use of mines currently in existence or under construction. Unassigned reserves represent recoverable coal which would require additional mine facilities for extraction. The balance of 390 million tons represents an estimate of coal upon which Old Ben has not conducted engineering or economic feasibility studies necessary to determine the conditions under which the coal can be extracted on a commercial basis; however, this estimate is based on test data and other information comparable to that used in establishing estimates of unassigned reserves.

On the basis of the test data relating to thickness, quality and extent of particular coal seams as evaluated by Old Ben's engineers, Old Ben estimates that approximately 83% of its recoverable reserves is of a quality suitable only for steam purposes.

Research, Patents and Licensing. Sohio conducts a program of research and development directed towards the invention and improvement of petroleum, chemical and plastics products and processes and also toward the improvement of environmental controls for its operating facilities. Research expenditures were approximately $10.5 million in 1976.

Sohio owns patents in the petroleum, chemical and plastics fields which it uses and which it has also licensed to others. Sohio's royalty revenue, the major portion of which is from the sale of licenses of its acrylonitrile process (under which income is recognized at the time of sale), has declined from approximately $41 million in 1974 and $23 million in 1975 to $5 million in 1976.

Other Activities. Sohio has a 50% interest in an underground uranium ore mine and processing mill in New Mexico, which commenced operations in 1976. Scheduled production levels have not yet been achieved; however, the mine and mill are expected ultimately to produce approximately one million pounds of uranium concentrates per year. The uranium reserves, estimated in 1975 at approximately 4.2 million tons with an average grade of .186% of uranium oxide, are expected to be sufficient to maintain production for approximately 12 to 15 years. A significant portion of the production from this complex will be sold under long-term contracts.

Sohio has been involved for many years in the development of technologies for production of shale oil and has acquired interests in oil shale properties in Colorado and Utah. Under existing cost and price conditions, the production of oil from shale is not economically feasible.

Sohio owns a 49% interest in Hospitality Motor Inns, Inc., which operates a number of motor inns in Ohio and neighboring states under the name Hospitality Motor Inns, a number of interstate highway restaurants using, as franchisee, the name Dutch Pantry and a vending business.

U.S. Regulation. Sohio's petroleum operations in the United States are subject to regulatory control by the Federal Energy Administration ("FEA") under the Emergency Petroleum Allocation Act of 1973, as amended by the Energy Policy and Conservation Act of 1975 and the Energy Conservation and Production Act of 1976. FEA regulations are directed, among other purposes, at implementing Congress' determination that domestic crude oil prices should generally remain below prices for imported crude oil. Accordingly, the FEA has established a system of price controls on crude oil and certain refined petroleum products and programs of domestic crude oil allocation and crude oil cost equalization.

Under the pricing program, domestic crude oil is classified as "lower tier", "upper tier" or "stripper well". The FEA sets ceiling prices for the first two classes as long as the actual composite price of all domestic crude oil (based on a weighted average of first sale prices) is lower than the statutory composite price which, being originally equal to $7.66 per barrel, is adjusted upward at a maximum rate of about 10% annually. Due to a determination that actual composite prices in early 1976 were in excess of statutory composite prices, the FEA froze prices, effective July 1, 1976, and announced two price rollbacks on "upper tier" oil which aggregated 65 cents per barrel and are to be in effect through July 1977. Further pricing actions by the FEA cannot be predicted at this time.

The domestic crude oil allocation program is designed to correct possible imbalances in the supply of domestic crude oil between integrated and non-integrated refiners by means of a system of purchase allotments.

The cost equalization (entitlements) program is designed to avoid competitive disadvantages among refiners which would otherwise stem from the fact that the lower costs of price-controlled domestic crude oil are not shared equally among the different regions of the country and the different segments of the refining industry. Under the program, the FEA makes a notional allocation of domestic crude oil supplies among refiners, and on the basis of such allocation, a refiner processing "lower tier" oil in excess of its "quota" must purchase the right (called an "entitlement") to process it from a refiner processing such oil in quantities below its "quota". Sohio earned $221 million before taxes during 1976 by selling entitlements to other refiners.

On April 30, 1977, the FEA issued a notice of proposed rule-making in which it set forth its proposals for the treatment of Alaska North Slope crude oil under the price control and cost equalization programs. The FEA proposed that the wellhead price of Alaska North Slope crude oil be controlled at the ceiling price for comparable "upper tier" oil and be treated as imported oil for purposes of the cost equalization program, which treatment would result in the incurrence of no entitlements obligations by refiners processing such oil. Public hearings on such proposals were held in late May, and it is expected that the FEA will issue an implementing order in the near future.

The FEA has been conducting a continuing audit of Sohio's records relating to costs and prices. Sohio and the FEA have several disputes relating to regulations issued by the FEA, including certain crude oil cost accounting and product pricing procedures. Sohio believes that it has complied in all material respects with all properly adopted regulations and it is contesting the FEA positions. Should the FEA positions be sustained, remedial action (prospective and/or retroactive), including prohibitions against the recovery of certain increased costs which would otherwise be recoverable by increasing prices, or refunds to customers, could be ordered and penalties could be assessed. While Sohio does not expect that any single item currently in dispute will have a material impact upon the results of Sohio's operations, if several of the possible penalties and remedies were to be sustained, there could be a material impact on the future results of operations of Sohio. However, Sohio does not believe that a final resolution of these matters will have a material impact on its financial position.

The President has recently announced a national energy program which includes, among other things, proposals for taxes on domestic crude oil production, changes in energy pricing and coal usage and re-organization and consolidation of several Federal agencies. Many of the President's proposals will require implementing legislation from Congress. At this time Sohio and BP cannot predict what effect, if any, these proposals, if enacted, may have on their operations in the United States.

A number of bills have been introduced in the U.S. Congress and in state legislatures which, if enacted, would seriously affect companies in the petroleum industry. One of these bills, which was passed by the Senate in the last session of Congress and has been reintroduced, would require all major integrated petroleum companies (referred to in a Senate Committee report as including "BP-Sohio") to divest themselves within five years of domestic and foreign assets in all but one of the following areas: (i) petroleum production, (ii) petroleum transportation by pipeline and (iii) petroleum refining and marketing. If such a bill were to become law, it would have a material adverse effect on Sohio and might require changes in BP's relationships with Sohio. Other proposed legislation would provide various additional regulatory measures and would prohibit a company's involvement in the development of any other energy sources so long as it is involved in the development of crude oil and natural gas.

The U.S. Federal Trade Commission is conducting an investigation of the operations of several oil companies, including Sohio, in the western United States and Alaska. Sohio has received requests for certain information, including information relating to its Prudhoe Bay leases and TAPS, and has complied with such requests.

Environmental Controls. Federal, state and local laws and regulations relating to protection of the environment affect Sohio in many areas. Expenditures are being made in order to comply with these regulations. At the present time, Sohio is a party to a number of administrative and judicial environmental proceedings. Sohio does not believe that such environmental proceedings will have a material effect on its business or financial condition.

Capital Expenditures. Sohio's capital expenditures (including capitalized interest) in 1976 aggregated approximately $1,052 million for TAPS, $532 million for development of the Prudhoe Bay Field and $115 million for other purposes. In addition, Sohio made progress payments for the construction of Alaskan tankers aggregating approximately $94 million in 1976. Although the timing and amounts of capital expenditures for future years cannot be precisely determined at this time, Sohio estimates that its capital expenditures for 1977 will aggregate approximately $95 million, excluding expenditures for TAPS (see "Interest in TAPS"), Prudhoe Bay Field development costs (see "Reserves and Production") and other facilities to transport Prudhoe Bay oil to market (see "Projected West Coast Crude Oil Surplus and Proposed West Coast-Midcontinent Pipeline System"). Progress payments for the construction of Alaskan tankers are expected to amount to approximately $264 million in 1977. Sohio anticipates financing its capital expenditures through internally generated funds, borrowings, the sale of securities or the sale of assets.

The documents relating to the joint debt financing by Sohio and BP described in Note J of Notes to the BP Group's Financial Statements contain certain restrictions and covenants. The financial covenants, as amended, limit Sohio's borrowing ability to a maximum of $5,000 million for expenditures for the production and transportation to market of its Prudhoe Bay crude oil. This amount, together with other permitted borrowings, internally generated funds and possibly the sale of equity, should, in Sohio's opinion, be sufficient to finance its share of these projects at current cost estimates and to provide some allowance for contingencies above such cost estimates. If the cost of these projects should substantially exceed current estimates, or if internally generated funds should be significantly less than anticipated, without modification of these covenants Sohio would be required to sell equity, to sell assets or to reduce its obligations with respect to expenditures for the production and transportation of Prudhoe Bay crude oil. Through March 31, 1977, Sohio had incurred indebtedness (as defined in the covenants) in the aggregate amount of approximately $3,401 million to finance expenditures for the production and transportation of its Prudhoe Bay crude oil. Also, through March 31, 1977, Sohio had applied internally generated funds and proceeds from the sale of equity securities aggregating approximately $847 million to finance such expenditures and had incurred $275 million of indebtedness, which is exempt from the $5,000 million limitation referred to above, for financing the State of Alaska tax on Prudhoe Bay reserves.

INTEREST IN TAPS

A wholly-owned BP Group subsidiary, BP Pipelines Inc. ("BP Pipelines"), owns a 15.84% undivided interest in TAPS, which consists of a 48-inch crude oil pipeline, running approximately 800 miles from Prudhoe Bay to the ice-free port of Valdez on Alaska's southern coast, and a tank farm and marine terminal at Valdez. The System has an initial design capacity of 1,200,000 barrels per day and is designed to be capable of expansion to a throughput capacity of 2,000,000 barrels per day. Sohio Pipe Line Company ("Sohio Pipe Line"), a wholly-owned subsidiary of Sohio, owns a 33.34% undivided interest in TAPS.

In addition to BP Pipelines and Sohio Pipe Line, six other companies hold undivided interests in TAPS. Under the undivided interest form of ownership, each participant owns its percentage share of the System as its exclusive property and is required to contribute its corresponding share of the total cost of the System. Each of the non-affiliated TAPS participants has agreed to utilize its share of the System as an independent common carrier, separately publishing tariffs and receiving tenders for shipments through its portion of the capacity of the System. The TAPS owners formed Alyeska Pipeline Service Company ("Alyeska") to serve as their agent and contractor in the design, construction and operation of TAPS. Alyeska has no direct or indirect ownership interest in the System.

In connection with the decision by the TAPS participants to construct the System initially with a design capacity expanded from 600,000 barrels per day to 1,200,000 barrels per day, and in light of the substantial increase in the estimated cost of TAPS since the pipeline was planned in 1969, BP and Sohio entered into an agreement effective as of July 8, 1974 (the "July 1974 Agreement") pursuant to which BP Pipelines acquired its 15.84% undivided interest in TAPS from Sohio Pipe Line in order to facilitate the financing of TAPS. The July 1974 Agreement contemplated that BP Pipelines would lease its 15.84% interest in TAPS to Sohio Pipe Line, but it has been decided that for the time being no such lease will be entered into and that BP Pipelines will hold its interest in the System as a separate common carrier. The July 1974 Agreement further provides that if such a lease is not entered into, then so long as TAPS design capacity is 1,200,000 barrels per day, Sohio and BP will each tender its oil production which is available for shipment through TAPS to BP Pipelines and to Sohio Pipe Line in proportion to their respective ownership interests in TAPS. The tariffs charged by Sohio Pipe Line and BP Pipelines may not be significantly higher than the highest tariff charged by a third party in respect of TAPS (except that neither BP Pipelines nor Sohio Pipe Line shall be obligated to post a tariff that does not currently compensate it for normal debt service and normal operating costs). If TAPS is expanded beyond

1,200,000 barrels per day design capacity and BP Pipelines elects not to acquire any additional capacity, Sohio will continue to cause to be tendered to BP Pipelines the amount of oil which it had tendered prior to expansion, subject to reduction under certain circumstances.

The July 1974 Agreement also provides for reciprocal and preferential rights to purchase any undivided interest in TAPS that either Sohio Pipe Line or BP Pipelines may wish to transfer to a third party. It further provides that if Sohio Pipe Line or BP Pipelines proposes to transfer any undivided interest in TAPS to a third party, in connection with any sale or exchange of North Slope crude oil to or with such third party, the other will have the right to transfer one-half of the aggregate TAPS interest to be so transferred.

As of June 12, 1977, construction of the System was estimated to be approximately 98% complete. At such time, construction of the pipeline and pump stations was virtually complete and work on the Valdez terminal was estimated to be approximately 93.5% complete. Facilities capable of transporting 600,000 barrels per day are ready for operation, and construction of the System to its initial design capacity of 1,200,000 barrels per day is on schedule for completion later in 1977. Crude oil was introduced into the pipeline at Prudhoe Bay on June 20, 1977. Commercial operations are expected to commence in the third quarter of 1977.

Alyeska continuously reviews its estimates of the cost of the various components of the System, and its overall estimate is subject to change as construction proceeds. On June 16, 1977, Alyeska delivered to the TAPS owners a budget reflecting a capital cost for TAPS with an initial design capacity of 1,200,000 barrels per day of approximately $8,020 million, consisting of $7,777 million of capitalized construction costs and $243 million of costs associated with final testing and preparation for use of the System incurred prior to an assumed September 1, 1977 start-up. Such budget does not include interest costs incurred during the construction period. Based on such budget, BP's and Sohio's shares of the capital costs for TAPS (including interest costs during the construction period) would be approximately $1,487 million and $3,170 million, respectively. Of these amounts approximately $1,346 million and $2,852 million, respectively, had been expended as of May 31, 1977.

The Departments of the Interior and Transportation are conducting investigations of the welding on TAPS. BP believes that all necessary remedial work on the welds has been accomplished. If substantial additional re-auditing of field welds or further remedial work should be required by government authorities, increased costs and delay in the completion of construction of segments of the System and reductions in levels of commercial operations could result.

In March 1976, Alyeska revised its preliminary estimate of the cost to expand the System to a capacity of 1,600,000 barrels per day from approximately $490 million to approximately $675 million. Alyeska previously had estimated that the cost to expand the System from 1,200,000 to 2,000,000 barrels per day would be approximately $850 million, and a current estimate of such an expansion would most likely be higher.

U.S. Regulation of Pipeline Carriers

Interstate Commerce Act. The Interstate Commerce Act gives the Interstate Commerce Commission ("ICC") jurisdiction over common carriers engaged in the pipeline transportation of oil in interstate and foreign commerce. The Act requires such carriers to file tariffs with the ICC showing all rates, charges, classifications, regulations and practices between all points on their systems, and prohibits them from collecting any different compensation for transportation from that specified in their tariffs. Under the Act their rates, charges and classifications must be just and reasonable and must not subject any shipper, locality or territory to any undue or unreasonable prejudice or disadvantage. A carrier's pipeline revenues at a particular rate level are considered by the ICC to be reasonable if they do not exceed the level necessary to cover operating expenses and income taxes and provide a proper rate of return on the valuation of pipeline properties owned or used by such carrier. The method of valuation currently utilized by the ICC takes into account original cost, cost of reproduction new, cost of reproduction new less depreciation, and other elements of value. See "Pipeline Consent Decree" below. Upon the filing of a tariff, if the ICC, either on the basis of a protest by a third party or on its own motion, believes that a hearing concerning the lawfulness of the tariff is warranted, it may institute an investigation and schedule a hearing. Pending the hearing and decision, the ICC may suspend the operation of the tariff for as long as seven months. If the ICC, at the conclusion of a hearing, finds that a rate is unjust or unreasonable, unjustly discriminating, unduly preferential or prejudicial, or otherwise in violation of the Act, it may order the carrier to cease and desist from charging the rate, and may prescribe a just, reasonable and lawful rate for the future. Any person injured by the carrier's having maintained an unlawful rate may file a complaint seeking reparations or damages from the carrier.

BP Pipelines has recently filed with the ICC a tariff which specifies a rate of $6.35 per barrel for the transportation of crude oil from Prudhoe Bay to Valdez. The comparable rate appearing in the tariff filed by Sohio Pipe Line with the ICC is $6.16 per barrel. To date other companies with interests in TAPS have filed with the ICC tariffs specifying rates ranging from $6.04 per barrel to $6.44 per barrel.

The Department of Justice, the State of Alaska, the Bureau of Investigations and Enforcement of the ICC and an Alaskan native corporation have filed protests challenging the reasonableness of the tariffs which have been posted by individual TAPS owners, including BP Pipelines and Sohio Pipe Line, and seeking the suspension of such tariffs and the substitution of substantially lower interim rates. BP Pipelines and Sohio Pipe Line are responding to these protests. The ICC has scheduled oral argument for June 27, 1977, and has indicated that it expects to render a decision on the protests on June 29, 1977. Alyeska is now filling the pipeline, but commercial transportation of crude oil through TAPS cannot commence until tariffs are in effect.

In 1974 the ICC instituted a rule-making proceeding for the purpose of determining whether any modification is required in the methodology for computing valuation or in certain reporting and record-keeping requirements applicable to common carrier pipelines. In 1975, the ICC ordered a broadening of that proceeding to include an examination of the proper rate of return for pipeline transportation of crude petroleum and petroleum products. In February 1976, the ICC instituted an investigation concerning possible violations of Section 7 of the Clayton Act involving petroleum pipeline ownership to which all common carrier pipelines subject to Part I of the Interstate Commerce Act were made respondents. Statements and arguments are currently being filed in this proceeding by interested parties.

Pipeline Consent Decree. A Consent Decree was entered on December 23, 1941 in an action brought in the District Court of the United States for the District of Columbia by the United States against most of the principal common carrier pipeline companies then engaged in interstate commerce and their shipper-owners, including Sohio Pipe Line and Sohio. By the terms of the Consent Decree, Sohio Pipe Line and other defendant common carrier pipelines, as well as any common carrier pipeline some or all of the stock of which is owned by any such defendant, were prohibited from paying or crediting, directly or indirectly, to any shipper-owner in any calendar year, commencing as of January 1, 1942, any earnings, dividends, other sums of money or other valuable consideration derived from transportation or other common carrier services which in the aggregate exceed such shipper-owner's share of 7% of the valuation of the carrier's pipeline property owned and used for common carrier purposes. Such valuation is the latest final valuation of such property made by the ICC adjusted for subsequent additions, betterments, retirements and depreciation, computed as of the end of the preceding year but excluding the value of any common carrier property acquired with such excess earnings.

Pipeline Valuation Proceedings. The ICC and the Alaska Pipeline Commission are each conducting an investigation to secure information for the use of the respective agencies in establishing valuations required by statute. The General Accounting Office is also conducting an investigation into the origins and effects of costs of construction of TAPS in excess of original cost estimates. Neither the results of the investigations nor their impact on Sohio and BP is known at this time.

OTHER INTERESTS IN THE UNITED STATES

Through BP Alaska, the BP Group has retained a royalty interest equal to 75% of the net profits from oil and gas production from Sohio's Prudhoe Bay leases multiplied by a fraction, of which the numerator is the number of net barrels per day of crude oil production from Sohio's Prudhoe Bay leases between 600,000 net barrels per day (or the highest rate of sustainable net production, if less, achieved prior to January 1, 1978) and 1,050,000 net barrels per day and the denominator is the total number of net barrels per day of crude oil production from such leases. If sustainable net production from such leases does not reach 600,000 net barrels per day prior to January 1, 1978, the common stock of BP Alaska will be transferred to Sohio and the BP Group will retain the preferred stock of BP Alaska which will be entitled to dividends in an amount equal to BP Alaska's net profits from oil and gas production from Sohio's Prudhoe Bay leases multiplied by a fraction, of which the numerator is the number of net barrels per day of crude oil production from Sohio's Prudhoe Bay leases between 600,000 net barrels per day (or the highest rate of sustainable net production, if less, achieved prior to January 1, 1984) and 1,050,000 net barrels per day and the denominator is the excess of the total number of net barrels per day of crude oil production from such leases over the highest rate of sustainable net production from such leases achieved prior to January 1, 1978. Assuming, solely for purposes of illustration, that the highest rate of sustainable net production from Sohio's Prudhoe Bay leases achieved prior to January 1, 1978 is 450,000 net barrels per day, and that sustainable net production from such leases reaches 600,000 net barrels per day prior to January 1, 1984, then once the latter level has been reached, the preferred stock of BP Alaska will be entitled to dividends in an amount equal to BP Alaska's net profits from oil and gas production from Sohio's Prudhoe Bay leases multiplied by the following respective fractions: at sustainable net production of 650,000 barrels per day, one-fourth; at 750,000 barrels per day, one-half; and at 850,000 barrels per day, five-eighths; and in each case the remainder of the net profits of BP Alaska will accrue to the benefit of Sohio as the owner of BP Alaska's common stock.

The BP Group also holds leases on approximately 109,000 net (373,000 gross) acres on the North Slope outside of Prudhoe Bay.

The BP Group is a party to a series of agreements with Northern Natural Gas Company ("Northern") under which Northern has the right to purchase up to three trillion cubic feet of gas attributable to the BP Group's net profits royalty interest and other leases on the North Slope of Alaska referred to above. Northern has agreed to make a prepayment to the BP Group of $30 million in five equal installments during the period 1974 through 1978, the first four of which have been paid. In addition, Northern has agreed to commit up to $20 million during the years 1972 through 1981 to finance the BP Group's exploration activities in certain other areas of the United States in return for which it will have the right to purchase all the gas discovered as a result of such exploration. Northern will be entitled to recover up to $16 million of the $20 million from any commercial discovery that may be made prior to December 31, 1981 on leases acquired in these other areas.

Certain Factors Which May Affect Business

The oil industry is highly competitive. There is competition within the industry and also with other industries in supplying the energy and fuel needs for commerce, industry and individuals.

The operations of the BP Group have been and may be in the future from time to time affected by political developments and local laws and regulations, such as nationalization of concessions, restrictions on production, embargoes, changes in taxes, royalties and other amounts payable to governments or governmental agencies, expropriation of property, cancellation of contract rights, unilateral price increases by oil producing countries, changes in the proportions in which the BP Group is able to produce for its own account and purchase oil, the relative cost of produced and purchased oil, price controls, environmental protection controls and fluctuations in currency exchange rates. Most of the BP Group's crude oil is purchased in U.S. dollars from the oil producing countries and nearly all its crude oil sales are also in U.S. dollars. Product trade is in a multiplicity of other currencies affording no more currency risk to the BP Group than in the case of multinational companies in general. The timing, implications and overall effect of any of the foregoing events upon the BP Group vary from country to country and are not predictable.

United Kingdom legislation could affect the level of investment in and control exercised by BP over its operations outside the United Kingdom. Consent is required from the United Kingdom Treasury, under legislation designed to prevent avoidance of taxes, for the transfer of business operations from a United Kingdom resident to a non-United Kingdom resident and certain alterations of the corporate structure of established operations outside the United Kingdom, and from the Bank of England, for exchange control purposes, for transactions involving foreign currency or securities. Under this legislation the discretion entrusted to the Treasury and the Bank of England, respectively, regarding consents with respect to the foreign aspects of the BP Group's operations and the criteria employed (i.e., benefits likely to accrue to the United Kingdom economy and balance of payments) effectively give the Government considerable control; however, the BP Group's business outside the United Kingdom has not been inhibited by these controls.

During recent years the rate of inflation in the United Kingdom has been at a higher level than the average in other major industrial countries. In 1972, retail prices in the United Kingdom rose by over 7% and in 1973 by over 9%; thereafter retail prices rose by 16% in 1974, by over 24% in 1975 and by over 16% in 1976. Retail prices rose in the first four months of 1977 by about 16% compared with the first four months of 1976. These high rates of inflation have led the United Kingdom Government to impose controls on prices and dividends and to seek to exercise a restraining influence on wage and salary incomes in agreement with the Trades Union Congress.

The Government's aim as announced by the Chancellor of the Exchequer in his budget statement on March 29, 1977 is to reduce inflation to single figures by the second quarter of next year.

Recent levels of inflation and consequent counter-inflationary policies of the United Kingdom Government have affected the business of the BP Group to a limited extent because of the international nature of the BP Group's operations, but its dividends have been restricted as discussed under "Dividends".

The Chairman of BP in the 1976 Annual Report stated: "I recognize the short-term need for pay restraint in the United Kingdom in the effort to reduce inflation, and the difficulties associated with any major change of policy on the direct taxation of earnings. But in the long run we and other British companies cannot hold our own against our foreign competitors unless we can adequately and effectively reward those who contribute their skill and initiative to success, at whatever level and wherever they work within the organisation".

About 15% of the BP Group's oil and chemical product sales are made within the United Kingdom. In the past, United Kingdom price controls have delayed the recovery of cost increases from time to time, but this is no longer a constraint in practice.

See also "U.S. Regulation" under "Interests in the United States—Interest in Sohio".

Other Matters

Following the investigation by BP into political contributions in Italy, which resulted in the disclosure in April 1976 that the BP Group had contributed approximately £800,000 to Italian political parties in the years 1969-1973, BP expanded its Group-wide investigation into political contributions and questionable payments to government officials. The inquiry covered more than 140 companies of the BP Group operating in more than 70 countries.

In addition to such Italian contributions (of which approximately £493,000 and £10,000 were made in 1972 and 1973, respectively), the investigation revealed the following for the four years ended December 31, 1975:

Political contributions aggregating approximately £139,000 were made in six countries. In each of such countries political contributions by corporations are legal. All such contributions were properly recorded in the books of the subsidiaries involved except that in one country a £66,000 contribution, which was made in January 1972 and approved by a former Managing Director, was paid to a publication affiliated with a political party and, at the request of the recipient, was booked as being for advertising and sales promotion.

Off-the-books funds, all of which have been closed, were maintained in four countries. Funds in such accounts aggregated approximately £126,000, of which approximately £56,000 was paid to minor government officials. The remaining funds were used to reimburse employees for expenditures incurred abroad by them in excess of their foreign currency allowances; to pay commissions to employees of customers without the customers' knowledge; to pay rent on an employee's apartment, pursuant to a request by the landlord; to purchase property; and to pay commissions to salesmen. Other payments to minor government officials and employees of customers without the customers' knowledge aggregated approximately £25,000. These payments, which were derived from internally generated funds, were booked as commissions or distribution expenses, except for two payments aggregating £2,600 which were booked respectively as "repairs" and "car hire". The payments to government officials consisted of payments to customs officials in order to get them to perform duties which they were otherwise obligated to perform, to tax officials to settle tax claims on bases considered by the subsidiary concerned to be fair and appropriate and to employees of state-owned businesses to provide incentives for the promotion of the sale of products of the BP Group. The sales to such state-owned businesses and to other customers in respect of which employees received payments without their employers' knowledge were less than 1/50th of 1% of the BP Group's consolidated sales proceeds in each of the years concerned. The existence of each fund (and the payments to government officials therefrom) was known to two executives who served as the regional director for the region covering the four countries during the period in which the funds were maintained. A former Managing Director and his successor, who is an incumbent Managing Director, also knew of the existence of the funds. The payments of approximately £25,000 to government officials and employees of customers which were not made from such funds were not known to any Managing Directors.

Payments were made by a subsidiary which is not engaged in the BP Group's oil operations to an agent named Assem Etablissement which apparently rendered no services. The payments, which were made in connection with a contract with a Middle Eastern government, aggregated approximately £283,000 through March 31, 1977, are made pursuant to an agency agreement entered into by the subsidiary in 1972 and constitute 10% of the payments to such subsidiary under the contract with such government. The total contract price is £3,752,000, of which approximately £2,825,000 has been received by the subsidiary. Because the entering into of the agency agreement with the agent appears to have been a condition to the subsidiary's obtaining the contract and because the agent has not rendered any services, the BP subsidiary does not intend to make any commission payments to this agent in the future, unless it receives an opinion of counsel qualified to practice in the jurisdiction whose laws govern the agency agreement, advising it that it is legally obligated to do so. The individual agent referred to in the next paragraph also receives commissions at the rate of 10% of the payments to the subsidiary under the government contract referred to in this paragraph.

In the same country, the same BP subsidiary has two other agents. A person who BP believes is a government official in that country is a controlling stockholder of one of the agents and may have received portions of the commissions paid to the other agent, an individual. BP further believes that such person's interest in the commission payments is maintained with the knowledge and consent of the government of that country. Accordingly, BP does not believe that the retention of these agents, both of which have rendered services to the BP subsidiary, is improper or illegal. Commissions in which such person is believed to have an interest and which are paid in respect of a contract in which he appears to have participated in the decision to award the contract to the BP subsidiary aggregate approximately £258,000, of which approximately £226,000 has been paid. The commission rates for the corporate agent have ranged from 5% to 33% and the commission rates for the individual agent have ranged from 3% to 20%. The maximum commissions payable to the agents in respect of any one contract aggregate 40%. The commissions paid to such agents in the years 1972-1976 aggregate less than 1/50th of 1% of the BP Group's consolidated operating and other costs during those years. The contract with the corporate agent is dated May 6, 1974 and is for an initial period of ten years, being thereafter subject to automatic renewal unless terminated by either party. The contract states that the agent will be the subsidiary's sole agent in six Middle Eastern countries. The agency may be extended to other territories by agreement. While the contract provides for commissions at the rate of 20% of the value of all contracts awarded to the BP subsidiary for projects in the contract territories (30% of the value of spare parts, maintenance and repair work), the contract recognizes that the parties may negotiate different rates, which has occurred in respect of three of the last four contracts obtained by the BP subsidiary. The current contract with the individual agent is dated July 31, 1976 and is for a period of three years. The agency covers three Middle Eastern countries, two of which are also within the scope of the agreement with the corporate agent. The individual agent is due to receive commissions equal to 3% of amounts received by the BP subsidiary pursuant to contracts entered into by the subsidiary in the agent's territory. Examples of services rendered by both agents are: arranging introductions with potential customers (principally government officials), directing the BP subsidiary towards potential areas of profitable business, seeking out and advising on new business opportunities, negotiating with potential clients, obtaining visas for the BP subsidiary's employees, advising or negotiating with government entities and officials with regard to legal and financial matters and providing secretarial services and translation services. Because the amounts of the commissions and the payment thereof to these agents are not believed to be illegal or improper, this subsidiary will continue to make such payments to these agents as they become due. All payments made to these agents and the agent referred to in the preceding paragraph were approved by the Board of the subsidiary involved and were booked as commissions or consulting fees. The payments received in the years 1972-1976 by the BP subsidiary under contracts with government entities which have been obtained with the assistance of one or more of such agents have aggregated less than 1/20th of 1% of the BP Group's consolidated sales proceeds for that period.

A BP subsidiary paid a portion of the expenses which another company said it had incurred when leading negotiations with two other Middle Eastern governments. Payments were made by reimbursing the lead company through a reduction in 1974 of an amount owing to the BP subsidiary by the lead company and by the payment in 1975 to the Swiss bank accounts of two Liechtenstein companies designated by the lead company. The negotiations arose in connection with joint ventures to which the lead company, other companies and the BP Group were parties. The lead company has refused to give BP any details of such expenses. Therefore, BP does not know whether the lead company actually incurred the expenses or whether it received any services in return for such expenses. The lead company has informed BP that the incurrence of the expenses was approved by officials of the government which has primary jurisdiction over its operations. The negotiations related to the availability and price of oil. In one country they resulted in oil which had not been available to the companies being made available and in the other country they resulted in oil being made available at realistic prices. The expenses paid by the BP subsidiary constituted less than 1/50th of 1% of the BP Group's consolidated operating and other costs in the years in which they were paid. The payments were properly accounted for in the books of the BP subsidiary as costs of oil. The payments in connection with one transaction were approved by a former Managing Director. The payments in connection with the other transaction were approved by an incumbent Managing Director and were known to a person who is now a Managing Director.

At a meeting held on May 4, 1976, the Board of Directors of BP approved a set of guidelines reaffirming the policies of the BP Group with respect to political contributions, payments to government officials and other matters. These guidelines prohibit among other things use of Group funds or assets for unlawful or improper purposes, payments to government officials whether made directly or indirectly, off-the-books funds and false entries on the books, and permit political contributions by non-United Kingdom subsidiaries only under closely controlled circumstances, namely where they are legal under local law, approved by the board of directors of the company concerned, of modest amount and properly recorded in the books.

BP has also instituted procedures which are designed to detect any non-compliance with the guidelines. The compliance procedures indicated that in 1976 no contributions or payments were made, and no accounting procedures were followed, which were in violation of BP's policies, except that approximately £5,000 was paid to employees of state-owned businesses. Such payments have been terminated. BP does not believe that compliance with the guidelines has had a material effect on its financial position, results of operations or overall business.

No political contributions, payments to government officials or payments to employees of customers were made, and no off-the-book funds were maintained, in the United Kingdom or the United States. None of the transactions referred to herein was improperly reflected in tax returns filed in the United Kingdom or the United States by any member of the BP Group.

Following an announcement by the United Kingdom Government on April 8, 1977, the United Kingdom Foreign Secretary has set up an enquiry to conduct an investigation on his behalf under the United Kingdom 1968 Southern Rhodesia Sanctions Order into allegations of evasion of sanctions by major oil companies, including BP.

OWNERSHIP OF ORDINARY SHARES AND SELLING SHAREHOLDER

The following table sets forth certain information as of May 31, 1977 concerning the United Kingdom Government and the Bank of England which are the only persons who own of record or are known by BP to own beneficially more than 10% of its outstanding Ordinary Shares.

Name	No. of Ordinary Shares Owned	Percent of Class	No. of Ordinary Shares To Be Sold	No. of Ordinary Shares To Be Retained	Percent of Class
United Kingdom Government(1)	186,092,307	48.15%	66,785,591(2)	119,306,716	30.87%
Bank of England(3) ..	77,817,507	20.13%	—	77,817,507	20.13%

(1) All Ordinary Shares are held beneficially and, except for qualifying shares of directors appointed by the United Kingdom Government, of record.

(2) See "Offering of Ordinary Shares in the United Kingdom" and "Underwriters".

(3) All Ordinary Shares are held beneficially but none of record. In addition, at May 31, 1977 the Bank of England's Pension Fund held of record 248,000 Ordinary Shares and the Bank's nominee companies held of record 1,620,300 Ordinary Shares on behalf of others.

The above mentioned 77,817,507 Ordinary Shares held by the Bank of England (the "Bank") were acquired by it on January 23, 1975 from The Burmah Oil Company, Limited ("Burmah"). The validity of this acquisition is currently the subject of litigation in the United Kingdom, essentially on the grounds that such 77,817,507 Ordinary Shares were, in the circumstances of the acquisition, unfairly and/or inequitably acquired by the Bank. Burmah is seeking an order that such Ordinary Shares be transferred back to Burmah against repayment to the Bank of the purchase price of £178,980,266 less any dividends received. The Bank has entered a defense to these proceedings and is of the opinion that Burmah's claim will not succeed. At the time of the transaction between Burmah and the Bank, assurances were given to the Panel on Take-overs and Mergers (the "Panel") (a) by an undertaking from the Bank that it would not exercise the votes attaching to the Ordinary Shares so acquired so long as the Bank and the United Kingdom Government taken together held 30% or more of the voting rights and (b) by a statement on behalf of the Government that, while the Bank held any part of such Ordinary Shares and its undertaking remained in force, the Government would not exercise a greater proportionate voting power in relation to other BP shareholders than it could have exercised prior to the transaction. The reason for these undertakings was to obtain from the Panel a ruling, which the Panel issued on January 23, 1975, that the Bank would not be obligated under the City Code on Take-overs and Mergers to offer to purchase the Ordinary Shares of BP held by its public shareholders.

The United Kingdom Government has announced its intention to acquire the Bank's holdings of Ordinary Shares of BP in due course and thus increase the Government's holdings to 197,124,223 units (51%). The restrictions set forth in the preceding paragraph will remain in force until such acquisition, but the Panel has accepted that thereafter the Government will be free to vote the 51% shareholding which it then expects to have. The Panel will not require the Government to make an offer to purchase the Ordinary Shares held by the public. In its discussions with the Panel the Bank referred to the fact that the Government holding of Ordinary Shares had exceeded 50% for long periods in the past and to the restraint with which the Government had traditionally approached the use of its voting power. The Bank informed the Panel that it was authorized by the Government to say that it is the Government's intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of BP as a commercial concern. See "Management".

The Bank was incorporated in 1694 under Royal Charter. It is responsible for the management of the note issue, and is the banker to the United Kingdom Government on whose behalf it manages the national debt and foreign exchange reserves and administers the exchange control rules. As central reserve bank of the country, the Bank keeps accounts for the principal British banks, who maintain with it a proportion of their cash resources, and for many overseas central banks.

As from March 1, 1946 the entire capital stock of the Bank was transferred to a nominee of the United Kingdom Treasury (The Solicitor for the Affairs of Her Majesty's Treasury) under the provisions of the Bank of England Act 1946. The stock carries no voting rights. Under the Act the Governor, Deputy Governor and sixteen Directors are appointed by the Crown. The Governor and Deputy Governor are each appointed for a term of five years and the Directors for terms of four years. Not more than four Directors may be employed to give their exclusive services to the Bank.

The Act empowers the United Kingdom Treasury to give from time to time such directions to the Bank as, after consultation with the Governor, they think necessary in the public interest. No such direction has ever been given. Subject to any such directions, the management of the Bank expressly resides in the Court of Directors.

In the ordinary course of its business, the BP Group has transactions with various agencies and instrumentalities of the United Kingdom Government. The following table sets forth information with respect to sales to such agencies during the years indicated.

	Refined Products		Natural Gas	
	(thousands of barrels)	(thousands of U.S. dollars)	(millions of cubic feet)	(thousands of U.S. dollars)
1974	9,146	$101,922	60,684	$12,402
1975	8,807	$112,509	60,233	$12,473
1976	8,188	$136,182	65,393	$15,101

See also "Business and Property—Crude Oil—United Kingdom Continental Shelf and Other North Sea Interests—Participation Agreement with the United Kingdom Government".

All Directors and the Secretary and Legal Adviser of BP as a group own less than 1% of the outstanding Ordinary Shares of BP.

MANAGEMENT

The business of BP is managed by a Board of Directors of not fewer than three and not more than 16 in number. Each Director must be a British subject. At present there are 14 Directors in office of whom six are Managing Directors and two are Directors appointed by the United Kingdom Government pursuant to the Articles of Association of BP.

The present Directors and the Secretary of BP are as follows:

Name	Age	Title	Director Since
Sir David Steel	60	Chairman and Managing Director	May 1965
M. M. Pennell	61	Deputy Chairman and Managing Director	April 1972
R. W. Adam	54	Managing Director	January 1975
C. C. F. Laidlaw	54	Managing Director	October 1972
J. W. R. Sutcliffe	53	Managing Director	November 1975
P. I. Walters	46	Managing Director	February 1973
Sir Lindsay Alexander	56	Director	January 1975
The Lord Elworthy	66	Director	May 1971
The Lord Greenhill of Harrow	63	Director*	November 1973
The Earl of Inchcape	59	Director	April 1965
T. Jackson	52	Director*	March 1975
Sir James Menter	55	Director	March 1976
Sir Alastair Pilkington	57	Director	March 1976
M. J. Verey	64	Director	July 1974
D. A. G. Sarre	50	Secretary and Legal Adviser	

* Appointed by the United Kingdom Government.

The Managing Directors, who are the principal executive officers of BP, are not required to stand for re-election once elected by the shareholders. Each of the Managing Directors has a service contract with BP which is terminable by either party on 12 months' notice. Each of the Directors appointed by the United Kingdom Government is subject to removal from office at any time by the Government. The Directors other than the Managing Directors and the Government-appointed Directors are subject to retirement by rotation, one-third retiring and being eligible for re-election by the shareholders each year. It is expected that Lord Elworthy and the Earl of Inchcape will retire by rotation in 1978, Sir James Menter and Sir Alastair Pilkington in 1979 and Sir Lindsay Alexander and Mr. M. J. Verey in 1980.

All the above named Managing Directors have been actively engaged in the business of the BP Group for the past five years and substantially all their business careers. Sir David Steel was Deputy Chairman until he became Chairman with effect from November 29, 1975. At that time, Mr. Pennell became Deputy Chairman. Sir Lindsay Alexander is Chairman of Ocean Transport & Trading Limited and a Director of Lloyds Bank Limited. Lord Elworthy is a Marshal of the Royal Air Force and a director of Plessey Limited and National Bank of New Zealand Limited. Lord Greenhill of Harrow was formerly Permanent Under-Secretary of State and Head of the Diplomatic Service and is a Governor of the British Broadcasting Corporation and a Director of British Leyland Limited, B. A. T. Industries Limited, Hawker Siddeley Group Limited and S. G. Warburg & Co. Ltd., one of the underwriters of the Ordinary Shares offered in the United Kingdom. The Earl of Inchcape is Chairman of Inchcape and Company Limited and of The Peninsular and Oriental Steam Navigation Company. Mr. Jackson is General Secretary of the Union of Post Office Workers, a member of the General Council of the Trades Union Congress and a former Governor of the British Broadcasting Corporation. Sir James Menter is Principal of Queen Mary College, University of London, a Director of Tube Investments Limited, and a member of the Board of British Steel Corporation. Sir Alastair Pilkington is Chairman of Pilkington Brothers Limited and a Director of the Bank of England. Mr. Verey is a former Director and Chairman of Schroders Limited, the parent of one of the underwriters of the Ordinary Shares offered in the United Kingdom, Chairman of The Charities Official Investment Fund and a Director of The Boots Company Limited and Commercial Union Assurance Co. Ltd.

A Director appointed by the United Kingdom Government has the right, under BP's Articles of Association, to veto any resolution of the Directors or of any Committee appointed by the Directors. The United Kingdom Government has never since such right was conferred intervened in the administration of BP as a commercial concern, and the right to veto a resolution has never been used. If such right were to be exercised, the other Directors, or a majority of them, would have the right to submit the proposed resolution to the United Kingdom Government, and the United Kingdom Government would decide whether or not the resolution should be implemented.

Remuneration

The aggregate remuneration of the Directors and the Secretary and Legal Adviser for the year 1976 was £408,000. The following table shows the number of Directors whose remuneration in 1976 was within the ranges stated:

Remuneration	Number of Directors
£87,501–£90,000	1
£62,501–£65,000	1
£47,501–£50,000	4

There were no other persons who were Directors in 1976 whose remuneration exceeded the equivalent of $40,000.

BP's Managing Directors are all members of a non-contributory Pension Scheme established for BP's salaried staff by a separate trustee company to which contributions are made by BP based on actuarial advice. Members of the Pension Scheme are entitled on retirement to benefits calculated at the rate of one-sixtieth of the final pensionable salary for each year of pensionable service (as defined in the Pension Scheme). Assuming that the present Managing Directors continue in office until normal retirement age and at their present pensionable salaries, without commutation of pensions, the aggregate annual benefits to which the Managing Directors as a group would be entitled on retirement would be approximately £250,000 ($425,000). Pensions and commutations of pensions to Directors and former Directors and their dependents in 1976 amounted to £660,000 ($1,122,000).

For information with respect to BP's executive loan plan, see Note X of Notes to the BP Group's Financial Statements.

BP has no outstanding stock options. A Canadian subsidiary (approximately 66% owned) had at December 31, 1976 outstanding stock options covering 302,000 shares. On June 27, 1977 the closing price of that subsidiary's stock was Can. $13¾ per share. None of the optionees is a Director of BP.

In the ordinary course of its business the BP Group has transactions with various organizations with which certain of its Directors are associated. Mr. Verey, a Director of BP, was until May 1977 a Director and Chairman of Schroders Limited, of which a subsidiary is a participant in one of the BP Group's revolving credit facilities. The total amount available under the facility is £91.55 million ($156 million), of which such subsidiary's share is 4.6%. Such subsidiary also participates in the sterling portion of the Forties Field financing described in Note I of Notes to the BP Group's Financial Statements, of which its share is 1.1%. The amount outstanding under this arrangement at March 31, 1977 was £105.0 million and $273.0 million. Sir Lindsay Alexander, a Director of BP, is Chairman of Ocean Trading & Transport Limited, which has a contract to bareboat charter from the BP Group through 1996 four 20,000 deadweight ton cargo liners which are under construction and scheduled for delivery in 1977. Over the period of the charter the BP Group will receive an aggregate of £85 million ($144 million) in charter hire.

DESCRIPTION OF ORDINARY SHARES AND AMERICAN DEPOSITARY RECEIPTS

The following statement includes a summary of certain provisions of BP's Articles of Association, as presently in effect, and of the Deposit Agreement between BP, Morgan Guaranty Trust Company of New York, as Depositary, and the holders from time to time of the American Depositary Receipts. The following summaries of certain terms of the Articles of Association and Deposit Agreement do not purport to be complete and are qualified in their entirety by reference to the full Articles of Association and Deposit Agreement which have been filed as exhibits to the Registration Statement of which this Prospectus is a part.

Ordinary Shares

Dividends. Holders of Ordinary Shares of BP are entitled to receive such dividends as may be declared, upon the recommendation of the Board of Directors, by the shareholders at a General Meeting. The Board may, when in its opinion the position of BP permits, pay interim dividends. Dividends are payable only out of net income remaining after payment of dividends on the Preference Stock. Since 1973, the United Kingdom Government has imposed restrictions on the amount of dividends which United Kingdom companies could pay. See "Dividends".

Voting Rights. Voting at a General Meeting is by show of hands unless, before or on making known the result, voting by reference to the amount of stock held by each shareholder who is represented is demanded ("a poll") in accordance with the Articles of Association. If voting is by show of hands, only shareholders personally present are entitled to vote and they have one vote each. On a poll every member who is present in person, or by proxy, shall have one vote for every five Preference Shares and two votes for every Ordinary Share held by him. Holders of Ordinary Shares do not have cumulative voting rights.

Liquidation Rights. In the event of liquidation of BP, after payment of all liabilities the holders of First and Second Preference Stock would be entitled to a sum equal to the capital paid up on such stock plus an amount in respect of accrued and unpaid dividends and a premium equal to the higher of (i) 10% of the capital paid up on the Preference Stock or (ii) the excess of the average market price over par value of such stock on the London Stock Exchange during the previous six months. The remaining assets would be divided among the holders of Ordinary Shares in proportion to the sums paid up on their shareholdings.

Miscellaneous. Holders of Ordinary Shares have no preemptive rights under the Articles of Association, but BP has given an undertaking to the London Stock Exchange that, in the absence of exceptional circumstances, it will obtain the consent of the equity shareholders at a General Meeting prior to the issue of equity capital for cash to other than the equity shareholders of BP. All the presently outstanding Ordinary Shares are fully paid and non-assessable. Certificates representing Ordinary Shares are issued in registered form. BP acts as its own transfer agent and registrar.

American Depositary Receipts

American Depositary Receipts evidencing American Depositary Shares are issuable by Morgan Guaranty Trust Company of New York, as depositary ("Depositary"), pursuant to the Deposit Agreement. Each American Depositary Share represents one £1 unit of Ordinary Stock (or evidence of rights to receive such Stock) deposited with the London office of the Depositary (the "Custodian"). ADRs may represent any number of American Depositary Shares up to and including 100 Shares or, in the discretion of BP, any number of American Depositary Shares in excess of 100 which is a multiple of 100.

BP has been advised that, for purposes of obtaining any available credits under the United States Internal Revenue Code of 1954 for United Kingdom taxes related to dividends paid on Ordinary Shares and for United Kingdom capital transfer taxes in respect of Ordinary Shares, as discussed below, the holders of American Depositary Receipts have an interest in the underlying Ordinary Shares.

Deposit and Withdrawal of Shares. The Depositary has agreed that, upon deposit with the Custodian in London of Ordinary Shares or evidence of the right to receive such Shares and subject to the terms of the Deposit Agreement, it will execute and deliver at its corporate trust office, which is presently located at 23 Wall Street, New York, N. Y. 10015 (telephone (212) 483-2323), to the persons specified by the depositor, an ADR or ADRs for the number of American Depositary Shares issuable in respect of such deposit.

Upon surrender of ADRs at the corporate trust office of the Depositary, and upon payment of the charges provided in the Deposit Agreement, the ADR holders are entitled to delivery at the office of the Custodian in London or at the corporate trust office of the Depositary of the Ordinary Shares of BP and any other property at the time represented by the surrendered ADRs. The forwarding of stock certificates and any other property for such delivery at the corporate trust office of the Depositary in New York City is at the risk and expense of the ADR holder.

Dividends, Other Distributions and Rights. The Depositary is required, to the extent that in its judgment it can convert the foreign currency on a reasonable basis into U.S. dollars and transfer the dollars to the United States, to convert into U.S. dollars all cash dividends and other cash distributions which it receives on the underlying Ordinary Shares and to distribute the amount thus received to the holders of ADRs in proportion to the number of American Depositary Shares representing such Ordinary Shares held by them, respectively. The amount distributed will be reduced by any amounts required to be withheld by BP or the Depositary on account of taxes. If the Depositary determines that in its judgment any foreign currency received by it cannot be so converted and transferred, the Depositary may distribute the foreign currency received by it or in its discretion hold such foreign currency for the respective accounts of the ADR holders entitled to receive the same.

If a distribution by BP consists of a dividend in, or free distribution of, Ordinary Shares, the Depositary may with BP's approval, and shall if BP shall so request, distribute to the holders of outstanding ADRs, in proportion to their holdings, additional ADRs for an aggregate number of American Depositary Shares representing the amount of Ordinary Shares received as such dividend or free distribution. If additional ADRs are not so distributed, each American Depositary Share shall thenceforth also represent the additional Ordinary Shares distributed upon the Ordinary Shares represented thereby.

In the event that BP shall offer or cause to be offered to the holders of Ordinary Shares any rights to subscribe for additional Ordinary Shares or any rights of any nature, the Depositary will either (a) make such rights available to holders of ADRs by means of warrants or otherwise, if lawful and feasible, or (b) if making such rights available is not lawful or not feasible, or if the rights represented by such warrants or other instruments are not exercised and appear to be about to lapse, sell such rights or warrants or other instruments at public or private sale, at such place or places and upon such terms as the Depositary may deem proper, and allocate the proceeds of such sales for account of the holders of ADRs otherwise entitled thereto upon an averaged or other practicable basis without regard to any distinctions among such holders because of exchange restrictions, or the date of delivery of any ADR or ADRs, or otherwise.

Record Dates. Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued, with respect to the Ordinary Shares, or whenever the Depositary shall receive notice of any meeting of holders of Ordinary Shares, the Depositary will fix a record date for the determination of the holders of ADRs who shall be entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting, subject to the provisions of the Deposit Agreement.

Voting of the Underlying Ordinary Shares. Upon receipt of notice of any meeting of holders of Ordinary Shares of BP, the Depositary has agreed that, as soon as practicable thereafter, it will mail the information contained in such notice of meeting to the record holders of ADRs. The record holders of ADRs at the close of business on the date specified by the Depositary are entitled under the Deposit Agreement to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the units of Ordinary Shares of the Company represented by their respective American Depositary Shares. The Depositary has agreed that it will endeavour, in so far as practicable, to vote the units of Ordinary Shares of BP represented by such ADRs in accordance with such instructions. The Depositary has agreed not to vote the units of Ordinary Shares of the Company so represented unless it has received such instructions from the record holders of ADRs.

Amendment and Termination of the Deposit Agreement. The ADRs and the Deposit Agreement may at any time be amended by agreement between BP and the Depositary. Any amendment which imposes or increases any fees or charges (other than the fees of the Depositary for the execution and delivery of ADRs and taxes or other governmental charges), or which otherwise prejudices any substantial right of ADR holders, will not take effect as to outstanding ADRs until the expiration of three months after notice of such amendment has been given to the record holders of outstanding ADRs. In no event may any amendment impair the right of any ADR holder to surrender his ADR and receive therefor the underlying Ordinary Shares and any other property represented thereby.

Whenever so directed by BP, the Depositary has agreed to terminate the Deposit Agreement by mailing notice of such termination to the record holders of all ADRs then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement at any time 60 days after the Depositary shall have delivered to BP a notice of its election to resign and a successor Depositary shall not have been appointed and accepted its appointment. If any ADRs remain outstanding after the date of termination, the Depositary thereafter will discontinue the registration of transfers of ADRs, will suspend the distribution of dividends to the holders thereof and will not give any further notices or perform any further acts under the Deposit Agreement, except the collection of dividends and other distributions pertaining to the underlying Ordinary Shares and any other property, the sale of rights and the delivery of underlying Ordinary Shares, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for surrendered ADRs. At any time after the expiration of two years from the date of termination, the Depositary may sell the underlying Ordinary Shares and any other property and hold the net proceeds for the pro rata benefit of the holders of ADRs which have not theretofore been surrendered.

Charges of Depositary. The Depositary will charge the party to whom ADRs are delivered against deposits, and the party surrendering ADRs for delivery of Ordinary Shares of the Company or other underlying securities, $5.00 for each 100 American Depositary Shares (or portion thereof) represented by the ADRs issued or surrendered. BP will pay all other charges of the Depositary, including charges for issuance of ADRs payable as a dividend or distribution or in connection with a rights offering to shareholders, except for taxes and other governmental charges, any applicable transfer or registration fees on deposit of Ordinary Shares, certain cable, radio and delivery charges and such expenses as are incidental to the conversion of foreign currency into dollars.

General. Neither the Depositary nor BP will be liable to the holders of ADRs if prevented or delayed by law or any circumstances beyond its control in performing its obligations under the Deposit Agreement. The obligations of BP and the Depositary under the Deposit Agreement are expressly limited to performing in good faith their respective duties specified therein.

The ADRs are transferable on the books of the Depositary; provided, however, that the Depositary may close the transfer books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR or withdrawal of Ordinary Shares, the Depositary or the Custodian may require payment of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto and payment of any applicable fees payable by the holders of ADRs. The Depositary may refuse to execute and deliver ADRs, register the transfer of any ADR or make any distribution of, or related to, Ordinary Shares until it has received such proof of citizenship, residence, exchange control approval or other information as it may deem necessary or proper. The execution and delivery, transfers and surrenders of ADRs generally may be suspended, during any period when the transfer books of the Depositary and BP are closed, if any such action is deemed necessary or advisable by the Depositary or BP at any time or from time to time.

TAXES

Income Tax

BP is required when paying a dividend to account to the United Kingdom Inland Revenue for an advance payment of corporation tax ("ACT"). The current rate is 35/65ths of the cash paid to shareholders or 35% of the sum of the dividend and the ACT.

An individual shareholder resident in the United Kingdom is for United Kingdom income tax purposes treated as having taxable income equal to the sum of the dividend paid to him and the ACT paid to the Inland Revenue in respect of his dividend, but is allowed a tax credit, which may result in a refund, equal to the ACT.

Under the existing tax convention of April 16, 1945, as amended, between the United Kingdom and the United States, ACT in respect of dividends paid to United States resident shareholders, including ADR holders, is not refundable, but dividends paid to such shareholders are not subject to United Kingdom withholding tax. In the opinion of Sullivan & Cromwell, BP's United States counsel, (1) a dividend paid by BP to a United States resident shareholder is for Federal income tax purposes includible in the shareholder's gross income and is not eligible for the $100 dividends received exclusion allowed to individuals or the 85% dividends received deduction allowed to corporations; (2) no amount is includible in a United States shareholder's gross income on account of the payment of ACT by BP; and (3) no United States shareholder is entitled to a foreign tax credit for ACT or any other tax paid by BP.

Representatives of the United States and the United Kingdom have signed a new double taxation convention which, if ratified, will replace the existing convention and apply to dividends paid by BP after April 5, 1973. The new convention has been sent to the United States Senate for its advice and consent to ratification and was approved by the United Kingdom House of Commons in January 1977. Under the new convention, a United States resident individual shareholder whose holding is not effectively connected with a permanent establishment of his business in the United Kingdom or, in the case of a shareholder who performs independent personal services, with a fixed base situated therein, will (so long as the United Kingdom allows a credit for ACT to individual United Kingdom resident shareholders) be entitled to receive, in addition to any dividend paid by BP, an amount equal to the ACT paid by BP in respect of such dividend, but subject to a withholding tax equal to 15% of the sum of the dividend paid and such ACT. Thus, assuming continuance of ACT at the rate of 35/65ths, a dividend of £65 would result in an additional payment of £35, subject to a withholding tax of £15. A United States corporate shareholder is treated for these purposes as an individual but different provisions will apply if the corporation controls 10% or more of the voting stock of the corporation paying the dividend. BP has been advised by Sullivan & Cromwell that the payment to a United States shareholder in respect of ACT will represent dividend income to the shareholder and that the 15% withholding will be eligible as a foreign income tax for credit against the shareholder's Federal income taxes.

Whether holders of Ordinary Shares who reside in countries other than the United States are entitled to a tax credit in respect of dividends on Ordinary Shares depends in general upon the provisions of such conventions or agreements, if any, as may exist between such countries and the United Kingdom. In addition to that with the United States, conventions or agreements presently exist between the United Kingdom and, among other countries, Canada, Australia, New Zealand, Austria, Belgium, Denmark, Finland, France, West Germany, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Sweden and Switzerland.

Tax on Capital Gains

Residents of the United States will not be liable to United Kingdom taxation on capital gains on any profit realized on the disposal of their Ordinary Shares, including those represented by ADRs, unless the shares are held in connection with a trade or business carried on in the United Kingdom through a permanent establishment situated therein or, under the new double taxation convention, through a branch or agency in the United Kingdom.

Capital Transfer Tax

An individual shareholder may be liable to United Kingdom capital transfer tax irrespective of whether the shareholder is domiciled in the United Kingdom or not. The tax applies in the main to lifetime gifts and to property forming part of a deceased person's estate. If a person is not domiciled for purposes of the tax in the United Kingdom, the tax does not apply to property situated outside the United Kingdom. Under the terms of the existing estate tax convention between the United Kingdom and the United States, Ordinary Shares, including those represented by ADRs, are regarded as situated in the United Kingdom. No tax is payable on the first £15,000 of a person's chargeable transfers, but thereafter the tax is charged at ascending rates (rising to 75%) on successive levels of the cumulated transfers. Transfers between spouses are in general exempt. The tax also applies to Ordinary Shares held by certain trusts. Any capital transfer tax paid in respect of a United States shareholder's Ordinary Shares owned at death is allowed as a credit against, and up to the amount of, any Federal estate tax payable in the United States and attributable to the Ordinary Shares. No credit is given for any capital transfer tax paid on gifts (i.e., otherwise than on property passing on death). However, it has been announced that United Kingdom and United States authorities are discussing the possibility of a new double taxation convention covering taxes on the estates of deceased persons and on gifts to replace the existing estate tax convention.

EXCHANGE CONTROL

The United Kingdom Exchange Control Act of 1947 and rules issued thereunder impose restrictions on remittances by United Kingdom residents to persons not resident within its exchange control area ("non-residents"). So far as remittances of dividends on BP's Ordinary Shares are concerned, BP may pay dividends to non-residents (including United States residents) in sterling which is convertible into dollars at the current market rate in the official foreign exchange market, provided that the Ordinary Shares have been acquired in accordance with United Kingdom exchange control rules. Holders of ADRs receive their dividends through the Depositary which is responsible for ensuring that the relevant exchange control rules are complied with.

OFFERING OF ORDINARY SHARES IN THE UNITED KINGDOM

On June 14, 1977 the United Kingdom Government announced a public offering in the United Kingdom and elsewhere outside North America of not exceeding 66,785,591 Ordinary Shares (the "U.K. offering"), but reserved the right to withdraw some of such Ordinary Shares for an offering in the United States and Canada. The American Depositary Shares offered hereby represent the Ordinary Shares so withdrawn. The period for applications to purchase Ordinary Shares in the U.K. offering terminated on June 24, 1977. Such Ordinary Shares were offered on a partly-paid basis at a price of £8.45 per Ordinary Share (equivalent to $14.53 translated into dollars at the Noon Buying Rate on June 27, 1977), of which £3.00 was payable upon application and £5.45 is payable on or before December 6, 1977. Purchasers in the U.K. offering are being issued Letters of Acceptance evidencing the right to receive registered certificates for Ordinary Shares on or after February 2, 1978 subject to due payment of the second installment of the purchase price.

The U.K. offering was not made in the United States, its territories or possessions or in Canada or to any national or resident thereof (including any corporation or other entity organized under the laws of the United States or Canada or any political subdivision thereof) (a "North American person"). The Letters of Acceptance representing the Ordinary Shares comprised in the U.K. offering have not been registered under the United States Securities Act of 1933 or qualified for sale under the securities laws of any province of Canada. Applications in the U.K. offering were accepted only from persons declaring that they were not North American persons or acquiring Ordinary Shares for the account of a North American person and that they had no present intention to sell the Ordinary Shares purchased by them in the U.K. offering or the Letter of Acceptance representing such Ordinary Shares in the United States, its territories or possessions or in Canada or to or for the account of any North American person. Transferees of Letters of Acceptance must make a similar declaration in order for certificates for Ordinary Shares to be registered in their names.

The U.K. offering was fully underwritten in the United Kingdom by the following merchant banks (the "U.K. underwriters"): Baring Brothers & Co., Limited, Robert Fleming & Co. Limited, Hambros Bank Limited, Hill Samuel & Co. Limited, Kleinwort, Benson Limited, Lazard Brothers & Co., Limited, Morgan Grenfell & Co. Limited, N. M. Rothschild & Sons Limited, J. Henry Schroder Wagg & Co. Limited and S. G. Warburg & Co. Ltd. The U.K. underwriters agreed to purchase from the United Kingdom Government any Ordinary Shares offered in the U.K. offering for which applications were not received and accepted. This underwriting commitment was sub-underwritten by some 800 corporations, funds and other persons. The applications for Ordinary Shares received and accepted in the U.K. offering were such that neither the U.K. underwriters nor such sub-underwriters were obligated to purchase any Ordinary Shares in their underwriting or sub-underwriting capacities.

Neither the U.K. underwriters nor the sub-underwriters of the U.K. offering are participating in the offer or sale of the American Depositary Shares offered hereby.

UNDERWRITERS

Under the terms of and subject to the conditions contained in an Underwriting Agreement with the United Kingdom Government, the Underwriters named below have, severally, agreed to purchase, and the United Kingdom Government has agreed to sell to them, severally, the respective numbers of American Depositary Shares set forth below.

Name	Number of American Depositary Shares
Morgan Stanley & Co. Incorporated	854,600
The First Boston Corporation	849,600
Goldman, Sachs & Co.	849,600
Merrill Lynch, Pierce, Fenner & Smith Incorporated	849,600
Salomon Brothers	849,600
ABD Securities Corporation	88,000
Adams & Peck	8,000
Advest, Inc.	44,000
Alden & Co. Incorporated	4,000
Allen & Company Incorporated	44,000
Almstedt Brothers, Inc.	8,000
American Securities Corporation	28,000
A. E. Ames & Co. Limited	44,000
Arnhold and S. Bleichroeder, Inc.	44,000
Arthurs, Lestrange & Short	8,000
Babbitt, Meyers & Company	4,000
Bacon, Whipple & Co.	44,000
Robert W. Baird & Co. Incorporated	44,000
Baker, Watts & Co.	12,000
Barclay, Douglas & Co., Inc.	4,000
Basle Securities Corporation	88,000
Bateman Eichler, Hill Richards Incorporated	44,000
George K. Baum & Company, Incorporated	8,000
Bear, Stearns & Co.	188,000
Bell & Beckwith	4,000
Bell, Gouinlock & Company, Limited	8,000
Sanford C. Bernstein & Co., Inc.	16,000
Birr, Wilson & Co., Inc.	16,000
D. H. Blair & Co., Inc.	8,000
William Blair & Company	44,000
Blunt Ellis & Simmons Incorporated	44,000
Blyth Eastman Dillon & Co. Incorporated	188,000
Boettcher & Company	28,000
Bosworth, Sullivan & Company, Inc.	16,000
J. C. Bradford & Co., Incorporated	44,000
Branch, Cabell & Co.	4,000
Braun, Monroe and Co.	4,000
Alex. Brown & Sons	88,000
K. J. Brown & Company, Inc.	4,000
Burgess & Leith Incorporated	12,000
Burns Fry Limited	28,000
Butcher & Singer Inc.	28,000
Butler, Wick & Co.	8,000
Buys-MacGregor, MacNaughton-Greenawalt & Co.	4,000
Carolina Securities Corporation	4,000
Carreau, Smith, Inc.	4,000
Casgrain & Company Limited	4,000
The Cherokee Securities Company	4,000
The Chicago Corporation	12,000
B. C. Christopher & Company	8,000
City Securities Corporation	8,000
Richard W. Clarke Corporation	4,000
Colin, Hochstin Co.	12,000
Collett & Company, Inc.	8,000
C. C. Collings and Company, Inc.	4,000
Julien Collins & Company	8,000
Conners & Company, Inc.	4,000
Coughlin and Company, Inc.	4,000
Cowen & Company	12,000
Craigie Incorporated	12,000
Crang & Ostiguy Inc.	8,000
Crowell, Weedon & Co.	28,000
Cunningham, Schmertz & Co., Inc.	4,000
Dain, Kalman & Quail, Incorporated	44,000
Daiwa Securities America Inc.	16,000
Daniels & Bell, Inc.	8,000
Davenport & Co. of Virginia, Inc.	12,000
D. A. Davidson & Co., Incorporated	8,000
Shelby Cullom Davis & Co.	12,000
Davis, Skaggs & Co., Inc.	12,000
F. H. Deacon, Hodgson Inc.	4,000
DeHaven & Townsend, Crouter & Bodine Incorporated	8,000
R. G. Dickinson & Co.	12,000
Dillon, Read & Co. Inc.	188,000
Doft & Co., Inc.	16,000
Dominion Securities Limited	44,000
Donaldson, Lufkin & Jenrette Securities Corporation	188,000
Drexel Burnham Lambert Incorporated	188,000
F. Eberstadt & Co., Inc.	88,000
Edelstein, Campbell & Co.	4,000
A. G. Edwards & Sons, Inc.	44,000
Elkins, Stroud, Suplee & Co.	28,000
Eppler, Guerin & Turner, Inc.	16,000
Equitable Securities Corporation	12,000
Ernst & Co.	8,000
EuroPartners Securities Corporation	88,000
Evans & Co. Incorporated	8,000
Allen C. Ewing & Co.	4,000
Fahnestock & Co.	28,000
Faulkner, Dawkins & Sullivan, Inc.	88,000
Ferris & Company, Incorporated	16,000
Financial America Securities, Inc.	4,000
First Albany Corporation	8,000
First Equity Corporation of Florida	8,000
First Harlem Securities Corporation	8,000
First Investors Corporation	4,000
First Manhattan Co.	12,000
First of Michigan Corporation	44,000
First Mid America Inc.	8,000
First Southwest Company	12,000

Name	Number of American Depositary Shares
Robert Fleming Incorporated	88,000
Foley, Warendorf & Co.	4,000
Folger Nolan Fleming Douglas Incorporated	44,000
Foster & Marshall Inc.	12,000
Frederick & Company, Inc.	4,000
Freehling & Co.	8,000
Frost, Johnson, Read & Smith, Incorporated	4,000
Fulton, Reid & Staples, Inc.	16,000
Furman Selz Mager Dietz & Birney Incorporated	8,000
J. A. Glynn & Co.	4,000
Gordon Securities Limited	28,000
Gradison & Company Incorporated	8,000
Greenshields Incorporated	188,000
Gruntal & Co.	16,000
Hambrecht & Quist	8,000
Hamershlag, Kempner & Marks	8,000
Hardy & Co.	4,000
Harrison & Company	8,000
Bernard Herold & Co., Inc.	4,000
Herzfeld & Stern	16,000
J. J. B. Hilliard, W. L. Lyons, Inc.	16,000
Hoppin, Watson Inc.	12,000
Hornblower, Weeks, Noyes & Trask Incorporated	188,000
Houston Willoughby Limited	4,000
Howard, Weil, Labouisse, Friedrichs Incorporated	28,000
Howe, Barnes & Johnson, Inc.	8,000
E. F. Hutton & Company Inc.	188,000
The Illinois Company Incorporated	12,000
Interstate Securities Corporation	16,000
Investment Corporation of Virginia	16,000
Janney Montgomery Scott Inc.	28,000
Jesup & Lamont Incorporated	12,000
Hugh Johnson & Company, Inc.	8,000
Johnson, Lane, Space, Smith & Co., Inc.	12,000
Johnston, Lemon & Co. Incorporated	28,000
Edward D. Jones & Co.	8,000
Joseph, Miller & Russell, Inc.	8,000
Josephthal & Co.	12,000
Keefe, Bruyette & Woods, Inc.	16,000
Paul Kendrick & Co., Inc.	4,000
Kidder, Peabody & Co. Incorporated	188,000
John G. Kinnard and Company Incorporated	4,000
Kirkpatrick, Pettis, Smith, Polian Inc.	12,000
Kleinwort, Benson Incorporated	88,000
Kormendi, Byrd Brothers, Inc.	8,000
Kuhn Loeb & Co. Incorporated	188,000
Ladenburg, Thalmann & Co. Inc.	44,000
Laidlaw-Coggeshall Inc.	12,000
Cyrus J. Lawrence Incorporated	16,000
Lazard Frères & Co.	188,000
Legg Mason Wood Walker, Incorporated	28,000
Lehman Brothers Incorporated	188,000
Lepercq, de Neuflize & Co. Incorporated	12,000

Name	Number of American Depositary Shares
Levesque, Beaubien Inc.	8,000
Loeb Rhoades & Co. Inc.	188,000
Loewi & Co. Incorporated	28,000
MacDougall, MacDougall & MacTier Ltd.	4,000
Manley, Bennett, McDonald & Co.	12,000
Mason & Lee, Inc.	4,000
A. E. Masten & Co. Incorporated	8,000
McCourtney-Breckenridge & Company	4,000
McDonald & Company	44,000
McLean, McCarthy & Company Limited	4,000
McLeod, Young, Weir & Company Limited	44,000
Mead & Co. Limited	4,000
Mesirow & Company	4,000
Midland Doherty Limited	28,000
The Milwaukee Company	16,000
Molson, Rousseau & Cie Limitee	4,000
Moore, Leonard & Lynch, Incorporated	28,000
Moore & Schley, Cameron & Co.	16,000
Morgan, Keegan & Company, Inc.	8,000
Morgan, Olmstead, Kennedy & Gardner Incorporated	8,000
Moseley, Hallgarten & Estabrook Inc.	88,000
Mullaney, Wells & Company Division of Olde & Co., Incorporated	8,000
Muller and Company	4,000
Nesbitt Thomson Securities Limited	28,000
New Court Securities Corporation	88,000
New Japan Securities International Inc.	8,000
W. H. Newbold's Son & Co., Inc.	8,000
Newhard, Cook & Co. Incorporated	16,000
The Nikko Securities Co. International, Inc.	16,000
Nomura Securities International, Inc.	28,000
Odlum Brown & T. B. Read Ltd.	8,000
The Ohio Company	28,000
A. E. Osler, Wills, Bickle Limited	4,000
Paine, Webber, Jackson & Curtis Incorporated	188,000
Parker/Hunter Incorporated	28,000
H. O. Peet & Co. Inc.	8,000
Pemberton Securities Limited	8,000
Carl H. Pforzheimer & Co.	28,000
Philips, Appel & Walden, Inc.	16,000
Piper, Jaffray & Hopwood Incorporated	44,000
Pitfield, Mackay, Ross & Company Limited	44,000
Prescott, Ball & Turben	44,000
R. W. Pressprich & Co. Incorporated	88,000
Quinn & Co., Inc.	4,000
Raffensperger, Hughes & Co., Inc.	8,000
Rand & Co., Inc.	8,000
Rauscher Pierce Securities Corporation	44,000
Raymond, James & Associates, Inc.	4,000
Reinholdt & Gardner	44,000
Richardson Securities of Canada	28,000
Robertson, Colman, Siebel & Weisel	28,000
The Robinson-Humphrey Company, Inc.	44,000
Rodman & Renshaw, Inc.	12,000
Wm. C. Roney & Co.	12,000
Roose, Wade & Company	4,000

Name	Number of American Depositary Shares
Ross, Stebbins Inc.	4,000
Rotan Mosle Inc.	188,000
L. F. Rothschild, Unterberg, Towbin	188,000
R. Rowland & Co. Incorporated	12,000
Sade & Co.	4,000
Salkin, Welch & Co., Incorporated	4,000
Scandinavian Securities Corporation	88,000
Scharff & Jones, Inc.	8,000
Scherck, Stein & Franc, Inc.	12,000
Schneider, Bernet & Hickman, Inc.	12,000
Scott & Stringfellow, Inc.	12,000
Seasongood & Mayer	4,000
H. B. Shaine & Co., Inc.	8,000
Shearson Hayden Stone Inc.	188,000
Shuman, Agnew & Co., Inc.	44,000
I. M. Simon & Co.	8,000
Smith Barney, Harris Upham & Co. Incorporated	188,000
Smith, Hague & Co., Incorporated	8,000
Smith, Moore & Co.	4,000
SoGen-Swiss International Corporation	88,000
Stephens Inc.	12,000
Sterling, Grace & Co. Incorporated	8,000
Stern Brothers & Co.	16,000
Sterne, Agee & Leach, Inc.	8,000
Stifel, Nicolaus & Company Incorporated	16,000
Stix & Co. Inc.	8,000
Stone & Youngberg	8,000
Suez American Corporation	16,000
Sutro & Co. Incorporated	28,000
Sweney Cartwright & Co.	4,000
Henry F. Swift & Co.	4,000
Wm. Sword & Co. Incorporated	8,000
Thomson McKinnon Securities Inc.	88,000
Traub and Company, Inc.	8,000
Trubee, Collins & Co.	4,000
Tucker, Anthony & R. L. Day, Inc.	88,000
UBS-DB Corporation	88,000
Ultrafin International Corporation	16,000
Underwood, Neuhaus & Co., Incorporated	16,000
Hans Utsch & Co., Inc.	4,000
Vercoe & Company, Inc.	4,000
Edward A. Viner & Co., Inc.	4,000
Wagenseller & Durst, Inc.	16,000
Wainwright Securities Inc.	28,000
Walwyn Stodgell Cochran Murray Limited	8,000
Warburg Paribas Becker Incorporated	228,000
Watling, Lerchen & Co. Incorporated	16,000
Wedbush, Noble, Cooke, Inc. William R. Staats Division	8,000
Weeden & Co. Incorporated	88,000
Weinrich·Zitzmann·Whitehead Inc.	4,000
Wertheim & Co., Inc.	188,000
Wheat, First Securities, Inc.	44,000
White, Weld & Co. Incorporated	188,000
C. T. Williams & Co., Inc.	4,000
Dean Witter & Co. Incorporated	228,000
Wood, Struthers & Winthrop Inc.	88,000
Yamaichi International (America), Inc.	16,000
Yorkton Securities Inc.	4,000
Zuckerman, Smith & Co., Inc.	4,000
Total	13,357,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the American Depositary Shares are subject to no conditions to closing except delivery of American Depositary Receipts for such Shares. The nature of the Underwriters' obligations is such that they are committed to take and pay for all the American Depositary Shares if any are taken.

The Underwriters propose to offer part of the American Depositary Shares directly to the public at the public offering price and part to selected dealers who enter into Dealer Agreements in the form attached as Exhibit C to the Agreement Among Underwriters at a price which represents a concession, not in excess of $.42 an American Depositary Share, under the public offering price. Any Underwriter may allow, and such dealers may reallow, a concession, not in excess of $.25 an American Depositary Share, to other Underwriters or other such dealers.

Each of the Underwriters and such dealers has agreed that it will deliver a copy of this Prospectus (as then amended or supplemented if BP shall have furnished any amendments or supplements hereto) to each person who purchases American Depositary Shares or Ordinary Shares from or through it on or before August 6, 1977.

The United Kingdom Government has agreed not to sell, contract to sell, or otherwise dispose of, without the consent of the representatives of the Underwriters, any American Depositary Shares or Ordinary Shares owned by it on June 27, 1977, other than the American Depositary Shares to be sold pursuant to the Underwriting Agreement and the Ordinary Shares recently offered for sale in the United Kingdom, for a period of 90 days after June 27, 1977.

The United Kingdom Government has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

LEGAL OPINIONS

The validity of the ADRs representing the American Depositary Shares offered hereby will be passed upon by Sullivan & Cromwell, 48 Wall Street, New York, New York 10005, United States counsel for BP and the United Kingdom Government, and by Davis Polk & Wardwell, 1 Chase Manhattan Plaza, New York, New York 10005, counsel for the Underwriters. The validity of the underlying £1 units of Ordinary Stock will be passed upon by Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA, English solicitors for BP. The title of the United Kingdom Government to such £1 units of Ordinary Stock will be passed upon by The Solicitor for the Affairs of Her Majesty's Treasury, for the United Kingdom Government. Sullivan & Cromwell and Davis Polk & Wardwell will rely upon the opinions of Linklaters & Paines and The Solicitor for the Affairs of Her Majesty's Treasury as to matters governed by English law.

EXPERTS

The financial statements and schedules expressed in pounds sterling of BP and BP and its subsidiaries included or incorporated by reference in this Prospectus and the Registration Statement of which it is a part have been examined by Whinney Murray & Co., chartered accountants, independent auditors, whose reports thereon contain a qualification as to consistency with respect to modifications in 1975 and 1976 with regard to the valuation of inventorie, and deferred taxation. Such financial statements and schedules have been so included or incorporated by reference in reliance upon such reports of Whinney Murray & Co. given upon their authority as experts in accounting and auditing.

The consolidated financial statements and schedules of The Standard Oil Company, an Ohio corporation, and subsidiaries included or incorporated by reference in this Prospectus and the Registration Statement of which it is a part have been examined by Ernst & Ernst, independent auditors, whose reports thereon contain a qualification for the change in 1973 in the method of pricing certain inventories and, as they relate to Sohio's share of expenditures for construction of the Trans-Alaska Pipeline, are based in part on the report thereon of other independent auditors. Such financial statements and schedules have been so included or incorporated by reference in reliance upon such reports of these firms given upon their authority as experts in accounting and auditing.

The estimates of the recoverable reserves from the main oil and gas reservoir in the Prudhoe Bay Field are included herein in reliance upon the opinion and the authority of DeGolyer and MacNaughton, experts in making such estimates.

ADDITIONAL INFORMATION

In accordance with the rules and regulations of the Securities and Exchange Commission, this Prospectus does not contain all the information set forth in the Registration Statement of which this Prospectus is a part. Such additional information may be obtained from the Commission's principal office in Washington, D.C.

Both the Ordinary Shares represented by the American Depositary Shares offered hereby and 13,339,000 Ordinary Shares represented by Letters of Acceptance to be issued in the U.K. offering have been registered under the Securities Act of 1933 by such Registration Statement. This Prospectus relates to all such Ordinary Shares.

CERTAIN DEFINITIONS

As used in this Prospectus, the following terms have the following meanings:

(i) "Proved reserves" means those quantities of crude oil (including condensate and natural gas liquids) and natural gas which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions and are limited to those quantities of oil and gas which can be expected, with little doubt, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing equipment and operating methods.

(ii) "Proved developed reserves" means proved reserves which are expected to be recovered through existing wells with existing equipment and operating methods, and are subdivided into:

(a) "Producing reserves", which are expected to be produced from existing completion intervals now open for production in existing wells; and

(b) "Non-producing reserves", which exist behind the casing of existing wells, or at minor depths below the present bottom of such wells, and are expected to be produced through these wells in the predictable future, at a cost which is relatively small compared to the cost of a new well.

Proved developed reserves exclude oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery unless tested by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

(iii) "Proved undeveloped reserves" means proved reserves which are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion, but does not include reserves attributable to any acreage for which the application of fluid injection or other improved recovery techniques is contemplated unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

INDEX TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE BP GROUP

Translation into U.S. dollars in the financial statements of the BP Group is for convenience only and has been made at the December 31, 1976 exchange rate of £1 = $1.70 in accordance with the general policy of the staff of the Securities and Exchange Commission. See the third paragraph on page 2 of this Prospectus.

FINANCIAL STATEMENTS OF THE STANDARD OIL COMPANY AND SUBSIDIARIES*

* Financial statements of The Standard Oil Company have been omitted because it is primarily an operating company and all subsidiaries included in the consolidated financial statements are wholly owned and are not indebted to any person outside the consolidated group in an amount which is material in relation to the total consolidated assets, excluding indebtedness which is guaranteed by the parent or its consolidated subsidiaries.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

REPORT OF INDEPENDENT AUDITORS

To: The British Petroleum Company Limited

We have examined the financial statements expressed in pounds sterling of The British Petroleum Company Limited and of The British Petroleum Company Limited and its subsidiaries listed in the Index to the BP Group's Financial Statements on page 64 for the five years ended December 31, 1976. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Incorporated in the financial statements are accounts of subsidiaries and associated companies audited by other auditors.

In our opinion the financial statements expressed in pounds sterling present fairly the financial position of The British Petroleum Company Limited and of The British Petroleum Company Limited and its subsidiaries at December 31, 1976, the results of their operations and the source and application of funds for each of the five years then ended, in conformity with accounting principles generally accepted in the United Kingdom consistently applied except for the modifications in 1975 and 1976 (with which we concur) with regard to the valuation of inventories and deferred taxation as described in Note A to the BP Group's Financial Statements.

United Kingdom accounting principles vary in certain respects from the accounting principles generally accepted in the United States. In our opinion the adjustments set forth in notes (a) and (b) to the BP Group Consolidated Statement of Income give a reasonable estimate of the material differences which would arise in determining net income if accounting principles generally accepted in the United States were to be applied. Furthermore, in our opinion, under United States generally accepted accounting principles, the profit on disposal of interests during 1974 and 1975 referred to in Notes E and F would have been reflected in income before extraordinary items in those years, whilst advance corporation tax credited to income in 1976 as set forth in Note O would have been treated as an extraordinary item.

Whinney Murray & Co.
Chartered Accountants

London, England
March 17, 1977.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

	December 31 1976	
	(£ million)	
Properties and operating assets—Note B		
At cost	5,237.7	
Less depreciation	2,088.5	3,149.2
Investments:		
The Standard Oil Company (Sohio)—Note C		438.7
Associated companies—Note D		
At cost	380.9	
Less provisions	37.4	343.5
Long-term receivables		232.1
Current assets:		
Cash	653.3	
Marketable securities at net book amount which approximates market	37.5	
Receivables, principally trade, less allowances for doubtful debts—£33.5 million	2,086.7	
Inventories—Note G		
Oil and chemicals	1,707.4	
Stores	126.4	
	4,611.3	
Current liabilities:		
Accounts payable and accrued liabilities	2,230.0	
Taxes payable	291.9	
Finance debts subject to repayment within one year	764.3	
Dividends payable	50.4	
	3,336.6	
Current assets less current liabilities		1,274.7
Total Assets Less Current Liabilities		5,438.2
Deduct:		
Finance debts—Notes H and J	2,275.7	
Less amounts subject to repayment within one year	764.3	
	1,511.4	
North Sea oil advance proceeds—Note I	319.0	
Deposits and noncurrent liabilities—Note L	248.5	
Deferred taxation—Note O	183.8	
Insurance provisions	52.5	
Unfunded pension provisions—Note M	141.8	
Minority interest	122.8	2,579.8
Net Assets		2,858.4
Commitments and Contingencies—Notes I, J, Q and R		
Capital Stock—Note Y:		
Preference		12.7
Ordinary		386.1
Paid in surplus		197.4
Earned surplus—Note N		2,262.2
Stockholders' Interest		2,858.4

The Notes to Financial Statements are an integral part of this Balance Sheet.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

(expressed in U.S. dollars)

	December 31 1976 ($ million)	
Properties and operating assets—Note B		
At cost	8,904	
Less depreciation	3,550	5,354
Investments:		
The Standard Oil Company (Sohio)—Note C		746
Associated companies—Note D		
At cost	648	
Less provisions	64	584
Long-term receivables		394
Current assets:		
Cash	1,110	
Marketable securities at net book amount which approximates market	64	
Receivables, principally trade, less allowances for doubtful debts—$57 million	3,547	
Inventories—Note G		
Oil and chemicals	2,903	
Stores	215	
	7,839	
Current liabilities:		
Accounts payable and accrued liabilities	3,791	
Taxes payable	496	
Finance debts subject to repayment within one year	1,299	
Dividends payable	86	
	5,672	
Current assets less current liabilities		2,167
Total Assets Less Current Liabilities		9,245
Deduct:		
Finance debts—Notes H and J	3,869	
Less amounts subject to repayment within one year	1,299	
	2,570	
North Sea oil advance proceeds—Note I	542	
Deposits and noncurrent liabilities—Note L	423	
Deferred taxation—Note O	312	
Insurance provisions	89	
Unfunded pension provisions—Note M	241	
Minority interest	209	4,386
Net Assets		4,859
Commitments and Contingencies—Notes I, J, Q and R		
Capital Stock—Note Y:		
Preference		22
Ordinary		656
Paid in surplus		336
Earned surplus—Note N		3,845
Stockholders' Interest		4,859

The Notes to Financial Statements are an integral part of this Balance Sheet.

This Balance Sheet is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1 = $1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Balance at beginning of period	974.8	1,007.7	1,606.2	2,016.3	2,079.7
Net income for period	61.3	603.5	487.4	166.2	179.8
Less: Dividends—Note P					
Preference—gross	1.0	—	—	—	—
Ordinary—gross	19.2	—	—	—	—
Preference—net	—	0.7	0.7	0.7	0.7
Ordinary—net	42.3	58.6	65.1	69.5	76.4
Transitional relief—Note P	(9.8)	—	—	—	—
Income retained	8.6	544.2	421.6	96.0	102.7
Premiums on acquisitions—Note F	(11.4)	—	—	—	—
Exchange fluctuations—Note A	37.7	55.8	(11.5)	13.6	79.8
Adjustment re inclusion of depreciation in inventories at January 1, 1975—Note A	—	—	—	14.6	—
Additional provision for deferred tax at January 1, 1975—Note A	—	—	—	(60.8)	—
Other movements	(2.0)	(1.5)	—	—	—
Balance at end of period	1,007.7	1,606.2	2,016.3	2,079.7	2,262.2

The Notes to Financial Statements are an integral part of this Statement.

CONSOLIDATED STATEMENT OF EARNED SURPLUS
(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
			($ million)		
Balance at beginning of period	1,659	1,714	2,731	3,428	3,535
Net income for period	103	1,025	828	282	306
Less: Dividends—Note P					
Preference—gross	2	—	—	—	—
Ordinary—gross	33	—	—	—	—
Preference—net	—	1	1	1	1
Ordinary—net	72	100	110	118	130
Transitional relief—Note P	(17)	—	—	—	—
Income retained	13	924	717	163	175
Premiums on acquisitions—Note F	(19)	—	—	—	—
Exchange fluctuations—Note A	64	95	(20)	23	135
Adjustment re inclusion of depreciation in inventories at January 1, 1975—Note A	—	—	—	25	—
Additional provision for deferred tax at January 1, 1975—Note A	—	—	—	(104)	—
Other movements	(3)	(2)	—	—	—
Balance at end of period	1,714	2,731	3,428	3,535	3,845

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THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
			($ million)		
Source of Funds					
Income before extraordinary items and U.K. taxation	119	527	848	333	640
Extraordinary items after taxation	3	524	19	36	—
	122	1,051	867	369	640
Depreciation	206	231	279	329	452
Other items	22	(34)	32	(109)	89
Total generated from operations	350	1,248	1,178	589	1,181
Increase in finance debts (excluding changes in currency values)	133	36	386	539	582
North Sea oil advance proceeds	—	43	214	280	52
Book amount of assets sold	32	122	51	57	81
Net changes in currency values	68	39	9	85	232
Rights issue	58	—	—	—	—
Other items	139	(19)	119	101	184
Total other sources	430	221	779	1,062	1,131
Funds available	780	1,469	1,957	1,651	2,312
Application of Funds					
Capital expenditure	352	510	838	1,137	1,373
Investment in Sohio and other associated companies	150	49	(28)	196	262
Reduction of North Sea oil advance proceeds	—	—	—	7	122
Dividends paid	129	100	112	114	123
U.K. tax paid—mainly advance corporation tax (net of transitional relief)	—	19	27	39	34
	631	678	949	1,493	1,914
Increase in working capital	149	791	1,008	158	398
	780	1,469	1,957	1,651	2,312
Increase in Working Capital					
Increase in inventories	36	235	1,292	326	692
Increase in current receivables	120	718	827	38	694
(Increase)/decrease in current liabilities (excluding U.K. tax and proposed dividends)	(130)	(577)	(1,783)	28	(786)
Increase/(decrease) in cash and marketable securities	123	415	672	(234)	(202)
	149	791	1,008	158	398

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THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF CHANGES IN CAPITAL STOCK AND PAID IN SURPLUS

	Unclassified Shares	Ordinary Stock	Preference Stock	
Authorized—£1 Units			8.0% (Now 5.6% + tax credit)	9.0% (Now 6.3% + tax credit)
Balance at December 31, 1971 ..	28,093,227	384,156,773	7,250,000	5,500,000
Increase during 1972	73,086,657	1,913,343	—	—
Balance at December 31, 1972, 1973, 1974, 1975 and 1976 ..	101,179,884	386,070,116	7,250,000	5,500,000
	Paid in Surplus			
Issued Stock and Paid in Surplus				
Balance at December 31, 1971 ..	£162,976,097	£377,562,450	£7,232,838	£5,473,414
Balance of proceeds of 1 for 15 rights issue made in 1971	27,263,494	6,594,323	—	—
Issued in connection with the acquisition of the Europa group of companies—Note F	7,175,036	1,913,343	—	—
Balance at December 31, 1972, 1973, 1974, 1975 and 1976 ..	£197,414,627	£386,070,116	£7,232,838	£5,473,414

The Notes to Financial Statements are an integral part of this Statement.

Note:

Of the £386.1 million ordinary capital issued at December 31, 1976, Her Majesty's Government in the United Kingdom owned £186.1 million (48.2%) and the Bank of England £77.8 million (20.1%). The Bank acquired this holding on January 23, 1975 from The Burmah Oil Company Limited, and in connection therewith gave an undertaking to the Panel on Take-overs and Mergers ("the Panel") that, so long as the Bank's holding and the British Government's holding of BP ordinary stock taken together represent 30% or more of the total voting rights normally exercisable in respect of such stock, the Bank will not exercise the votes attaching to such 77.8 million stock units. The Bank also advised the Panel that it was authorized by the Government to inform the Panel as follows: (a) it is not the Government's intention that the Bank's acquisition of the 77.8 million stock units should change in any way the existing arrangements between the Government and BP, and (b) accordingly, while any of such stock units remain in the Bank's hands and the Bank's undertaking referred to in the preceding sentence remains in force, the Government will not exercise a greater proportionate voting power in relation to other BP stockholders than it could have exercised prior to the Bank's acquisition of such 77.8 million stock units. The reason for these undertakings was to obtain from the Panel a ruling, which the Panel issued on January 23, 1975, that the Bank would not be obligated under the City Code on Take-overs and Mergers to offer to purchase the ordinary stock of BP held by its public stockholders.

THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF CHANGES IN CAPITAL STOCK AND PAID IN SURPLUS
(expressed in U.S. dollars)

	Paid in Surplus	Issued Capital—Nominal Value		
		Ordinary Stock	Preference Stock	
			8.0% (Now 5.6% + tax credit)	9.0% (Now 6.3% + tax credit)
Issued Stock and Paid in Surplus				
Balance at December 31, 1971 ..	$277,059,365	$641,856,165	$12,295,825	$9,304,804
Balance of proceeds of 1 for 15 rights issue made in 1971	46,347,940	11,210,349	—	—
Issued in connection with the acquisition of the Europa group of companies—Note F	12,197,561	3,252,683	—	—
Balance at December 31, 1972, 1973, 1974, 1975 and 1976 ..	$335,604,866	$656,319,197	$12,295,825	$9,304,804

The Notes to Financial Statements are an integral part of this Statement.

Note:

Of the £386.1 million capital issued at December 31, 1976, Her Majesty's Government in the United Kingdom owned £186.1 million (48.2%) and the Bank of England £77.8 million (20.1%). The Bank acquired this holding on January 23, 1975 from The Burmah Oil Company Limited, and in connection therewith gave an undertaking to the Panel on Take-overs and Mergers ("the Panel") that, so long as the Bank's holding and the British Government's holding of BP ordinary stock taken together represent 30% or more of the total voting rights normally exercisable in respect of such stock, the Bank will not exercise the votes attaching to such 77.8 million stock units. The Bank also advised the Panel that it was authorized by the Government to inform the Panel as follows: (a) it is not the Government's intention that the Bank's acquisition of the 77.8 million stock units should change in any way the existing arrangements between the Government and BP, and (b) accordingly, while any of such stock units remain in the Bank's hands and the Bank's undertaking referred to in the preceding sentence remains in force, the Government will not exercise a greater proportionate voting power in relation to other BP stockholders than it could have exercised prior to the Bank's acquisition of such 77.8 million stock units. The reason for these undertakings was to obtain from the Panel a ruling, which the Panel issued on January 23, 1975, that the Bank would not be obligated under the City Code on Take-overs and Mergers to offer to purchase the ordinary stock of BP held by its public stockholders.

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THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF INCOME

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Dividends and interest from subsidiary companies less intra-group items	78.4	48.0	47.5	44.6	80.7
Dividends and interest from associated companies —Note D	2.2	1.4	2.3	2.8	2.9
	80.6	49.4	49.8	47.4	83.6
Other interest and miscellaneous income	14.0	32.1	79.6	49.2	37.2
	94.6	81.5	129.4	96.6	120.8
Interest expense	11.0	16.2	18.8	20.5	20.7
Administrative and other expenses	1.0	1.3	1.4	1.1	1.6
Income before taxes and extraordinary items	82.6	64.0	109.2	75.0	98.5
Taxes	11.5	15.2	25.6	7.4	(71.8)
Income before extraordinary items	71.1	48.8	83.6	67.6	170.3
Extraordinary items after taxation—Note F	—	25.3	—	21.3	—
Net income	71.1	74.1	83.6	88.9	170.3

The Notes to Financial Statements are an integral part of this Statement.

The income from subsidiary companies consists principally of dividends on which U.K. tax has been accounted for by those companies. During the periods under review it has been the policy of BP to limit the distributions by subsidiary companies so that its income approximates the amount of its dividends. However, net income for 1976 is after crediting £70.9 million in respect of advance corporation tax written off in previous years (Note O).

THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF INCOME
(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
			($ million)		
Dividends and interest from subsidiary companies less intra-group items	133	82	81	76	137
Dividends and interest from associated companies —Note D	4	2	4	5	5
	137	84	85	81	142
Other interest and miscellaneous income	24	55	135	84	63
	161	139	220	165	205
Interest expense	19	28	32	35	35
Administrative and other expenses	2	2	2	2	3
Income before taxes and extraordinary items	140	109	186	128	167
Taxes	19	26	44	13	(122)
Income before extraordinary items	121	83	142	115	289
Extraordinary items after taxation—Note F	—	43	—	36	—
Net income	121	126	142	151	289

The Notes to Financial Statements are an integral part of this Statement.

The income from subsidiary companies consists principally of dividends on which U.K. tax has been accounted for by those companies. During the periods under review it has been the policy of BP to limit the distributions by subsidiary companies so that its income approximates the amount of its dividends. However, net income for 1976 is after crediting $121 million in respect of advance corporation tax written off in previous years (Note O).

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THE BRITISH PETROLEUM COMPANY LIMITED

BALANCE SHEET

		December 31 1976 (£ million)
Investments:		
Subsidiary companies—Note A (eliminated in consolidation)		
At cost less provisions—£8.7 million	265.5	
Advances, current accounts and accrued dividends	890.5	1,156.0
Associated companies—Note D		
At cost	14.3	
Less provisions	2.1	12.2
Long-term receivables		25.6
Current assets:		
Cash	386.7	
Marketable securities at net book amount which approximates market	0.3	
Receivables, principally trade	18.3	
	405.3	
Current liabilities:		
Accounts payable and accrued liabilities	53.2	
Finance debts subject to repayment within one year	29.5	
Dividends payable	50.4	
	133.1	
Current assets less current liabilities		272.2
Total Assets Less Current Liabilities		1,466.0
Deduct:		
Finance debts—Note H	284.9	
Less amounts subject to repayment within one year	29.5	255.4
Net Assets		1,210.6
Commitments and Contingencies—Notes I, J and Q		
Capital Stock—Note Y:		
Preference		12.7
Ordinary		386.1
Paid in surplus		197.4
Earned surplus—Note N		614.4
Stockholders' Interest		1,210.6

The Notes to Financial Statements are an integral part of this Balance Sheet.

THE BRITISH PETROLEUM COMPANY LIMITED

BALANCE SHEET

(expressed in U.S. dollars)

		December 31 1976
		($ million)
Investments:		
Subsidiary companies—Note A (eliminated in consolidation)		
At cost less provisions—$15 million	451	
Advances, current accounts and accrued dividends	1,514	1,965
Associated companies—Note D		
At cost	24	
Less provisions	3	21
Long-term receivables		43
Current assets:		
Cash	657	
Marketable securities at net book amount which approximates market	1	
Receivables, principally trade	31	
	689	
Current liabilities:		
Accounts payable and accrued liabilities	90	
Finance debts subject to repayment within one year	50	
Dividends payable	86	
	226	
Current assets less current liabilities		463
Total Assets Less Current Liabilities		2,492
Deduct:		
Finance debts—Note H	484	
Less amounts subject to repayment within one year	50	434
Net Assets		2,058
Commitments and Contingencies—Notes I, J and Q		
Capital Stock—Note Y:		
Preference		22
Ordinary		656
Paid in surplus		336
Earned surplus—Note N		1,044
Stockholders' Interest		2,058

The Notes to Financial Statements are an integral part of this Balance Sheet.

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THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF EARNED SURPLUS

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Balance at beginning of period	554.9	555.8	557.2	558.1	559.6
Net income for period	71.1	74.1	83.6	88.9	170.3
Less: Dividends—Note P					
Preference—gross	1.0	—	—	—	—
Ordinary—gross	19.2	—	—	—	—
Preference—net	—	0.7	0.7	0.7	0.7
Ordinary—net	42.3	58.6	65.1	69.5	76.4
Income retained	8.6	14.8	17.8	18.7	93.2
Exchange fluctuations	(6.8)	(13.4)	(16.9)	(17.2)	(38.4)
Other movements	(0.9)	—	—	—	—
Balance at end of period	555.8	557.2	558.1	559.6	614.4

The Notes to Financial Statements are an integral part of this Statement.

THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF EARNED SURPLUS

(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
			($ million)		
Balance at beginning of period	943	945	947	948	951
Net income for period	121	126	142	151	289
Less: Dividends—Note P					
Preference—gross	2	—	—	—	—
Ordinary—gross	33	—	—	—	—
Preference—net	—	1	1	1	1
Ordinary—net	72	100	110	118	130
Income retained	14	25	31	32	158
Exchange fluctuations	(11)	(23)	(30)	(29)	(65)
Other movements	(1)	—	—	—	—
Balance at end of period	945	947	948	951	1,044

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THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Source of Funds					
Income before extraordinary items and U.K. taxation	82.6	64.0	109.2	75.0	98.5
Extraordinary items after taxation	—	25.3	—	21.3	—
Increase/(decrease) in finance debts (excluding changes in currency values)	35.1	3.3	(9.1)	14.6	30.5
Rights issue	33.8	—	—	—	—
Decrease/(increase) in long-term receivables	2.9	(30.3)	12.2	8.5	23.0
Other items	11.5	0.7	0.4	2.6	(4.9)
Funds Available	165.9	63.0	112.7	122.0	147.1
Application of Funds					
Increase/(decrease) in investment in subsidiaries and associates*	44.3	(173.4)	(309.0)	178.9	245.2
Dividends paid to BP stockholders	75.8	59.3	65.8	67.3	72.6
U.K. tax paid—mainly advance corporation tax (net of transitional relief)	—	10.9	15.9	22.8	20.2
	120.1	(103.2)	(227.3)	269.0	338.0
Increase/(decrease) in working capital	45.8	166.2	340.0	(147.0)	(190.9)
	165.9	63.0	112.7	122.0	147.1
Working Capital					
Increase/(decrease) in current receivables	1.1	13.7	18.7	0.9	(21.1)
Decrease/(increase) in current liabilities (excluding U.K. tax and proposed dividends)	0.3	(0.9)	2.7	(20.9)	(14.4)
Increase/(decrease) in cash and marketable securities	44.4	153.4	318.6	(127.0)	(155.4)
	45.8	166.2	340.0	(147.0)	(190.9)

* 1976 excludes taxes recoverable from subsidiaries.

The Notes to Financial Statements are an integral part of this Statement.

THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
			($ million)		
Source of Funds					
Income before extraordinary items and U.K. taxation	140	109	186	128	167
Extraordinary items after taxation	—	43	—	36	—
Increase/(decrease) in finance debts (excluding changes in currency values)	60	5	(15)	25	52
Rights issue	58	—	—	—	—
Decrease/(increase) in long-term receivables	5	(51)	20	14	40
Other items	19	1	1	4	(9)
Funds Available	282	107	192	207	250
Application of Funds					
Increase/(decrease) in investment in subsidiaries and associates*	75	(295)	(525)	304	417
Dividends paid to BP stockholders	129	101	112	114	123
U.K. tax paid—mainly advance corporation tax (net of transitional relief)	—	19	27	39	34
	204	(175)	(386)	457	574
Increase/(decrease) in working capital	78	282	578	(250)	(324)
	282	107	192	207	250
Working Capital					
Increase/(decrease) in current receivables	2	23	32	2	(36)
Decrease/(increase) in current liabilities (excluding U.K. tax and proposed dividends)	1	(2)	4	(36)	(24)
Increase/(decrease) in cash and marketable securities	75	261	542	(216)	(264)
	78	282	578	(250)	(324)

* 1976 excludes taxes recoverable from subsidiaries.

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NOTES TO FINANCIAL STATEMENTS

Note A—Accounting Policies

Composition of Consolidated Financial Statements

The consolidated financial statements comprise a consolidation of the accounts of The British Petroleum Company Limited and all its subsidiaries except for a number of minor companies, the consolidation of whose accounts would cause undue expense and delay in presentation and whose income is insignificant. The investment in these minor companies is included in the consolidated balance sheet with investment in associated companies. Associated companies are those in which the BP Group has an equity interest of 50% or less. All inter-company transactions are eliminated.

Where accounting policies followed by subsidiaries differ significantly from those adopted for group accounts purposes appropriate consolidation adjustments are made for material items.

In the case of associated companies there is included in the income statement the group proportion of the income and costs of those companies, including from January 1, 1975 The Standard Oil Company (Sohio), whose earnings are material. Dividends received are included for associated companies whose earnings are relatively small.

Currency Conversion

Assets and liabilities expressed in currencies other than sterling and operating results of overseas subsidiaries are converted into sterling at the year-end rates of exchange.

Exchange fluctuations are included in the determination of income except those relating to the restatement at year-end exchange rates of

(a) opening balance sheets of overseas subsidiary and associated companies and

(b) long-term receivables and finance debts (excluding acceptance facilities) in other than local currencies

which are taken directly to earned surplus.

Inventories

Inventories of oil and chemicals are valued at the lower of approximate BP Group cost including overheads, using the first in, first out method, and net realisable value. In 1975 depreciation was included in BP Group cost for the first time in accordance with Statement of Standard Accounting Practice No. 9 issued during that year by the Institutes of Chartered Accountants in the U.K. This change increased the inventory valuation at January 1, 1975 by £14.6 million and is reflected in these financial statements as an adjustment to earned surplus in 1975 with no material effect on the determination of consolidated net income for that year. For purposes of valuation petroleum revenue tax has been treated as a cost in 1976 as a result of further consideration of the nature of this new tax (Note O). The amount relating to inventories at December 31, 1975 was not material.

Inventories of stores are stated at or below cost calculated mainly using the average method.

Pensions

In most group companies there are pension and retirement plans, the forms and benefits varying with regard to economic conditions and practices in the countries concerned. Payments to funds and

Note A—Accounting Policies—(Continued)

provisions are made on the basis of actuarial assessment; current supplementary pension payments are charged against income.

Depreciation and Amounts Provided

Properties and operating assets are depreciated either on a straight line basis, by the reducing balance method or in accordance with local fiscal rules and in the case of the North Sea Forties Field are being amortized on a unit-of-production basis. The result is that these assets are depreciated over their estimated useful lives or shorter periods.

Exploration properties are written off over the estimated period of exploration and full provision is made against the BP Group's proportion of other exploration expenditure whether incurred directly by subsidiary companies or indirectly by associated companies.

Research

Expenditure on research and development is wholly written off in the year in which it is incurred.

Interest and Financing Costs

Interest and financing costs are charged against income but are capitalized where there is dedicated financing of major projects under development.

Petroleum Revenue Tax

The charge for petroleum revenue tax is calculated on a unit-of-production basis and is included in creditors or noncurrent liabilities as appropriate.

Deferred Taxation

The deferral net change method is used in the calculation of deferred taxation. The basis on which the BP Group provides for taxation was revised in 1975 to accord with Statement of Standard Accounting Practice No. 11 issued in that year by the Institutes of Chartered Accountants in the U.K. and the effects of U.K. tax legislation enacted during 1975 (Note O). No U.K. deferred tax provision was required as of January 1, 1975 but in accordance with U.K. accounting principles £60.8 million additional overseas deferred tax as of January 1, 1975 was charged to earned surplus in 1975. The estimated effect on consolidated net income for years prior to 1975 is shown in note (a) to the Consolidated Statement of Income. (See also Note CC—Subsequent Events—(Unaudited).)

Note B—Properties and Operating Assets

	December 31, 1976		
	Cost	Depreciation	Net
		(£ million)	
Production and exploration	1,997.5	351.4	1,646.1
Tankers	303.4	115.2	188.2
Refineries	1,261.9	808.2	453.7
Marketing	1,331.3	653.5	677.8
Chemicals	343.6	160.2	183.4
	5,237.7	2,088.5	3,149.2

Note B—Properties and Operating Assets—(Continued)

The net amount of properties and operating assets at December 31, 1976 includes £159.8 million in respect of land (including buildings acquired with the land) of which £143.9 million represents owned property, mainly service stations overseas, £5.2 million leases with unexpired terms of 50 years or more and £10.7 million other leases.

When properties or operating assets are abandoned, sold or otherwise disposed of, the cost and relative depreciation are deducted from the appropriate accounts and the difference between the net cost and realized value (if any) is charged to expense or credited to revenue as applicable. Maintenance, repairs, minor renewals and betterments are charged to expense. Major renewals and betterments are capitalized.

The BP Group's investment in the Trans Alaska Pipeline System at December 31, 1976 amounting to £737.6 million is included in the caption "production and exploration" above. (See also Note J.)

Note C—Investment in The Standard Oil Company (Sohio)

The investment in Sohio was initially represented by 1,000 shares of special stock which entitled the BP Group to the same rights (except as to dividends) as approximately a 25% common stock interest. The number of shares of common stock, to which the 1,000 shares of special stock are equivalent, will rise with increases in the sustainable crude oil production from Sohio's Prudhoe Bay properties, or in certain circumstances from other Alaskan properties, to a maximum of approximately 54% if such production (net of one-eighth royalty owned by the State of Alaska) reaches 600,000 barrels per day prior to January 1, 1984.

The special stock is pledged as collateral to secure a short-term debt of $58.7 million repayable in 1977 with interest at 7% per annum.

In October 1975 Sohio sold 2,000,000 shares of its common stock and pursuant to the terms of the original agreement dated October 7, 1969 the BP Group acquired 1,080,000 shares being a 54% interest of the issue thereby increasing the BP Group's interest in Sohio to approximately 26%. The investment in Sohio expressed in pounds sterling has increased during 1976 by £66 million due to the movement in the U.S. dollar/sterling rate of exchange.

The BP Group's interest has been equity accounted as from January 1, 1975 when dividends became receivable. This treatment has been reflected in these accounts by the inclusion in other income of £29.5 million (£23.1 million in 1975) with a charge of £9.8 million (£8.4 million in 1975) in overseas taxation. However, interest of £5.5 million (£10.0 million in 1975) on short-term loans related to this investment has been charged leaving a net benefit to BP Group income of £14.2 million (£4.7 million in 1975). Such interest was capitalized in the years 1972-1974 and included as part of the cost of the special stock. At December 31, 1976 the BP Group's share of Sohio's undistributed income was £24.1 million.

The net assets of Sohio at December 31, 1976 are summarized as follows:

	December 31 1976 ($ million)	
Property, plant and equipment after depreciation and depletion		4,869
Investments and other assets		550
Current assets		841
		6,260
Less:		
Current liabilities	540	
Other liabilities	36	
Long-term debt	3,627	
Deferred revenue	400	
Deferred income taxes	108	
Preferred stock	11	4,722
Net assets applicable to common and special stock		1,538

Note C—Investment in The Standard Oil Company (Sohio)—(Continued)

For the five years ended December 31, 1976 the net sales and operating revenue of Sohio was, 1972—$1,387 million, 1973—$1,507 million, 1974—$2,207 million, 1975—$2,507 million and 1976—$2,916 million. Net income after extraordinary items for the five years ended December 31, 1976 was, 1972—$57 million, 1973—$89 million, 1974—$148 million, 1975—$127 million and 1976—$137 million. Dividends amounting to $37 million were paid to Sohio's preferred and common stockholders for each of the three years ended December 31, 1974, $38 million in 1975 and $41 million in 1976. In addition, dividends amounting to $12 million were paid for each of the years 1975 and 1976 on the special stock referred to above.

Note D—Investments in Associated Companies

Investment

Investments in associated companies, virtually none of which is publicly traded, almost entirely represent joint ventures in exploring, producing, refining and marketing oil and chemical products, and are held by BP and its subsidiaries, mainly 100% owned. At December 31, 1976 investments in these associated companies were as follows:

	December 31, 1976		
	Cost	Provisions	Net
		(£ million)	
Production and exploration	128.1	31.1	97.0
Refineries	60.6	1.9	58.7
Marketing	98.1	4.4	93.7
Chemicals	94.1	—	94.1
	380.9	37.4	343.5

These investments are mainly in the nature of partnerships with other oil groups having in many cases integrated trading operations with subsidiary companies of the BP Group which take a wide variety of forms.

Net Assets

Information as to the BP Group proportion of the net assets of associated companies at the end of 1976 is not yet available. However, from the accounts received during the year 1976 from major associated companies in which the BP Group net investment at December 31, 1975 was £259.4 million (out of a total net investment of £293.3 million), it has been ascertained that the net assets of these companies amounted to £1,081.7 million and the BP Group proportion thereof was £347.4 million as follows:

	Associated Companies	BP Group Proportion
	(£ million)	
Properties and operating assets after depreciation	1,413.7	420.2
Long-term receivables and investments	191.8	52.0
Intangibles including goodwill	32.5	8.6
Current assets	904.5	334.2
	2,542.5	815.0
Less: Finance debts	602.6	164.7
Liabilities mainly current	858.2	302.9
Net assets	1,081.7	347.4

Note D—Investments in Associated Companies—(Continued)

The accounts referred to were largely prepared as at December 31, 1975 and were drawn up in accordance with the statutory regulations of the countries in which these companies were incorporated.

Income and Retained Earnings—BP Group Proportion

The BP Group share of the net income of certain associated companies, mainly in respect of crude oil production, for the five years ended December 31, 1976 is reflected in the Consolidated Statement of Income as follows:

	Reduction in Costs	Inclusion in Other Income	Charge to Overseas Taxation	Net Income (BP Group Share)
	(£ million)			
1972	185.5	4.0	124.6	64.9
1973	214.5	6.7	148.4	72.8
1974	420.8	7.7	379.5	49.0
1975	347.8	(0.3)	298.6	48.9
1976	519.4	3.6	484.5	38.5

At December 31, 1976 £17.4 million of the accumulated earnings were undistributed. Dividends received from these companies amounted to £96.5 million in 1972, £79.9 million in 1973, £63.4 million in 1974, £60.8 million in 1975 and £16.3 million in 1976. As at December 31, 1976 there was no material difference between the investment cost and the BP Group's equity interest therein.

Considerable expense and undue delay would be occasioned in obtaining up-to-date completed accounts for the many associated companies incorporated and operating overseas whose earnings are relatively small. It is considered that the procedures adopted for dealing with the BP Group share of the income of associated companies, including dividends received, effectively result, both as to cost and overseas taxation, in a meaningful presentation of the integrated operations of the BP Group.

Dividends and interest were received from associated companies, excluding Sohio and those specifically referred to above, as follows:

	BP		Consolidated	
	Dividends	Interest	Dividends	Interest
	(£ million)			
1972	2.0	0.2	5.7	3.9
1973	1.2	0.2	4.0	4.4
1974	2.1	0.2	8.1	4.2
1975	2.6	0.2	10.8	3.7
1976	2.8	0.1	10.6	3.8

The BP Group share of losses is, in all material cases, covered by provisions in BP or its subsidiary companies.

Consolidated sales proceeds include sales to major 50% owned associated companies for each of the five years ended December 31, 1976 of £80.6 million, £127.5 million, £312.9 million, £277.4 million and £178.6 million. Reference is made in Note G to purchases from such companies.

Note E—Production Interests

During 1974 agreements were made with the governments of Kuwait, Qatar and Abu Dhabi under which each acquired a 60% interest in the respective concessions as from January 1, 1974. In the case of Qatar and Abu Dhabi this represented a further 35% as the governments already had acquired a 25% interest as from January 1, 1973. In Nigeria where the government acquired a 35% interest in the concession as from April 1, 1973 this was increased to 55% as from April 1, 1974.

In the 1973 accounts the net book amount of the assets acquired by governments in that year, together with amounts in respect of assets previously nationalized in Iraq and Libya, were transferred from production assets and investment in associated companies to a separate account to which amounts received during the year were credited.

In the 1974 accounts similar transfers were made to the separate account in respect of the further interests acquired. Consideration amounts from governments resulted in a credit balance of £11.6 million which was accounted for in the Consolidated Statement of Income for 1974 as an extraordinary item. Under United States generally accepted accounting principles as applied in 1974, in conformity with Accounting Principles Board Opinion No. 30, such an item would have been included in the determination of income before extraordinary items. Earnings per unit of ordinary stock before extraordinary items would have increased correspondingly by 3.1p (5 cents) with no change in net income and income per unit of ordinary stock.

In November 1974 an agreement was made with the Libyan government constituting a full and final settlement with them of all outstanding matters. The financial effect relating to the BP Group's assets in Libya was reflected in the above-mentioned separate account.

In pursuance of its intention to acquire 100% ownership the Kuwait government signed an agreement with the BP Group and its partner in Kuwait on December 1, 1975 by which it acquired the remaining 40% interest of both companies in Kuwait as from March 5, 1975. The government of Qatar announced in December 1974 a policy decision to acquire the remaining 40% of the Qatar Petroleum Company concession and negotiations were concluded in 1976 to this effect. In regard to the concession in southern Iraq, the Iraq government, following an interim settlement in January 1975, subsequently on December 8, 1975, took unilateral action purporting to nationalize the BP Group's interest. No material profits or losses have arisen or are expected to arise following resolution of the above matters.

Discussions with Iran which were held during the first half of 1973 on the future long-term relationship with members of the Iranian Oil Consortium (BP Group interest 40%) led to a new agreement effective from March 21, 1973. This agreement, while ensuring to Iran total benefits and advantages no less favorable than those applicable to other countries in the Gulf, contains features designed to suit Iran's own position. By this agreement Iran acquired the rights and assumed the obligations of the operating companies formerly owned by the consortium. Under these arrangements oil is being sold to the companies for a twenty-year period from March 21, 1973 and agreed quantities processed for them at the Abadan refinery.

Note F—Major Acquisitions, Disposals and Reclassifications

The corporate structure of the BP Group's Canadian interests was reorganized in October 1972. This involved the amalgamation of BP Canada Limited and BP Oil and Gas Ltd. which resulted in a small reduction of the BP Group's interest to approximately 66% of the amalgamated company.

Note F—Major Acquisitions, Disposals and Reclassifications—(Continued)

A 60% interest in the Europa group of companies, a marketing and refining group in New Zealand, was acquired as of April 1, 1972 and its accounts have been consolidated from that date. In connection with this acquisition, which was accounted for as a purchase, £1.9 million ordinary stock was issued by BP with an agreement to acquire the remaining 40% by May 9, 1977 when a further £0.4 million was issued.

On July 2, 1973 BP Italiana, a wholly-owned subsidiary, was sold to Oil Chemicals and Transport Finance Corporation S.A. which is owned by an international consortium organized by the Monti group. BP Italiana had, at that time, a refinery at Volpiano, near Milan, with a capacity of 72,000 barrels per day and controlled a sales network of some 3,200 retail outlets with related depots and transport facilities. The agreement also provided for the sale of BP's 49% shareholding in Industria Raffinazione Oli Minerali S.p.A., which owns a refinery at Venice with a capacity of 90,000 barrels per day, subject to the pre-emptive rights of the major shareholder. A first installment of the consideration was received in 1973 and the remainder was received by July 1975. The profit of £25.3 million was dealt with as an extraordinary item in the Consolidated Statement of Income for 1973. The trading results of BP Italiana for the first half year of 1973 were included in the Consolidated Statement of Income for that year.

The BP Group's exploration interests in Italy and its shareholding in Italproteine, the project for manufacture of protein in Sardinia, were not included in the above-mentioned sale, nor were its interests in aviation fuelling, marine bunkering and lubricants and other special products trade in Italy.

Abu Dhabi Marine Areas Limited which has a concession offshore Abu Dhabi is one-third owned by Compagnie Française des Pétroles. Following agreement reached on December 26, 1972 a 45% interest in the wholly-owned subsidiary company which held the BP Group's two-thirds interest was sold to the Japan Oil Development Company Limited (to which the signatory to the agreement, Overseas Petroleum Corporation, assigned its rights). The consideration was $780 million and the profit arising of £274.5 million was dealt with as an extraordinary item in the Consolidated Statement of Income for 1973.

In 1975, the BP Group sold its 50% holding in Norsk Braendselolje A/S for approximately £27 million. Some assets were not included in the sale and were retained in a new wholly-owned company, BP Norge A/S, established to continue and develop specialized trading activities, in particular sales of lubricants and chemicals and sales to the Norwegian shipping industry. The surplus after tax of £21.3 million in respect of this sale was accounted for in the Consolidated Statement of Income as an extraordinary item. Under United States generally accepted accounting principles as applied in 1975, in conformity with Accounting Principles Board Opinion No. 30, such an item would have been included in the determination of income before extraordinary items. Earnings per unit of ordinary stock before extraordinary items would have increased correspondingly by 5.5p (9 cents) with no change in net income and income per unit of ordinary stock.

The BP and Shell marketing operations in southern Africa were separated at the end of June 1975 and BP now trades independently in South Africa, South West Africa (Namibia), Botswana, Lesotho and Swaziland. Similarly on December 31, 1975 the BP Group's oil marketing activities in the U.K. which had previously operated within Shell-Mex and B.P. Limited, an associated company, were separated and BP now trades in the U.K. as BP Oil Limited.

These reorganisations had no material effect on the determination of consolidated net income for 1975 but resulted in a reclassification in the accounts whereby the amount shown as investment in associated companies was reduced and properties and operating assets were correspondingly increased.

Note G—Inventories and Purchases

Inventories of oil and chemicals used in the computation of cost of oil, ocean freight, refining and chemical manufacturing, and customs duties and sales taxes were as follows:

	Cost of oil, etc.	Customs duties, etc.	Total
		(£ million)	
December 31, 1971	267.0	13.6	280.6
December 31, 1972	280.4	15.8	296.2
December 31, 1973	406.1	23.9	430.0
December 31, 1974	1,146.4	24.2	1,170.6
December 31, 1975	1,290.6	30.3	1,320.9
December 31, 1976	1,680.4	27.0	1,707.4

Purchases from major 50% owned associated companies and from others, mainly producer governments since January 1, 1973, were as follows:

	Purchases from major 50% owned associated companies	Purchases from others, mainly producer governments
	(£ million)	
1971	63.0	219.0
1972	62.4	241.0
1973	71.9	637.2
1974	155.6	4,420.3
1975	195.1	4,594.4
1976	230.2	6,759.2

Note H—Finance Debts

Long-term debts are those, as defined by the U.K. Companies Act 1967, which are wholly or in part repayable more than five years from the date of the balance sheet.

Short-term debts and acceptances are those repayable within five years from the date of the balance sheet, other than those bank loans and overdrafts which are repayable within one year from the date of the balance sheet. Short-term debts of the BP Group at December 31, 1976 amounted to £906.6 million and included £70.9 million in respect of commercial paper issued by BP Pipelines Inc., a wholly-owned group subsidiary, at an approximate interest rate of 5%. Acceptances under facilities with differing periods of duration in respect of oil movements amounted to £171.4 million.

Note H—Finance Debts—(Continued)

BP December 31 1976 (£ million)		Approximate interest rate (%)	Consolidated December 31 1976 (£ million)
	Long-term		
20.0	Sterling	13.8	26.9
40.2	U.S. dollars	9.5	779.7
—	Australian dollars	7.9	10.2
—	Belgian francs	7.5	10.9
—	Canadian dollars	6.9	32.8
—	Deutschemarks	7.0	36.6
—	Dutch guilders	7.2	119.5
—	French francs	9.9	71.5
—	Swedish kronor	5.6	15.2
19.2	Swiss francs	6.6	35.7
—	Other currencies		6.0
79.4	Total long-term		1,145.0
205.5	Short-term and acceptances	8.0	1,078.0
—	Bank loans and overdrafts repayable within one year	9.3	52.7
284.9	Total finance debts		2,275.7
16.9	Secured debt included in above figures		232.7
	Repayment periods from balance sheet date are as follows:		
29.5	1 year		764.3
23.5	2 years		83.4
42.8	3 years		121.2
57.8	4 years		190.8
72.3	5 years		214.5
39.7	6 to 10 years		449.4
19.3	Thereafter		452.1
284.9			2,275.7

Of the BP Group secured debt at December 31, 1976 of £232.7 million, £34.5 million is secured as indicated in Note C and the balance relates principally to tankers and refineries, but includes also the BP 5% debenture stock, repayable by July 1, 1978, of £8.4 million and the BP 6% debenture stock, repayable by December 31, 1980, of £8.5 million, both of which are secured by a floating charge on the assets of BP.

At December 31, 1976, the BP Group had substantial amounts of undrawn borrowing facilities available including approximately £820 million which was covered by formal commitments. Included therein was an amount of £135.0 million in support of commercial paper borrowing arrangements. The major part of these facilities is in countries where the rate of interest is a differential above the relevant interbank rate.

Note I—Forties Field Financing

In accordance with the terms of an agreement by BP Oil Development Limited, a wholly-owned subsidiary, for a forward sale of crude oil and gas from the Forties Field (North Sea block 21/10)

Note I—Forties Field Financing—(Continued)

advance proceeds may be received from time to time up to £180 million and $468 million. The total advanced to December 31, 1976 was £156.0 million and $405.6 million.

Repayment of amounts advanced is being made from the proceeds of the sale of oil produced from December 1, 1975 which BP Trading Limited, a wholly-owned subsidiary, has under a separate agreement undertaken to purchase. If the flow of oil is interrupted, repayments will normally be suspended, but subject to the presence of an adequate amount of recoverable oil, must in any event be completed by December 31, 1982. The advance proceeds outstanding at December 31, 1976 of £126.1 million and $327.9 million are secured on the assets and contracts connected with the development of the field.

Costs (mainly interest) incurred by the other party to the above-mentioned agreement in servicing this arrangement with a consortium of banks have been reimbursed by BP Oil Development Limited. In 1975 and 1976 respectively £4.3 million and £23.3 million relative to financing the facilities now in operation were charged against income and £25.8 million and £5.4 million were capitalized as part of the production assets.

The parent company has undertaken to procure the performance by its subsidiary companies of their obligations under the agreements.

Note J—Trans Alaska Pipeline System (TAPS)

Under an agreement made in July 1974 with The Standard Oil Company (Sohio), a group subsidiary (BP Pipelines Inc.) acquired a 15.84% undivided interest in the Trans Alaska Pipeline System and Sohio Pipe Line Company increased its undivided interest to 33.34%. The agreement contemplated that BP Pipelines would lease its 15.84% undivided interest in TAPS for at least 18 years to Sohio Pipe Line which would operate its and BP Pipelines' interests. However, for the time being no such lease will be entered into.

In June 1976 it was estimated that the construction cost (excluding interest) of the system, on the basis of an initial design capacity of 1.2 million barrels per day, would be approximately $7,700 million of which the BP Group's direct 15.84% undivided interest amounts to about $1,220 million. (See also Note CC—Subsequent Events—(Unaudited).) The parent company has guaranteed that BP Pipelines shall provide finance for the completion of its share of the construction costs of TAPS, including interest during construction, and its operation thereafter.

Sohio/BP Trans Alaska Pipeline Capital Inc. ("Capital") is owned by the two pipeline companies and its sole business is the issuance of debt securities from time to time, lending 67.8% of the proceeds to Sohio Pipe Line and 32.2% to BP Pipelines in exchange for notes in the principal amounts of their respective loans each unconditionally guaranteed by its parent company.

Since December 1974 Capital has arranged private placements of Notes aggregating $2,250 million and has publicly sold Debentures and Notes totalling $500 million in respect of which BP Pipelines had, at December 31, 1976, issued Guaranteed Notes to Capital as follows:

	$ million	£ million
9¾% due 1980/99	80.5	47.3
8⅝% due 1983	80.5	47.4
9¾% due 1993	105.3	61.9
10⅝% due 1993	262.6	154.5
9¾% due 1998	41.8	24.6
10⅝% due 1998	296.1	174.2
	866.8	509.9

Note J—Trans Alaska Pipeline System (TAPS)—(Continued)

Revolving credit agreements made with consortia of banks in 1974 provide for borrowings from time to time up to a total of $450 million towards BP Pipelines' obligations and at December 31, 1976 $100 million (£58.8 million) was outstanding.

Interest amounting to £73.6 million ($125 million) and issue expenses of £2.5 million ($4 million) in connection with TAPS financing have been capitalized up to December 31, 1976 and included as part of construction costs which at December 31, 1976 were £737.6 million ($1,254 million). This amount is included in properties and operating assets and within the caption "production and exploration" under Note B.

Note K—Interest and Financing Costs Capitalized

The following amounts have been capitalized:

	Interest				Financing Costs	Total
	Re TAPS Note J	Re Investment in Sohio Note C	Re Tankers under Construction	Re Ninian Field	Re Forties Field Note I	
			(£ million)			
1972	—	14.0	1.6	—	0.8	16.4
1973	—	14.6	3.7	—	3.4	21.7
1974	3.2	13.0	1.1	—	14.8	32.1
1975	20.8	—	—	—	25.8	46.6
1976	49.6	—	—	2.0	5.4	57.0

Interest in connection with borrowings for the Trans Alaska Pipeline System is being capitalized during the construction period. In view of the nature of the investment in Sohio, interest to December 31, 1974 on specific borrowings was capitalized until dividends were received by the BP Group from January 1, 1975. Financing costs in connection with advances received for development of the Forties Field and interest in respect of specific borrowings for the Ninian Field are being capitalized until the relevant production assets are brought into use. Interest on specific finance for tankers under construction was capitalized in the years 1972-1974.

The following shows the effect on net income if it had been charged with capitalized interest and financing costs offset for each of the years to December 31, 1976 by amortized amounts of previously capitalized items and for each of the years to December 31, 1974 by credits equivalent to approximately 25% of Sohio's retained net income.

	Net income	Capitalized interest and financing costs (net)	Adjusted net income	Net income	Capitalized interest and financing costs (net)	Adjusted net income
		(£ million)			($ million)	
1972	61.3	(10.3)	51.0	104	(18)	86
1973	603.5	(12.0)	591.5	1,026	(20)	1,006
1974	487.4	(16.1)	471.3	828	(27)	801
1975	166.2	(45.8)	120.4	282	(78)	204
1976	179.8	(54.5)	125.3	306	(93)	213

Note L—Deposits and Noncurrent Liabilities

Deposits relate to certain payments received in advance in respect of crude oil deliveries which will be made during and after 1977 while noncurrent liabilities include petroleum revenue tax and liabilities which become due for settlement after December 31, 1977.

Note M—Pensions

The amounts included in the BP Group costs for pension and retirement plans for the five years ended December 31, 1976 were: 1972—£27.2 million, 1973—£31.1 million, 1974—£37.5 million, 1975—£54.5 million and 1976—£87.6 million.

In addition to the above, charges to income for back service pension obligations were made during 1973 and 1974 amounting to £25 million and £54.3 million, respectively. The 1973 amount of £25 million was mainly in connection with an extension of the existing U.K. industrial staff pension scheme. Of the 1974 charge, £38 million related to pension schemes covering the majority of the BP Group's U.K. employees and pensioners. An actuarial report received in October 1974 advised that this amount, which mainly arose because of the high level of inflation in the United Kingdom, was required to fund the schemes fully. An overseas subsidiary charged £16.3 million in 1974 to meet the total additional obligation arising from a change in local legislation. If these charges had been amortized over a period of 20 years, in accordance with generally accepted United States accounting principles, the effect on consolidated net income for the years ended December 31, 1973 and 1974 would have been an increase of £23.7 million ($40 million) and £50.4 million ($86 million), respectively. The earnings per unit of ordinary stock before extraordinary items would have been increased by 6.1p (10 cents) for the year ended December 31, 1973 and by 13.1p (22 cents) for the year ended December 31, 1974. The effect on consolidated net income for 1975 and 1976 was not material.

In anticipation of an actuarial report which has been subsequently received in 1977 and in view of the continuing high level of inflation in 1975, contributions to the scheme relative to U.K. employees were increased as from January 1, 1976. Taking these increased contributions into account the actuarial report advised that the pension fund was adequate to meet future liabilities under pension plans in the U.K. The cost of funding improved benefits granted in 1975 and 1976 in relation to back service of U.K. industrial staff is being met by additional annual contributions of £4.3 million, spread over 20 years from 1975.

In respect of certain European subsidiaries with unfunded plans, provisions have been made which at December 31, 1976 amounted to £141.8 million. Having regard to their particular circumstances it is considered that the net income of the BP Group for the years under review would not have been materially affected if some other acceptable accounting treatment had been adopted. It is also considered that the liability for prior service in these companies at December 31, 1976 so far as not provided for is not material in relation to stockholders' interest.

Note N—Earned Surplus

Consolidated earned surplus at December 31, 1976 includes undistributed associated companies' earnings of £41.5 million referred to in Notes C and D and a BP preference stock reserve of £10 million which under the terms of BP's Articles of Association is not available to ordinary stockholders. Also included are amounts totalling £668.3 million retained by subsidiary companies themselves not subject to U.K. taxation.

Issue expenses and intangibles charged directly to earned surplus for the two years ended December 31, 1973 were, 1972—£2.0 million and 1973—£1.5 million. For the years ended December 31, 1974, 1975 and 1976 £2.7 million, £4.5 million and £4.6 million, respectively, were charged to expenses. Amounts charged to expenses for the earlier periods were negligible.

Note O—Taxes on Income

Taxes on income consist of the following:

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Overseas—production taxes	646.5	776.6	1,691.4	1,312.9	1,340.5
other	12.0	33.4	56.4	10.3	60.5
United Kingdom (see below)	10.9	14.8	23.0	51.1	196.7
	669.4	824.8	1,770.8	1,374.3	1,597.7

United Kingdom

Legislation enacted in 1975 made the following major changes to the basis on which oil companies as statutorily defined are taxed:

(a) Petroleum revenue tax. This tax is imposed on profits from production of oil and gas in the U.K., its territorial waters and continental shelf ("domestic production") and is an allowable deduction for corporation tax purposes.

(b) For corporation tax purposes

—statutorily defined prices are used in computing profits from January 1, 1973 in respect of most transfers of oil and petroleum products other than by sales made at arm's length

—in computing the profits from domestic production, relief is given only for expenditure and allowances attributable to such production

—losses incurred before January 1, 1973 outside domestic production are cancelled after July 11, 1974 to the extent they were unrelieved at that date.

The charge for U.K. taxation for the five years ended December 31, 1976 comprises:

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Corporation tax	429.6	703.7	1,377.0	751.3	643.6
Overseas tax relief	(429.6)	(703.7)	(1,377.0)	(696.3)	(505.2)
	—	—	—	55.0	138.4
Advance corporation tax	18.2	24.7	33.9	—	(70.9)
Transitional relief	(7.3)	(9.9)	(10.9)	(11.4)	(0.2)
	10.9	14.8	23.0	43.6	67.3
Petroleum revenue tax	—	—	—	7.5	129.4
Charge for U.K. taxation	10.9	14.8	23.0	51.1	196.7

Note O—Taxes on Income—(Continued)

The charge for 1975 includes £55.0 million for deferred taxation; the 1976 amount of £138.4 million comprises current tax of £1.9 million and deferred tax of £143.5 million less a tax recovery of £7.0 million relating to accounting periods prior to 1972.

The U.K. Finance Act 1972 provides that advance corporation tax be paid to the Inland Revenue in respect of dividends payable after April 5, 1973. The rate was 3/7ths for dividends paid before April 6, 1974, 33/67ths for dividends paid before April 6, 1975; subsequently it is 35/65ths. In respect of dividends paid after April 5, 1973 advance corporation tax of £18.2 million in 1972, £24.7 million in 1973 and £33.9 million in 1974 was written off. In 1975 and 1976 advance corporation tax of £38.9 million and £41.1 million, respectively, was debited to deferred taxation. Of the advance corporation tax written off in previous years, £70.9 million was set against the deferred tax provision for 1976. Under U.S. generally accepted accounting principles this amount would have been dealt with as an extraordinary item in the Consolidated Statement of Income. Earnings per unit of ordinary stock before extraordinary items would have decreased correspondingly by 18.4p with no change in net income and net income per unit of ordinary stock. The U.K. Finance Act 1972 also amended and extended the transitional relief provisions of the U.K. Finance Act 1965 so as to give a measure of relief against advance corporation tax. Transitional relief arising of £7.3 million in 1972, £9.9 million in 1973, £10.9 million in 1974, £11.4 million in 1975 and a final amount of £0.2 million in 1976 has been dealt with as a credit to taxes on income.

Deferred Taxation

The balance of deferred taxation at December 31, 1976 of £183.8 million (overseas £128.1 million, U.K. £55.7 million) comprises tax mainly on timing differences between the accounting and tax treatment of certain items, principally depreciation and stock, and after deducting advance corporation tax relating to dividends paid and recommended for 1975 and 1976 and that written off in previous years now credited in 1976. This balance is categorized as between £24.9 million for net current items and £158.9 million for net noncurrent items.

Note P—Dividends

In respect of dividends paid before April 5, 1973 income tax at the standard rate was deducted from preference dividends and from the gross amount of ordinary dividends paid, and accounted for to the Inland Revenue. Under the terms of the U.K. Finance Act of 1965, certain amounts of transitional relief were received by subsidiary companies, offsetting to some extent the income tax withheld and paid to the Inland Revenue in respect of gross dividends paid by April 5, 1973. In this respect the amount received of £9.8 million in 1972 was taken to earned surplus, wherein is recorded the gross dividend paid for that year.

The U.K. Finance Act 1972 provided that income tax should no longer be deducted from dividends paid after April 5, 1973 (see also Note O).

Stockholders resident in the United Kingdom are entitled to a tax credit corresponding to the rate of advance corporation tax. The position of stockholders resident outside the United Kingdom will depend on such arrangements as may be made between the British Government and the governments of the countries where the stockholders reside. In this respect the tax convention in force between the United States and the United Kingdom has been renegotiated but is not yet ratified by the United States; the new provisions are, however, understood to be retrospective.

The total dividends for the years 1973-1976 were the maximum permitted under U.K. legislation.

Note Q—Commitments and Contingencies

At December 31, 1976 authorized future capital expenditure by BP Group companies was estimated at £1,370 million including approximately £420 million for which contracts had been placed.

Note Q—Commitments and Contingencies—(Continued)

At December 31, 1976 BP had issued guarantees under which amounts outstanding were:

	December 31 1976
	(£ million)
Subsidiary companies	
Long-term loans	925
Short-term loans	287
Acceptances, bank loans and overdrafts	167
	1,379
Other companies	70
	1,449

There were also contingent liabilities in respect of guarantees, indemnities and claims arising from the ordinary course of the BP Group's business upon which no material losses are likely to arise.

Note R—Leased Assets

At December 31, 1976 BP Group companies held non-cancellable leases under which the minimum rental commitments (after deducting related rental income from sub-leases of £122.1 million) were as follows:

	Tankers	Other	Total
		(£ million)	
1977	134.0	54.3	188.3
1978	121.9	46.4	168.3
1979	107.0	45.1	152.1
1980	80.3	42.2	122.5
1981	55.8	38.0	93.8
1982-1986	213.9	133.3	347.2
1987-1991	68.2	97.8	166.0
1992-1996	0.8	54.3	55.1
Thereafter	—	137.4	137.4

At December 31, 1976 the present value of the minimum lease commitments in respect of non-capitalized financing leases was less than 5% of the sum of long-term finance debt, stockholders' interest and the present value of the minimum lease commitments; the impact on net income for each of the five years ended December 31, 1976 had such leases been capitalized would have been less than 3% of the average net income for each of the three year periods ended on these dates.

Lease rental expense for the four years ended December 31, 1976 was as follows:

	Years ended December 31			
	1973	1974	1975	1976
		(£ million)		
Tankers	170.7	183.6	143.1	146.8
Other rentals	56.6	57.5	68.0	102.7
	227.3	241.1	211.1	249.5
Less: Rentals from subleases	4.5	10.3	11.9	12.3
	222.8	230.8	199.2	237.2

Total rental expense for 1972 is given in Note W.

Note S—Earnings Per Unit of Ordinary Stock

The calculation of the earnings per unit of ordinary stock is based on weighted average number of stock units outstanding during each period.

Note T—Net Sales Proceeds

The following is a summary of net sales proceeds:

	Crude Oil and Products	Chemicals	Natural Gas	Animal Feed	Total
			(£ million)		
1972	2,146.3	125.6	11.9	—	2,283.8
1973	2,974.2	166.5	11.5	—	3,152.2
1974	7,430.5	367.6	12.0	—	7,810.1
1975	7,374.1	328.5	18.7	60.1	7,781.4
1976	9,963.0	495.1	27.0	96.0	10,581.1

Note U—Research

Expenditure on research and development for the five years ended December 31, 1976 was: 1972—£14.5 million, 1973—£17.0 million, 1974—£20.0 million, 1975—£25.0 million and 1976—£25.3 million.

Note V—Currency Fluctuations

In accordance with accounting principles generally accepted in the United Kingdom, all assets and liabilities in currencies other than sterling are converted into sterling at the applicable year-end rates of exchange. BP considers that this accounting principle results in a fair statement of the net income of the BP Group, especially as non-sterling borrowing is mainly related to borrowing by BP Group companies in respect of assets and trading activities which will generate the non-sterling currency necessary to effect repayment. Specifically it is expected that the U.S. dedicated financing for TAPS will be repaid out of U.S. dollar revenues generated in the United States.

This accounting principle is reflected in the Consolidated Statement of Earned Surplus as follows:

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Currency fluctuations relating to properties and operating assets and investment in Sohio	90	84	28	142	292
Currency fluctuations relating to finance debts and other items	(52)	(29)	(39)	(129)	(212)
Net currency fluctuations dealt with in earned surplus	38	55	(11)	13	80

U.S. generally accepted accounting principles require, inter alia, that a charge be made against income in respect of the restatement of finance debts at year-end exchange rates but do not permit credit to be taken in respect of the corresponding restatement of overseas assets and require that historical exchange rates be applied for inventory valuation purposes. Had the BP Group followed U.S. generally accepted

Note V—Currency Fluctuations—(Continued)

accounting principles, it is estimated that the approximate effect on net income for each of the five years ended December 31, 1976 would have been as follows:

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Charge to income re currency fluctuations:					
U.S. dollar dedicated finance debts	16	3	(2)	30	75
Other finance debts and other items	36	26	41	99	137
	52	29	39	129	212
Estimated reduction in charge for depreciation	(10)	(18)	(24)	(28)	(39)
Effect on inventory valuations	—	—	—	9	(47)
Approximate decrease to net income	42	11	15	110	126

Note W—Supplementary Consolidated Income Statement Information

Description	Charged to Costs and Expenses
	(£ million)
Maintenance and repairs	
1972	72.5
1973	86.0
1974	110.6
1975	115.5
1976	171.9
Rents, tanker charters and hire of plant and machinery	
1972	207.2
1973	227.3
1974	241.1
1975	211.1
1976	249.5

(a) Depreciation and amounts provided, customs duties and sales taxes are shown as separate headings in the Consolidated Statement of Income.

(b) Oil royalties are treated as part of production costs in the Consolidated Statement of Income.

(c) Amounts charged to income in respect of amortization of intangibles, taxes other than income taxes, advertising costs, research and development costs and royalties other than oil royalties are, for each heading, less than 1% of total sales and revenues.

Note X—Related Party Transactions

The Standard Oil Company (Sohio) has reimbursed the BP Group $519 million in 1976 and $407 million in 1975 for expenditures for the development of Sohio's leases and production facilities and for exploration on the North Slope of Alaska. Sohio also reimburses the BP Group for technical supervision for construction of tankers, purchases of crude oil in the ordinary course of business at no more than prevailing market prices and makes payment to the BP Group for tanker transportation of crude oil based on the market rate at the date of the five year agreement executed in 1974.

In July 1974 BP introduced an executive loan plan under which certain senior staff may obtain loans from BP of amounts, bearing interest at the rate of 3% per annum, determined largely having regard to actual and prospective service with BP. Loans of £27,950 and £22,60[illegible] have been made to two persons who have since become Managing Directors and one of £19,500 to the Secretary of BP. The loans are repayable on retirement or on earlier termination of service. BP reserves the right to amend or wind up the plan at any time.

Note Y—Capital Stock

The share capital of BP at December 31, 1976 was as follows:

	Authorized	Issued
8% (now 5.6% + tax credit) Cumulative First Preference Stock and Shares of £1 each	£ 7,250,000	£ 7,232,838
9% (now 6.3% + tax credit) Cumulative Second Preference Stock and Shares of £1 each	5,500,000	5,473,414
	12,750,000	12,706,252
Ordinary Stock (£1 units)	386,070,116	386,070,116
Unclassified Shares of £1 each	101,179,884	—
	£500,000,000	£398,776,368

Note Z—Quarterly Results of Operations—(Unaudited)

	1976			
	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
	(£ million, except per share amounts)			
Net sales proceeds and other income	2,378.3	2,511.4	2,676.6	3,203.1
Operating and other costs	2,006.4	2,111.3	2,196.4	2,671.7
Income before taxes	371.9	400.1	480.2	531.4
Taxes on income	349.8	348.7	423.7	475.5
Income applicable to minority interests	1.9	(0.4)	4.6	—
Net income	20.2	51.8	51.9	55.9
Net income per ordinary stock unit	5.2p	13.3p	13.4p	14.5p
Approximate net income (loss) applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles (Note V)	(62.0)	(13.4)	(115.3)	243.8
Per ordinary stock unit as so adjusted	(16.1p)	(3.4p)	(29.8p)	63.1p

Note AA—U.K. and U.S. Generally Accepted Accounting Principles

The estimated major effects on net income of the application of U.S. generally accepted accounting principles are set forth in notes (a) and (b) to the Consolidated Statement of Income. BP is unable to restate the balance sheet accounts in accordance with U.S. generally accepted accounting principles, due mainly to the fact that it cannot duplicate the accounting systems worldwide of each and every company in the BP Group and for those associated companies which are accounted for by the equity method in the consolidated financial statements. Moreover, restatement of balance sheet accounts, even if otherwise practicable, would necessitate the review in detail of all such accounts for many years past in order to quantify and accumulate all currency and other differences. There is no difference between U.K. and U.S. generally accepted accounting principles in respect of the translation of monetary assets and liabilities in the balance sheet.

Note BB—Replacement Cost Information—(Unaudited)

In compliance with the requirements of the Securities and Exchange Commission there follows a summary of management's unaudited estimates of the replacement costs of certain properties and operating assets and inventories of the BP Group at December 31, 1976 together with the estimated replacement cost of sales for the year and annual depreciation based on replacement cost.

Replacement cost data has not been provided for the BP Group's properties and operating assets involved in production and exploration activities nor for those situated outside North America and the European Economic Community (EEC).

The historical cost of total BP Group sales has been adjusted on an overall basis taking into account the average time lag between acquiring crude oil and the subsequent sale of oil and chemical products

Note BB—Replacement Cost Information—(Unaudited)—(Continued)

together with variations in the sources of crude oil. Prices for crude oil are quoted in U.S. dollars and remained constant from October 1975 to the end of 1976. During 1976 sterling weakened against the dollar and most other currencies thus increasing the sterling cost of crude oil. Since the transactions of the BP Group, however, are in a multiplicity of currencies the additional sterling replacement cost of sales would not necessarily give rise to a corresponding reduction in the income of the BP Group computed on a replacement cost basis.

Replacement costs of inventories of oil and chemicals reflect the sterling equivalent of current prices and costs at December 31, 1976 including applicable replacement cost depreciation. Inventories of stores have not been revalued since they comprise, for the most part, items recently acquired.

	Historical Cost Basis	Replacement Cost Basis
	(£ million)	
Cost of oil, ocean freight, refining and chemical manufacturing	7,634	7,880
Depreciation	123	240
Inventories of oil and chemicals	1,707	1,725
Properties and operating assets		
Cost	2,271	5,650
Depreciation	1,275	3,550
Net	996	2,100

Depreciation based on the replacement cost of productive capacity has been calculated on the straight-line method using the same assumptions regarding useful lives and residual values as are used in the historical cost statements.

A reconciliation between the historical cost amounts for which replacement costs have been calculated and the amounts in the historical financial statements is shown below:

	Depreciation and amounts provided for the year	Properties and Operating Assets		
		Cost	Depreciation	Net
		(£ million)		
Historical cost amounts for which replacement cost data is provided	123	2,271	1,275	996
Add:				
Production and exploration assets	106	1,997	351	1,646
Assets situated outside North America and EEC	31	713	410	303
Land	—	83	—	83
Assets under construction	—	109	—	109
Assets not to be replaced	3	65	53	12
Provided against investment in associated companies	3	—	—	—
	143	2,967	814	2,153
Total as shown in the consolidated financial statements	266	5,238	2,089	3,149

Note BB—Replacement Cost Information—(Unaudited)—(Continued)

The replacement cost of approximately 75% of the historical cost of properties and operating assets for which replacement cost has been computed, has been calculated by applying indices, appropriate to their function and location, taking into account adjustments for improvements in technology. Assets representing approximately a further 5% of historical cost have been valued by reference to catalogues, other published prices and manufacturers' or constructors' estimates. The replacement cost of the remaining assets, including tankers and certain buildings, has been calculated at the current construction cost of equivalent productive capacity.

£160 million and £295 million have been deducted from the historical and replacement costs, respectively, to take account of government grants available in the United Kingdom.

It must be emphasized that management does not envisage the replacement of all the assets simultaneously nor does the information provided reflect the costs likely to be incurred as the various assets are replaced over a period of years. Management believes, however, that the estimated replacement cost information reasonably responds to the requirements of the Securities and Exchange Commission.

It is not possible to predict to what extent the BP Group's future replacement decisions may be influenced by governmental policies, environmental considerations, economic and other factors in the many countries in which the BP Group operates.

The replacement cost data presented herein does not necessarily represent the current realisable value of existing inventories or productive capacities.

Note CC—Subsequent Events—(Unaudited)

On June 16, 1977 it was estimated that the construction cost (excluding interest) of TAPS, on the basis of an initial design capacity of 1.2 million barrels per day, would be approximately $8,020 million (including $243 million of costs associated with final testing and preparation for use of the System incurred prior to an assumed start-up date of September 1, 1977) of which the BP Group's direct 15.84% undivided interest amounts to about $1,270 million (£740 million).

On May 25, 1977 the Accounting Standards Committee of the Institutes of Chartered Accountants in the U.K. issued a new Exposure Draft No. 19—Accounting for Deferred Tax. This draft recommends that new proposals should be adopted as soon as possible which would allow companies to adjust their provision of amounts for deferred taxation to that which can be demonstrated with reasonable probability to be needed. Accordingly it is the Directors' intention that not less than £80 million provided prior to December 31, 1976 be transferred from the U.K. deferred tax account and added to the BP Group's Consolidated earned surplus. Furthermore, it is presently estimated that the U.K. tax charge in the accounts for the first quarter of 1977 would have been reduced by £26 million if this new accounting treatment had been adopted. The amount attributable to the full year cannot be presently estimated; however for the first quarter the greater part is attributable to tax on inventory appreciation. The proposals in Exposure Draft No. 19 are not in accordance with generally accepted accounting principles in the United States and therefore, under such principles, no transfer from the U.K. deferred tax account to consolidated earned surplus or any reduction in the U.K. tax charge would be made.

Payments have been made to an overseas country in respect of a claim for capital gains tax, such tax having been levied as a result of a BP Group re-organisation in the U.K. in 1972. Further discussions on the amount of the claim are proceeding with the country concerned. The final outcome could result in a maximum charge of £57 million (after taking into account existing provisions). Any charge will be shown as an extraordinary item in the annual accounts for the year in which the matter is resolved.

THE STANDARD OIL COMPANY AND SUBSIDIARIES

REPORTS OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS
THE STANDARD OIL COMPANY
CLEVELAND, OHIO

We have examined the consolidated statement of financial position of The Standard Oil Company, an Ohio corporation, and subsidiaries as of December 31, 1976, and the related consolidated statements of income, stockholders' equity, and changes in financial position for the five years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Our opinion as it relates to the Company's share of expenditures for construction of the Trans-Alaska Pipeline (Note Q) is based, in part, on the report thereon of other auditors.

In our opinion, based upon our examinations and the report of other auditors, the financial statements referred to above present fairly the consolidated financial position of The Standard Oil Company and subsidiaries at December 31, 1976, and the consolidated results of their operations and changes in their financial position for the five years then ended, in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1973 (with which we concur) in the method of pricing certain inventories as described in Note A (Inventories) to the consolidated financial statements.

ERNST & ERNST

Cleveland, Ohio
February 17, 1977

THE OWNERS
TRANS ALASKA PIPELINE SYSTEM:

We have examined the statement of Owners' expenditures and liabilities and advances and net changes therein as reported by Alyeska Pipeline Service Company, as agent for the Owners for construction of the Trans Alaska Pipeline System, as of December 31, 1976 and for the three years then ended (not included separately herein). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned statement presents fairly the Owners' expenditures and liabilities and advances at December 31, 1976, and net changes therein for the three years then ended, as reported to the Owners by their agent Alyeska Pipeline Service Company, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Anchorage, Alaska
February 4, 1977

THE STANDARD OIL COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31				
	1972	1973	1974	1975	1976
	(Thousands of Dollars)				
Revenues					
Sales and operating revenue (excluding excise taxes)	$1,387,296	$1,506,703	$2,207,189	$2,507,136	$2,916,420
Equity in earnings of joint-venture companies and affiliate	4,823	4,370	4,358	5,608	9,017
Gain on asset sales and other income	3,257	3,422	9,058	8,346	1,324
	1,395,376	1,514,495	2,220,605	2,521,090	2,926,761
Costs and Expenses					
Crude oil, products, merchandise and material costs, and operating expenses—Notes A and K	944,853	1,062,526	1,706,615	1,959,847	2,317,277
Selling, general, and administrative expenses	277,129	265,034	252,598	271,924	292,601
Depreciation and depletion	70,876	67,019	68,434	82,492	81,514
	1,292,858	1,394,579	2,027,647	2,314,263	2,691,392
Income before interest, income taxes, and extraordinary items	102,518	119,916	192,958	206,827	235,369
Interest					
Incurred	35,202	37,611	61,905	121,987	258,202
Capitalized or deferred—Note H	(10,150)	(12,827)	(43,305)	(95,288)	(209,404)
Income	(4,139)	(12,987)	(11,653)	(6,828)	(6,286)
	20,913	11,797	6,947	19,871	42,512
Income before income taxes and extraordinary items	81,605	108,119	186,011	186,956	192,857
Income taxes applicable to income before extraordinary items—Note I	21,922	33,992	60,100	60,400	56,000
Income before extraordinary items	59,683	74,127	125,911	126,556	136,857
Extraordinary items, net of applicable income taxes—Note J	(2,216)	15,258	21,600	—0—	—0—
Net income	57,467	89,385	147,511	126,556	136,857
Less preferred dividend requirements	462	433	397	420	408
Net income applicable to common stock and dilutive securities	$ 57,005	$ 88,952	$ 147,114	$ 126,136	$ 136,449
Income before extraordinary items applicable to common stock and dilutive securities	$ 59,221	$ 73,694	$ 125,514	$ 126,136	$ 136,449
Shares outstanding (in thousands) (a)	36,315	36,548	36,516	36,863	38,485
Income per share(a)					
Before extraordinary items	$1.63	$2.02	$3.44	$3.42	$3.55
Net income	$1.57	$2.43	$4.03	$3.42	$3.55
Cash dividends per share of common stock(a)	$1.35	$1.35¼	$1.36	$1.36	$1.36

The notes are an integral part of the consolidated financial statements.

(a) Shares outstanding include Common Stock equivalents of Special Stock, which became entitled to dividends on January 1, 1975. See Notes A (Earnings Per Share) and G to Sohio's Consolidated Financial Statements.

SOHIO MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

1976 Compared to 1975

Net income for 1976 was $136.9 million, an 8% increase over the $126.6 million reported in 1975. Recovery in domestic petroleum sales volumes and profit margins were the major factors in this improvement. Lower coal and chemical income, reduced licensing income and higher interest expenses, however, partially offset the petroleum gains and the income tax reductions which resulted from lower foreign income taxes.

Earnings per share increased 4% to $3.55 from $3.42 in 1975. The percentage change in per share earnings was less than that of net income because of the higher weighted average number of shares outstanding after the issuance of two million shares in October 1975.

Sales and operating revenue in 1976 increased 16% to $2,916 million from $2,507 million in 1975. Increased revenue in petroleum and in industrial chemicals was partially offset by reductions in coal, nitrogen chemicals and royalty revenues. Increases in sales volumes and realized prices were the major factors contributing to the improvement in petroleum and industrial chemicals revenue. Higher volumes were not sufficient to offset lower realized prices in coal and nitrogen chemicals.

Costs and expenses in 1976 rose 16% to $2,691 million from $2,314 million in 1975. Increased refinery runs and higher crude oil prices were the principal reasons for the higher costs. Crude oil costs were higher despite the offsetting effect of an increase in entitlements from $104 million to $221 million under the FEA crude oil cost equalization program. Raw material costs and operating expenses also were higher in Sohio's chemicals and plastics, and coal operations due to increased production and inflation. Selling, general and administrative expenses increased 8% because of inflation and a higher level of sales activity.

Strong demand for petroleum products, due in part to abnormally cold weather, resulted in the sale of lower cost inventories accumulated in prior years and resulted in an increase in operating income in 1976 of approximately $6 million. Sales of lower cost inventories had no material impact on operating income in 1975.

Income before interest, income taxes, and extraordinary items in 1976 was $235.4 million, representing a 14% increase over the 1975 level. A recovery of Sohio's petroleum business offset decreases in earnings of coal, chemicals and plastics, and royalties.

Interest incurred rose to $258.2 million in 1976 from $122.0 million in 1975, chiefly because of additional borrowings for development of the Alaskan-related projects. Interest capitalized or deferred was $209.4 million in 1976 compared with $95.3 million in 1975. This increase was due primarily to substantial additional borrowings for TAPS construction. Net interest expense charged to income increased to $42.5 million from $19.9 million in 1975.

The provision for U.S. income tax expense increased 17%, but total income taxes declined as a result of lower foreign income taxes. Total income tax expense declined from $60.4 million in 1975 to $56.0 million in 1976. Both 1976 and 1975 benefited from recognition of investment tax credits of $36.1 million and $29.8 million, respectively. These credits are attributable primarily to Sohio's substantial capital expenditures on TAPS and the Prudhoe Bay Field. See Note 1 of Notes to Sohio's Consolidated Financial Statements for a more complete discussion of income taxes.

Because Sohio did not own any foreign assets or enter into foreign currency transactions, the Company was not affected by foreign currency fluctuations.

1975 Compared to 1974

Net income for 1975 was $126.6 million, or $3.42 per share, down 14% compared with $147.5 million, or $4.03 per share, in 1974.

There were no extraordinary items in 1975, but in 1974 net income benefited from utilization of a tax loss carryforward of $21.6 million, or $.59 per share. Earnings per share before this extraordinary item were $3.44 in 1974.

In 1975 sales and operating revenue was $2,507 million, up 14% from 1974. This increase was due primarily to higher price levels in the petroleum, coal, and chemical businesses. Petroleum product sales volumes increased 5% from the depressed levels of 1974.

Costs and expenses in 1975 rose 14%, principally as the result of higher petroleum product volumes, a 4% increase in the per barrel cost of crude oil, inflationary pressures on payroll and maintenance costs, and depreciation on new facilities.

Both 1975 and 1974 included gains from the sale of assets of approximately $8 million.

Interest incurred increased to $122.0 million from $61.9 million in 1974, while interest capitalized or deferred amounted to $95.3 million up from $43.3 million in 1974. Borrowings for construction of TAPS were the principal reason for the increases. Net interest expense, after crediting interest income, rose $13.0 million to $19.9 million.

OPERATING RESULTS OF SOHIO FOR THE THREE MONTHS ENDED MARCH 31, 1977

Net income for the first quarter of 1977 was $18.7 million, or $.48 per share, a 23% decrease from $24.3 million, or $.63 per share, for the corresponding period in 1976.

The decline in earnings can be attributed primarily to a sharp increase in interest expense, although the results were also affected by unrecovered crude oil price increases, the impact of abnormally cold weather on certain operations, and wildcat strikes in the coal business. The adverse operating factors depressed earnings during January and February, but were overcome in March by substantially improved operations.

Interest expense, net of interest income and capitalized and deferred interest, was $17 million compared to $7.8 million in the 1976 first quarter because of increased borrowings to finance the Company's development of Alaskan North Slope oil and gas reserves.

Sales and operating revenue for the first quarter of 1977 was $823.5 million, an increase of 15% over $717.5 million in the first quarter of 1976. The increase was due primarily to higher petroleum prices partially offsetting crude oil cost increases, increased sales of tires, batteries and other auto accessories, and somewhat higher sales of chemicals late in the quarter.

Costs and expenses for the first three months of 1977 rose 16% over the 1976 first quarter principally because of higher crude oil costs.

In the first quarter of 1977 income before interest and income taxes for major business segments were: Domestic petroleum, $22.2 million, compared to $27.9 million in 1976; foreign petroleum, $3.0 million, compared to $3.8 million; coal, $8.7 million, down from $9.3 million; chemicals and plastics, $3.1 million, versus $4.1 million; and royalties from patented processes, $7.5 million, compared to $0.2 million in 1976.

The significant increase in royalties resulted from the sale of a fixed sum license to a firm in Turkey, while there was no similar sale in the first quarter of 1976.

The results for the three months ended March 31, 1977 and 1976 are unaudited, and in the opinion of management include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of results for the respective periods. Due to the uncertain environment surrounding the petroleum and the other extractive industries in which the Company is engaged, including developments which could have a material adverse effect on results of future operations (such as tax and other legislation, the scope of Federal regulation and general economic conditions), the Company believes that operating results for the three months ended March 31, 1977 may not necessarily be indicative of results that will be achieved for the entire year.

THE STANDARD OIL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31 1976 (Thousands of Dollars)
ASSETS	
Current Assets	
Cash	$ 85,399
Marketable securities	80,044
Accounts receivable, less allowance	436,999
Inventories—Notes A and K	238,608
	841,050
Other Assets	
Investments in joint-venture companies and affiliate—Note A	51,780
Long-term receivables and advances	50,813
Deposits under construction contracts—Note Q	147,226
Prepaid Alaskan severance tax—Note Q	121,280
Deferred interest	64,030
Other prepaid expenses and deferred charges	114,943
	550,072
Property, Plant, and Equipment—Note D	5,632,199
Less accumulated depreciation and depletion	763,103
	4,869,096
	$6,260,218
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Promissory notes	$ 21,543
Accounts payable	305,701
Accrued taxes, including income taxes	57,753
Accrued interest	93,034
Accrued other expenses	43,897
Current maturities of long-term debt	17,723
	539,651
Other Liabilities	36,231
Long-Term Debt—Note E	3,626,847
Deferred Revenue—Note F	400,239
Deferred Income Taxes	107,948
Stockholders' Equity	
Capital stock—Note G	
Preferred—cumulative, $100 par value, 295,019 shares authorized	
Series A, 3¾%, 105,982 shares issued	10,598
Series B, 4% convertible, 5,097 shares issued	510
Special—stated value, 1,000 shares authorized and issued	25,344
Common—$2.50 stated value, 80,000,000 shares authorized, 29,929,939 shares issued	74,825
	111,277
Additional paid-in capital	748,636
Retained earnings	698,523
Capital stock in treasury—at cost	
Preferred—Series A, 5,573 shares	(345)
Common—302,130 shares	(8,789)
	1,549,302
	$6,260,218

Commitments and Contingencies—Notes O, P, Q, R and W

The notes are an integral part of the consolidated financial statements.

THE STANDARD OIL COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Year Ended December 31									
	1972		1973		1974		1975		1976	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
					(Thousands)					
Capital Stock										
Preferred-cumulative, $100 par value Series A, 3¾%—Issued										
At beginning of period	133	$ 13,344	128	$ 12,795	122	$ 12,246	117	$ 11,697	111	$ 11,147
Retired	(5)	(549)	(6)	(549)	(5)	(549)	(6)	(550)	(5)	(549)
At end of period	128	12,795	122	12,246	117	11,697	111	11,147	106	10,598
Series B, 4% convertible—Issued										
At beginning of period	16	1,644	12	1,162	8	843	7	725	6	649
Converted to common	(4)	(482)	(4)	(319)	(1)	(118)	(1)	(76)	(1)	(139)
At end of period	12	1,162	8	843	7	725	6	649	5	510
Special—authorized and issued 1,000 shares		25,344		25,344		25,344		25,344		25,344
Common, without par value, stated value $2.50—Issued										
At beginning of period	27,258	68,146	27,350	68,376	27,539	68,847	27,613	69,033	29,813	74,532
Sold	78	195	180	447	71	177	2,197	5,493	113	282
Preferred Series B converted to common	14	35	9	24	3	9	3	6	4	11
At end of period	27,350	68,376	27,539	68,847	27,613	69,033	29,813	74,532	29,930	74,825
		$ 107,677		$ 107,280		$ 106,799		$ 111,672		$ 111,277
Capital Stock in Treasury—at cost										
Preferred Series A										
At beginning of period	6	$ 356	6	$ 359	9	$ 619	12	$ 752	7	$ 425
Purchased	5	343	9	604	8	489		20	4	258
Retired	(5)	(340)	(6)	(344)	(5)	(356)	(5)	(347)	(5)	(338)
At end of period	6	359	9	619	12	752	7	425	6	345
Common										
At beginning of period	328	9,484	324	9,409	320	9,278	317	9,191	311	9,025
Purchased	2	60	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Issued under deferred incentive plan	(6)	(135)	(4)	(131)	(3)	(87)	(6)	(166)	(9)	(236)
At end of period	324	9,409	320	9,278	317	9,191	311	9,025	302	8,789
		$ 9,768		$ 9,897		$ 9,943		$ 9,450		$ 9,134

The notes are an integral part of the consolidated financial statements.

(Continued)

THE STANDARD OIL COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY—(Continued)

	Year Ended December 31				
	1972	1973	1974	1975	1976
	(Thousands of Dollars)				
Additional Paid-in Capital					
Balance at beginning of period . .	$ 590,904	$ 600,987	$ 606,233	$ 608,332	$ 744,559
Majority stock interest sold by a subsidiary company	7,667				
Common stock sold	1,762	4,748	1,797	135,955	3,737
Preferred stock, Series B, converted to common stock	445	293	109	70	129
Preferred stock, Series A, retired	209	205	193	202	211
Balance at end of period	$ 600,987	$ 606,233	$ 608,332	$ 744,559	$ 748,636

	Year Ended December 31				
	1972	1973	1974	1975	1976
	(Thousands of Dollars)				
Retained Earnings					
Balance at beginning of period. .	$ 355,673	$ 376,210	$ 428,383	$ 538,406	$ 614,498
Net income	57,467	89,385	147,511	126,556	136,857
Cash dividends					
Preferred stock	(517)	(471)	(426)	(420)	(408)
Common stock	(36,413)	(36,741)	(37,062)	(37,896)	(40,276)
Special stock				(12,148)	(12,148)
Balance at end of period	$ 376,210	$ 428,383	$ 538,406	$ 614,498	$ 698,523

The notes are an integral part of the consolidated financial statements.

THE STANDARD OIL COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31				
	1972	1973	1974	1975	1976
	(Thousands of Dollars)				
Sources of Working Capital					
Income before extraordinary items	$ 59,683	$ 74,127	$ 125,911	$ 126,556	$ 136,857
Depreciation, depletion, and loss on property disposals	75,073	70,042	76,879	87,557	90,102
Deferred income taxes	8,298	10,013	(37)	27,322	36,033
Other	5,680	2,283	5,775	1,383	5,499
Total from operations, excluding extraordinary items	148,734	156,465	208,528	242,818	268,491
Extraordinary items—Note J	(2,216)	15,258	21,600	-0-	-0-
Deferred income taxes	2,266	8,405	-0-	-0-	-0-
Loss on disposal of properties	15,017	8,762	-0-	-0-	-0-
Total from operations	163,801	188,890	230,128	242,818	268,491
Sales of property, plant, and equipment (including $100-million sale to American Petrofina, Inc., in 1973)	18,173	111,208	14,210	15,018	10,696
Issuance of long-term debt	1,409	35,676	395,175	1,154,488	1,696,583
Sales of common stock	1,957	5,195	1,974	141,448	3,859
Advances repayable from crude oil, coal, and uranium production	8,290	2,399	82,392	83,151	131,332
Sale of investment in CanDel Oil Limited	27,817	-0-	-0-	-0-	-0-
Repayment of debt by Hospitality Motor Inns, Inc.	23,605	-0-	-0-	-0-	-0-
Pollution control funds held by trustee	1,174	(26,628)	21,335	5,399	1,023
Long-term receivables and advances	(2,756)	(19,823)	(2,676)	9,645	19,304
Other prepaid expenses and deferred charges	8,842	6,104	(18,399)	4,433	(47,126)
Other transactions—net	(7,631)	(4,457)	3,509	3,019	(339)
	244,681	298,564	727,648	1,659,419	2,083,823
Uses of Working Capital					
Expenditures for property, plant, and equipment					
Alaska	47,804	82,690	500,681	1,477,828	1,584,135
Other	76,589	109,907	199,731	163,787	114,664
Dividends	36,930	37,212	37,488	50,464	52,832
Prepaid Alaskan severance tax	-0-	-0-	-0-	-0-	121,280
Deposits under construction contracts	-0-	3,500	7,995	41,978	93,753
Reduction of long-term debt	90,399	27,004	3,730	10,258	18,909
Reduction of advances repayable from crude oil, coal, and uranium production	-0-	4,467	4,018	9,722	2,993
	251,722	264,780	753,643	1,754,037	1,988,566
Working Capital Increase (Decrease)	$ (7,041)	$ 33,784	$ (25,995)	$ (94,618)	$ 95,257
Changes in Working Capital Components					
Current assets increase (decrease)					
Cash and marketable securities	$ 2,299	$ 95,565	$ (34,952)	$ (34,181)	$ 81,860
Accounts receivable	13,226	29,569	42,141	11,091	98,661
Inventories	(6,134)	(20,146)	24,711	37,324	4,270
	9,391	104,988	31,900	14,234	184,791
Current liabilities (increase) decrease					
Promissory notes	-0-	-0-	(15,148)	(69,150)	62,755
Accounts payable	(34,242)	(70,023)	(31,935)	(9,513)	(70,217)
Accrued liabilities	193	(507)	4,235	(18,647)	(80,891)
Accrued taxes, including income taxes	5,212	(1,433)	(15,326)	(4,802)	6,260
Current maturities of long-term debt	12,405	759	279	(6,740)	(7,441)
	(16,432)	(71,204)	(57,895)	(108,852)	(89,534)
	$ (7,041)	$ 33,784	$ (25,995)	$ (94,618)	$ 95,257

The notes are an integral part of the consolidated financial statements.

THE STANDARD OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Five Years Ended December 31, 1976

Note A—Accounting and Financial Reporting Policies

The Standard Oil Company and subsidiaries' accounting and financial reporting policies conform to generally accepted accounting principles and to prevalent industry practices and are applied on a consistent basis between periods except for the change in inventories explained below. Certain items in the financial statements for prior years have been reclassified to conform to 1976 classifications.

Consolidation—The financial statements include the parent company and all wholly-owned subsidiaries.

Investments—Investments in joint-venture companies and an affiliate (49% interest in Hospitality Motor Inns, Inc.) exceeded the equity in net assets of these companies by approximately $13 million. This excess, arising from investments prior to 1970, is not being amortized because in the Company's opinion there has been no decrease in value.

Marketable Securities—Marketable securities, primarily short-term investments, are stated at cost plus accrued interest, which approximates market value.

Inventories—Inventories, including materials and supplies of $29 million at December 31, 1976, are stated at cost which is not in excess of replacement market value.

The Company and its subsidiaries adopted the last-in, first-out (LIFO) method for valuing petroleum business inventories in 1941. In 1973, a corporate restructure involving a sale of inventories between subsidiaries resulted in this method being applied to the petroleum product inventories of a subsidiary acquired in 1970 which had used the first-in, first-out (FIFO) basis. The LIFO method more accurately matches current costs and revenues and conforms to the prevalent industry practice. The cumulative effect of this change on retained earnings at January 1, 1973, and the pro forma operating results for prior years, assuming retroactive application, are not determinable; however, the Company has estimated that these amounts would not have been significantly affected had the LIFO method been used. Had this change not been made, income before extraordinary items and net income for 1973 would have been greater by approximately $9 million (25¢ per share of common stock).

In 1974 the LIFO method was extended to the chemicals and plastics business. This change, which was not considered material in relation to operating results, reduced income before extraordinary items and net income by approximately $3 million (8¢ per share of common stock) primarily in the fourth quarter.

Crude oil, petroleum products, chemicals, plastics, and merchandise inventories which are on the LIFO method totaled $187 million at December 31, 1976 and were $287 million less than if those inventories had been priced under the first-in, first-out method. The average cost method is used for the remainder of the inventories.

For detail of the major classes of inventories and inventories used in the computation of cost of goods sold, see Note K.

Exploration and Development Costs—Geological, geophysical, delay rental, and other exploration and carrying costs are charged against income as incurred, except for Prudhoe Bay (Alaskan) properties, where such costs are deferred until production commences. Expenditures for undeveloped leaseholds and mining claims are capitalized. Drilling and development costs of oil and gas wells are initially capitalized. If and when wells are determined to be unsuccessful, the applicable costs are charged against income. Development costs for all other natural resource properties (coal, uranium, oil shale, and tar sands) are capitalized. Costs of environmental, reservoir, and gas-injection studies for the Prudhoe Bay Field are deferred until production commences.

For Federal income tax purposes, oil and gas exploration costs are initially deferred and later deducted if determined to be worthless. Intangible drilling expenditures, mine development costs, and exploration costs on mining claims are deducted currently.

Depreciation and Depletion—Depreciation of property, plant, and equipment (except for that associated with oil and gas properties, coal mine development, mineral lands, and leaseholds) is provided principally by the straight-line method. Rates are used to recover the asset cost over estimated useful lives which are periodically reviewed and revised based on experience. Depletion and depreciation of producing oil and gas properties and depletion of mine development costs, mineral lands, and leaseholds are computed for each oil and/or gas field or coal mine using the unit-of-production method based on estimated proved developed reserves. Undeveloped leasehold costs are amortized based on experience, except that no amortization is provided for Prudhoe Bay, oil shale, and tar sands properties until production commences.

Maintenance and Repairs—Expenditures which materially increase values, change capacities, or extend useful lives of facilities are capitalized. Routine maintenance, repair, renewal, and replacement costs are charged against income.

Property Retirements—Upon sale or retirement of property, plant, and equipment, asset cost and related accumulated depreciation are eliminated from the respective accounts with any gain or loss included in current operations.

Earnings Per Share—Earnings per share of common stock is based on the weighted average number of common shares outstanding and shares to which the special stock is equivalent.

Capitalized or Deferred Interest—Interest on funds borrowed for the trans-Alaska pipeline is capitalized during the construction period under Interstate Commerce Commission accounting regulations. Interest on funds obtained through agreements (Note F) and on other expenditures related to transportation of Alaskan crude oil (Note Q) is deferred until production commences or contracts are assigned.

Royalties—Royalties from licenses on patented technology, primarily on a fixed sum basis, are recognized on the date that the contractual liability is incurred by the licensee. Installment payments are in United States currency.

Deferred Revenue, Federal Income Taxes, Stock Options, and Retirement Plans—Policies are described in related footnotes.

Note B—Compensating Balances

Certain financing arrangements require average compensating bank balances with no restrictions on withdrawal of these funds. At December 31, 1976 compensating balances were $67.7 million after giving effect to average float between the Company's and the banks' records. Average compensating balances were $71.4 million during 1976.

Note C—Short-Term Financing Arrangements—Thousands of Dollars

	1976
Promissory notes outstanding—year-end	$ 21,543
Average month-end balances	$115,534
Maximum outstanding at any month-end	$208,725
Interest rate—year-end	6%
Weighted average interest rate for the year	5¼%
Days to maturity—year-end	119-133

Note D—Property, Plant, and Equipment—on the basis of cost—Thousands of Dollars

	December 31, 1976		
	Cost	Accumulated Depreciation and Depletion	Net
Petroleum			
Production			
Alaska	$1,324,963	$ 16,891	$1,308,072
Lower 48 states	240,310	165,977	74,333
Refining	578,545	253,630	324,915
Marketing	405,240	141,623	263,617
Transportation			
Alaska	2,626,998	–0–	2,626,998
Lower 48 states	50,452	24,849	25,603
Coal	185,540	70,248	115,292
Chemicals	127,336	64,860	62,476
Plastics	26,901	14,297	12,604
Uranium	17,947	387	17,560
Oil shale and tar sands	25,808	–0–	25,808
Corporate	22,159	10,341	11,818
	$5,632,199	$ 763,103	$4,869,096

It is not practical to summarize depreciation and depletion rates applicable to property, plant, and equipment because of the variety of properties and range of rates.

Note E—Long-Term Debt—excluding current maturities (See Note W)

	December 31 1976 (Thousands of Dollars)
Guaranteed notes—10⅝% ($39,254 due in 1980, $78,509 annually 1981-1992, $46,220 in 1993, $35,161 annually 1994-1997, $8,104 in 1998)	$1,176,330
Guaranteed notes—9¾% ($11,176 due in 1980, $22,353 annually 1981-1992, $9,403 in 1993, $4,971 annually 1994-1997, $1,147 in 1998)	309,846
Guaranteed note—8⅝% (due in 1983)	169,500
Guaranteed note—9¾% ($1,695 due annually 1980-1984, $8,475 annually 1985-1998, $42,375 in 1999)	169,500
Notes—6⅛% (due in 1979)	75,000
Notes—6½% (due in 1981)	75,000
Notes—7½% (due in 1986)	200,000
Notes—7.1% (due in 1977)	200,000
Notes—7.6% (due in 1979)	50,000
Notes—8% (due in 1981)	75,000
Debentures—8¾% ($7,750 due in 1986, $15,500 annually 1987-2000, $25,250 in 2001)	250,000
Debentures—8½% ($6,300 due annually 1981-1999, $30,300 in 2000)	150,000
Debentures—7.6% ($4,200 due annually 1980-1998, $20,200 in 1999)	100,000
Sinking fund debentures—4¼% ($1,250 due annually 1978-1981, $997 in 1982)	5,997
Notes payable to banks—variable interest rate—6¼% at year-end ($15,000 due annually 1978-1980, $7,500 in 1981)	52,500
Promissory notes—4.55% ($2,000 due annually 1978-1989, $10,000 in 1990)	34,000
Revolving credit notes—variable interest rate—6.9% at year-end	100,000
Revolving credit notes—variable interest rate—6⅞% at year-end	100,000
Promissory notes (4.6% to 5.8% at year-end)	212,716
Payables incurred by agent (Alyeska Pipeline Service Company) for construction of trans-Alaska pipeline	79,000
Industrial revenue bonds—5⅗% to 5⅞% (due annually in varying amounts, 1986-1998)	37,900
Other	4,558
	$3,626,847

The guaranteed note(s) represent Sohio Pipe Line Company's portion of Sohio/BP Trans Alaska Pipeline Capital Inc. (Capital) debentures and notes. Capital is owned by wholly-owned pipeline subsidiaries of the Company (67.8%) and The British Petroleum Company Limited (32.2%) and assists in financing expenditures for the trans-Alaska pipeline. Capital lends the proceeds from its debt issues to the two pipeline companies according to their ownership interests in exchange for notes guaranteed by their respective parents with principal and interest repayment terms substantially identical to the debt securities of Capital.

The 10⅝% and 9¾% guaranteed notes due 1993 and 1998 (sinking fund payments 1980-1998) represent takedowns of borrowings from institutional lenders under commitments of $1,525.5 million. Additional takedowns are scheduled quarterly through the third quarter of 1977. A commitment fee of

½% per annum is payable on any unused borrowings. At the option of individual lenders, takedowns may be restricted to the percentage of cumulative expenditures to the total estimated cost for the trans-Alaska pipeline. Agreements related to the notes contain covenants restricting, among other things, total indebtedness, cash dividends, and the right to dispose of certain assets.

A revolving credit agreement permits a subsidiary to borrow a maximum of $200 million (revolving credit portion) and an additional $400 million (standby portion) with interest of 115% of prime rate. The agreement provides for a commitment fee of ½% per annum on any unused borrowings under the revolving credit portion, and a ½% fee on the initial borrowings under the standby portion. Any loans outstanding on the earlier of March 31, 1978, or 30 days after completion of the trans-Alaska pipeline, may be converted to a term loan payable over approximately five years with interest of 119% of prime rate.

A revolving credit agreement entered into in September 1976 permits the Company to borrow a maximum of $500 million with interest of 110% of prime rate to March 31, 1978 and 115% thereafter. The agreement provides for a commitment fee of ½% per annum on any unused borrowings and an additional fee of 5% of the prime rate per annum on the maximum borrowings available through March 31, 1978. Any loans outstanding at December 31, 1978 may be converted to a term loan payable over approximately four years with interest of 115% of prime rate to September 30, 1979 and an additional ¼% thereafter.

Additional lines of credit permit (1) the Company or a subsidiary to borrow a maximum of $200 million payable January 3, 1978 with interest of either 1⅛% over prime rate or 1% over the London interbank offer rate and a commitment fee of ⅜% per annum on any unused borrowings, and (2) the Company to borrow a maximum of $25 million payable January 31, 1978 with interest of 118% of prime rate and a commitment fee of ⅜% per annum on any unused borrowings. No borrowings were outstanding under either agreement at December 31, 1976.

Industrial revenue bonds represent future rental payments for refinery facilities under lease agreements. The transactions are treated for financial and tax accounting purposes as though the facilities were owned by the Company. The Company has the option to purchase these facilities for amounts which will retire all outstanding bonds or for nominal amounts at the end of the lease periods.

The Company intends to replace the 7.1% notes due in 1977, promissory notes (4.6% to 5.8% at year-end), and payables incurred by agent with borrowings under existing long-term arrangements.

Long-term debt maturities for the five years from December 31, 1976, excluding obligations which the Company intends to replace in 1977 (aggregating $491.7 million), are:

	Thousands of Dollars
1977	$ 17,723
1978	33,473
1979	188,473
1980	119,761
1981	318,863

Note F—Deferred Revenue

A subsidiary has entered into the following agreements, with interest rates ranging, at December 31, 1976, from 122% to 128% of prime rate, under which revenues and related costs to produce will be recognized as production occurs:

(1) Advance sale of $175 million of crude oil production from Prudhoe Bay reserves which also grants purchase rights to a substantial portion of production from Prudhoe Bay gas reserves. Advance payments ($175 million at December 31, 1976) and accrued interest of $50.8 million and certain other costs are to be repaid only from sales of crude oil from Prudhoe Bay leases.

(2) Advance payments of up to $300 million to be repaid only from sales of Prudhoe Bay crude oil. Advance payments ($100 million at December 31, 1976) must be related to the progress toward completion of the trans-Alaska pipeline and development of the Prudhoe Bay Field.

(3) Advance payments of up to $99.0 million to be repaid only from sales of coal. Advances were $55.9 million at December 31, 1976 and accrued interest was $1.2 million.

(4) Advance payments of up to $15.5 million to be repaid only from sales of uranium. Advances were $15.5 million at December 31, 1976 and accrued interest was $1.8 million.

Note G—Capital Stock

Each of the 1,000 shares of special stock, all of which is owned by a subsidiary of The British Petroleum Company Limited (BP), has rights equivalent to 8,932 shares of common stock. The number of shares of common stock to which each share of special stock will be equivalent is based on the highest average sustainable (90 successive days) net production from the Prudhoe Bay properties, or in certain circumstances from other Alaskan properties, at any time prior to January 1, 1984, as follows:

Sustainable Net Production (barrels per day)	Shares of Common Stock to Which Each Share of Special Stock Is Equivalent	Sustainable Net Production (barrels per day)	Shares of Common Stock to Which Each Share of Special Stock Is Equivalent
200,000	13,806	450,000	27,894
250,000	15,740	500,000	29,034
300,000	17,866	550,000	30,222
350,000	20,218	600,000	31,460
400,000	22,830		

The special stock restricts, among other things, changes in its terms, disposition of Prudhoe Bay or other properties, mergers, and issuance of senior shares. It also limits cash dividends (not to exceed net income in any year) and other capital transactions, and contains antidilution provisions.

The special stock (currently equivalent to 8,932,000 shares of common stock) and 1,080,000 shares of common stock owned by BP represent approximately 26% of the voting rights of 38,560,000 shares of common stock outstanding including shares to which the special stock is equivalent at December 31, 1976. This interest will increase to a maximum of approximately 54% if average sustainable net production reaches 600,000 barrels per day as described above. See the first two paragraphs under "Business and Property—Interests in the United States—Interest in Sohio".

Provisions of the preferred stock require annual retirement of 5,492 Series A shares and, in 1979, all Series B shares. The Company may redeem Series A at $100 per share and Series B at $101 per share, decreasing annually to a minimum of $100. Series B is convertible into common stock at a conversion price of $33.54 per share, and 15,197 shares of common stock are reserved for conversion.

Note H—Interest Capitalized or Deferred—Thousands of Dollars

If interest capitalized and deferred had been expensed in the years incurred, and assuming the applicable effective tax rate for the respective years, net income would have been reduced by $7,206 in 1972, $8,979 in 1973, $29,447 in 1974, $64,796 in 1975 and $148,677 in 1976.

Note I—Federal, Foreign, and State Income Taxes—Thousands of Dollars

	Year Ended December 31				
	1972	1973	1974	1975	1976
Applicable to income before extraordinary items:					
Current—Federal	$ 4,147	$ 9,258*	$ 30,301*	$ 6,539	$ 3,753
Investment credit	(2,515)	(365)	(72)	-0-	-0-
Foreign	10,816	14,334	28,288	24,529	13,666
State	1,176	752	1,620	2,010	2,548
	13,624	23,979	60,137	33,078	19,967
Deferred—Federal	8,298	11,281	12,662	57,110	72,092
Investment credit	-0-	(1,268)	(12,699)	(29,788)	(36,059)
	8,298	10,013	(37)	27,322	36,033
	21,922	33,992	60,100	60,400	56,000
Applicable to extraordinary items:					
Current—Federal	(926)	(3,688)	-0-	-0-	-0-
Deferred—Federal	2,266	8,405	-0-	-0-	-0-
	1,340	4,717	-0-	-0-	-0-
Income tax expense	$ 23,262	$ 38,709	$ 60,100	$ 60,400	$ 56,000

* Current Federal income taxes applicable to income before extraordinary items include charges in lieu of taxes of $780 in 1973 and $21,600 in 1974 related to the utilization of an income tax operating loss carryforward.

Investment credit, including credits on qualified progress expenditures, is recognized on the flow-through method including carryforwards of $81,784 which are available to reduce future taxes payable. In addition $69,963 of unrecognized investment credit is available to reduce taxes for financial and tax purposes through 1983.

No provision for deferred taxes is made when the difference between financial and taxable income is permanent in nature. Deferred taxes, before investment credit, were provided as follows for timing differences between financial and taxable income:

	Year Ended December 31				
	1972	1973	1974	1975	1976
Interest capitalized	$ 3,219	$ 3,499	$ 14,278	$ 36,366	$ 31,359
Interest deferred	-0-	-0-	8,853	7,762	3,715
Production payment contracts	1,844	1,791	1,304	-0-	-0-
Provision related to 1971 foreign tax credit	5,662	-0-	-0-	-0-	-0-
Intangible drilling and other related costs	-0-	-0-	-0-	10,926	9,399
Advance coal sales	-0-	-0-	(4,320)	4,320	-0-
Prepaid Alaskan severance tax	-0-	-0-	-0-	-0-	21,078
Depreciation	16	5,860	6,091	754	9,005
Dividend income from a foreign subsidiary	-0-	-0-	(6,776)	1,198	164
Election of installment sales method	(159)	7,827	(7,889)	(2,563)	(165)
Advance royalties	118	739	3,221	1,225	352
Other	(136)	(30)	(2,100)	(2,878)	(2,815)
	$ 10,564	$ 19,686	$ 12,662	$ 57,110	$ 72,092

Beginning in 1975 deferred taxes were provided for oil and gas intangible drilling and other related costs which are reflected in financial and taxable income in different periods. Prior to the Tax Reduction Act of 1975, which eliminated statutory depletion on oil and certain gas income, such costs were considered permanent differences because of the interaction with statutory depletion. As permitted under Financial Accounting Standards Board Statement No. 9, deferred taxes have not been provided for $176 million of cumulative intangible drilling and other related costs incurred prior to 1975.

The income tax on pre-tax earnings (including extraordinary items in 1972 and 1973) of $80,729 in 1972, $127,314 in 1973, $186,011 in 1974, $186,956 in 1975 and $192,857 in 1976 was less than the normal Federal corporate tax because of the following:

	Year Ended December 31				
	1972	1973	1974	1975	1976
Normal Federal corporate tax	48%	48%	48%	48%	48%
Effect of:					
Investment credit	(3)	(1)	(7)	(16)	(19)
Capital gain rate	(3)	(6)	(1)	(1)	-0-
Excess of intangible drilling and other related costs over amortization of amounts capitalized on financial records	(9)	(6)	(4)	-0-	-0-
Excess of statutory over cost depletion	(7)	(4)	(5)	(4)	(3)
Foreign income subject to U. S. taxation in addition to foreign taxation	-0-	-0-	-0-	4	4
Foreign income subject to U. S. taxation (resulting from the sale of stock of a subsidiary)	3	-0-	-0-	-0-	-0-
Other	-0-	(1)	1	1	(1)
Effective tax rate	29%	30%	32%	32%	29%

At December 31, 1976, the Company had a net operating loss carryforward of approximately $264 million which is available to reduce future taxes payable through 1983.

Federal income tax examinations have been settled through 1964. Returns for 1965-1969 have been examined and are in the process of being settled while 1970-1973 are currently under examination. In the Company's opinion any adjustment for these and later years will not materially affect the financial statements.

Note J—Extraordinary Items

	Year Ended December 31		
	1972	1973	1974
		(Thousands of Dollars)	
Loss on abandonment of obsolete chemical facilities, discontinuance and disposal of several plastics operations and closing and relocation of certain other facilities	$ (3,841)	$ (2,585)	
Gain on sale of investment in CanDel Oil Ltd.	19,111		
Gain on partnership liquidation	771		
Loss on planned withdrawal from certain unprofitable markets acquired in the BP merger	(16,917)	(3,984)	
Loss on sale of properties to American Petrofina, Inc.		(4,143)	
Gain on sale of real estate and net-profits interest in an oil producing property		28,432	
Gain on sale of uranium property		1,475	
	(876)	19,195	
Applicable income taxes—Note I	1,340	4,717	
	$ (2,216)	14,478	
Utilization of income tax operating loss carryforward—Note I		780	$ 21,600
		$ 15,258	$ 21,600

Revenues and expenses related to the dispositions described above were not material in relation to consolidated revenues and expenses.

Note K—Inventories and Cost of Goods Sold—Thousands of Dollars

Inventories at December 31, 1976 consisted of $78,785 of raw materials, $16,127 of in-process products, $114,944 of finished products, and $28,752 of materials and supplies. Inventories used in the computation of cost of goods sold amounted to $180,326; $173,751; $160,741; $179,207; $210,472; and $209,857 at December 31, 1971 through 1976, respectively.

Note L—Retirement Plans

The Company and certain subsidiaries have retirement plans covering substantially all employees except those under contract with the United Mine Workers. Contracts covering union mine employees require a subsidiary to pay amounts based on hours worked and coal produced to retirement and welfare plans which are not controlled or administered by the subsidiary.

Cost of Company plans ($2.0 million in 1972, $1.3 million in 1973, $2.5 million in 1974, $5.2 million in 1975 and $13.3 million in 1976), as determined by the Enrolled Actuary, is based on assumptions as to future experience under the plans and application of the Entry Age Normal actuarial method. The increase in 1976 was due to the Employee Retirement Income Security Act of 1974 (ERISA), changes in actuarial methods and assumptions, higher payrolls, and improvement in pension benefits.

As of the last actuarial report on January 1, 1976 the unfunded liability for past service costs was $93.7 million and the liability for vested benefits exceeded the actuarial value of fund assets and accrued costs by $15.3 million. Accrued pension costs were $26.8 million at December 31, 1976. Commencing with 1972, the Company deferred funding pension costs. However, in compliance with ERISA, current pension costs will be funded as accrued.

Note M—Stock Option Plans

Stock option plans authorize the issuance of common stock to executives and key employees at not less than the market price on the dates options are granted. Qualified stock options are granted for a period of not more than five years and non-qualified stock options for a period of not more than ten years. Options become exercisable in cumulative annual installments at a rate of 20% each year. Options for 193,060 shares were granted during 1976. At the beginning and end of 1976, 183,340 and 7,340 shares were reserved for future options.

Option data for the period 1972 through 1976 follows:

Became Exercisable	Number of Shares	Option Price: Range Per Share	Option Price: Total	Corresponding Market Price: Range Per Share	Corresponding Market Price: Total
1972	117,870	$12.15 to $44.82	$2,981,259	$30.88 to $41.57	$4,254,761
1973	152,680	27.13 to 44.82	4,316,354	48.94 to 56.06	7,562,834
1974	147,720	27.13 to 44.82	4,217,070	43.81 to 53.13	7,563,983
1975	102,420	27.13 to 53.13	4,115,161	74.13 to 79.63	7,880,613
1976	89,760	30.88 to 53.13	3,678,699	68.94 to 70.94	6,269,350

Exercised	Number of Shares	Option Price		Corresponding Market Price	
		Range Per Share	Total	Range Per Share	Total
1972	77,916	$12.15 to $32.00	$1,957,201	$30.19 to $48.00	$3,328,371
1973	178,898	12.15 to 32.00	5,195,003	42.88 to 83.00	9,136,094
1974	70,835	27.13 to 30.88	1,974,404	37.75 to 86.00	3,749,910
1975	197,300	27.13 to 53.13	5,622,815	44.50 to 84.50	13,173,685
1976	112,970	27.13 to 53.13	3,859,310	61.50 to 80.75	8,287,304
At December 31, 1976					
Options outstanding (Granted 1971-1976)	476,375	$27.13 to $68.44	$25,921,419		

There have been no charges to income, and none are contemplated, in connection with the plans.

Note N—Incentive Compensation Plan—Thousands of Dollars

The Company has an Incentive Compensation Plan which provides a fund for awards to selected officers and key employees. The amount of the fund is determined by formula as defined in the Plan. The Plan is administered by a committee of non-officer directors who are not eligible to participate.

In addition, a Deferred Incentive Compensation Plan provides for deferral of certain awards under the basic plan which are later paid in cash or in shares of the Company's common stock. The contingent share units of common stock accrued under the Deferred Incentive Compensation Plan were 152,729 at December 31, 1976.

The total cost of these plans was $2,345 for 1972, $2,716 for 1973, $2,848 for 1974, $2,421 for 1975 and $2,759 for 1976.

Note O—Rentals and Lease Commitments—Thousands of Dollars

	Year Ended December 31				
	1972	1973	1974	1975	1976
Rental expense under all leases:					
Tankers	$ 19,615	$ 16,305	$ 32,839	$ 46,749	$ 53,646
Service stations—minimum	7,067	6,325	5,088	4,705	4,597
Service stations—contingent ...	1,696	644	58	817	3,344
Offices and other	8,672	8,166	12,488	14,238	15,108
	$ 37,050	$ 31,440	$ 50,473	$ 66,509	$ 76,695

Service station contingent rentals at certain locations are based on volume of motor fuels sold in excess of specified minimums. Rental income of $3,815 in 1972, $2,784 in 1973, $1,773 in 1974, $1,353 in 1975, and $1,124 in 1976 from subleasing of service stations, and $8,759 in 1973 from reassignment of tankers, has been deducted from rental expense.

Future minimum rental commitments as of December 31, 1976, for all noncancellable leases:

	Tankers	Service Stations	Offices and Other	Total
1977	$53,200	$ 4,300	$ 7,700	$65,200
1978	88,100	3,900	6,300	98,300
1979	89,700	3,400	3,700	96,800
1980	55,600	3,200	2,900	61,700
1981	15,900	3,100	1,900	20,900
1982-86	73,000	13,300	2,200	88,500
1987-91	30,400	6,700	400	37,500
1992-96	–0–	900	–0–	900

Rental income from subleasing of service stations will approximate $900 in 1977 and decrease annually thereafter. These amounts have been deducted from future commitments.

Certain lease commitments included above are "financing leases" as defined by the Securities and Exchange Commission. The present value of "financing lease" commitments and impact on net income if such leases had been capitalized are not material.

Note P—Consent Decree (See Note W)

The Company is subject to a consent decree, in connection with the BP merger, which required divestiture prior to January 1, 1974, of taxable motor fuel sales volume in Ohio amounting to 400 million gallons annually. In 1971, with Department of Justice approval, the Company sold certain subsidiaries and Ohio retail outlets accounting for 150 million gallons annually. In 1973 the Company reported to the United States District Court that extensive attempts had been made to comply with the remaining requirements of the decree but changes in market and supply conditions had made completion practically impossible. The Company filed a motion to be relieved from further compliance. In 1974 the Court appointed a Special Master to attempt to negotiate the sale of Ohio retail outlets to meet the remaining requirements by the end of 1975 (subsequently extended to May 31, 1977). Since the appointment of the Special Master the Company has sold an additional 23 retail outlets, as of December 31, 1976, accounting for 9 million gallons annually. In the Company's opinion the final outcome will not have a material effect on the financial position of the Company.

Note Q—Investment in Trans-Alaska Pipeline, Prudhoe Bay Properties, and Related Commitments

Trans-Alaska Pipeline (See Note W)—Accumulated expenditures for construction were $2,312 million at December 31, 1976. The estimated construction cost (as revised in June 1976) is $7.7 billion, including equipment rentals, for a capacity of 1.2 million barrels per day. The Company's share (33.34% undivided interest) is approximately $2.6 billion and its future expenditures are estimated to be $258 million during 1977 and $30 million thereafter. Interest of $315 million at December 31, 1976 related to funds borrowed for construction has been capitalized.

Prudhoe Bay—The Company has expended $1,351 million at December 31, 1976 for lease development, production facilities, and special studies. Future expenditures for initial development are estimated to be $429 million. Interest of $53 million at December 31, 1976 related to advance sales of Prudhoe Bay crude oil has been deferred.

Tankers—Deposits under construction contracts were $147.2 million at December 31, 1976. The Company has contracts for construction of six tankers, estimated to cost $470 million, to transport Alaskan crude oil. It is anticipated that these contracts will be assigned to others with whom the Company will enter into charter commitments or lease arrangements. Interest of $8 million at December 31, 1976 on related borrowings has been deferred until construction is completed or contracts are assigned.

Prepaid Alaskan Severance Tax—The Company paid $121 million crude oil reserves tax to the State of Alaska in 1976 and estimates it will pay approximately $150 million in 1977 which will be creditable against future Alaskan severance taxes.

Note R—Federal Regulation

The Company's petroleum operations are subject to various regulations under the Energy Policy and Conservation Act ("Act") of 1975 and prior laws. The Act extended the authority of the Federal Energy Administration ("FEA") to regulate the pricing and allocation of crude oil and petroleum products through May 31, 1979. After this date, the President has discretionary authority to continue such controls until expiration of the Act on September 30, 1981. Although price controls for certain petroleum products have been removed, they have been continued for crude oil, gasoline, jet fuel, propane and other gas liquids.

Under existing allocation regulations, a refiner processing price controlled domestic crude oil in excess of its stipulated quota must purchase "entitlements" from a refiner processing price controlled domestic crude oil in quantities below its stipulated quota. Under the entitlements program the Company earned before income taxes $221 million in 1976 and $104 million in 1975.

FEA has been conducting a continuous audit of the Company's records relating to petroleum costs and prices. FEA has challenged certain crude oil cost accounting and product pricing procedures and has indicated that it may challenge other such procedures where unresolved differences exist between the Company and FEA as to proper interpretation of the regulations. Should the challenges be sustained, remedial action (prospective and/or retroactive) could be ordered and penalties could be assessed. Recovery of certain increased costs otherwise recoverable could be prohibited or refunds to customers could be ordered. While the Company does not expect that any single item currently being challenged by FEA will have a material impact on the Company's operations, there could be a material impact on future results of operations if several of the possible penalties and remedies were to be sustained. The Company believes it has complied in all material respects with price control regulations since inception and that final resolution of these challenges will not have a material impact on the financial position of the Company.

Note S—Transactions with The British Petroleum Company Limited and Subsidiaries (BP) (owner of special stock—Note G)

The Company (or a subsidiary): (1) reimburses BP ($519 million in 1976 and $407 million in 1975) for expenditures for development of the Company's leases and production facilities and for exploration on the North Slope of Alaska; (2) reimburses BP for technical supervision for construction of tankers; (3) purchases crude oil from BP in the ordinary course of business at no more than prevailing competitive prices; (4) makes payments to BP for tanker transportation of crude oil based on the competitive rate at date of the five year agreement negotiated in 1974; (5) sold 1,080,000 shares (of a

2,000,000 share offering) of common stock to BP in 1975, pursuant to the 1969 agreement, at a price of $68 per share which was equal to the public offering price less underwriting discounts and commissions; and (6) owns 67.8% of Sohio/BP Trans Alaska Pipeline Capital Inc. of which BP owns 32.2%—Note E.

Note T—Supplemental Income Statement Data—Thousands of Dollars

	Year Ended December 31				
	1972	1973	1974	1975	1976
Taxes, other than income taxes					
Excise taxes on petroleum products and merchandise (excluded from revenues and expenses)	$ 262,788	$ 251,769	$ 212,661	$ 212,580	$ 247,615
Real estate and personal property	15,427	14,558	14,556	15,739	16,791
Social security and unemployment insurance	8,999	10,943	11,382	12,874	15,011
Production and severance	4,620	6,260	18,763	21,157	17,100
Franchise	2,864	3,327	3,092	3,641	4,436
Import tariffs	2,991	1,795	—0—	85,023	11,540
Other	893	1,903	850	959	1,232
Research and development	5,927	6,264	7,320	9,272	10,498
Maintenance and repairs	54,732	60,053	65,714	75,644	86,047
Advertising	14,418	10,131	7,941	7,316	8,049

Note U—Quarterly Data (Unaudited)—Thousands of Dollars

	Sales and Operating Revenues	Crude Oil Products, Merchandise and Material Costs and Operating Expenses	Income Before Income Taxes	Net Income	Net Income Per Share
1976—First	$ 717,529	$ 582,896	$ 36,947	$ 24,347	$ .63
Second	735,586	581,728	52,631	36,531	.95
Third	644,720	498,734	49,450	35,350	.91
Fourth	818,585	653,919	53,828	40,629	1.06
1975—First	$572,546	$ 453,149	$ 33,953	$ 22,153	$ .60
Second	635,410	498,900	53,683	38,183	1.04
Third	641,733	504,582	48,447	32,647	.89
Fourth	657,447	503,216	50,873	33,573	.89

Data for 1975 not reviewed by independent auditors.

Dividends (quarterly) per share—1976 and 1975
Common—$.34
Preferred—Series A—$.93¾
Series B—$1.00

Note V—Replacement Costs (Unaudited)—Millions of Dollars

In compliance with new rules of the Securities and Exchange Commission, the Company has estimated the replacement cost of inventories and applicable items of property, plant, and equipment at December 31, 1976, and the related effect on cost of sales and depreciation expense for 1976.

Although any method of estimating replacement cost data requires certain subjective judgments, the Company believes that the replacement cost information has been calculated on the basis of reasonable assumptions. Such data will not be comparable among companies and will be subject to errors of estimation which are inherent whenever subjective judgments are involved.

Replacement cost of existing property, plant, equipment, and inventories does not represent current market value, nor does the difference between historical and replacement cost of assets represent additional book value for the common shareholders. Rather it estimates the capital funds that would be required if such assets were replaced at December 31, 1976. In the normal course of business, however, the Company will replace assets over an extended period of time. Capital required for replacement of such assets would be provided by internally generated funds or external financing.

The Company specifically cautions that the replacement cost data cannot be used alone to impute the effect of inflation on the financial statements.

Property, Plant and Equipment

The disclosure rules for property, plant, and equipment exclude assets under construction and land. There is also a moratorium of one year for reporting replacement cost data for mineral resource assets due to the complex problems of estimating replacement costs for underlying mineral reserves. Over 80% of the Company's gross property, plant, and equipment (primarily in Alaska) is excluded by these exemptions in 1976.

The cost of replacing and modernizing facilities has increased at a rapid rate, particularly over recent years, due to inflation. To minimize operating costs the Company has strived to maintain technologically efficient facilities. Increased sales prices, within constraints of government regulation and competitive factors, have partially offset greater operating costs.

The following table sets forth an estimate of the current cost of replacing certain property, plant, and equipment of the Company, together with the current depreciated replacement cost of such assets at December 31, 1976. It also shows historical cost information for such assets and for certain other assets of the Company for which current replacement cost estimates are not required.

	Historical Cost			Replacement Cost		
	Cost	Accumulated depreciation and depletion	Net	Cost	Accumulated depreciation and depletion	Net
Subject to replacement cost disclosure	$ 966	$ 495	$ 471	$ 2,212	$ 1,318	$ 894
Not subject to replacement cost disclosure:						
Under construction	3,839		3,839			
Land	145		145			
Facilities not to be replaced	27	15	12			
Mineral resources	655	253	402			
	$ 5,632	$ 763	$ 4,869			

The following methods were applied to historical cost of assets as appropriate:

(a) Private and governmental agency indexes, approved by the Company engineers, which represent the cost of duplicating specific classes of plant and equipment.

(b) Company engineering indexes based on current costs for replacing selected facilities.

(c) Current quoted market prices for new plant and equipment of equivalent productive or operating capacity.

(d) Current valuation reports, prepared annually by governmental agencies, which represent current replacement values for rate making purposes.

The replacement cost of property, plant, and equipment should not be interpreted to indicate that the Company has present plans to replace such assets or that future replacement would take place in the form and manner assumed in developing these estimates. Decisions concerning replacement of assets will be made based on economic, regulatory, and competitive conditions existing on the dates such determinations are made and the criteria for such decisions could differ substantially from the assumptions on which the above data are based.

Inventories

Substantially all inventories, excluding materials and supplies, are on the last-in first-out (LIFO) method originally adopted in 1941. The average cost method is used for the remainder of the inventories. The replacement cost of inventories at December 31, 1976 substantially exceeded historical cost due to general escalation of raw material prices and other production costs.

The following table sets forth an estimate of the current cost of replacing the Company's inventories:

	Historical Cost	Replacement Cost
Crude oil, in-process and finished products (petroleum, chemical and plastics) and merchandise—LIFO	$187	$479
In-process and finished products (petroleum and chemical) and merchandise—non LIFO	23	23
Materials and supplies	29	30
	$239	$532

Replacement cost of inventories was derived as follows:

(a) Crude oil—At December 1976 cost.

(b) In-process and finished products and merchandise—At current cost of materials, labor and overhead including replacement cost depreciation determined on a straight-line basis.

(c) Materials and supplies—Indexes published by governmental agencies, catalog or other published prices.

Costs and Expenses

The amount which cost of sales for 1976 would have been, if calculated by estimating the current replacement cost of goods sold at the time when the sales were made, was approximately equal to the historical cost of sales under the LIFO method of valuing inventories used by the Company.

Depreciation and Depletion Expense

Depreciation expense for 1976 related to the replacement cost of such assets was calculated using straight-line depreciation rates based on the estimated useful lives for financial reporting purposes.

The following table sets forth the approximate amount of depreciation expense on certain of the Company's assets in 1976 based upon the average current replacement cost of such assets. It also shows historical cost of depreciation expense for such assets and certain other assets of the Company for which current replacement cost depreciation expense estimates are not required.

	Historical Cost	Replacement Cost
Subject to replacement cost disclosure— depreciation	$ 59	$114
Not subject to replacement cost disclosure— depreciation	15	
depletion	8	
	$ 82	

The difference between depreciation based on historical cost and on estimated replacement cost does not represent additional expense deductible in determining income subject to income taxes.

Note W—Subsequent Events—(Unaudited)

Long-Term Debt—In March 1977, the Company issued $250,000,000 of 8⅝% debentures due 2007. The net proceeds of the offering are being used to meet expenditures for the development of the Company's interests in North Slope properties and related transportation facilities.

Consent Decree—As of June 3, 1977 the Company has sold additional retail outlets for which the Company may receive credit of approximately 106 million gallons of annual taxable motor fuel sales against its remaining divestiture obligations. In May 1977 the Court entered an order under which the appointment of the Special Master was extended to October 31, 1977. If the Special Master has not completed the remaining divestiture requirements by such date, his appointment is scheduled to terminate, and the Company is granted until January 31, 1978, to complete divestiture. If the Company fails to do so by that time, the Court will then conduct a hearing to determine the final disposition of the matter.

Trans-Alaska Pipeline—On June 16, 1977 Alyeska delivered to the TAPS owners a budget reflecting a capital cost for TAPS with an initial design capacity of 1,200,000 barrels per day of approximately $8,020 million, consisting of $7,777 million of capitalized construction costs and $243 million of costs associated with final testing and preparation for use of the System incurred prior to an assumed September 1, 1977 start-up date. See "Business and Property—Interests in the United States—Interest in TAPS".

1977 REVIEW
of the BP group

US DOLLAR EDITION

THE INDUSTRY AND BP

A continuing battle to reduce inflation characterised most of the world's major economies during 1977. Governments tried also to stimulate economic growth but the pace of recovery in industrial production and international trade proved slow. It was only towards the end of 1977 that economic activity in many of the group's main marketing areas regained even those levels which had been achieved before the 1974 recession.

Against this background, the oil industry experienced only a modest increase in the world-wide demand for its products and in certain important areas such as Europe total demand continued to decline. The oil industry in common with others suffered from excess capacity, particularly in shipping and refining. The additional supplies of crude oil which became available from the new oil provinces of Alaska and the North Sea during the year entered a crude oil market whose traditional suppliers in OPEC countries already had production capacity in excess of immediate demand. Individual OPEC governments reacted differently to the situation at the beginning of the year, some putting up prices more than others to the commercial disadvantage of companies buying mainly from the higher cost countries. In July the OPEC governments reverted to a uniform system and have since held the official level of prices stable despite conditions of over-supply. Competition for business did, however, depress market realisations for crude oil, including North Sea oil, towards the end of the year.

These current conditions contrast sharply with the longer-term energy prospects – a longer term which energy industries must take into account in their planning now, as many investment projects take ten years or more from conception to commissioning. To maintain or improve material living standards, more efficient ways of producing and using energy, additional production of established fuels such as petroleum and coal and new sources of energy require development.

To this end BP is investigating the commercial possibilities, not only of traditional fuels such as coal, but of more novel sources such as solar energy, and is involved in research on the more effective use of fuels, particularly of oil.

These efforts are in addition to the group's continuing heavy investment in its traditional petroleum activities to maintain its pre-eminent position in the North Sea and, through its interest in Sohio, in Alaska. Exploration is also going on in new areas of potential production.

Although inflation continues, the pace is slowing down. If and when the main industrial countries, particularly in Europe, are able to take advantage of unused capacity and return to economic growth policies, the oil industry is well placed because of its inherent flexibility to meet the increased demand for energy which such economic expansion would engender.

Governments and many international bodies share with the energy industries an appreciation of the extent to which future economic growth depends upon access to adequate fuel supplies. BP has done much to encourage public understanding of the issues and has co-operated with both government and international organisations in analysing these problems and seeking solutions.

This review of the group's activities discusses the direct contribution which the BP group has made to meeting present energy needs world-wide and to the discovery and development of new sources for the future.

FRONT COVER: Drilling rig in summer – North Slope, Alaska

EXPLORATION AND PRODUCTION

There are ample resources of fossil fuels to meet the world's energy needs for a considerable time to come, provided economic, technical and political circumstances allow the timely and appropriate investments to be made to convert resources to producible reserves. Although coal is the largest of these resources, oil will remain the most important energy source to the end of the century.

Production from current proved oil reserves, both developed and under development, is likely to peak in the 1980s. To increase, or indeed maintain, this production level implies the discovery and development of new reserves or improved recovery from existing reserves. Although much research is going into enhanced recovery, it is unlikely that new techniques beyond those already in use will make a sizeable contribution to additional supplies in the near future.

Offshore Prospects

Prospective onshore areas have in the main been thoroughly explored. Although new, and sometimes significant, discoveries have been and will still be made in onshore areas where oil has previously been found, the prospects of greatest interest lie in offshore areas, which have been explored to a lesser extent. Exploration is likely to become more difficult and costly and oil found still more expensive to produce. This increasing difficulty must be recognised when concessions are granted if essential exploration and development is to take place.

BP has maintained a fairly constant level of exploration activity. In 1977 the group's capital expenditure on exploration was $177 million, of which three-quarters was spent in offshore areas and nearly 90% in Europe and North America.

Activities covered a wide range of prospects from the acquisition of interests in proven or semi-proven acreage in the North Sea to wild-cat drilling in unproven areas.

In the UK North Sea, eight wells have been drilled to earn interests in existing licences covering the Crawford, Bruce and Buchan Fields where oil and gas have already been found. Drilling on the UK Continental Shelf led to the first discovery of oil west of the Shetlands. Appraisal drilling to assess the

Production platform in the North Sea

commerciality of this discovery will be carried out in 1978. In Norwegian waters two wells were drilled to appraise the discovery in Block 7/12 and the results are now being evaluated. A further exploration well 30 km south-east of this discovery was drilled at the end of 1977.

Exploration activity continued in areas where oil had already been found offshore Netherlands, Germany, Gabon, North West Australia and in the Gulf of Suez.

Search for New Sources

Exploration was carried out in unproven or unexplored areas in the search for major new sources of oil – offshore Greenland, Brazil, Ireland, Morocco and Spain and in the French sector of the Western Approaches. In West Greenland, drilling in which BP had an interest and drilling in adjoining blocks suggest that there is little possibility of major discoveries in this basin. Elsewhere exploration is continuing.

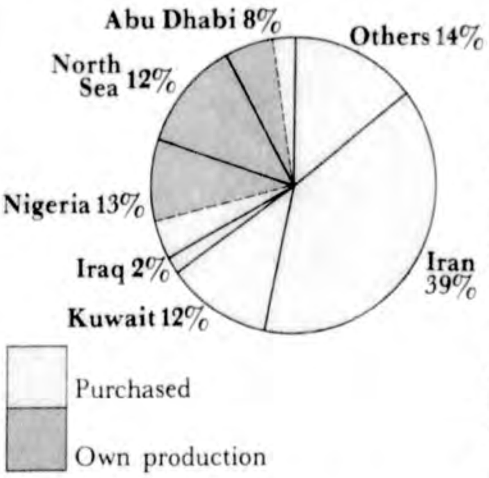
As exploration progresses, the prospects in some areas are down-graded and the group's interest reduced accordingly. In New Zealand and Indonesia licences were relinquished for this reason. In the Gulf of Thailand a group of companies carried out work to earn an interest in existing BP licences and a gas discovery was made. Further work will be required to determine whether this discovery is commercial.

Onshore exploration in areas where oil had already been found continued in Alaska, Canada, the UK, Germany, Abu Dhabi, Nigeria and Indonesia. A number of gas discoveries were made in western Canada and additional reserves of oil found in Dorset, UK.

Exploration for new prospects was carried out in Oman and in Egypt's Western Desert.

Sources of BP's crude oil supplies Thousands of barrels per day

	1973	1974	1975	1976	1977
Iran	1,980	2,000	1,700	1,760	1,320
Kuwait	1,320	1,040	560	480	400
Nigeria	620	660	480	420	440
Abu Dhabi	400	340	320	280	260
Iraq	220	240	140	—	80
North Sea	—	—	20	180	410
Others	240	160	220	420	480
Total	**4,780**	**4,440**	**3,440**	**3,540**	**3,390**
Non-communist world production	**48,195**	**47,610**	**43,760**	**47,340**	**48,800**



Record Production

In 1977 crude oil production by the oil industry in the non-communist world exceeded the peak levels achieved in 1973 for the first time, reaching 48·8 million barrels per day (b/d). OPEC production amounted to some 65% of this total. Liftings by the BP group in 1977 were 3·4 million b/d compared with 3·5 million b/d in 1976. Forties Field production increased to 414,000 b/d. Liftings from OPEC sources provided 80% of the group's crude oil supply.

The total net recoverable crude and condensate reserves available to the BP group at 31 December 1977 were estimated at 5,660 million barrels located in the UK, Abu Dhabi, Nigeria, Canada and Australasia. These reserves include some 2,090 million barrels of crude oil which it is expected will be recovered through reservoir pressure maintenance projects. These figures do not include reserves owned by Sohio in the USA. The group continued to have access to substantial production in Iran, Kuwait and Qatar through purchase agreements. Apart from equity production in Abu Dhabi and Nigeria the group has entered into arrangements to buy back considerable quantities of oil from the national oil companies.

Expenditure on oil and gas production projects in 1977 amounted to $666 million. Major expenditures were made in the UK, New Zealand, Alaska and Canada.

The fourth and last platform in the Forties Field came into production in April 1977. 36 oil producer wells and 11 water injection wells have now been completed from the four platforms. This is approximately half the total number of wells it is planned ultimately to drill. In 1977 daily oil production from the field averaged 414,000 barrels per day and is expected to reach its peak capacity of 500,000 barrels per day in 1978.

Sea Conquest exploring the North Sea

EXPLORATION AND PRODUCTION

Construction of the first phase of the Sullom Voe terminal on Shetland, for which BP is responsible, is proceeding to schedule and crude oil should be delivered from the Ninian Field in the latter half of 1978.

BP, on behalf of its co-licensees, is proceeding with the development of the Buchan Field following consent by the Department of Energy to the development and production programme submitted to it. Appraisal drilling was completed on the Magnus oil field north-east of the Shetlands. A decision to develop the field has been taken subject to the consent of the Department of Energy to the development plans.

Installation of the first production platform in the Maui gas/condensate field offshore North Island, New Zealand was completed. Development wells will be drilled in 1978 and production start in 1979. Increased gas offtake from the Kapuni Field led to a substantial increase in BP New Zealand's profits from its exploration and production interests. BP Canada in partnership with an Albertan Government agency is carrying out a pilot scheme to evaluate the technical and commercial viability of producing heavy oil in the Cold Lake area of East Alberta. If the pilot scheme is successful, large reserves of heavy oil are available to BP for development. Increased sales of natural gas by BP Canada coupled with improved realisations contributed to higher profits earned by the company in 1977.

LNG Plant Das Island

Group exploration and production

Natural Gas Developments

In 1977 world demand for natural gas continued to grow. In the world's largest market, the USA, declining indigenous production and an exceptionally cold 1976/77 winter led to severe restrictions upon gas supplies to consumers. The growth in demand and in the need for imports to established markets clearly call for the development of gas resources world-wide and are a pointer to the potential growth in the international movement of liquefied natural gas (LNG).

BP's entry into this international trade was marked by the commissioning of the Abu Dhabi Gas Liquefaction Plant which when at full capacity will produce some 2·2 million tonnes per annum of LNG for shipment to Japan. BP is technical leader of the project and has a 16⅔% equity share in it. BP is actively involved with other major oil companies in the development of a similar but larger project in Australia where the technical and commercial aspects of the development of the North Rankin gas fields are being studied. A similar joint project in Nigeria including the Nigerian Government as a majority partner is under study.

BP is a participant in Gas Gathering Pipelines, a company formed by the British Government to study the feasibility of collecting gas in the North Sea.

BP increased its future potential in the international bulk market for liquefied petroleum gases by entering a joint venture with BNOC (British National Oil Corporation) which will purchase and re-sell LPG produced at Sullom Voe.

The world surplus of tanker tonnage which built up rapidly following the massive crude oil price rises of October 1973 continued at a high level throughout 1977 and BP Tanker Company (BPTC) has inevitably been affected. The total volume of group sales, notably of crude oil, has dropped and the pattern of crude oil trading changed with increased output from shorthaul sources such as the North Sea. These factors have resulted in a steady fall in the group's shipping requirements.

Of the BP fleet tonnage, 45% currently comprises company owned ships, the remainder being mostly period charters taken out before 1973 under very different charter market conditions. Freight rates in the spot tanker market – the day-to-day yardstick for single voyage charters – have fallen dramatically with the reduction in demand for tonnage. Throughout 1977 the spot rate was well below the costs of tanker operation and for many owners this has been a period of near disaster or, indeed, bankruptcy. It is unlikely that balance in the world's crude oil carrier fleet will be restored before the mid 1980s.

During 1977 BPTC pursued a variety of measures to contain the problem of surplus shipping. For the very large crude carrier (VLCC) fleet, slow steaming dissipated tonnage and saved expensive bunkers. At the same time the surplus of product carriers was alleviated by short term chartering out. Six old product carriers and one medium size crude carrier were sold during 1977 and in February 1978 it was decided to lay up five owned VLCCs totalling 1·1 million tons deadweight (dwt). In addition the *British Resource* (260,000 dwt) has been laid up in Brunei Bay since she was delivered from the builders in 1975. *British Venture* (37,000 dwt) and *British Mallard* (16,000 dwt) were put on the market for disposal.

Meanwhile the company has developed other sources of revenue by selling its services outside the group. Operating and ship management experience and technical expertise have been provided to other shipowners both within and outside the oil industry. This service is of particular value to producer countries establishing their own flag fleets. The BP lay-up service at Brunei Bay has enjoyed considerable success and is capable of bringing a moth-balled VLCC back into service within 10 days.

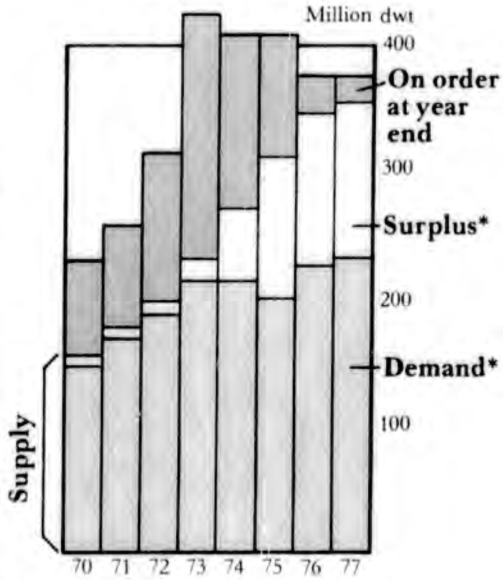
Trans-shipment of Alaskan crude oil off Panama

For many years BP has been a leading developer of the inert gas system for ensuring the operational safety of tankers. Cargo holds are blanketed with inert gas using the waste products of combustion from the ship's propulsion system. With the cargo tanks thus protected it has been possible to adopt a new system for tank washing using crude oil. This has the advantage of reducing the time and cost of tank cleaning, increasing the quantity of cargo delivered and substantially improving oil pollution control. The technique of crude oil washing under an inert gas blanket was adopted by the UK Government recently as an alternative to other very expensive anti-pollution measures being pressed by the US Government. This technique, proposed by the UK and based on BP experience, was finally accepted as an effective alternative at a conference called in February 1978 by the Inter-Governmental Maritime Consultative Organisation (IMCO).

In July 1977 the VLCC, *British Resolution* (260,000 dwt), was chartered to Sohio for 2-3 years and refitted to act as a floating trans-shipment terminal in Panamanian waters. Alaskan crude is transferred from large crude oil carriers loaded at Valdez, through the *British Resolution*, into smaller tankers for shipment through the Panama Canal. With more Alaskan oil to transfer, Sohio has also chartered the sister ship *British Renown* which went into service off the coast of Panama in March 1978.

World tanker fleet

Demand, supply and on order



* Average during year

Entry into Specialised Shipping

During 1977 BP Tanker Company diversified its activities with the investment of $50 million in the Stolt Nielsen Group of Greenwich, Connecticut. This company is one of the largest engaged in the bulk shipment of specialist cargo such as sophisticated chemicals, caustic material and edible oils of vegetable or animal origin.

OIL REFINING AND MARKETING

Europe

1977 was a poor year for oil trading in Europe. Continued economic recession and relatively mild weather combined to depress product demand which was 2% below that of the previous year. After modest growth in the first half of the year, demand fell away to such an extent in the fourth quarter that it was some 12% down on the same period in 1976.

Competition in the market was keen and prices depressed. As expected, growth in the lighter products such as gasoline – up 4% – continued, while the consumption of heavier products such as fuel oil fell – down 7·5%. Although the load factor in refineries improved during the year, they were still only operating at 70% capacity.

Prices, particularly in the bulk market, were set by operators willing in the short run to cover only their direct costs of refining and distribution.

The industry, as a whole, therefore continued to lose money, failing to cover shipping costs and the high fixed costs of refining and distribution.

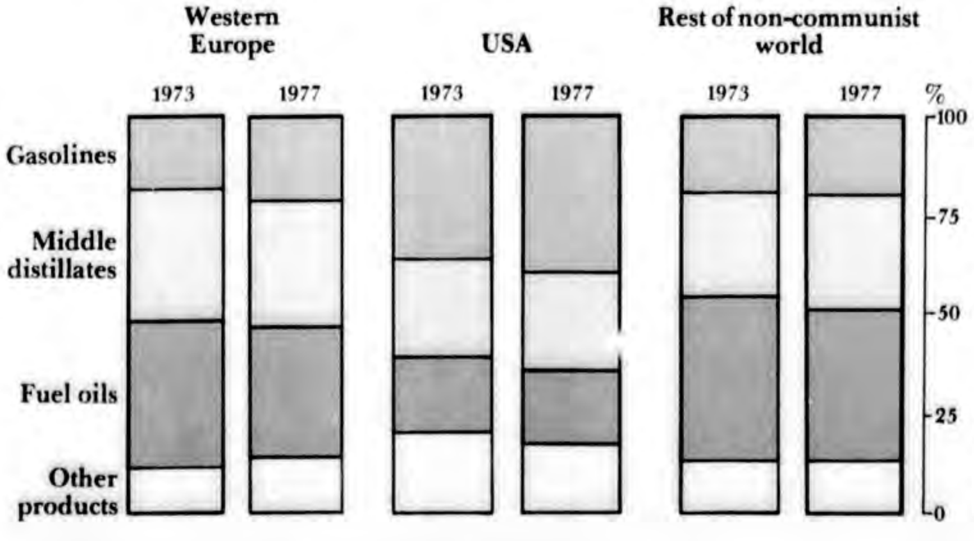
BP's performance in refining and marketing was comparable with that of the rest of the industry. Sales volume fell slightly more than for the industry as a whole – the result of a loss in the group's share of the fuel oil market, only compensated in part by gains in the motor gasoline market. BP suffered in the first half of the year from the two tier pricing of crude oil by OPEC members, as the group's access to lower price crude oil was substantially less than that of its competitors.

Air BP fuelling a British airways Concorde at Bahrein

In mainland Europe, all major BP group companies with refining interests incurred losses. Efforts further to reduce costs continued. $127 million capital expenditure went to rationalise the distribution and marketing network, to improve service to customers and to increase the cost effectiveness of operations. Modernisation and energy conservation in refineries, protection of the environment, and product quality improvement absorbed $104 million of capital expenditure. Further studies are in progress to determine the correct long term balance of the refining system in relation to anticipated changes in product patterns in the European market, both in volume and quality.

Market conditions in the UK were comparable with those elsewhere in Europe with price discounting and competition severe in all product markets. This was keenest in the retail motor gasoline market. Despite these conditions, BP Oil in its second year of operations held its position in the market and achieved some improvement in the higher value added products such as lubricants.

Changes in oil industry product demand 1973 and 1977



Other Areas

The oil industry operated more closely to capacity and more profitably in the areas where BP refines and markets outside Europe.

Despite the faltering economic recovery in Australia and New Zealand, improved sales helped BP Australia to achieve significantly better results and BP's New Zealand marketing company also increased sales and improved its profitability.

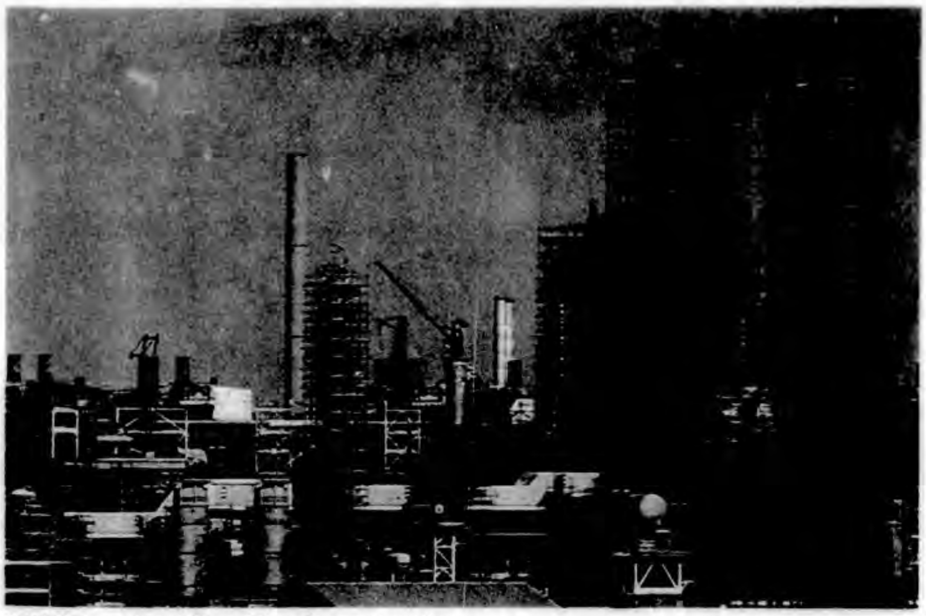
Against a background of high economic growth and low inflation, BP companies in Singapore and Malaysia sold more and improved their profits. In October BP Oil Hong Kong, which will concentrate initially on bulk trading and marine sales, began operations as the group's new company in that country.

Despite intense competition in the market-place, BP Canada was able to increase the profits of its refining and marketing operations, although the low rate of return on these activities continues to cause concern.

International Markets

In international markets the group's sales to aviation increased in volume by about 8% in 1977 but the erosion of prices continued. BP sales of fuels to the international shipping industry were also slightly up in volume.

BP's sales of crude oil were 4·2% lower in volume than in 1976, but the group's bulk trade in refined products showed a major growth in 1977, the tonnage of sales increasing by more than 20%.



BP/ICI cracker at Teesside under construction

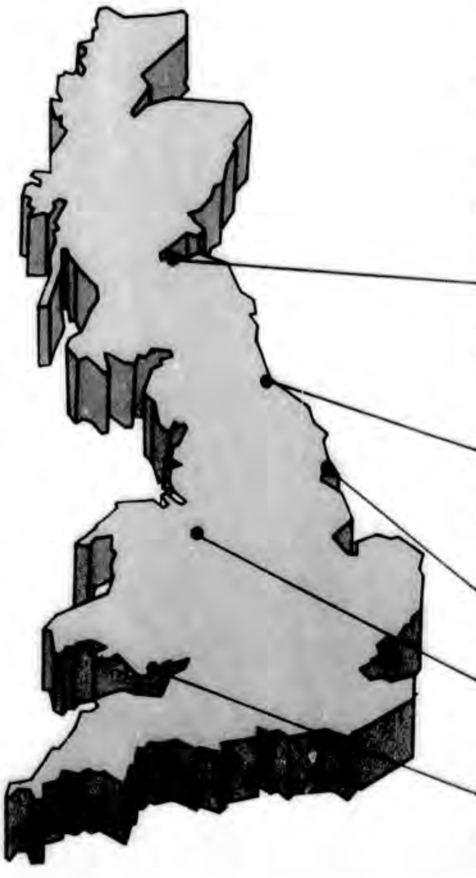
The relative stagnation in chemicals demand of late 1976 continued, with only minor fluctuations, throughout 1977. Reduced rates of growth are to be expected in a period of lower general economic activity.

The commissioning in the essentially static market of 1977 of new chemicals manufacturing capacity, planned some years ago, caused reductions in plant throughput, inevitable pressures on prices and a consequent squeeze on profit margins. The European chemical industry, which entered 1977 with the prospect of acceptable profit levels, saw these dwindle away as the year progressed.

UK chemicals group

Profits before interest for 1977 of the UK chemicals group amounted to $21·7 million. Overall volume was very similar to that achieved in 1976 and significant improvements in production performance in certain key areas tended to offset the underlying trend of declining profits, so that substantial areas of business maintained satisfactory profitability. However, the results of Border Chemicals were particularly affected by the serious depression in the European synthetic fibres industry. Forth Chemicals, like other European producers of aromatics and their derivatives, suffered from the impact of US exports based on low cost energy and made a substantial loss. On the other hand, Orobis, which produces lubricating oil additives, maintained a satisfactory profit level.

Major BPCL developments in the UK



GRANGEMOUTH

New benzene extraction plant and new Rigidex high density polyethylene plant, with associated offsite facilities, due for completion in April and June 1978. Total project value nearly $96 million.

TEESSIDE.

Joint BP Chemicals/ICI naphtha cracker – pipeline link to Grangemouth complete but plant construction about a year behind schedule.

HULL

$109 million acetic acid scheme on schedule.

SANDBACH

$29 million modernisation scheme gathering momentum.

BARRY

$73 million modernisation and expansion of PVC and nitrile rubber facilities.

Faced with strong competition and only slow growth in the UK market, increased emphasis was put into export sales which grew in volume by 4% over the year. Combined home and export sales, including sales to other BP group companies, fell in volume by 3% though total sales value rose by 10% because of higher prices. These increases were however insufficient to match the movement in costs which rose by 16% over the year, despite strenuous measures to keep them under control.

In the group's UK operations the number of accidents leading to time lost dropped below five per million man hours worked – an all time low.

Capital investment, at $125·4 million, was 41% higher than in 1976. The main impetus behind this programme is to consolidate BP's position in areas where its business is developing and to reinforce the group position in those areas where it already possesses significant manufacturing or commercial advantages. The major new project approved during 1977 is for the modernisation and expansion of PVC production at Barry at a cost of $63 million. BP Chemicals Ltd. acquired the Thermosetting Division of Bakelite Xylonite at Tyseley Birmingham during the year.

European associates

BP's major European chemicals associates, Erdölchemie and Naphtachimie, also experienced a declining pattern of business activity in 1977 with profitability and plant capacity utilisation both falling during the second half. Deutsche BP's plastics conversion interests and Distugil, operating in more specialised fields, fared better. The current investment programme, which will improve the future competitive strengths of the European associates, made substantial progress during 1977. Naphtachimie's new polypropylene plant has been commissioned satisfactorily and Erdölchemie's olefins expansion and several associated plants will be completed in mid-1978, as also will the new benzene plant of BP's French associate, SFBP.

Other associates

Outside Europe, Sentrachem in South Africa achieved a further improvement in results, despite difficult trading conditions, and Herdillia Chemicals in India also performed well. Sentrachem expects major new coal based PVC capacity to come on stream in the first half of 1978.

Trans Alaskan pipeline passing the foothills of the Brooks Range

The US economy was generally buoyant last year, though growth continued to be based largely on consumer spending and stock-building. There was little sign of the hoped for improvement in longer term industrial investment. The USA experienced both an adverse balance of trade, due in part to the high level of oil imports, and a considerable weakening of the US $ on foreign exchange markets. Against this background US oil demand increased by some 5% last year.

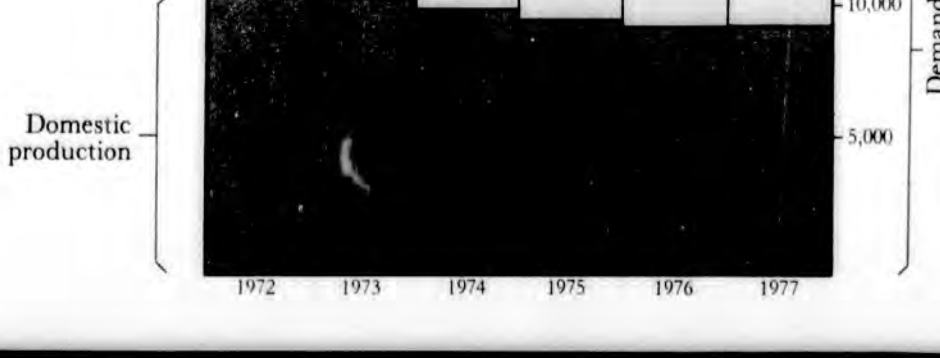
Sohio shared in this increase in sales volume and showed progress in its long established business as a major regional marketer in Ohio and adjacent states and in the eastern states where its performance generally reflected the national economic situation. Earnings from petroleum – before interest and income taxes – were nearly double those for 1976. Earnings from Sohio's coal operations were down and those from chemicals and plastics significantly lower.

Alaskan Production and Pipeline

The start up of the flow of North Slope oil through the 800 miles long trans-Alaskan pipeline to the port of Valdez was an event of far reaching significance for both US energy supplies and for BP. Production from the Prudhoe Bay Field and filling of the line began in June. The oil reached Valdez on 28 July and the first tanker sailed for markets in the lower 48 states in early August.

The reserves of the Prudhoe Bay Field made available by the commissioning of this project represent one third of the total known oil reserves of the United States. For the USA this pipeline will increase domestic production by more than 10%, offsetting the recent decline in production and at least, for the present, partly offsetting the rising dependence on imported oil as demand continues to rise.

Sohio has a 53% interest in the Prudhoe Bay oil and approximately 27% interest in the gas reserves, both subject to the State of Alaska royalty and BP's interest, so the commencement of production has been a most important event for Sohio, transforming its nature as it starts to realise a return on its enormous Alaskan related investments.



BP Stockholding in Sohio

The BP group's principal interest in the United States is its stockholding in Sohio. Under the Sohio/BP agreements whereby BP exchanged an interest in the Prudhoe Bay Field and other North American assets for a stockholding in Sohio, BP's interest in Sohio increases as production from the Prudhoe Bay Field increases. As North Slope production built up during the latter months of 1977 BP's interest in Sohio increased from 26% to 34% in early November and to almost 40% in mid-December. This interest is expected to exceed 50% by the middle of 1978 and then rise to a maximum of approximately 54% when Sohio's share of the Prudhoe Bay oil production, net of the State of Alaska's royalty entitlement, reaches 600,000 b/d.

The cost of wells and facilities to develop the Prudhoe Bay Field to the end of 1977 was approximately $3,500 million, of which Sohio's share was $1,757 million. Substantial expenditures continue to be incurred in producing the field. The total cost of bringing the trans Alaskan pipeline up to its initial design capacity of 1·2 million b/d is now estimated at about $8,000 million, excluding capitalised interest, of which Sohio's share is over $2,600 million and BP's share (through an independent interest in the pipeline) is $1,300 million. At end 1977 Sohio's share of the production through the pipeline was about 375,000 b/d and continued at about this level until repairs on Pump Station No. 8, damaged during pipeline start up, were completed in the first quarter of 1978. Sohio's available share of production, net of the State's royalty interest, then rose to about 500,000 b/d.

Sohio has been faced with the problem of introducing a new source of oil on an uncertain schedule into a market being supplied from long-established sources. The principal market for Alaskan North Slope oil is the West Coast of the USA. Prudhoe Bay production exceeds the current requirements of this market for Alaskan type crude and some North Slope oil is currently being delivered to eastern US markets through the Panama Canal, with the chartered BP tanker, *British Resolution*, acting as a floating trans-shipment terminal off Panama. Sohio's longer term proposals for pipelines to carry Prudhoe Bay oil to markets east of the Rockies are progressing.

Net Income 32% Up

In 1977 Sohio's net income was up 32% to $181 million ($4·37 per share) against $137 million ($3·55 per share) in 1976, largely accounted for by the introduction of sales of Alaskan oil. Sales and operating revenues were up 21% to $3,523 million from $2,916 million in 1976. Net interest charges went up sharply with the start of North Slope production. Costs and expenses apart from interest were also higher than 1976 as a result of Alaskan related expenses and higher crude oil costs.

At the end of the year BP Alaska was merged in Sohio and the staff transferred to Sohio Petroleum Company. This merger will enable Sohio to assume the former BP Alaska function of operator for the western part of the Prudhoe Bay Field and proceed with long term plans for natural resources development. BP continues to retain separately an interest in several Alaskan leases as well as an interest in North Slope production once Sohio's share of net production exceeds 600,000 b/d.

During 1977 the USA and Canada agreed on the principles for building an overland natural gas pipeline to deliver North Slope gas to the lower 48 states. Until a gas pipeline is available, gas produced during oil production is being reinjected into the reservoir.

Sohio's Overseas Natalie at Valdez Terminal

NEW ACTIVITIES

Oil, natural gas and chemicals will continue as BP's main lines of business for many years to come. The future of the group will, however, involve a widening of our interest in other energy forms. New activities will be mainly energy related where our skills and knowledge can provide further possibilities for profitable growth.

Coal

In Australia BP already has access to about three million tonnes a year from its interest in the Clutha mines acquired on 1 January 1977. This is now to be augmented by the joint venture to accelerate development of the Clarence mine in New South Wales, which will provide an additional one million tonnes annually for BP Coal.

The new Ermelo coal mine under development in the Transvaal, South Africa is expected to begin production in 1978 and arrangements have been made to export trial cargoes. The group has acquired a 50% interest in the Eikeboom coal mine, Middelburg, Transvaal, which at present produces 400,000 tonnes of steam coal annually.

Developments in British Columbia, Canada will, when complete, provide BP Coal with a further three million tonnes annually.

Open cast coal production

Offshore Services

1977 was another successful year for the 50% owned diving company, Sub-Sea International, whose main activities are in the North Sea where it has a substantial share of the construction diving market. The market offshore the USA and South America is likely to expand with increasing interest in the discovery and development of offshore oil reserves. In 1978 Strongwork, a wholly owned diving subsidiary, expects increased activity in the Middle East and the North Sea.

BP's sub-sea interests extend to underwater survey, unmanned submersible vehicle operations for inspection and maintenance, and the development of techniques for welding at increasing depths. Vikoma, the partnership with Vickers in offshore oil spill clean-up equipment, has developed a second generation of skimmers and booms.

A member of the Strongwork diving team preparing to carry out undersea inspection

Animal Feed and Nutrition

During 1977 the BP Nutrition group of companies continued its planned expansion in the UK and overseas. New areas of activity included straw-processing and the acquisition of a majority stake in a UK based group of companies servicing the livestock industry at home and overseas. With an annual turnover of some $250 million and a production of 380,000 tonnes of speciality animal feeds a year from 17 centres, the group is now one of the biggest producers in its field in Europe.

Despite discussions over the last two years with the Italian authorities no progress has been made towards reinstatement of decrees permitting the operation of the completed 100,000 tonnes per annum protein production plant in Sardinia owned by Italproteine (50% BP) and the sale of the product, Toprina. As a consequence the board of Italproteine has recently called an Extraordinary Shareholders' Meeting to consider their proposal for the liquidation of the company.

Minerals

BP's exploration for uranium and base metals continued in Australia, Canada and Germany.

BP has entered partnership arrangements with a number of mining companies elsewhere. Particularly in view of the current depressed state of commodity prices in the mining industry, BP is concentrating its efforts on commodities with the greatest scope for growth in the 1980s.

Decisions on access to the bed of the deeper oceans are of great importance to the activities of an international consortium, of which BP is a member, studying deep-sea mining prospects in the Pacific Ocean.

Insulation and Solar Heating

Work has continued on establishing our 50/50 joint venture with the Danish company Rockwool to manufacture and market Rockwool's insulating and building materials in the UK. Building of the first factory, located at Cwmbran in South Wales, is due to start in the second quarter of 1978 and production in 1979.

In Greece our oil marketing subsidiary has been consolidating its share of the market for solar domestic water heaters. It is planned to expand this activity in other countries where solar equipment is competitive with conventional energy sources.

The general objectives of the BP group recognise that "It is the company's overall objective to conduct its business efficiently and profitably, as an independent commercial concern, and thus to contribute to the wealth of communities in which it operates".

The conduct of BP's business concerns many different groups of people – employees and stockholders, customers, suppliers and creditors and individuals in the community at both national and local levels. It is important that BP is efficient and profitable and maintains a supply of its goods and services. It is equally important to be aware of the likely impact of the group's operations upon the social, economic and natural environment. BP has therefore attempted to ensure that these interested groups of people have an adequate knowledge and understanding of the manner in which it conducts its business and involvement in this process when this is called for.

Employment Policies

The BP group's objective is to act as a responsible employer by applying policies which attract, retain and motivate staff in adequate numbers and of appropriate skills and calibre for the successful conduct of the group's business. In all countries where BP companies operate, group personnel policies are based on the philosophy that, with due regard to any applicable legislation, there should be equality of opportunity and treatment in employment without discrimination on grounds of race, colour, sex or religion.

The group aims to create an industrial relations climate in which the staff working for BP companies are able and encouraged to co-operate for the success of the group's operations and objectives. The group recognises the right of employees to belong to trade unions. Formal relationships with trade unions have been established where this has been felt to satisfy the need for the orderly development of industrial relations in a company and where a majority of employees in a suitable common interest group have expressed their wish for such a relationship.

Communication and Consultation

BP companies seek to make it possible for individuals to feel responsible and accountable for what they do by decentralizing responsibility to the smallest possible units and by improving consultation with all employees. The company believes that this is the direction in which progress towards employee participation can best be made in international organisations such as the BP group.

BP has laid increasing emphasis on improved communication in the attempt to achieve greater employee involvement at the local place of work and to maintain job satisfaction. During the year, the development of staff consultative procedures has continued, with the aim of enlisting the collaboration of employees in helping their local management to define policies, objectives and methods.

In the UK, for example, consultative Pensions Councils were established during 1977. These locally based councils elect representatives from all employees and pensioners to a UK Group Pensions Council which in turn nominates representatives to 50% of the seats on Pension Fund trustee boards.

Health and Safety

There has been continuing emphasis on promotion of safe working practices and prevention of accidents throughout the group. Improvement of the working environment, consultation and monitoring of safety practices are regular features of group activity. Special attention has been given in the UK to additional training needs resulting from the Health and Safety at Work Act.

Increasing effort is being devoted to identifying and eliminating health risks associated with the working environment. The group's Occupational Health Unit is also involved in ensuring that the group's products maintain acceptable health and safety standards.

Training and Education

The group has maintained its efforts in the fields of training and manpower development. Training has been provided for large numbers of employees in all areas of technical and management skills.

In the group headquarters significant efforts have been directed to assisting overseas companies and countries in training their personnel. During the year programmes were arranged in the UK for more than 300 overseas trainees and a number of other international training assignments were arranged between different group companies. The group also responded to requests for training from organisations such as the British Council, the United Nations Industrial Development Organisation (UNIDO), and the Technical Education and Training Organisation for Overseas Countries (TETOC). In the UK the group has co-operated with the government's schemes for the education and training of young people, and in its sponsorship and support of various educational activities has reaffirmed its interest in encouraging young people to develop their abilities.

Navigation instruction at night on board British Explorer

The Environment

Some idea of the range of environmental questions affecting an oil company can be gained from the nature of BP's activities in 1977. In Alaska an oil spill contingency plan, including a simulated well blow-out, was tested and a marine monitoring system set up for the Valdez tanker terminal. In the North Sea the growth of marine organisms on production platforms was investigated and a wide range of studies carried out at loading and storage installations. Much of this work was done in collaboration with universities whose expertise, along with that of research institutes, is fully utilised by the group.

BP's oil spill task force, originally formed to handle incidents within the group, has been increasingly used by third parties and the group's courses on oil spills have attracted an increasing number of outside representatives from harbour authorities and government agencies.

Legislation

The liability of the industry for any ill-effects upon the individual resulting from the manufacture or the use of petroleum products is now an important issue in both the USA and Europe. There is a tendency for European governments to monitor US environmental legislation and impose absolute standards without reference to the effects on the particular environment affected. The result of this approach is usually greatly increased costs to the industry without any corresponding improvement in environmental quality.

Protection of the environment is clearly recognised as a common concern of the group and the public. Effective environmental conservation should be founded on good scientific and engineering practice and not merely upon emotional response. This is only possible if all discussions are firmly based upon fact and the costs and benefits of any proposed actions understood by all concerned.

BP contributes scientific and technical advice and information for consideration by governments, international bodies and conventions and other authorities, with an emphasis upon economically and technically achievable objectives.

In this way the effect of BP's operations upon the environment can be kept as low as feasible and wherever pos ible the quality of that environment at least maintained.

Analysing CO_2 content of inert gas on board a BP tanker

Stockholders

The spread of ownership of the £386 million ordinary capital of BP increased during 1977 with the sale to the public by the British Government of £66·7 million of BP stock. The number of registered BP stockholders increased to about 177,000 from 107,000 before the sale. Of these, one holding represents some 28,000 stockholders in the USA who hold their interests through American Depositary Receipts.

BP stockholders range from the many individual private investors among the group's staff and the public, each with only a small holding, to the large investors such as pension funds, insurance companies, unit trusts and nominee companies – through all of which many individuals have an indirect interest. The Bank of England now holds about 20% and HM Government 31% of the capital.

Amount held of £1 units	Number of stockholders*
1 – 50	58,785
51 – 250	79,320
251 – 500	22,187
501 – 5,000	15,685
5,001 – 50,000	1,111
50,001 – 100,000	156
100,001 – 1 million	207
Over 1 million	17
	177,468

**As at 31 January 1978*

BP and the Public

Apart from its direct business dealings, BP has many contacts with the public. The group supports educational and medical research, charities and local community services in the countries in which it operates.

Energy conservation is promoted among the users of BP products, as well as constituting an important commercial priority within the group's own operations.

Important groups among the public and in the media are kept informed of the essential facts and developments in energy, the oil industry and BP in particular. BP's analysis of the future of energy supplies has been explained world-wide by BP staff to interested audiences. Regular information seminars are arranged for groups such as Members of Parliament, civil servants and academics. The BP Educational Service provides a wide range of teaching materials for schools. BP films, which have earned many prizes for their technical excellence, have an unrivalled reputation for their commentary on significant issues affecting energy.

BP

BCRIC

1979 ANNUAL REPORT

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

THE ANNUAL REPORT IN SUMMARY

- Consolidated net earnings were $40,757,000 on total revenues of $359,465,000 for 1979.
- Drilling on gas and oil lands resulted in the discovery of four gas wells and one oil well.
- Forest products performed reasonably well, and all three forestry companies have embarked on long-range strategic planning to improve their positions within the industry.
- The Company's short term investment portfolio, which consisted primarily of the $487.5 million raised during the public share offering, benefited from high interest rates.
- BCRIC plans to participate actively in energy exploration and expects to commit $170 million to this sector over the next five years. Other investment areas are also being closely examined.

BCRIC has an estimated 2 million shareholders, of which 136,143 were registered shareholders at December 31, 1979. The geographical distribution of registered shareholders and the number of shares held was as follows:

	Number of registered shareholders	Number of shares held
British Columbia	129,728	74,292,744
Alberta	3,600	2,437,206
Saskatchewan	287	132,860
Manitoba	295	790,344
Ontario	1,619	5,822,711
Quebec	412	570,837
New Brunswick	47	20,700
P.E.I.	6	6,900
Nova Scotia	54	28,945
Newfoundland	7	2,800
N.W.T. and Yukon	33	19,692
Other Canadians residing elsewhere	55	40,891
	136,143	84,166,630
Bearer shares		12,076,605
Total shares outstanding		96,243,235

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ANNUAL GENERAL MEETING

The annual meeting will be held at the Orpheum theatre, Vancouver, B.C. at 10 a.m., March 27, 1980 unless adjourned automatically to the Pacific Coliseum, Exhibition Park, Vancouver, B.C. at 10 a.m., April 7, 1980.

FINANCIAL AND OTHER HIGHLIGHTS

		1979	1978
Consolidated net earnings		**$ 40,757,000**	$ 15,922,000
Consolidated financial position at year end:	short term investments	**$517,505,000**	$ 9,787,000
	working capital	**559,719,000**	77,822,000
	shareholders' equity	**683,161,000**	15,922,000
	total assets	**940,720,000**	425,068,000
Additional Company information:	cash from issue of common shares	**$487,459,000**	—
	interest income from short term investments	**$ 32,511,000**	$ 155,000
	expenditure on petroleum and natural gas rights and exploration	**$ 7,527,000**	$ 63,000
	number of employees at year end	**42**	22
Common share data:	price (August 7 to December 31, 1979):		
	HIGH	**$9.25**	
	LOW	**$5.87**	
	CLOSE	**$7.10**	
	trading volume:	**VANCOUVER**	**TORONTO**
	number of shares	**18,055,964**	**7,003,774**
	dollar value	**$130,325,018**	**$ 51,934,743**

Certain 1978 comparative figures are not for a full year. See Note 10 to the financial statements for details.

These Highlights, the President's Letter and the Review of Operations and Activities constitute the Directors' Report to the shareholders for the year 1979.

TO OUR SHAREHOLDERS

1979 has been an exciting year for British Columbia Resources Investment Corporation. This, our first annual report as a public company, highlights the activities of 1979 and, where possible, indicates our direction for 1980. You should be aware that a real difficulty for us in this report is that the information as written is two months old by the time it is released, and two months is a long time in the short history of BCRIC.

At the start of 1979, BCRIC was a wholly government-owned corporation controlling some resource oriented activities with little resultant cash flow and relatively modest investment plans. As a result of the overwhelming desire of British Columbians to participate in direct ownership of BCRIC, the Company has been transformed during the year into a major Canadian public company with new share capital of $487.5 million and a consequent requirement to completely reassess investment plans.

The response for shares by nearly 2,000,000 citizens who applied for their 5 free shares from the British Columbia Government and by the 200,000 who purchased additional shares from BCRIC, was far beyond any expectation. It clearly demonstrates the desire of most individuals to have a chance to share directly in the ownership of the present and future holdings of the Company by a method that was made as easy as possible for that participation. At the same time, that response vastly changed the horizons and possibilities for BCRIC and dictated the need for more time to develop strategic objectives in keeping with the new circumstances.

Establishing these objectives must be done thoroughly and it is not easily undertaken nor quickly accomplished. In fact, it has already taken longer than we had anticipated. This work is still in progress as we enter 1980 and we recognize that the delay might cause some shareholders to become impatient as they await major investment announcements from BCRIC. Compounding the difficulties is the fact that BCRIC has come into being at a time when more rapid and dramatic fluctuations than ever before are occurring in such important areas as interest rates, stock prices and commodity values. Furthermore, the outlooks for the economies of Canada and the United States are more uncertain than they have been for many years due to high inflation, recessionary influences and international political conflicts. Turbulent periods such as these are frequently followed by a period of hindsight when one is tempted to question the need for long term investment planning because short term trading gains might have appeared a more profitable objective. However attractive short term speculation may appear, it is our firm conviction that the long term interests of our shareholders will best be served by prudent deliberation in developing an effective, long term investment strategy. Shareholders must be convinced that their investment in this Company is not a short term proposition and be prepared to allow the Directors and management the necessary time to make prudent decisions for the future of the Company.

BCRIC has a number of general objectives upon which its investment strategy is being built. Foremost among these is our original objective to operate profitably and to maximize the value of BCRIC for the benefit of its shareholders, through growth in earnings and asset values.

The Company intends to achieve this growth through long term investment, primarily in the natural resource industries of Western Canada. Pending such long term investment, the Company's funds have been invested in quality short term money market securities which, in addition to very attractive interest returns, provide the Company with the liquidity necessary for long term investment activities.

In assessing various long term opportunities, the criteria against which investments are being measured include current income, potential future asset values, participation with partners who have expertise in a given field, use of BCRIC's own financial and other expertise, and the opportunity for a degree of participation sufficient for profits and cash to flow directly to BCRIC.

Within the framework of these objectives, the Company has been focusing attention on all natural resource areas, but because of our existing holdings in the gas and oil and forestry sectors we felt you would be particularly interested in our conclusions in those areas.

Following acquisition of the Licenced Lands as one of our founding assets, the initial strategy for BCRIC's gas and oil division was to obtain agreements with operating and drilling firms for exploration on these Lands and to pursue on its own a modest level of exploration expenditure and commitment. The program prior to the share offering was to acquire further land and undertake exploration totalling $8 million for 1979 and $55 million for the five year period ending in 1983.

After completion of the share offering, it was obvious that BCRIC had the capacity to increase its expenditures in the gas and oil sector. About the same time, the gas and oil division had achieved its initial objective of farming out virtually all of the Licenced Lands.

It also expanded programs to pursue exploration prospects through farmins with partners and through the purchase of additional lands to partially offset the dilution of the land inventory which resulted from farmout agreements on the Licenced Lands.

In mid October, the Board of Directors approved a $30 million exploration budget for the gas and oil division for 1980. Accompanying this budget was a preliminary estimate that exploration expenditures for the five year period ending in 1984 would total $170 million. The attainment of this five year estimate would result in a minimum total investment by BCRIC in the gas and oil sector of approximately $220 million to the end of 1984. These expenditure levels were proposed in the context of the following strategy statement for the gas and oil division:

> "To maximize expected return on investment by committing future investment into 'grass roots' exploration and development based upon acquisition of land, primarily wildcat acreage, and the expansion of in-house geological and geophysical skills and capacity in order to orginate and manage plays on these lands."

It is a strategy which involves a high level of risk and deferred returns. The degree of success which may be achieved may not be measurable for several years and realized returns on funds committed most likely will not be significant for at least five years. This is a long term strategy which, once initiated, will involve additional expenditures over future years due to continuing participation commitments with partners and the desire to preserve full returns on our investment in successful ventures.

In the forestry sector, BCRIC already has substantial investments through its initial ownership positions in Canadian Cellulose, Kootenay Forest Products and Plateau Mills. In 1979, a major effort was made to encourage the development of long-range strategic planning within these subsidiary companies, so they can plot where they are going relative to their position within the British Columbia forest industry. The initial efforts are encouraging though the profit results may not be seen for several years and all three companies have been committing a high proportion of recent earnings to expenditures aimed at future benefits. Examples of this are the sawmill modernizations at both Kootenay and Plateau and the purchase by Canadian Cellulose of Price-Skeena Forest Products Ltd. which owns a sawmill in Terrace, B.C.

At CanCel, 81% owned by BCRIC, a number of organizational changes were made during the year and a number of senior employees added, which should considerably strengthen the management team.

At both Kootenay and Plateau, which are wholly owned, much more detailed assessments were undertaken of both management and general business and marketing practices. A number of changes were made and we are confident that both organizations are now better positioned and organized to capitalize on future opportunity.

In the broader forestry sector context, BCRIC has been assessing the optimum balance of a forest products position in terms of fibre supply, conversion facilities and markets. Some improvements are needed in our present balance and BCRIC will make additional investments in the forest products industry to achieve a stronger position.

Our investment plans concerning Westcoast Transmission Company Limited are still undetermined largely due to the uncertainty surrounding the 36% control block position held by Petro-Canada. Because of this we continue to regard this holding as part of our investment portfolio. The future outlook for Westcoast is good and we are pleased with the capital appreciation potential and dividend income received.

In any company, but particularly in a new and emerging company, the role of its employees is critical to its well-being. I want to pay tribute to our employees for their determination and effort in getting the Company successfully launched and into business.

In conclusion, it is most fitting to pay tribute to our founding shareholders for their support not only of BCRIC itself, but for the concept of BCRIC and the individual ownership that it represents. Our registered shareholders have increased from the original 128,346 to 136,143 and we continue to be delighted at the expressed interest of shareholders through telephone calls and letters. Testimony of that interest is that our Shareholder Information Service responded to 11,817 telephone enquiries between August 7 and December 31.

It is our commitment to make ownership in BCRIC both a profitable and proud experience.

Sincerely, and on behalf of the Board,

David L. Helliwell
President and
Chief Executive Officer

Vancouver, B.C.
January, 1980.

REVIEW OF OPERATIONS AND ACTIVITIES

Forest Products

BCRIC forest products holdings include: Canadian Cellulose Company, Limited, (CanCel) (81 per cent), which operates two kraft pulp mills, at Prince Rupert and Castlegar, B.C., and logging divisions and lumber mills in the northwest and southern interior of British Columbia; Kootenay Forest Products Ltd. (100 per cent), a lumber and plywood manufacturer at Nelson, B.C.; and Plateau Mills Ltd. (100 per cent), a lumber manufacturer near Vanderhoof, B.C.

The Company's forest products interests are an important component of its current holdings. In 1979, forest products consolidated earnings of BCRIC totalled $21.8 million, representing 53.5 per cent of the Company's consolidated earnings for the year.

In 1979, CanCel had net earnings of $15,832,000 on net sales of $263,213,000 compared to $6,774,000 and $175,490,000, respectively, in 1978.

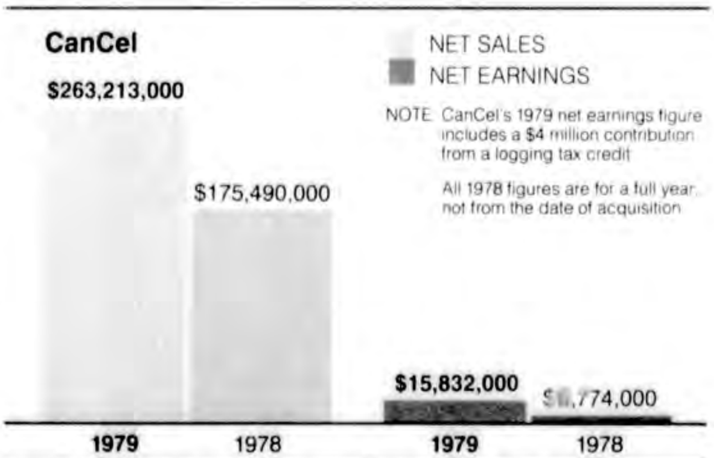
The significant improvement in earnings over 1978 largely reflects improved prices for bleached softwood kraft pulp, higher pulp sales volume and a higher foreign exchange premium on sales in U.S. dollars. These factors were partially offset by inflationary cost increases, interest costs for a full 12 months for capital borrowed to finance the sulphite-to-kraft mill modification project completed late in 1978, and production lost at the Prince Rupert pulp mill as a result of labour disputes.

The price of bleached softwood kraft pulp continued to strengthen in 1979 from about the U.S. $400 per tonne level prevailing in the first quarter of the year to U.S. $465 per tonne in most markets by year end. On January 1, 1980, the price of kraft pulp was increased to U.S. $490 per tonne. Lumber prices, on average, were also higher in 1979, notwithstanding a decline in the latter part of the year.

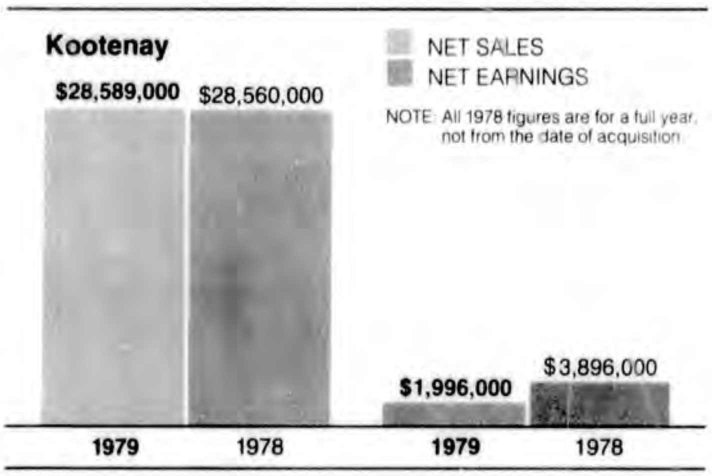
Capital spending by CanCel on property, plant and equipment totalled $15.6 million in 1979. Early in the year the company completed the re-construction of its lumber facilities at Castlegar that were partially destroyed by fire in June, 1978.

For 1980, CanCel plans significant capital expenditures for additions to property, plant and equipment, including approximately $14 million for the purchase of Price-Skeena Forest Products Ltd. which owns a sawmill in Terrace, B.C. and holds related Crown timber rights.

CanCel's modified Prince Rupert, B.C. kraft pulp mill.



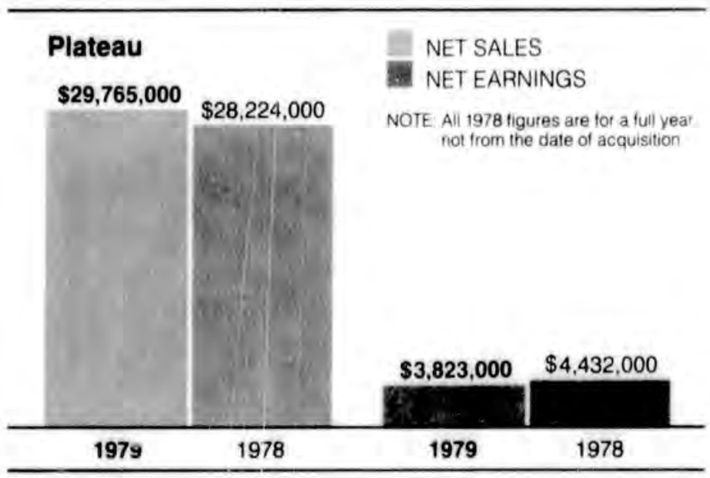
Kootenay Forest Products recorded net earnings of $1,996,000 on net sales of $28,589,000 in 1979 compared to $3,896,000 and $28,560,000, respectively, in 1978. 1979 earnings were lower than those of 1978 largely due to reduced shipments of lumber and plywood and higher manufacturing costs, partly offset by improved lumber prices. The lower volume of shipments resulted from lower product demand in the last half of the year. Lower production volume, inflationary cost increases and higher stumpage expenses contributed to the higher production costs.



In 1979, capital spending by Kootenay totalled $7.2 million, including $5.7 million for the new log infeed and debarking systems for both the plywood mill and adjacent sawmill, and for major electrical upgrading. For 1980, Kootenay plans capital expenditures of approximately $4 million for additions to property, plant and equipment, including $1.2 million for the completion of the log infeed systems.

At Plateau, 1979 earnings amounted to $3,823,000 on net sales of $29,765,000 compared to $4,432,000 and $28,224,000, respectively, in 1978. The reduction from 1978 earnings largely reflects lower production and sales volumes and higher manufacturing costs, offset, in part, by higher sales prices for lumber and a higher foreign exchange premium on U.S. sales. The lower production volume and higher manufacturing costs resulted from the protracted start-up difficulties of the new sawmill combined with inflationary cost increases and higher stumpage expenses.

Plateau completed a major expansion program during the year involving one of its two sawmills. In mid May, the older mill was shut down. Although the new mill encountered major start-up problems, the project has now enabled Plateau to improve timber utilization and productivity.

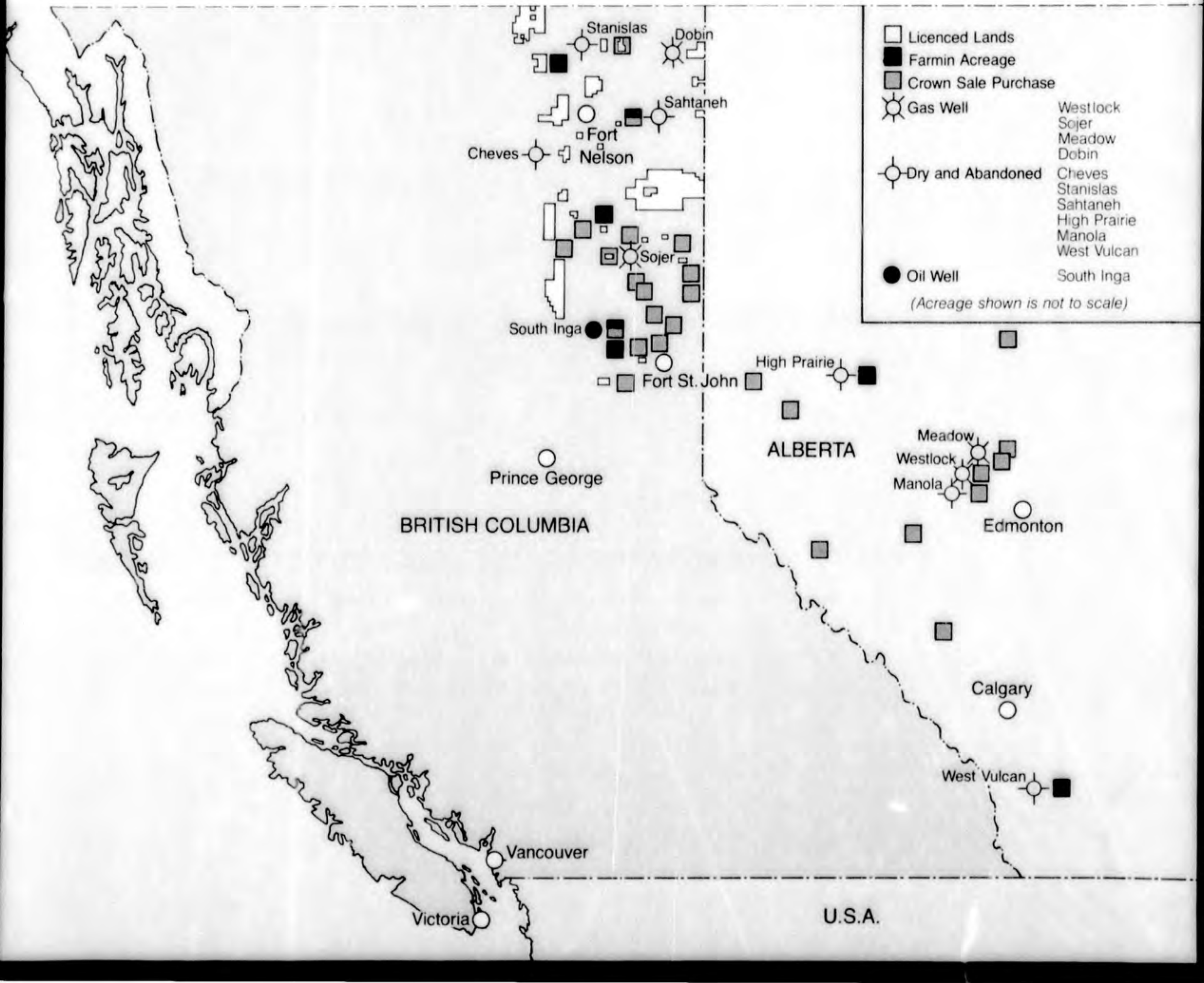


In 1980, Plateau plans to spend $5 million on capital projects, including $1.7 million for a new wastewood burner which would provide heat for all six lumber drying kilns and mill buildings. Some additional engineering improvements are required to the current pilot model before going ahead with this project. Pioneered by Plateau, the current pilot model has enabled the Company to significantly reduce natural gas purchases, thereby conserving hydrocarbon energy and reducing costs.

Gas and Oil

BCRIC's gas and oil interests include: Petroleum and natural gas licence to explore 948,500 gross hectares (2.3 million gross acres) of Crown land in north-eastern British Columbia; other land holdings involving 43,635 gross hectares (13,577 net hectares) in British Columbia and 21,412 gross hectares (7,686 net hectares) in Alberta.
(1 hectare = 2.471 acres and 1 kilometre = 0.621 miles)

During 1979 BCRIC successfully entered into exploration agreements with a wide range of exploration companies on the original Licenced Lands acquired from the Province of British Columbia. Exploration consisted of 2,147 kilometres (km) of seismic programs, purchasing and reprocessing 236 km of seismic data, a 400 km gravity survey program and 8,564 metres of hole drilled. Of the four wells drilled on these lands during the 1978-1979



exploration program, there were two natural gas discoveries.

The extensive seismic programs completed in 1979 have provided a preliminary basis for determining the gas and oil potential of these Licenced Lands. Exploration commitments for 1980 include a possible 595 km of seismic programs and a concentration on drilling of prospects determined from the evaluations of the 1979 geophysical data. Twelve wells will be drilled on the Licenced Lands in 1980, triple that of 1979. Depending on the election of rights in 1980 of the exploration companies involved, 18 wells may be drilled on the Licenced Lands in 1981.

Energy exploration drilling in northeastern British Columbia.

As a result of the Company's decision to expand its activities beyond the Licenced Lands beginning at a basic grass roots exploration level, BCRIC entered into a land acquisition program in 1979. This involved spending $6.2 million at Crown land sales. Including farmin agreements with other companies, BCRIC acquired additional gas and oil rights totalling 13,577 net hectares in British Columbia and 7,686 net hectares in Alberta.

The exploration programs undertaken on these lands during 1979 amounted to $1.3 million and consisted of 87 km of seismic surveys, 613 km of seismic data purchased and reprocessed and 10,590 metres drilled in one development well and six exploration wells. Of the seven wells drilled, two were gas wells, one was an oil well, and four proved unsuccessful. During 1980 the Company will be participating in the drilling of 15-20 wells on these lands and approximately 500 km of seismic work.

The total established reserves resulting from the discoveries to-date can only be determined through the drilling of additional delineation wells and further technical testing. Gas discoveries will not generate current revenue until sales contracts are concluded.

The gas and oil division has expanded its professional staff and budgeted $30 million for an aggressive land acquisition and exploration program in 1980 on its own and in conjunction with partners. Such a program involves financial commitments over several years and BCRIC estimates that such exploration expenditures to the end of 1984 could approximate $170 million.

Investments

At December 31, 1979, BCRIC's investments consisted of $517 million placed in various short term money market securities and 3,471,375 common shares of Westcoast Transmission Company Limited.

The Company's strategy in managing the $487.5 million in gross proceeds invested by its founding shareholders, as a result of the successful public issue completed in June, 1979, has been to achieve maximum short term returns. Consequently, BCRIC's interest income in 1979 on these and other funds totalled $32,511,000. Cash dividends of $2,777,000 were received in 1979 from Westcoast Transmission.

The short term investment policy established by the Company for its cash resources has been designed to ensure maximum returns and a high degree of liquidity so that funds are available when required for long term investments and projects. In keeping with this policy, BCRIC's short term investments at December 31, 1979 consisted of the following:

- $12 million (2 per cent) Government of Canada and Crown corporation obligations.
- $20 million (4 per cent) deposit securities of credit unions.
- $149 million (29 per cent) deposit securities of Canadian chartered banks.
- $336 million (65 per cent) short term notes of Canadian financial and industrial corporations.

The Company's short term investment transactions are executed in financial centres across Canada, with the majority taking place in Vancouver and Toronto.

With the rapid rise in interest rates in the latter half of 1979, the rate of return on the short term investment portfolio increased from about 11.1 per cent in June to 13.8 per cent in December as maturing investments were reinvested at higher rates. As a result, the Company achieved an over-all yield of 11.9 per cent on its short term investment portfolio over the period from June to December, 1979.

While short term interest rates remained at historically high levels at the end of 1979, the outlook for 1980 remains uncertain.

Westcoast Transmission pipeline is laid in northern British Columbia.

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended December 31, 1979

(Comparative figures — see Note 10)

	1979	1978
	(Thousands of dollars)	
Revenue		
Sale of forest products	**$321,567**	$202,659
Interest on short term investments	**33,114**	303
Other (Note 8)	**4,784**	10,657
	359,465	213,619
Expenditure		
Cost of forest products sold	**256,634**	184,130
Selling and administration	**16,023**	9,603
Interest on long term debt	**16,048**	4,715
Other	**3,215**	1,694
	291,920	200,142
Earnings before the undernoted	**67,545**	13,477
Provision for income taxes (Note 9)	**23,780**	303
Earnings before minority interest and extraordinary item	**43,765**	13,174
Minority interest in earnings of a subsidiary	**3,008**	494
Earnings before extraordinary item	**40,757**	12,680
Recovery of logging taxes (net of minority interest of $758,000)	**—**	3,242
Net earnings	**$ 40,757**	$ 15,922
Weighted average shares outstanding (Note 7)	**59.2 million**	
Net earnings per share	**$0.69**	

See accompanying notes

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1979

(Comparative figures — see Note 10)

	1979	1978
	(Thousands of dollars)	
Retained earnings at beginning of the year	**$ 15,922**	$ —
Net earnings	**40,757**	15,922
	56,679	15,922
Share issue expenses (net of $9,320,000 income tax reduction)	**12,510**	—
Retained earnings at end of the year	**$ 44,169**	$ 15,922

See accompanying notes

CONSOLIDATED BALANCE SHEET

December 31, 1979

(With prior year's figures for comparison)

	1979	1978
	(Thousands of dollars)	
Assets		
Current		
Short term investments	**$517,505**	$ 9,787
Accounts receivable (Note 2)	**39,641**	52,040
Inventories (Note 3)	**83,513**	75,475
Other	**1,387**	1,328
	642,046	138,630
Investments and advances (Note 4)	**41,877**	41,067
Property, plant and equipment (Note 5)	**252,981**	239,732
Other	**3,816**	5,639
	$940,720	$425,068
Liabilities and Shareholders' Equity		
Current		
Bank demand loans	**$ 12,357**	$ 7,017
Accounts payable and accrued charges	**59,006**	44,507
Current portion of long term debt	**8,264**	9,284
Deferred income taxes	**2,700**	—
	82,327	60,808
Long term debt (Note 6)	**132,591**	168,247
Promissory note payable to the Province of British Columbia	**—**	151,533
Deferred income taxes	**17,213**	5,492
Minority interest in a subsidiary	**25,428**	23,066
	257,559	409,146
Shareholders' equity		
Share capital (Note 7)	**638,992**	—
Retained earnings	**44,169**	15,922
	683,161	15,922
	$940,720	$425,068

See accompanying notes

Approved by the Directors: W M Young Director

John W Pitts Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1979

(Comparative figures — see Note 10)

	1979	1978
	(Thousands of dollars)	
Source of funds		
From operations	**$ 76,217**	$ 24,552
Share subscriptions received	**487,459**	—
Issue of shares on conversion of promissory note	**151,533**	—
Working capital of subsidiary companies acquired	—	51,551
Issue of long term debt	—	79,998
Recovery of logging taxes	—	4,000
Other	**1,335**	1,162
	716,544	161,263
Application of funds		
Conversion of promissory note to share capital	**151,533**	—
Additions to property, plant and equipment	**27,694**	77,606
Investment in petroleum and natural gas rights and exploration	**7,527**	63
Long term debt reduction	**34,636**	5,031
Share issue expenses (net of income tax reduction)	**12,510**	—
Other	**747**	741
	234,647	83,441
Increase in working capital	**481,897**	77,822
Working capital at beginning of the year	**77,822**	—
Working capital at end of the year	**$559,719**	$ 77,822

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS December 31, 1979

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared within the framework of the accounting policies summarized below:

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiaries (see Note 13).

TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are translated at rates in effect on the dates of the transactions. Assets and liabilities, principally receivables and long term debt, carried at current prices are translated at the year end rate. Unrealized gains or losses are included in income except for those related to long term debt which are amortized over the remaining term of the debt.

INVENTORIES

Logs, wood chips and other raw materials are valued at the lower of average cost and replacement cost. Finished products (pulp, lumber and plywood) are valued at the lower of average cost and net realizable value.

INVESTMENTS AND ADVANCES

Investments and advances are stated at cost.

PROPERTY, PLANT AND EQUIPMENT

These assets are stated at cost less accumulated depreciation, amortization and depletion. Depreciation, amortization and depletion are computed as follows:

Asset	Rate and Method
Pulp mills	4% composite rate straight-line
Sawmills	4% to 6% composite rate straight-line on certain mills and 4% to 20% diminishing balance on others
Logging equipment	10% to 20% rate diminishing balance
Timber cutting rights, roads and related facilities	Unit of production method, using current log production as a percentage of estimated total log production available from such assets

Petroleum and natural gas properties are accounted for using a form of the full cost method of accounting whereby all acquisition, exploration and development costs are capitalized as incurred. Costs related to the petroleum and natural gas rights over 2.3 million gross acres, originally acquired under agreement with the Province of British Columbia, are being amortized over the periods during which exploration activity in each area of interest is expected to continue.

INCOME TAXES

Earnings are charged with income taxes at the effective rates applicable to the Company and its subsidiaries. Differences between this provision for income taxes and the amounts currently payable are reflected in deferred income taxes.

2. ACCOUNTS RECEIVABLE

	(Thousands) 1979	1978
Trade	**$33,823**	$40,700
Insurance claims	**985**	5,112
Other	**4,833**	6,228
	$39,641	$52,040

3. INVENTORIES

	(Thousands) 1979	1978
Logs, wood chips and other raw materials	**$55,151**	$48,877
Pulp, lumber and plywood	**18,536**	18,106
Supplies	**9,826**	8,492
	$83,513	$75,475

4. INVESTMENTS AND ADVANCES

	(Thousands) 1979	1978
Investment in Westcoast Transmission Company Limited (quoted market value of $49,901,000 which does not necessarily reflect the realizable value of this investment)	**$37,364**	$37,364
Investment in an associated company, at cost plus equity in earnings less dividends received	**3,101**	2,117
Other	**1,412**	1,586
	$41,877	$41,067

5. PROPERTY, PLANT AND EQUIPMENT

	(Thousands) 1979	1978
Forest Products:		
Pulp mills	**$331,474**	$325,876
Sawmills	**77,475**	64,466
Timber cutting rights, roads and related facilities	**65,120**	58,722
Logging equipment and other facilities	**21,097**	21,369
	495,166	470,433
Less accumulated depreciation, amortization and depletion	**290,465**	272,956
	204,701	197,477
Land	**1,280**	1,296
	205,981	198,773
Petroleum and Natural Gas:		
Property rights	**47,173**	40,959
Exploration and development costs	**1,313**	—
	48,486	40,959
Less accumulated amortization	**1,486**	—
	47,000	40,959
	$252,981	$239,732

Depreciation, amortization and depletion charged to earnings during the year amounted to $21,653,000 (1978: $12,207,000). This amount has been reduced by $2,735,000 (1978: $2,300,000) for the amortization of the excess of the book value of net assets of Canadian Cellulose Company, Limited, Kootenay Forest Products Ltd., and Plateau Mills Ltd. over the consideration paid for these subsidiaries.

6. LONG TERM DEBT

	(Thousands) 1979	1978
Canadian Cellulose Company, Limited		
6⅛% Bonds due January 2, 1981 with annual principal payments (U.S. $8,000,000)	**$ 9,372**	$ 14,202
5⅜% Bonds due July 1, 1985 with annual principal payments (U.S. $20,000,000)	**23,430**	26,664
10½% Promissory notes due December 15, 1992 with annual principal payments commencing December 15, 1983 (U.S. $50,000,000)	**58,575**	59,288
11½% Promissory notes due December 15, 1992 with annual principal payments commencing December 15, 1983	**20,000**	20,000
Bank loans on revolving credit facilities, with interest at various rates	**25,000**	50,000
Other	**448**	527
	136,825	170,681
Other Subsidiaries		
Term bank loan	**—**	2,200
Term loan with quarterly principal payments to 1986 with interest at bank prime plus ½%	**4,030**	4,650
	140,855	177,531
Less amounts due within one year	**8,264**	9,284
	$132,591	$168,247

Canadian Cellulose Company, Limited (CanCel) has bank lines of credit of $45,000,000 on a revolving credit facility with any loans at June 30, 1981 converting into term loans, repayable over periods of up to nine years, in equal semi-annual or annual instalments, and, subject to certain restrictions, an additional $20,000,000 on a revolving credit facility repayable by December 15, 1980. At December 31, 1979 the outstanding loans under these facilities totalled $25,000,000.

The bonds, promissory notes and bank loans on revolving credit facilities are unsecured. Certain assets have been pledged as collateral for the term loan.

CanCel's trust deed relating to its bonds and the agreements relating to its promissory notes, in general terms, restrict dividends and certain other payments by CanCel to a maximum of $4,000,000 plus 50% of its net earnings after December 31, 1976. The amount available for payment of dividends at December 31, 1979 was $10,281,000.

Principal payments required on long term debt in each of the next five years, with the United States dollar component translated at the December 31, 1979 rate of exchange, are:

1980	$ 8,264,000
1981	$ 9,436,000
1982	$ 7,512,000
1983	$15,390,000
1984	$15,390,000

7. SHARE CAPITAL

During the year the Company increased its authorized common shares without par value to 100,000,000. The Province of British Columbia received 15,000,000 common shares in exchange for the promissory note of $151,532,930. In addition 81,243,230 common shares were issued at a price of $6 per share for a total cash consideration of $487,459,380, resulting in 96,243,235 shares outstanding at December 31, 1979 (1978: 5 shares).

The weighted average of shares outstanding was calculated on the basis of 15 million shares outstanding January 1, 1979, with the balance assumed to be outstanding on the dates the Company received the share subscriptions.

8. OTHER REVENUE

	(Thousands) 1979	1978
Insurance proceeds relating to loss of earnings due to a fire at the Castlegar sawmill	**$ 774**	$ 3,570
Income related to cancellation of a sales contract	**—**	3,370
Equity in earnings of an associated company	**1,070**	1,104
Dividends from Westcoast Transmission	**2,777**	2,394
Other	**163**	219
	$ 4,784	$10,657

9. INCOME TAXES

The Corporation and two of its subsidiaries were exempt from income taxes during 1978 and part of 1979 because not less than 90% of their outstanding shares were owned by the Province of British Columbia. Effective April 25, 1979 the companies became taxable and commenced providing for income taxes on earnings from that date.

The consolidated effective income tax rate for the year was 35.2%. A reconciliation between income taxes provided at that rate and at the basic rate of 51% for Canadian federal and provincial income taxes is as follows:

	(Thousands)
Tax on reported income at 51%	$34,448
Less reduction in income taxes due to:	
Tax exempt period	(4,466)
Nontaxable dividends received	(1,416)
Manufacturing and processing credits and inventory allowances	(2,574)
Other	(2,212)
Deferred income taxes provided	$23,780

CanCel has made fixed asset acquisitions qualifying for federal investment tax credits which will enable it to reduce income tax expense by approximately $7,000,000 if sufficient income taxes become payable prior to December 31, 1984. The benefits will be recorded as and when they are realized.

AUDITORS' REPORT

10. COMPARATIVE FIGURES

The figures provided for comparison in the Consolidated Statement of Earnings, the Consolidated Statement of Retained Earnings and in the Consolidated Statement of Changes in Financial Position are those for the period from incorporation, February 22, 1978 to December 31, 1978.

11. COMMITMENTS

Rental obligations under long term leases amount to approximately $3,500,000 in each of the years 1980 and 1981, $2,800,000 in 1982, $1,900,000 in 1983 and $1,800,000 in 1984.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to directors and senior officers of the Company amounted to $522,892 (1978: $262,684).

13. SUBSIDIARY COMPANIES

Canadian Cellulose Company, Limited
(81% owned)
- Calum Lumber Limited
- Canadian Cellulose International S. A.
- Celgar Properties Limited
- Celtran Equipment Limited
- High Arrow Limited
- Pohle Lumber Co. Ltd.
- Twinriver Timber Limited

Kootenay Forest Products Ltd. (100% owned)
Plateau Mills Ltd. (100% owned)
- Plateau Timber Ltd.
- Nechako Valley Pulp Mill Ltd.

14. SUBSEQUENT EVENT

On January 10, 1980, CanCel agreed to purchase Price-Skeena Forest Products Ltd., which owns a sawmill in Terrace, British Columbia and holds related Crown timber rights, for approximately $14,000,000.

TO THE SHAREHOLDERS OF
BRITISH COLUMBIA RESOURCES
INVESTMENT CORPORATION:

We have examined the consolidated balance sheet of British Columbia Resources Investment Corporation as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Vancouver, Canada
January 21, 1980

Clarkson Gordon
Chartered Accountants

CORPORATE INFORMATION

Board of Directors

John W. Pitts
Chairman, President and
Chief Executive Officer
Okanagan Helicopters Ltd.

* David L. Helliwell
President and Chief Executive Officer
British Columbia Resources Investment
Corporation

* Trevor W. Pilley
Chairman and Chief Executive Officer
Bank of British Columbia

John W. Poole
President and Chief Executive Officer
Daon Development Corporation

Charles N. W. Woodward
Chairman and Chief Executive Officer
Woodward Stores Limited

* W. Maurice Young
Chairman and Chief Executive Officer
Finning Tractor & Equipment
Company Limited

* Member of Audit Committee — Chairman, W. Maurice Young

Officers

Richard A. D. Commerford
Vice President

Robert G. S. Currie
Vice President, Gas and Oil Division

David L. Helliwell
President and Chief Executive Officer

G. Buchan McIntosh
Secretary

Michael G. McKibbin
Vice President

Dougal M. Meekison
Treasurer

David J. R. Petitpierre
Assistant Secretary

John W. Pitts
Chairman

John R. Redworth
Controller

Shareholder Information Service

WRITE: British Columbia Resources Investment Corporation, 2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3

PHONE: Within Greater Vancouver area 669-4443. Outside Greater Vancouver and within B.C. call toll free (112) 800 663-9123. North of Stewart ar Wonowon, B.C. call collect 6 -4443.

Share Transfer Agent and Registrar

Montreal Trust Company, 466 Howe Street,
Vancouver, B.C. V6E 2A8
Telephone (604) 688-4411
Also in Calgary, Winnipeg, Toronto, Montreal.

Shares Listed

Vancouver Stock Exchange
The Toronto Stock Exchange

Duplicate Reports

While every effort is made to avoid sending more than one copy of the annual and interim reports to each shareholder, duplicate mailings will occur when shares are listed under different first names or initials. Shareholders who do receive more than one report are asked to contact Montreal Trust Company to have their shares registered under the exact same name to avoid the cost of duplicate mailings.

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FORM 19-K

For American Certificates Against Foreign Issues and for the Underlying Securities

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

ANNUAL REPORT

I. American Certificates

None
(Names of Depositors)

Morgan Guaranty Trust Company of New York
(Name of Depositary)

II. Underlying Securities
Issued by

THE BRITISH PETROLEUM COMPANY LIMITED

(name of Issuer of the Underlying Securities)

DECEMBER 31, 1977
(Date of end of last fiscal year)

SECURITIES REGISTERED
(As of close of fiscal year)

Title of Issue	Amount as to Which Registration Is Effective	Amount to be Registered on Notice of Issuance	Name of Exchanges on Which Registered
American Shares evidenced by American Depositary Receipts	34,287,011 Shares	352,231,074 Shares	New York Stock Exchange
Ordinary Stock (transferable in units of £1 each) (1)	£34,287,011 Nominal Amount	£352,231,074 Nominal Amount	New York Stock Exchange

(1) Not for trading, but only in connection with the registration of the American Shares, pursuant to the requirements of the Securities and Exchange Commission.

Names and Addresses of Persons Authorized to Receive Notices and Communications from the Securities and Exchange Commission:

DEAN W. EGLY,
Morgan Guaranty Trust Company of New York,
23 Wall Street,
New York, N.Y. 10015.

(For the person signing Part I)

THE SECRETARY,
The British Petroleum Company Limited,
Britannic House,
London, EC2Y 9BU, England.

with a copy to: STUART W. THAYER,
Sullivan & Cromwell,
125 Broad Street,
New York, N.Y. 10004.

(For the issuer of the underlying securities)

PART I

The Registrant, The British Petroleum Company Limited is sometimes referred to herein as the "Company".

Inasmuch as there are no depositors, Items 1, 4 and 5 are inapplicable and answers thereto are omitted.

2. State the name of the depositary and the address of its principal executive office.

   Morgan Guaranty Trust Company of New York,
   23 Wall Street,
   New York, N.Y. 10015.

3. Outline briefly the general effect of each material modification of the deposit agreement not previously reported.

   None.

6. Give in tabular form the following information concerning the remuneration received by the depositary for each type of service rendered under the deposit agreement for each fiscal year of the "Company" ended since the close of the latest fiscal year for which such information was previously reported:

Type of service for which remuneration was received	**Amount of remuneration paid or accrued during fiscal year ended December 31, 1977**	**By whom paid**
Deposit and withdrawal fees	$849,120.00	Persons tendering for deposit Ordinary Stock or surrendering American Depositary Receipts, as the case may be.
Transfer, splitting grouping fees, etc.	$90,108.22	The Company
Fees collected for the disbursement of cash dividends	$17,037.49	The Company
	$956,265.71	

PART I of this annual report comprises:

(a) Cover page and pages numbered I–1 and I–2,

(b) The following exhibits:

None.

This annual report is filed subject to the instructions contained in the Instruction Book for Form 19-K for American Certificates Against Foreign Issues and for the Underlying Securities and amendments numbered:

None.

The undersigned has signed this Part I of this annual report in pursuance of the requirements of the Securities Exchange Act of 1934.

Dated: June 27, 1978

Morgan Guaranty Trust Company of New York

Attest: HENRY J. CHRISTY

HENRY J. CHRISTY
Assistant Secretary

By: DEAN W. EGLY

DEAN W. EGLY
Vice President

PART II

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-K

ANNUAL REPORT PURSUANT TO SECTIONS 13 AND 15 (D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1977

The British Petroleum Company Limited

(Exact name of registrant as specified in its charter)

Britannic House, Moor Lane, London, EC2Y 9BU, England

(Address of principal executive offices)

Copies of notices and communications from the
Securities and Exchange Commission should be sent to:

STUART W. THAYER,
Sullivan & Cromwell,
125, Broad Street,
New York, N.Y., 10004.

Unless otherwise indicated by the context, all statements contained in Part II of this Annual Report are made as of December 31, 1977, the close of the last fiscal year of the registrant.

ITEM 1. Changes in Ownership and Control.

(a) Describe briefly any material changes, not previously reported in the ownership or control exercised by any person or government over the registrant.

None.

(b) State the name of any person or government, not previously reported in this connection, which directly or indirectly owns or controls the registrant and describe the nature of such control.

None.

ITEM 2 Changes in Character of Business.

Describe briefly any material changes, not previously reported, in the general character of the business done by the registrant and its subsidiaries.

None.

ITEM 3. Changes in Property.

Describe briefly any significant and unusual additions, abandonments or retirements of, or any significant and unusual changes, not previously reported, in the general character and location of principal plants and other important units of the registrant and its subsidiaries.

None.

ITEM 4. Modification of Securities of Registrant.

If any material modifications, not previously reported, have been made in any security, a description of which has been previously reported, or have been made in the indenture, charter, or other constituent instrument defining rights of the holders of such security, give the title of the issue and state briefly the general effect of such modifications.

None.

ITEM 5. Limitations Affecting Security Holders.

(a) Outline briefly the provisions of any law or decree, not previously reported, and any amendment not previously reported to any law or decree previously reported, determining the extent to which dividends or other payments upon any class of registered securities may be paid to foreign holders and the withholding of taxes from such payments.

None.

(b) Outline briefly any limitations, not previously reported, imposed either by the law of the country in which the registrant was organized or the charter of other constituent documents of the registrant on the right of foreigners to hold or vote any class of registered securities.

None.

ITEM 6. Securities of Other Issuers Guaranteed by Registrant.

If the registrant has guaranteed any class of securities of any other issuer, furnish the following information:

(a) Outline briefly any material modifications, not previously reported, in any such contract of guarantee.

None.

(b) As to any guarantees not previously reported, state the name of the issuer and the title and amount of securities guaranteed and outline briefly the contract of guarantee.

Reference is made to Schedule XI filed herewith.

ITEM 7. Increases and Decreases in Outstanding Equity Securities.

Give the following information as to all increases and decreases during the fiscal year in the amount of equity securities of the registrant outstanding.

Reference is made to the Statement of Changes in Capital Stock and Paid In Surplus filed herewith.

ITEM 8. Exchange Control.

Describe briefly any material changes, not previously reported, in existing foreign exchange controls or the adoption of new controls in the country under the laws of which the registrant was organized.

None.

ITEM 9. Directors and Officers of Registrant.

Furnish the following information as to all directors and officers of the registrant.

As of June 16, 1978, the directors and officers were:

Name	Address	Position With Registrant
Sir David Steel, D.S.O., MC., T.D.	Britannic House, Moor Lane, London, EC2Y 9BU, England.	Chairman and Managing Director
M.M. Pennell, C.B.E.	Britannic House, Moor Lane, London, EC2Y 9BU, England.	Deputy Chairman and Managing Director
R.W. Adam	Britannic House, Moor Lane, London, EC2Y 9BU, England.	Managing Director
Dr. J. Birks, C.B.E.	Britannic House, Moor Lane, London, EC2Y 9BU, England.	Managing Director
C.C.F. Laidlaw	Britannic House, Moor Lane, London, EC2Y 9BU, England.	Managing Director
J.W.R. Sutcliffe	Britannic House, Moor Lane, London, EC2Y 9BU, England.	Managing Director
P.I. Walters	Britannic House, Moor Lane, London, EC2Y 9BU, England.	Managing Director
Sir Lindsay Alexander	India Buildings, Liverpool, L2 ORB, England.	Director
Marshal of the Royal Air Force The Lord Elworthy, K.G., G.C.B., C.B.E., D.S.O., M.V.O., D.F.C., A.F.C.	Norman Tower, Windsor Castle, Berkshire, England.	Director
*The Lord Greenhill of Harrow G.C.M.G., O.B.E.	30 Gresham Street, London, EC2P 2EB, England.	Director
The Earl of Inchcape	40 St. Mary Axe, London, EC3A 8EU, England.	Director
*T. Jackson	UPW House, Crescent Lane, Clapham Common, London, SW4 9RN, England.	Director
Sir James Menter, F.R.S.	Queen Mary College, Mile End Road, London E1 4NS, England.	Director
Sir Alastair Pilkington, F.R.S.	Prescot Road, St. Helens, Merseyside, WA10 3TT, England.	Director
M.J. Verey T.D.	120 Cheapside, London, EC2V 6DS, England.	Director
D.A.G. Sarre	Britannic House, Moor Lane, London, EC2Y 9BU, England.	Secretary

* Appointed by the United Kingdom Government

ITEM 10. Remuneration of Directors and Officers.

State the aggregate amount of remuneration paid by the registrant and its subsidiaries to all directors and officers of the registrant as a group, without naming them, for services in all capacities during the registrant's last fiscal year.

The aggregate amount of remuneration (expressed in U.S. dollars at December 31, 1977 exchange rate of $1.92 = £1) paid by the registrant and its subsidiaries during the registrant's fiscal year ended December 31, 1977, to all Directors and the Secretary of the registrant as a group was $890,847.

ITEM 11. Amount Set Aside for Pensions, Retirements and Similar Benefits.

State the aggregate amount set aside by the registrant and its subsidiaries during the registrant's last fiscal year to provide pension, retirement or similar benefits for directors and officers of the registrant.

The registrant's Managing Directors and Secretary are all members of a non-contributory Pension Scheme established for the registrant's salaried staff by a separate trustee company to which contributions are made by the registrant based on actuarial advice. Members of the Pension Scheme are entitled on retirement to benefits calculated at the rate of one-sixtieth of the final pensionable salary for each year of pensionable service (as defined in the Pension Scheme).

ITEM 12. Options to Purchase Securities from Registrant or Subsidiaries.

Furnish the following information as to all options to purchase securities from the registrant or any of its subsidiaries, which were outstanding as of the end of the last fiscal year.

(a) State:

(i) the title and total amount of securities called for by the options;

(ii) the purchase price of the securities called for; and

(iii) the expiration date of the options.

Stock options exist in a partly-owned subsidiary which are insignificant.

(b) State the total amount of securities called for by all such options held by directors and officers of the registrant as a group, without naming them.

None.

ITEM 13. Financial Statements and Exhibits

Schedules for the years ended December 31, 1976 and 1977

All other schedules have been omitted since they are not required under the applicable instructions or the substance of the required information is shown in the financial statements.

The financial statements of The Standard Oil Company (Sohio) for 1976 and 1977 are on file with the Securities and Exchange Commission.

(b) Exhibits

Special Resolution amending the Company's Articles of Association passed at the Annual General Meeting held on May 4, 1978.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE BRITISH PETROLEUM COMPANY LIMITED
(Registrant)

By D.A.G. SARRE

D.A.G. SARRE
Secretary

Dated: June 22, 1978

THE BRITISH PETROLEUM COMPANY LIMITED

REPORT OF INDEPENDENT AUDITORS

To the British Petroleum Company Limited

We have examined the financial statements expressed in pounds sterling listed on pages II-3 and II-4. These have been prepared under the historical cost convention. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion such financial statements expressed in pounds sterling give, under the accounting convention stated above, for The British Petroleum Company Limited and for the Company and its subsidiaries a true and fair view of the state of affairs at December 31, 1976 and 1977 and of the net income, changes in earned surplus and source and application of funds, for each of the years then ended in conformity with accounting principles generally accepted in the United Kingdom consistently applied, after restatement for the change, with which we concur, in the method of computing deferred taxation as described in Notes A and N to the financial statements.

We have also examined the Schedules for the years ended December 31, 1976 and 1977 listed on page II-4. In our opinion, these schedules present fairly the information required to be stated therein.

London, England
March 16, 1978

WHINNEY MURRAY & CO.
Chartered Accountants

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

	Years ended December 31 1976 (restated)*	1977
	(£ million)	
Sales proceeds – Note D	12,857.0	14,712.2
Deduct: customs duties and sales taxes	2,275.9	2,714.9
Net sales proceeds	10,581.1	11,997.3
Dividends and interest from associated companies – Note D	14.4	12.6
Other interest, royalties and miscellaneous income – Notes C and D	173.9	248.1
	10,769.4	12,258.0
Cost of oil, ocean freight, refining and chemical manufacturing – Notes D and F	7,634.2	8,547.2
Distribution, selling, administrative and other expenses	909.7	1,013.3
Depreciation and amounts provided re exploration expenditure in non-proven areas	265.9	303.7
Interest and financing costs	233.0	246.4
Less capitalized – Note J	(57.0)	(38.9)
Income before taxes and extraordinary items	1,783.6	2,186.3
Taxes on income – Note N	1,439.5	1,827.0
Income applicable to minority interests	6.0	1.0
Income before extraordinary items	338.1	358.3
Extraordinary items – Note E	–	(54.2)
Net income	338.1	304.1
Dividend requirements on preference stock	0.7	0.7
Net income applicable to ordinary stock units	337.4	303.4
Per ordinary stock unit – Note R		
Income before extraordinary items	87.4p	92.6p
Extraordinary items	–	(14.0p)
Net income	87.4p	78.6p
Cash dividends declared – Note O	19.987p	22.102p
Average number outstanding of £1 ordinary stock units (in millions)	386	386

*See Notes A and N.

The Notes to Financial Statements are an integral part of this Statement. The estimated material adjustments to net income of the group which would be required if generally accepted accounting principles in the United States had been applied instead of those generally accepted in the United Kingdom are set out in Note X.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

	Years ended December 31 1976 (restated)*	1977
	($ million)	
Sales proceeds – Note D	24,685	28,247
Deduct: customs duties and sales taxes	4,370	5,212
Net sales proceeds	20,315	23,035
Dividends and interest from associated companies – Note D	27	25
Other interest, royalties and miscellaneous income – Notes C and D	335	476
	20,677	23,536
Cost of oil, ocean freight, refining and chemical manufacturing – Notes D and F	14,658	16,411
Distribution, selling, administrative and other expenses	1,746	1,946
Depreciation and amounts provided re exploration expenditure in non-proven areas	510	583
Interest and financing costs	447	473
Less capitalized – Note J	(109)	(75)
Income before taxes and extraordinary items	3,425	4,198
Taxes on income – Note N	2,764	3,508
Income applicable to minority interests	12	2
Income before extraordinary items	649	688
Extraordinary items – Note E	–	(104)
Net income	649	584
Dividend requirements on preference stock	1	1
Net income applicable to ordinary stock units	648	583
Per ordinary stock unit – Note R		
Income before extraordinary items	$1.68	$1.78
Extraordinary items	–	($0.27)
Net income	$1.68	$1.51
Cash dividends declared – Note O	$0.384	$0.424
Average number outstanding of £1 ordinary stock units (in millions)	386	386

*See Notes A and N

The Notes to Financial Statements are an integral part of this Statement. The estimated material adjustments to net income of the group which would be required if generally accepted accounting principles in the United States had been applied instead of those generally accepted in the United Kingdom are set out in Note X.

The Notes to Financial Statements are an integral part of this Statement.

This statement is expressed in U.S. dollars at the 1977 year-end exchange rate of $1.92 = £1 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

	December 31			
	1976 (restated)*		1977	
	(£ million)			
Properties and operating assets – Note B				
At cost	5,237.7		5,471.2	
Less depreciation	2,088.5	3,149.2	2,173.4	3,297.8
Investments:				
The Standard Oil Company (Sohio) – Note C		438.7		413.0
Associated companies – Note D				
At cost	380.9		488.7	
Less provisions	37.4	343.5	50.5	438.2
Long-term receivables		232.1		217.5
Current assets:				
Cash	653.3		686.2	
Marketable securities at net book amount which approximates market	37.5		54.5	
Receivables, principally trade, less allowances for doubtful debts – 1976 £33.5 m., 1977 £35.0 m.	2,237.9		2,063.5	
Inventories – Note F				
Oil and chemicals	1,716.0		1,704.1	
Stores	117.8		125.4	
	4,762.5		4,633.7	
Current liabilities:				
Accounts payable and accrued liabilities	2,230.0		2,121.5	
Taxes payable	291.9		286.4	
Finance debts subject to repayment within one year	764.3		661.6	
Dividends payable	50.4		59.0	
	3,336.6		3,128.5	
Current assets less current liabilities		1,425.9		1,505.2
Total Assets Less Current Liabilities		5,589.4		5,871.7
Deduct:				
Finance debts – Note G and I	2,275.7		2,162.5	
Less amounts subject to repayment within one year	764.3		661.6	
	1,511.4		1,500.9	
North Sea oil advance proceeds – Note H	319.0		103.9	
Deposits and noncurrent liabilities – Note K	248.5		662.1	
Deferred taxation – Note N	24.1		22.1	
Insurance provisions	52.5		52.1	
Unfunded pension provisions – Note L	141.8		148.3	
Minority interest	144.9	2,442.2	123.6	2,613.0
Net Assets		3,147.2		3,258.7
Commitments and Contingencies – Notes H, I, P and Q				
Capital Stock:				
Preference		12.7		12.7
Ordinary		386.1		386.5
Paid in surplus		197.4		199.2
Earned surplus – Note M		2,551.0		2,660.3
Stockholders' Interest		3,147.2		3,258.7

* See Notes A and N

The Notes to Financial Statements are an integral part of these Balance Sheets.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

	December 31 1976 (restated)*		December 31 1977	
	($ million)			
Properties and operating assets – Note B				
At cost	10,056		10,505	
Less depreciation	4,010	6,046	4,173	6,332
Investments:				
The Standard Oil Company (Sohio) – Note C		842		793
Associated companies – Note D				
At cost	731		938	
Less provisions	71	660	97	841
Long-term receivables		446		418
Current assets:				
Cash	1,254		1,317	
Marketable securities at net book amount which approximates market	72		105	
Receivables, principally trade, less allowances for doubtful debts – 1976 $64 m., 1977 $67 m.	4,297		3,962	
Inventories – Note F				
Oil and chemicals	3,295		3,272	
Stores	226		241	
	9,144		8,897	
Current liabilities:				
Accounts payable and accrued liabilities	4,282		4,074	
Taxes payable	560		550	
Finance debts subject to repayment within one year	1,467		1,270	
Dividends payable	97		113	
	6,406		6,007	
Current assets less current liabilities		2,738		2,890
Total Assets Less Current Liabilities		10,732		11,274
Deduct:				
Finance debts – Note G and I	4,369		4,152	
Less amounts subject to repayment within one year	1,467		1,270	
	2,902		2,882	
North Sea oil advance proceeds – Note H	612		199	
Deposits and noncurrent liabilities – Note K	477		1,271	
Deferred taxation – Note N	46		42	
Insurance provisions	102		101	
Unfunded pension provisions – Note L	272		285	
Minority interest	278	4,689	237	5,017
Net Assets		6,043		6,257
Commitments and Contingencies – Notes H, I, P and Q				
Capital Stock:				
Preference		25		25
Ordinary		741		742
Paid in surplus		379		382
Earned surplus – Note M		4,898		5,108
Stockholders' Interest		6,043		6,257

*See Notes A and N

The Notes to Financial Statements are an integral part of these Balance Sheets

These balance sheets are expressed in U.S. dollars at the 1977 year-end exchange rate of $1.92 = £1 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Years ended December 31 1976 (restated)*	1977
	(£ million)	
Balance at beginning of year – as previously reported	2,079.7	2,262.2
Prior years' adjustments – Note M	122.3	288.8
As restated	2,202.0	2,551.0
Net income for year	338.1	304.1
Less: Dividends – Note O		
Preference	0.7	0.7
Ordinary	76.4	86.3
Income retained	261.0	217.1
Exchange fluctuations – Notes A and T	88.0	(107.8)
Balance at end of year	2,551.0	2,660.3

*See Notes A and N

The Notes to Financial Statements are an integral part of this Statement.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Years ended December 31	
	1976 (restated)*	1977
	($ million)	
Balance at beginning of year – as previously reported	3,993	4,343
Prior years' adjustments – Note M	235	555
As restated	4,228	4,898
Net income for year	649	584
Less: Dividends – Note O		
Preference	1	1
Ordinary	147	166
Income retained	501	417
Exchange fluctuations – Notes A and T	169	(207)
Balance at end of year – Note M	4,898	5,108

*See Notes A and N

The Notes to Financial Statements are an integral part of this Statement.

This statement is expressed in U.S. dollars at the 1977 year-end exchange rate of $1.92 = £1 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Years ended December 31	
	1976 (restated)*	1977
	(£ million)	
Source of Funds		
Income before extraordinary items and UK taxation	391.3	823.4
Extraordinary items	–	(54.2)
	391.3	769.2
Depreciation	265.9	303.7
Other items	74.4	(18.9)
Total generated from operations	731.6	1,054.0
Increase in finance debts (excluding changes in currency values)	342.3	44.8
North Sea oil advance proceeds	30.4	–
Book amount of assets sold	47.5	44.1
Net changes in currency values	144.8	(122.0)
Prior year adjustment	106.1	–
Other items	108.4	71.5
Total other sources	779.5	38.4
Funds available	1,511.1	1,092.4
Application of Funds		
Capital expenditure	807.8	636.3
Investment in Sohio and other associated companies	154.0	84.6
Reduction of North Sea oil advance proceeds	71.3	193.0
Dividends paid	72.6	78.4
UK tax paid – mainly advance corporation tax	20.2	35.1
	1,125.9	1,027.4
Increase in working capital	385.2	65.0
	1,511.1	1,092.4
Increase in Working Capital		
Increase /(decrease) in inventories	406.7	(4.3)
Increase/(decrease) in current receivables	559.7	(174.4)
(Increase)/decrease in current liabilities (excluding UK tax and proposed dividends)	(462.6)	193.8
(Decrease)/increase in cash and marketable securities	(118.6)	49.9
	385.2	65.0

* See Notes A and N.

The Notes to Financial Statements are an integral part of this Statement.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Years ended December 31	
	1976 (restated)*	1977
	($ million)	
Source of Funds		
Income before extraordinary items and UK taxation	751	1,581
Extraordinary items	–	(104)
	751	1,477
Depreciation	510	583
Other items	144	(36)
Total generated from operations	1,405	2,024
Increase in finance debts (excluding changes in currency values)	657	86
North Sea oil advance proceeds	58	–
Book amount of assets sold	91	84
Net changes in currency values	278	(234)
Prior year adjustment	204	—
Other items	208	138
Total other sources	1,496	74
Funds available	2,901	2,098
Application of Funds		
Capital expenditure	1,551	1,222
Investment in Sohio and other associated companies	295	162
Reduction of North Sea oil advance proceeds	137	371
Dividends paid	139	151
UK tax paid – mainly advance corporation tax	39	67
	2,161	1,973
Increase in working capital	740	125
	2,901	2,098
Increase in Working Capital		
Increase /(decrease) in inventories	781	(8)
Increase/(decrease) in current receivables	1,075	(335)
(Increase)/decrease in current liabilities (excluding UK tax and proposed dividends)	(888)	372
(Decrease)/increase in cash and marketable securities	(228)	96
	740	125

* See Notes A and N.
The Notes to Financial Statements are an integral part of this Statement.

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THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF CHANGES IN CAPITAL STOCK AND PAID IN SURPLUS

Authorized – £1 Units	**Unclassified Shares**	**Ordinary Stock**	**Preference Stock**	
			8% (now 5.6% + tax credit)	**9% (now 6.3% + tax credit)**
At December 31, 1975 and 1976	101,179,884	386,070,116	7,250,000	5,500,000
Transfer in connection with the acquisition of the Europa group of companies	(447,969)	447,969	–	–
At December 31, 1977	100,731,915	386,518,085	7,250,000	5,500,000
Issued Stock and Paid in Surplus	**Paid in Surplus**			
At December 31, 1975 and 1976	197,414,627	386,070,116	7,232,838	5,473,414
Issued in connection with the acquisition of the Europa group of companies	1,812,035	447,969	–	–
At December 31, 1977	£199,226,662	£386,518,085	£7,232,838	£5,473,414

The Notes to Financial Statements are an integral part of this Statement.

On May 9, 1977, 0.4 million ordinary shares, which were forthwith converted into £0.4 million ordinary stock, were issued under an agreement made in 1972 to acquire the remaining 40% of the Europa group of companies in New Zealand. The increase to paid in surplus in respect of this issue amounted to £1.8 million.

Of the £386.5 million ordinary capital issued at December 31, 1977 Her Majesty's Government in the UK owned £119.3 million (30.9%) and the Bank of England £77.8 million (20.1%).

The above-mentioned Ordinary Stock held by the Bank of England was acquired by it on January 28, 1975 from The Burmah Oil Company, Limited. The validity of this acquisition is currently the subject of litigation. At the time of this transaction assurances were given to the Panel on Take-overs and Mergers ("the Panel") (a) by an undertaking from the Bank that it would not exercise the votes attaching to the BP Ordinary Stock so acquired so long as the Bank and the Government taken together held over 30% of the voting rights and (b) by a statement on behalf of the Government that, while the Bank held any part of such BP Ordinary Stock and its undertaking remained in force, the Government would not exercise a greater proportionate voting power in relation to other BP stockholders than it could have exercised prior to the transaction.

The Government has announced its intention to acquire the Bank of England holding in due course and thus increase the Government's holding of Ordinary Stock to 51%. The restrictions mentioned above will remain in force until such purchase but the Panel has accepted that thereafter the Government will be free to vote the 51% stockholding which it then expects to have. The Panel will not require the Government to make an offer under the City Code to purchase the Ordinary Stock of BP held by the public. In its discussions with the Panel the Bank of England referred to the fact that the Government holding of BP Ordinary Stock has exceeded 50% for long periods in the past and to the restraint with which the Government had traditionally approached the use of its voting power. The Bank informed the Panel that it was authorized by the Government to say that it is the Government's intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of the Company as a commercial concern.

THE BRITISH PETROLEUM COMPANY LIMITED

PARENT COMPANY STATEMENT OF INCOME

	Years ended December 31 1976	1977
	(£ million)	
Dividends and interest from subsidiary companies less intra-group items	80.7	76.3
Dividends and interest from associated companies – Note D	2.9	1.7
	83.6	78.0
Other interest and miscellaneous income	37.2	29.2
	120.8	107.2
Interest expense	20.7	19.3
Administrative and other expenses	1.6	2.6
Income before taxes	98.5	85.3
Taxes	(71.8)	(5.5)
Net income	170.3	90.8

The Notes to Financial Statements are an integral part of this Statement.

The parent company income from subsidiary companies consists principally of dividends on which U.K. tax has been accounted for by those companies. During the years under review it has been the policy of the Company to limit the distributions by subsidiary companies to the parent so that the income of the parent approximates to the amounts of its dividends. However, net income for 1976 is after crediting £70.9 million in respect of advance corporation tax written off in previous years (see Note N).

THE BRITISH PETROLEUM COMPANY LIMITED

PARENT COMPANY STATEMENT OF EARNED SURPLUS

	Years ended December 31 1976	1977
	(£ million)	
Balance at beginning of year	559.6	614.4
Net income for year	170.3	90.8
Less: Dividends – Note O		
Preference	0.7	0.7
Ordinary	76.4	86.3
Income retained	93.2	3.8
Exchange fluctuations	(38.4)	(2.7)
Balance at end of year	614.4	615.5

The Notes to Financial Statements are an integral part of this Statement.

THE BRITISH PETROLEUM COMPANY LIMITED

PARENT COMPANY BALANCE SHEETS

	December 31 1976		1977	
	(£ million)			
Investments:				
Subsidiary companies – Note A (eliminated in consolidation)				
At cost less provisions – 1976 and 1977 £8.7 m.	265.5		270.2	
Advances, current accounts and accrued dividends	890.5	1,156.0	782.6	1,052.8
Associated companies – Note D				
At cost	14.3		12.6	
Less provisions	2.1	12.2	2.1	10.5
Long-term receivables		25.6		15.8
Current assets:				
Cash	386.7		473.2	
Marketable securities at net book amount which approximates market	0.3		10.5	
Receivables, principally trade	18.3		9.9	
	405.3		493.6	
Current liabilities:				
Accounts payable and accrued liabilities	53.2		51.0	
Finance debts subject to repayment within one year	29.5		33.1	
Dividends payable	50.4		59.0	
	133.1		143.1	
Current assets less current liabilities		272.2		350.5
Total Assets Less Current Liabilities		1,466.0		1,429.6
Deduct:				
Finance debts – Note G	284.9		248.8	
Less amounts subject to repayment within one year	29.5	255.4	33.1	215.7
Net Assets		1,210.6		1,213.9
Commitments and Contingencies – Notes H, I and P				
Capital Stock:				
Preference		12.7		12.7
Ordinary		386.1		386.5
Paid in surplus		197.4		199.2
Earned surplus – Note M		614.4		615.5
Stockholders' Interest		1,210.6		1,213.9

The Notes to Financial Statements are an integral part of these Balance Sheets.

THE BRITISH PETROLEUM COMPANY LIMITED

PARENT COMPANY BALANCE SHEETS

	December 31			
	1976		1977	
	($ million)			
Investments:				
Subsidiary companies – Note A				
(eliminated in consolidation)				
At cost less provisions – 1976 and 1977 $17 m.	510		519	
Advances, current accounts and accrued dividends	1,710	2,220	1,502	2,021
Associated companies – Note D				
At cost	27		24	
Less provisions	4	23	4	20
Long-term receivables		49		30
Current assets:				
Cash	742		909	
Marketable securities at net book amount which approximates market	1		20	
Receivables, principally trade	35		19	
	778		948	
Current liabilities:				
Accounts payable and accrued liabilities	102		98	
Finance debts subject to repayment within one year	57		64	
Dividends payable	97		113	
	256		275	
Current assets less current liabilities		522		673
Total Assets Less Current Liabilities		2,814		2,744
Deduct:				
Finance debts – Note G	547		477	
Less amounts subject to repayment within one year	57	490	64	413
Net Assets		2,324		2,331
Commitments and Contingencies – Notes H, I and P				
Capital Stock:				
Preference		25		25
Ordinary		741		742
Paid in surplus		379		382
Earned surplus – Note M		1,179		1,182
Stockholders' Interest		2,324		2,331

The Notes to Financial Statements are an integral part of these Balance Sheets.

These balance sheets are expressed in U.S. dollars at the 1977 year-end exchange rate of $1.92 = £1 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED

PARENT COMPANY STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Years ended December 31 1976	1977
	(£ million)	
Source of Funds		
Income before UK taxation	98.5	85.3
Increase in finance debts (excluding changes in currency values)	30.5	–
Decrease in long-term receivables	23.0	9.8
Decrease in investment in subsidiaries and associates (excluding taxes recoverable from subsidiaries)	–	140.0
Issue of shares	–	2.2
Other items	(4.9)	(15.7)
Funds Available	147.1	221.6
Application of Funds		
Increase in investment in subsidiaries and associates (excluding taxes recoverable from subsidiaries)	245.2	–
Dividends paid to BP stockholders	72.6	78.4
UK tax paid – mainly advance corporation tax	20.2	35.1
Decrease in finance debts (excluding changes in currency values)	–	23.1
	338.0	136.6
(Decrease)/increase in working capital	(190.9)	85.0
	147.1	221.6
Working Capital		
(Decrease) in current receivables	(21.1)	(8.4)
(Increase) in current liabilities (excluding UK tax and proposed dividends)	(14.4)	(3.3)
(Decrease)/increase in cash and marketable securities	(155.4)	96.7
	(190.9)	85.0

The Notes to Financial Statements are an integral part of this Statement.

NOTES TO FINANCIAL STATEMENTS

Note A – Accounting Policies

Changes in Accounting Policies

Two changes in accounting policies have been made during 1977 –

(a) The group now accounts for deferred taxation in accordance with the method proposed in Exposure Draft 19, issued in 1977 by the UK Accounting Standards Committee. The effect of this change (see Note N – Taxation) has been dealt with in the Consolidated Statement of Earned Surplus as a prior year adjustment and the corresponding figures for 1976 have been restated on the new basis.

(b) Provision against exploration expenditure is no longer made for expenditure relating to uncompleted wells and to completed wells awaiting determination of whether proven reserves have been found. No material sum is involved in this change.

The only change in accounting policies in 1976 was the inclusion of Petroleum Revenue Tax (PRT) in cost for inventory valuation purposes. The amount relating to inventories at December 31, 1975 was not material.

Composition of Consolidated Financial Statements

The consolidated financial statements comprise a consolidation of the accounts of The British Petroleum Company Limited and all its subsidiaries except for a number of minor companies the consolidation of whose accounts would cause undue expense and delay in presentation and whose income is insignificant. The investment in these minor companies is included in the consolidated balance sheet with investment in associated companies. Associated companies are those in which the group has an equity interest of 50% or less. All inter-company transactions are eliminated.

Where accounting policies followed by subsidiaries differ significantly from those adopted for group accounts purposes appropriate consolidation adjustments are made for material items.

In the case of associated companies there is included in the income statement the group proportion of the income and costs of those companies, including The Standard Oil Company (Sohio), whose earnings are material. Dividends received are included for associated companies whose earnings are relatively small.

Currency Translation

Assets and liabilities expressed in currencies other than sterling and operating results of overseas subsidiaries are translated into sterling at the year-end rates of exchange.

Exchange fluctuations are included in the determination of income except those relating to the restatement at year-end exchange rates of

(a) opening balance sheets of overseas subsidiary and associated companies and

(b) long-term receivables and finance debts (excluding acceptance facilities) in other than local currencies

which are taken directly to earned surplus.

Inventories

Inventories of oil and chemicals are valued at the lower of approximate group cost including overheads, using the first in, first out method, and net realisable value. For purposes of valuation PRT is treated as a cost. Inventories of stores are stated at or below cost calculated mainly using the average method.

Pensions

In most companies there are pension and retirement plans, the forms and benefits varying with regard to economic conditions and practices in the countries concerned. Where funds and provisions exist, payments and charges are made on the basis of actuarial assessment and where local regulations prevent the establishment of funds the cost of pensions paid is charged against income. Supplementary pension payments are charged against income when paid.

Note A – Accounting Policies – (Continued)

Depreciation and Amounts Provided

Properties and operating assets are depreciated over their estimated useful lives. North Sea Forties Field production assets are being amortized on a unit-of-production basis and the Trans Alaska Pipeline System on a unit-of-throughput basis. Other properties and operating assets are depreciated either on a straight line basis or by the reducing balance method.

Exploration properties are written-off over the estimated period of exploration and full provision is made against the group's proportion of other exploration expenditure whether incurred directly by subsidiary companies or indirectly by associated companies except for expenditure relating to uncompleted wells and to completed wells awaiting determination of whether proven reserves have been found.

Research

Expenditure on research and development is wholly written off in the year in which it is incurred.

Interest and Financing Costs

Interest and financing costs are charged against income but are capitalized where there is dedicated financing of major proiects under development.

Petroleum Revenue Tax

The charge for PRT is calculated on a unit-of-production basis and is included in creditors or noncurrent liabilities as appropriate.

Deferred Taxation

The liability method is used in the calculation of deferred taxation, the charge to income reflecting the probable requirement in the foreseeable future.

Note B – Properties and Operating Assets

	December 31, 1976			December 31, 1977		
	Cost	Depreciation	Net	Cost	Depreciation	Net
			(£ million)			
Production and exploration	1,997.5	351.4	1,646.1	2,196.9	433.9	1,763.0
Tankers	303.4	115.2	188.2	286.0	120.6	165.4
Refineries	1,261.9	808.2	453.7	1,210.5	778.9	431.6
Marketing	1,331.3	653.5	677.8	1,359.1	650.8	708.3
Chemicals	343.6	160.2	183.4	418.7	189.2	229.5
	5,237.7	2,088.5	3,149.2	5,471.2	2,173.4	3,297.8

The net amount of properties and operating assets at December 31, 1977 includes £157.7 million (£159.8 million at December 31, 1976) in respect of land (including buildings acquired with the land) of which £143.2 million (£143.9 million at December 31, 1976) represents owned property, mainly service stations overseas, £4.8 million (£5.2 million at December 31, 1976) leases with unexpired terms of 50 years or more and £9.7 million (£10.7 million at December 31, 1976) other leases.

When properties or operating assets are abandoned, sold or otherwise disposed of, the cost and relative depreciation are deducted from the appropriate accounts and the difference between the net cost and the realized value (if any) is charged to expense or credited to revenue as applicable. Maintenance, repairs, minor renewals and betterments are charged to expense. Major renewals and betterments are capitalized.

Note C – Investment in The Standard Oil Company (Sohio)

At December 31, 1977 the group's investment in Sohio had increased to approximately 40%.

The original investment in Sohio was represented by 1,000 shares of special stock which entitled the group to the same rights (except as to dividends) as approximately a 25% common stock interest. The number of shares of common stock, to which the 1,000 shares of special stock are equivalent, rises with increases in the sustainable crude oil production from Sohio's Prudhoe Bay properties, or in certain circumstances from other Alaskan properties, to a maximum of approximately 54% if such production (net of one-eighth royalty owned by the State of Alaska) reaches 600,000 barrels per day prior to January 1, 1984.

In October 1975 Sohio sold 2,000,000 shares of its common stock and pursuant to the terms of the original agreement dated August 7, 1969 the group acquired 1,080,000 shares being a 54% interest of the issue thereby increasing the group's interest in Sohio to approximately 26% at which level it remained until commencement of production in mid-1977.

During the fourth quarter of 1977 a level of sustainable net production of 300,000 barrels per day was achieved thereby increasing the group's interest to its present level.

The group's investment as expressed in sterling has been affected by the movement during the year in the US dollar/sterling rate of exchange.

The group's interest has been equity accounted as from January 1, 1975 when dividends became receivable. This treatment has been reflected in these accounts by the inclusion in other income of £40.4 million (£29.5 million in 1976) with a charge of £11.1 million (£9.8 million in 1976) in overseas taxation. However, interest of £2.1 million (£5.5 million in 1976) on short-term loans related to this investment has been charged leaving a net benefit to group income of £27.2 million (£14.2 million in 1976). At December 31, 1977 the group's share of Sohio's undistributed income was £43.1 million (£24.1 million at December 31, 1976).

The net assets of Sohio at December 31, 1976 and 1977 are summarized as follows:

	1976		1977	
	($ million)			
Property, plant and equipment after depreciation and depletion		4,869		5,757
Investments and other assets		341		463
Current assets		1,050		1,558
		6,260		7,778
Less:				
Current liabilities	653		997	
Other liabilities	36		46	
Long-term debt	3,627		4,688	
Deferred revenue	287		214	
Deferred income taxes	108		154	
Preferred stock	11	4,722	10	6,109
Net Assets applicable to common and special stock		1,538		1,669

The net sales and operating revenue of Sohio for the year 1977 was $3,523 million ($2,916 million in 1976). Net income for 1977 was $181 million ($137 million in 1976). Dividends amounting to $41 million were paid to Sohio's preferred and common stockholders for each of the years 1976 and 1977. In addition, dividends amounting to $14 million ($12 million in 1976) were paid on the special stock referred to above.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS – (Continued)

Note D – Investment in Associated Companies

Investment

Investments in associated companies, virtually none of which is publicly traded, are mainly in the nature of partnerships with other oil, chemical or coal groups having in many cases integrated trading operations with subsidiary companies of the group which take a wide variety of forms and were as follows:

	December 31, 1976			December 31, 1977		
	Cost	Provisions	Net	Cost	Provisions	Net
			(£ million)			
Production and exploration	128.1	31.1	97.0	148.3	33.6	114.7
Refineries	60.6	1.9	58.7	59.2	1.9	57.3
Marketing	98.1	4.4	93.7	94.6	12.4	82.2
Chemicals	94.1	–	94.1	85.4	–	85.4
Coal	–	–	–	101.2	2.6	98.6
	380.9	37.4	343.5	488.7	50.5	438.2

Net Assets

Information as to the group proportion of the net assets of associated companies at the end of 1977 is not yet available. However, from the accounts received during the year 1977 from major associated companies in which the group net investment at December 31, 1976 was £312.9 million (out of a total net investment of £343.5 million), it has been ascertained that the net assets of these companies amounted to £1,346.0 million and the group proportion thereof was £406.9 million as follows:

	Associated Companies	Group Proportion
	(£ million)	
Properties and operating assets after depreciation	1,979.6	584.1
Long-term receivables and investments	145.6	45.8
Intangibles including goodwill	18.3	5.5
Current assets	982.9	373.5
	3,126.4	1,008.9
Less: Finance debts	767.3	208.0
Liabilities mainly current	1,013.1	394.0
Net assets	1,346.0	406.9

The accounts referred to were largely prepared as at December 31, 1976 and were drawn up in accordance with the statutory regulations of the countries in which these companies were incorporated.

Income and Retained Earnings – Group Proportion

The group share of the net income of major associated companies, mainly in respect of crude oil production, for the two years ended December 31, 1977 is reflected in the consolidated statement of income as follows:

	Reduction in Costs	Inclusion in Other Income	Charge to Overseas Taxation	Net Income (Group Share)
		(£ million)		
1976	519.4	3.6	484.5	38.5
1977	630.8	35.6	595.1	71.3

Note D – Investment in Associated Companies – (Continued)

At December 31, 1977 £31.8 million (£17.4 million at December 31, 1976) of the accumulated earnings were undistributed. Dividends received from these companies amounted to £80.5 million (£16.3 million in 1976). As at December 31, 1976 and 1977 there was no material difference between the investment cost and the group's equity interest therein.

Considerable expense and undue delay would be occasioned in obtaining up-to-date completed accounts for the many associated companies incorporated and operating overseas whose earnings are relatively small. It is considered that the procedures adopted for dealing with the group share of the income of associated companies, including dividends received (figures for the two years ended December 31, 1977 are given below), effectively result, both as to costs and overseas taxation, in a meaningful presentation of the integrated operations of the group.

Dividends and interest were received from associated companies, other than those specifically referred to above, as follows:

	BP			Consolidated	
	Dividends	Interest	(£ million)	Dividends	Interest
1976	2.8	0.1		10.6	3.8
1977	1.6	0.1		8.6	4.0

The group share of losses is, in all material cases, covered by provisions in BP or its subsidiary companies.

Consolidated sales proceeds for 1977 include sales to major 50% owned associated companies of £193.1 million (£178.6 million in 1976). Reference is made in Note F to purchases from such companies.

Note E – Extraordinary Items

The amount of £54.2 million included in the Consolidated Statement of Income for 1977 is in respect of overseas capital gains tax levied as a result of a group reorganization in the UK in 1972 and is stated after taking into account related provisions and participation credits from the country concerned.

Note F – Inventories and Purchases

Inventories of oil and chemicals used in the computation of cost of oil, ocean freight, refining and chemical manufacturing, and customs duties and sales taxes were as follows:

	Cost of oil etc.	Customs duties etc.	Total
		(£ million)	
December 31, 1975	1,290.6	30.3	1,320.9
December 31, 1976	1,689.0	27.0	1,716.0
December 31, 1977	1,681.3	22.8	1,704.1

Purchases from major 50% owned associated companies and from others, mainly producer governments, were as follows:

	Purchases from major 50% owned associated companies	(£ million)	Purchases from others, mainly producer governments
1976	230.2		6,759.2
1977	267.1		6,957.1

Note G – Finance Debts.

Long-term debts are those, as defined by the UK Companies Act 1967, which are wholly or in part repayable more than five years from the date of the balance sheet.

Short-term debts and acceptances are those repayable within five years from the date of the balance sheet, other than those bank loans and overdrafts which are repayable within one year from the date of the balance sheet. Short-term debts of the group at December 31, 1977 amounted to £921.5 million (£906.6 million at December 31, 1976) and included £50.7 million (£70.9 million at December 31, 1976) in respect of commercial paper issued by BP Pipelines Inc., a wholly-owned group subsidiary, at an approximate interest rate of 6.7%. Acceptances under facilities with differing periods of duration in respect of oil movements amounted to £94.5 million (£171.4 million at December 31, 1976).

BP			Average contractual interest rate at December 31, 1977	Consolidated	
1976	1977			1977	1976
(£ million)			%	(£ million)	
		Long-term			
20.0	20.0	Sterling	7.6	25.0	26.9
40.2	27.8	U.S. dollars	9.1	810.0	779.7
–	–	Australian dollars	7.9	9.5	10.2
–	–	Belgian francs	7.5	1.4	10.9
–	–	Canadian dollars	6.9	24.5	32.8
–	–	Deutschemarks	7.2	25.9	36.6
–	–	Dutch guilders	7.9	68.3	119.5
–	–	French francs	9.8	54.2	71.5
–	–	Swedish kroner	3.6	18.1	15.2
19.2	21.0	Swiss francs	6.6	38.7	35.7
–	–	Other currencies	7.6	6.1	6.0
79.4	68.8	Total long-term		1,081.7	1,145.0
205.5	180.0	Short-term and acceptances		1,016.0	1,078.0
–	–	Bank loans and overdrafts repayable within one year		64.8	52.7
284.9	248.8	Total finance debts		2,162.5	2,275.7
16.9	16.0	Secured debt included in above figures		162.2	232.7
		Repayment periods from balance sheet date are as follows:			
29.5	33.1	1 year		661.6	764.3
23.5	32.7	2 years		105.6	83.4
42.8	57.9	3 years		163.9	121.2
57.8	67.0	4 years		233.3	190.8
72.3	16.8	5 years		135.5	214.5
39.7	41.3	6 to 10 years		392.7	449.4
19.3	–	Thereafter		469.9	452.1
284.9	248.8			2,162.5	2,275.7

THE BRITISH PETROLEUM COMPANY LIMITED AND
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NOTES TO FINANCIAL STATEMENTS – (Continued)

Note G – Finance Debts – (Continued)

The group secured debt at December 31, 1977 of £162.2 million (£23[illegible].7 million at December 31, 1976) relates principally to tankers and refineries. Included also are the BP 5% debenture stock, repayable by July 1, 1978, of £8.1 million (£8.4 million at December 31, 1976) and the BP 6% debenture stock, repayable by December 31, 1980, of £7.9 million (£8.5 million at December 31, 1976), both of which are secured by a floating charge on the assets of BP.

At December 31, 1977, the group had substantial amounts of undrawn borrowing facilities available including approximately £690 million (£820 million at December 31, 1976) which was covered by formal commitments. Included therein was an amount of £40.5 million (£135.0 million at December 31, 1976) in support of commercial paper borrowing arrangements. The major part of these facilities is in countries where the rate of interest is a differential above the relevant interbank rate.

Note H – Forties Field Financing

In accordance with the terms of an agreement by BP Oil Development Limited for a forward sale of crude oil and gas from the Forties Field (North Sea Block 21/10) advance proceeds of £156.0 million and $405.6 million have been received.

Repayment of amounts advanced is being made from the proceeds of the sale of oil produced from December 1, 1975 which BP Trading Limited, a wholly-owned subsidiary, has under a separate agreement undertaken to purchase. If the flow of oil is interrupted, repayments will normally be suspended, but, subject to the presence of an adequate amount of recoverable oil, must in any event be completed by December 31, 1982. The advance proceeds outstanding at December 31, 1977 of £44.1 million (£126.1 million at December 31, 1976) and $114.7 million ($327.9 million at December 31, 1976) are secured on the assets and contracts connected with the development of the field.

Costs (mainly interest) incurred by the other party to the above-mentioned agreement in servicing this arrangement with a consortium of banks have been reimbursed by BP Oil Development Limited. In 1977 £15.0 million (£23.3 million in 1976) relative to financing the facilities in operation has been charged against income and £2.4 million (£5.4 million in 1976) has been capitalized as part of the production assets.

The parent company has undertaken to procure the performance by its subsidiary companies of their obligations under the agreements.

Note I – Trans Alaska Pipeline System (TAPS)

BP Pipelines Inc., a group subsidiary, has a 15.84% undivided interest and Sohio Pipe Line Company, a subsidiary of The Standard Oil Company (Sohio) has a 33.34% undivided interest in TAPS.

The main construction phase of the System was completed and became operational in the second half of 1977.

Sohio/BP Trans Alaska Pipeline Capital Inc. ("Capital") is owned by the two pipeline companies and its sole business is the issuance of debt securities from time to time, lending 67.8% of the proceeds to Sohio Pipe Line and 32.2% to BP Pipelines in exchange for notes in the principal amounts of their respective loans each unconditionally guaranteed by their respective parent companies.

In November 1975 and September 1976 Capital arranged private placements in aggregate of $1,750 million 10⅝% Notes ($815.5 million due 1993 and $934.5 million due 1998) and $500 million 9¾% Notes ($363 million due 1993 and $137 million due 1998) with institutional lenders in the US. In respect thereof BP Pipelines has issued guaranteed notes to Capital for aggregate amounts of $563.5 million and $161 million respectively, being its proportionate share of these placements.

In addition to the above, Capital has publicly sold $250 million 9¾% Debentures due 1999 and $250 million 8⅝% Notes due 1983 in respect of which BP Pipelines has issued guaranteed notes to Capital totalling $161 million.

In July and August 1977 the City of Valdez, Alaska issued and sold in aggregate $665 million Marine Terminal Revenue Bonds due 2007 ($350 million 6% bonds and $315 million 6.05% bonds) lending 67.8% of the proceeds to Sohio Pipe Line and 32.2% to BP Pipelines, such amounts being subject to the respective parent company guarantees.

In 1977 interest amounting to £32.9 million (£49.6 million in 1976) and issue expenses of £3.4 million (£0.5 million in 1976) in connection with TAPS financing have been capitalized and included as part of construction costs which at December 31, 1977 were £772.0 million (£737.6 million at December 31, 1976). This amount is included in properties and operating assets within the sub-heading production and exploration. Following the commencement of operations interest of £25.8 million has been charged against income in 1977.

Note J – Interest and Financing Costs Capitalized

The following amounts have been capitalized:

	Interest			Financing Costs	Total
	Re TAPS Note I	Re Ninian Field	Other	Re Forties Field Note H	
			(£ million)		
1976	49.6	2.0	–	5.4	57.0
1977	32.9	2.1	1.5	2.4	38.9

Interest in connection with borrowings for the Trans Alaska Pipeline System and financing costs in connection with advances received for development of the Forties Field were capitalized during the relevant construction periods. Interest in respect of specific borrowings for the Ninian Field and certain other assets is being capitalized until the relevant assets are brought into use.

Net income would have been reduced by £54.5 million in 1976 and £32.1 million in 1977 had it been charged with capitalized interest and financing costs offset by amortized amounts of previously capitalized interest.

Note K – Deposits and Noncurrent Liabilities

Deposits relate to certain payments received in advance in respect of crude oil deliveries which will be made during and after 1978 while noncurrent liabilities, which include PRT, are those which become due for settlement after December 31, 1978.

Note L – Pensions

The amount included in group costs for pension and retirement plans for 1977 was £90.3 million (£87.6 million in 1976).

In the UK there was an estimated unfunded service benefit of £45.5 million at January 1, 1975 in relation to back service of UK industrial staff which is being met by additional annual contributions of £4.3 million spread over 20 years.

In respect of subsidiaries with unfunded plans provisions of £148.3 million (£141.8 million in 1976) have been made, and in addition, where local regulations prevent the establishment of separate funds or creation of provisions, the liability for prior service will be made out of the income of future years. The net present value of the unfunded vested benefits at December 31, 1977 was approximately £163 million.

Had the pension charge been computed in accordance with US generally accepted accounting principles net income for 1977 would have been reduced by approximately £14 million (£5 million in 1976).

Note M – Earned Surplus

Consolidated earned surplus at December 31, 1977 includes associated companies' undistributed earnings of £74.9 million referred to in Notes C and D and an unchanged BPpreference stock reserve of £10 million which under the terms of BP's Articles of Association is not available to ordinary stockholders. Also included are amounts totalling £776.1 million (£772.9 million at December 31, 1976) retained by subsidiary companies themselves not subject to UK taxation.

In June 1977 it was announced that the Company had applied to the UK Treasury for permission to increase the 1977 dividends by approximately 50% to 30p net per £1 ordinary stock unit. The Company was informed by the Treasury that this application could not be granted under current UK dividend controls. In consequence of this the Directors declared their intention to reserve a sum equal to the difference between the 1977 dividends and that which would have been paid had the application to the Treasury been granted, such amount to be distributed as a special dividend when the removal of dividend restrictions permits. Accordingly £30.5 million, equivalent at the current rate of advance corporation tax to 7.898p net per ordinary stock unit, has been designated within earned surplus as available for this purpose.

The prior years' adjustments shown on the Consolidated Statement of Earned Surplus for the years 1976 and 1977 relate to deferred taxation provisions no longer required after minority shareholders' interest (see also Notes A and N).

Note N – Taxes on Income

Taxes on income consist of the following:

	1976 (restated)	1977
	(£ million)	
Overseas – producer governments	1,340.5	1,277.0
– other areas – current	49.3	80.0
– deferred	(3.5)	4.9
	1,386.3	1,361.9
United Kingdom (see below)	53.2	465.1
	1,439.5	1,827.0

Note N – Taxes on Income – (Continued)

United Kingdom:

The charge for UK taxation for the years 1976 and 1977 comprises:

	1976 (restated)		1977
		(£ million)	
Corporation tax at 52% – current	507.1		470.1
– deferred	–		–
Recoveries and provisions no longer required	(7.0)		(11.2)
	500.1		458.9
Overseas tax relief	(505.2)		(344.0)
	(5.1)		114.9
Advance corporation tax (ACT) previously written off	(70.9)		–
Transitional relief	(0.2)		–
	(76.2)		114.9
Petroleum revenue tax	129.4		350.2
	53.2		465.1

The UK Finance Act 1972 provides that advance corporation tax be paid to the Inland Revenue in respect of dividends payable after April 5, 1973. The rate was thirty-five sixty-fifths for dividends paid from April 6, 1975 through April 5, 1977 and thirty-four sixty-sixths from April 6, 1977 through April 5, 1978. There is a proposal to reduce the rate to thirty-three sixty-sevenths with effect from April 6, 1978. Of the ACT written off in previous years, £70.9 million was credited to income in 1976. Under US generally accepted accounting principles this amount would have been dealt with as an extraordinary item in the Consolidated Statement of Income. The Finance Act 1972 also amended and extended the transitional relief provisions of the UK Finance Act 1965 so as to give a measure of relief against advance corporation tax. Final transitional relief in 1976 of £0.2 million was dealt with as a credit to taxes on income.

Deferred Taxation Overseas and United Kingdom:

Exposure Draft (ED 19) issued in 1977 by the UK Accounting Standards Committee proposed that deferred taxation need not be provided where it can be demonstrated that there is no reasonable probability of the tax becoming payable in the foreseeable future. A detailed review of the group's deferred taxation provisions, particularly in relation to the time span envisaged in the term 'foreseeable future' and consideration of the taxation effects of the group's continuing investment in the UK North Sea, confirmed that substantial sums could be released from past provisions.

The balance of deferred taxation at December 31, 1976 of £183.8 million as previously reported was after an offset of £151.2 million ACT. Of the resultant total of £335.0 million, £310.9 million is no longer required. As a result, £288.8 million has been transferred to earned surplus as prior years' adjustments and £22.1 million to minority shareholders' interest (see also Notes A and M).

The balance of deferred taxation at December 31, 1977 amounted to £22.1 million. The potential amount of deferred taxation at December 31, 1977 amounted to £315.6 million and comprised tax on timing differences between the accounting and tax treatment of depreciation net of other items and after deducting ACT of £112.3 million.

Under US generally accepted accounting principles, with which the group's previous accounting policy accorded, the estimated charge for deferred taxation for each of the years 1976 and 1977 would have been £154.7 million and £112.1 million respectively and the estimated balance of deferred taxation at December 31, 1977 would have been £310.3 million, categorized as between £124.5 million (debit) for net current items and £434.8 million for net noncurrent items.

NOTES TO FINANCIAL STATEMENTS – (Continued)

Note O – Dividends

Stockholders resident in the United Kingdom are entitled to a tax credit corresponding to the rate of advance corporation tax. The position of stockholders resident outside the United Kingdom will depend on such arrangements as may be made between the British Government and the government of the countries where the stockholders reside. In this respect the tax convention in force between the United States and the United Kingdom has been renegotiated but is not yet ratified by the United States; the new provisions are, however, understood to be retrospective.

The total dividends for both 1976 and 1977 were the maximum permitted under UK legislation.

Note P – Commitments and Contingencies

At December 31, 1977 authorized future capital expenditure by group companies was estimated at £1,420 million including approximately £320 million for which contracts had been placed.

At December 31, 1976 and 1977, BP had issued guarantees under which amounts outstanding were:

	1976		1977	
	(£ million)			
Subsidiary companies				
Long-term loans	925		898	
Short-term loans	287		277	
Acceptances, bank loans and overdrafts etc.	167		111	
		1,379		1,286
Other companies		70		107
		1,449		1,393

There are two claims against the Company and four other major international oil groups which the Company and its advisers consider lack legal merit:

(a) a claim by Lonrho Limited in England in respect of the Beira pipeline for about £100 million which is being disputed and will be heard at arbitration; and

(b) a claim by the Zambian Government in Zambia in respect of alleged breaches of Rhodesian sanctions for about £4,000 million.

The Company is not appearing before the Zambian court in the second action, since the court does not have jurisdiction over it. It is considered that no loss will result from either of these two actions and, accordingly, no provision has been made in these financial statements.

There were also contingent liabilities in respect of guarantees, indemnities and claims arising from the ordinary course of the group's business, upon which no material losses are likely to arise.

Note Q – Leased Assets

In accordance with US generally accepted accounting principles all capital leases as defined in FAS 13 – "Accounting for Leases" would have been reflected in the Consolidated Balance Sheet as assets and liabilities as follows:

	January 1, 1977			December 31, 1977		
	Gross	Accumulated Depreciation	Net	Gross	Accumulated Depreciation	Net
	(£ million)					
Production and exploration	21.9	0.9	21.0	20.9	1.7	19.2
Tankers	308.1	91.1	217.0	306.7	114.9	191.8
Refineries	2.1	1.0	1.1	2.1	1.2	0.9
Marketing	107.4	30.6	76.8	110.0	37.5	72.5
Chemicals	3.8	1.7	2.1	5.0	2.3	2.7
Assets under capital leases	443.3	125.3	318.0	444.7	157.6	287.1
Liabilities under capital leases			410.7			361.7

Had such leases been capitalized net income for 1977 would have been increased by £16.1 million, mainly resulting from the effect of currency translations arising from the application of FAS 8 – "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements". The amount applicable to leases commencing in 1977 was not material.

At December 31, 1977 minimum rental commitments for non-cancellable leases (after deducting related rental income from sub-leases of £149.1 million and £12.3 million for operating and capital leases respectively) were as follows:

Year	Operating Leases	Capital Leases
	(£ million)	
1978	99.4	64.2
1979	83.7	60.5
1980	56.4	56.9
1981	34.0	54.3
1982	28.9	48.7
Thereafter	347.3	404.6
	649.7	689.2
Less: Amount representing executory costs		4.7
Imputed interest		322.8
Net present value		361.7

Total lease rental expense charged in the Consolidated Statement of Income for the years ended December 31, 1976 and 1977 for operating and capital leases were:

	1976	1977
	(£ million)	
Minimum rentals	240.2	263.4
Contingent rentals	9.3	10.1
	249.5	273.5
Less: Rentals from sub-leases	12.3	12.3
	237.2	261.2

Note R – Earnings Per Unit of Ordinary Stock

The calculation of the earnings per unit of ordinary stock is based on the weighted average number of stock units outstanding during each year.

Note S – Research

Expenditure on research and development in 1977 amounted to £30.3 million (£25.3 million in 1976).

Note T – Currency Fluctuations

In accordance with accounting principles generally accepted in the United Kingdom, all assets and liabilities in currencies other than sterling are translated into sterling at the applicable year-end rates of exchange. BP considers that this accounting principle results in a fair statement of the net income of the group, especially as non-sterling borrowing is mainly related to borrowing by group companies in respect of assets and trading activities which will generate the non-sterling currency necessary to effect repayment. Specifically it is expected that the US dollar dedicated financing for TAPS will be repaid out of US dollar revenues generated in the United States.

This accounting principle is reflected in the Consolidated Statement of Earned Surplus as follows:–

	1976 (restated)	(£ million)	1977
Currency fluctuations relating to properties and operating assets and investment in Sohio	292		(215)
Currency fluctuations relating to finance debts and other items	(204)		107
Net currency fluctuations dealt with in earned surplus	88		(108)

US generally accepted accounting principles require *inter alia* that an adjustment to income be made in respect of the restatement of finance debts at year-end exchange rates but do not permit effect to be given to the corresponding restatement of overseas assets and require that historical exchange rates be applied for inventory valuation purposes. Had the group followed US generally accepted accounting principles it is estimated that the approximate effect on net income for 1976 and 1977 would have been as follows:

	1976 (restated)	(£ million)	1977
Effect on income re currency fluctuations:			
US dollar dedicated finance debts	(75)		69
Other finance debts and other items	(129)		38
	(204)		107
Estimated reduction in charge for depreciation	39		16
Effect on inventory valuations	47		27
Approximate (decrease)/increase to net income	(118)		150

Note U – Activity and Geographical Analysis

The following information for the year ended December 31, 1977 is provided to comply with the disclosure requirement of FAS 14 – "Financial Reporting for Segments of a Business Enterprise".

By Activity	Petroleum	Chemical	Other (£ million)	Eliminations	Total
Sales to unaffiliated customers	11,291	574	132		11,977
Inter-activity sales	210	87	–	(297)	–
	11,501	661	132	(297)	11,997
Other revenues	167	2	16		185
Equity accounted income	43	14	19		76
	11,711	677	167	(297)	12,258
Operating result	740	22	5		767
Total assets	8,204	554	242		9,000
Depreciation	268	19	3		290
Capital expenditure	537	58	41		636

By Geographical Area	United Kingdom	Rest of Europe	Middle East & Africa	North & South America	Australasia & Far East (£ million)	International	Eliminations	Total
Sales to unaffiliated customers	2,883	3,957	543	401	558	3,655		11,997
Inter-area sales	742	98	47	–	13	4,667	(5,567)	–
	3,625	4,055	590	401	571	8,322	(5,567)	11,997
Other revenue	65	56	21	38	5	–		185
Equity accounted income	(2)	9	6	43	20	–		76
	3,688	4,120	617	482	596	8,322	(5,567)	12,258
Operating result	393	(15)	123	105	93	68		767
Total assets	3,289	2,648	389	1,547	549	578		9,000

Note U – Activity and Geographical Analysis – (Continued)

(a) Inter-activity and inter-area sales are made at market prices taking into account the volumes involved. Receivables arising from these sales are excluded from the analyses of total assets.

(b) Equity accounted income represents the group share of income before taxation of major associated companies, including Sohio, other than income arising from companies mainly concerned with crude oil production and refining in the Middle East and Africa (see also Notes C and D).

(c)

		(£ million)
Operating result, as above		767
Less: Interest and financing costs	208	
Taxes excluding PRT and all production taxes	200	408
Income after taxation		359

(d) Total assets include investments in equity accounted associated companies amounting to £640 million, primarily located in North America and Australasia, and analysed between activities as follows:

Petroleum	Chemical	Other	Total
	(£ million)		
457	76	107	640

(e) In the geographical analysis, "United Kingdom" includes North Sea crude oil activities where the operating result is after PRT but before corporation tax. "International" consists of the group's trade in crude oil acquired mainly from national production companies in the Middle East and Africa.

(f) Within an integrated international company any allocation between industrial activities and geographical areas presents some difficulties largely on account of transactions between different reporting segments. It is, however, considered that the information presented allows a reasonable appreciation of the group's operations.

Note V – Quarterly Results of Operations – (Unaudited)

	1976 Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(£ million, except per share amounts)			
Net sales proceeds and other income	2,378.3	2,511.4	2,676.6	3,203.1
Operating and other costs	2,006.4	2,111.3	2,196.4	2,671.7
Income before taxes	371.9	400.1	480.2	531.4
Taxes on income	349.8	348.7	423.7	475.5
Income applicable to minority interests	1.9	(0.4)	4.6	–
Net income	20.2	51.8	51.9	55.9
Net income per ordinary stock unit	5.2p	13.3p	13.4p	14.5p

Figures for 1976 are as previously reported in Form 20-K for 1976 and do not reflect the change in the method of accounting for deferred taxation (see Notes A and N).

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS – (Continued)

Note V – Quarterly Results of Operations – (Unaudited) – (Continued)

	1977 (restated)* Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(£ million, except per share amounts)			
Net sales proceeds and other income	3,053.6	2,943.2	3,007.2	3,254.0
Operating and other costs	2,447.1	2,428.6	2,501.4	2,694.6
Income before taxes and extraordinary items	606.5	514.6	505.8	559.4
Taxes on income	457.7	405.9	447.2	516.2
Income applicable to minority interests	4.0	(0.8)	(1.5)	(0.7)
Income before extraordinary items	144.8	109.5	60.1	43.9
Extraordinary items after taxation	–	–	–	(54.2)
Net income	144.8	109.5	60.1	(10.3)
Income before extraordinary items per ordinary stock unit	37.4p	28.3p	15.5p	11.3p
Extraordinary items per ordinary stock unit	–	–	–	(14.0p)
	37.4p	28.3p	15.5p	(2.7p)

* Figures for 1977 have been restated to reflect the change in accounting policies in respect of deferred taxation implemented in the fourth quarter of 1977 (see Notes A and N).

Note W – Replacement Cost Information – (Unaudited)

In compliance with the requirements of the Securities and Exchange Commission there follows a summary of Management's unaudited estimates of the replacement costs of certain properties and operating assets and inventories of the group at December 31, 1976 and 1977, together with the estimated replacement cost of sales and the annual depreciation charge based on replacement cost for the years 1976 and 1977.

Replacement cost data has not been provided for the group's properties and operating assets involved in oil and gas production and exploration activities. For the year 1976 the group's assets situated outside North America and the European Economic Community (EEC) are also excluded.

The historical cost of total group sales has been adjusted on an overall basis for both years taking into account the average time lag between acquiring crude oil and the subsequent sale of oil and chemical products.

Replacement costs of inventories of oil and chemicals reflect the sterling equivalent of current prices and costs, including applicable replacement cost depreciation, at December 31, 1976 and 1977. Inventories of stores have not been revalued since they comprise, for the most part, items recently acquired.

Note W – Replacement Cost Information – (Unaudited) – (Continued)

	1976 Historical Cost Basis	1976 Replacement Cost Basis	1977 Historical Cost Basis	1977 Replacement Cost Basis
	(£ million)			
Cost of oil, ocean freight, refining and chemical manufacturing	7,634	7,880	8,547	8,670
Depreciation	123	240	160	325
Inventories of oil and chemicals	1,707	1,725	1,704	1,756
Properties and operating assets				
Cost	2,271	5,650	2,792	7,405
Depreciation	1,275	3,550	1,640	4,577
Net	996	2,100	1,152	2,828

Depreciation based on replacement cost of productive capacity has been calculated on the straight-line method using the same assumptions regarding useful lives and residual values as are used in the historical cost statements.

Reconciliations between the historical cost amounts for which replacement costs have been calculated and the amounts in the historical financial statements are shown below.

	Depreciation and amounts provided 1976	1977
	(£ million)	
Historical cost amounts for which replacement cost data is provided	123	160
Add:		
Production and exploration assets	106	129
Assets situated outside North America and EEC	31	–
Assets not to be replaced	3	2
Provided against investment in associated companies	3	13
	143	144
Total as shown in the consolidated financial statements	266	304

Note W – Replacement Cost Information – (Unaudited) – (Continued)

	Properties and Operating Assets					
	1976			1977		
	Cost	Depreciation	Net	Cost	Depreciation	Net
	(£ million)					
Historical cost amounts for which replacement cost data is provided	2,271	1,275	996	2,792	1,640	1,152
Add:						
Production and exploration assets	1,997	351	1,646	2,197	434	1,763
Assets situated outside North America and EEC	713	410	303	–	–	–
Land	83	–	83	135	–	135
Assets under construction	109	–	109	216	–	216
Assets not to be replaced	65	53	12	131	99	32
	2,967	814	2,153	2,679	533	2,146
Total as shown in the consolidated financial statements	5,238	2,089	3,149	5,471	2,173	3,298

The replacement cost of approximately 75% of the historical cost of properties and operating assets for which replacement cost has been computed, has been calculated by applying indices appropriate to their function and location, taking into account adjustments for improvements in technology. The replacement cost of the remaining assets including tankers and certain buildings has been calculated by reference to published prices and manufacturers' or constructors' estimates.

The historical and replacement costs of assets have been reduced, respectively, by £160 million and £295 million for 1976 and by £167 million and £358 million for 1977 in respect of government grants available in the United Kingdom.

At December 31, 1977 the estimated replacement cost amounts in respect of capitalized leased assets (see Note Q) were as follows:

	Historical Cost Basis		Replacement Cost Basis
		(£ million)	
Gross	415		805
Depreciation	153		422
Net	262		383

These amounts exclude production and exploration leased assets and leased assets that are not to be replaced.

It must be emphasised that Management does not envisage the replacement of all the assets simultaneously nor does the information provided reflect the costs likely to be incurred as the various assets are replaced over a period of years. Management believes, however, that the estimated replacement cost information reasonably responds to the requirements of the Securities and Exchange Commission.

It is not possible to predict to what extent the group's future replacement decisions may be influenced by governmental policies, environmental considerations, economic and other factors in the many countries in which the group operates.

The replacement cost data presented herein does not necessarily represent the current realisable value of existing inventories or productive capacities.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS – (Concluded)

Note X – US Generally Accepted Accounting Principles

The following are the estimated material adjustments to net income of the group which would be required if generally accepted accounting principles in the United States had been applied instead of those generally accepted in the United Kingdom.

	Years ended December 31	
	1976 (restated)	1977
	(£ million, except per share amounts)	
Net income as reported in the Consolidated Statement of income	338.1	304.1
Pensions – Note L	(5.0)	(14.0)
Deferred taxation – Note N	(158.2)	(107.2)
Leased assets – Note Q*	–	16.1
Currency fluctuations – Note T	(118.0)	150.0
Approximate net income as adjusted to accord with US generally accepted accounting principles	56.9	349.0
Dividend requirements on preference stock	0.7	0.7
Approximate net income applicable to ordinary stock units as adjusted to accord with US generally accepted accounting principles	56.2	348.3
Per ordinary stock unit as so adjusted	14.6p	90.1p

* Leased assets assuming retroactive application of FAS 13 (not computed for 1976).

Note Y – Subsequent Events – (Unaudited)

In March 1978 the Board of BP approved the proposed development of the Magnus Field in the UK sector of the North Sea, subject to the consent of the UK Department of Energy. The field is expected to produce at a peak rate of 125,000 barrels a day of oil and gas liquids, at a cost of about £1,250 million.

As a result of Sohio's net production from the Prudhoe Bay properties in Alaska the group's investment in Sohio increased to over 50% subsequent to December 31, 1977.

SCHEDULE II

THE BRITISH PETROLEUM COMPANY LIMITED

LOANS TO UNITED KINGDOM EXECUTIVES

DECEMBER 31, 1977

There exists within The British Petroleum Company Limited an executive loan plan under which certain senior staff may obtain loans from the company of amounts, bearing interest at the rate of 3% per annum, determined largely having regard to actual and prospective service with the company.

The following table shows the position at December 31, 1976 and the changes during 1977:

	Number of employees	Total loans (£ million)
At December 31, 1976	2,046	14.6
Increase to existing loans	–	0.7
New loans	410	2.8
	2,456	18.1
Deletions	204	1.6
At December 31, 1977	2,252	16.5

Included in the above amount of £16.5 million at December 31, 1977 were 249 loans in excess of £10,416 aggregating £3.5 million and also 3 loans aggregating £74,050 to officers of the company of which £50,550 had been made to persons who subsequently became managing directors.

The loans are repayable on retirement or on earlier termination of service. The company reserves the right to amend or wind up the scheme at any time. The UK Companies Act, 1948 contains a general prohibition on loans to Directors.

SCHEDULE II

THE BRITISH PETROLEUM COMPANY LIMITED

LOANS TO UNITED KINGDOM EXECUTIVES

DECEMBER 31, 1976

There exists within The British Petroleum Company Limited an executive loan plan under which certain senior staff may obtain loans from the company of amounts, bearing interest at the rate of 3% per annum, determined largely having regard to actual and prospective service with the company.

The following table shows the position at December 31, 1975 and the changes during 1976:

	Number of employees	Total loans (£ million)
At December 31, 1975	1,966	11.9
Increase to existing loans	–	2.2
New loans	250	1.6
	2,216	15.7
Deletions	170	1.1
At December 31, 1976	2,046	14.6

Included in the above amount of £14.6 million at December 31, 1976 were 126 loans in excess of £11,760 aggregating £1.9 million and also 3 loans aggregating £70,050 to officers of the company of which £50,550 had been made to persons who subsequently became managing directors.

The loans are repayable on retirement or on earlier termination of service. The company reserves the right to amend or wind up the scheme at any time. The UK Companies Act, 1948 contains a general prohibition on loans to Directors.

THE BRITISH PETROLEUM COMPANY LIMITED

INVESTMENTS IN SECURITIES OF SUBSIDIARY COMPANIES

	Balance at Jan. 1, 1976		Additions		Deductions		Balance at Dec. 31, 1976	
	Number of Shares	Amount £ million	Number of Shares	Amount £ million	Number of Shares	Amount £ million	Number of Shares	Amount £ million
BP Canadian Holdings Ltd. No par value shares	50,000	19.1					50,000	19.1
BP Trading Ltd. Shares of £1	1,000,000	1.0					1,000,000	1.0
Deutsche BP A.G. Shares of Deutsche Marks 1,000,000 Shares of Deutsche Marks 50	650 2,000,000	75.5					650 2,000,000	75.5
Svenska BP A.B. Shares of Swedish Kronor 1,000	50,000	3.7					50,000	3.7
The British Petroleum Co. of Australia Ltd. Shares of Australian $2	30,000,000	25.9	20,250,000	26.8			50,250,000	52.7
Investment in other subsidiary companies (includes BP Medway Tanker Co. Ltd. £90)	126 companies	120.4	1 company	3.7*	12 companies†	1.9†	115 companies	122.2
		245.6		30.5		1.9		274.2
Less Provisions – see Schedule XII		8.7		–		–		8.7
Net Investment		236.9		30.5		1.9		265.5

* Mainly an increase in investment in BP (Schweiz) A.G.

† Transfer of shares to subsidiary companies.

All the above named companies are 100 per cent owned.

SCHEDULE III

THE BRITISH PETROLEUM COMPANY LIMITED

INVESTMENTS IN SECURITIES OF SUBSIDIARY COMPANIES

	Balance at Jan. 1, 1977		Additions		Deductions		Balance at Dec. 31, 1977	
	Number of Shares	Amount £ million	Number of Shares	Amount £ million	Number of Shares	Amount £ million	Number of Shares	Amount £ million
BP Canadian Holdings Ltd. No par value shares	50,000	19.1					50,000	19.1
BP Trading Ltd. Shares of £1	1,000,000	1.0					1,000,000	1.0
Deutsche BP A.G. Shares of Deutsche Marks 1,000,000 Shares of Deutsche Marks 50	650 2,000,000	75.5					650 2,000,000	75.5
Svenska BP A.B. Shares of Swedish Kronor 1,000	50,000	3.7					50,000	3.7
The British Petroleum Co. of Australia Ltd. Shares of Australian $2	50,250,000	52.7					50,250,000	52.7
Investment in other subsidiary companies (includes BP Medway Tanker Co. Ltd. £90 and BP Thames Tanker Co. Ltd. £90)	115 companies	122.2	6 companies	4.9	2 companies†	0.2†	119 companies	126.9
		274.2		4.9		0.2		278.9
Less Provisions – see Schedule XII		8.7		–		–		8.7
Net Investment		265.5		4.9		0.2		270.2

† Transfer of shares to subsidiary companies.

All the above named companies are 100 per cent owned.

SCHEDULE IV

THE BRITISH PETROLEUM COMPANY LIMITED

INDEBTEDNESS OF AFFILIATES

	Balance at Beginning of Period	Balance at End of Period
	(£ million)	
Year ended December 31, 1977		
BP Canadian Holdings Ltd.	58.5	44.9
BP Medway Tanker Co. Ltd.	48.4	42.0
BP Thames Tanker Co. Ltd.	15.6	42.0
BP Trading Ltd.	682.4	626.0
Svenska BP A.B.	33.6	32.3
40 other companies at December 31, 1977	362.6	335.7
	1,201.1	1,122.9

Note: All changes result from corporate financial and trading activities.

SCHEDULE IV

THE BRITISH PETROLEUM COMPANY LIMITED

INDEBTEDNESS OF AFFILIATES

	Balance at Beginning of Period	Balance at End of Period
	(£ million)	
Year ended December 31, 1976		
BP Canadian Holdings Ltd.	53.8	58.5
BP Medway Tanker Co. Ltd.	48.4	48.4
BP Trading Ltd.	329.0	682.4
Svenska BP A.B.	32.3	33.6
42 other companies at December 31, 1976	321.0	378.2
	784.5	1,201.1

Note: All changes result from corporate financial and trading activities.

SCHEDULE V

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

PROPERTY, PLANT AND EQUIPMENT

	Balance at Jan. 1, 1977	Additions at cost	Retirements or sales	Other Changes	Balance at Dec. 31, 1977
			(£ million)		
Production and exploration	1,997.5	375.4	51.8	(124.2) (a)	2,196.9
Tankers	303.4	0.2	12.9	(4.7) (a)	286.0
Refineries	1,261.9	56.6	51.6	(56.4) (a)	1,210.5
Marketing	1,331.3	146.0	40.5	(84.6) (a) 6.9 (b)	1,359.1
Chemicals	343.6	58.1	4.0	(0.7) (a) 21.7 (b)	418.7
	5,237.7	636.3	160.8	(242.0)	5,471.2

(a) Exchange adjustments.

(b) Acquisitions.

SCHEDULE V

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

PROPERTY, PLANT AND EQUIPMENT

	Balance at Jan. 1, 1976	Additions at cost	Retirements or sales	Other Changes	Balance at Dec. 31, 1976
			(£ million)		
Production and exploration	1,277.9	609.9	4.8	103.8 (a) 10.7 (b)	1,997.5
Tankers	365.9	12.2	79.1	4.4 (a)	303.4
Refineries	1,067.5	30.8	2.7	166.3 (a)	1,261.9
Marketing	1,101.0	108.0	43.0	164.9 (a) 0.4 (b)	1,331.3
Chemicals	302.1	46.9	7.9	2.5 (a)	343.6
	4,114.4	807.8	137.5	453.0	5,237.7

(a) Exchange adjustments.

(b) Acquisitions.

SCHEDULE VI

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

PROVISIONS FOR DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

	Balance at Jan. 1, 1977	Additions Charged to Costs and Expenses	Retirements Renewals and Replacements	Other Changes	Balance at Dec. 31, 1977
			(£ million)		
Production and exploration	351.4	129.1	19.0	(27.6) (a)	433.9
Tankers	115.2	19.4	11.3	(2.7) (a)	120.6
Refineries	808.2	52.7	51.5	(30.5) (a)	778.9
Marketing	653.5	69.6	31.8	(43.4) (a) 2.9 (b)	650.8
Chemicals	160.2	19.7	3.1	(0.5) (a) 12.9 (b)	189.2
	2,088.5	290.5	116.7	(88.9)	2,173.4

Charged to costs and expenses as shown above	290.5
Add: provided against investments in associated companies	13.2
Depreciation charged to costs and expenses	303.7

(a) Exchange adjustments.

(b) Acquisitions.

SCHEDULE VI

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

PROVISIONS FOR DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

	Balance at Jan. 1, 1976	Additions Charged to Costs and Expenses	Retirements Renewals and Replacements	Other Changes	Balance at Dec. 31, 1976
			(£ million)		
Production and exploration	228.0	105.7	3.6	21.3 (a)	351.4
Tankers	132.5	20.3	40.5	2.9 (a)	115.2
Refineries	657.7	53.8	0.4	97.1 (a)	808.2
Marketing	533.4	65.5	38.5	92.9 (a) 0.2 (b)	653.5
Chemicals	148.0	17.8	7.0	1.4 (a)	160.2
	1,699.6	263.1	90.0	215.8	2,088.5

Charged to costs and expenses as shown above	263.1
Add: provided against investments in associated companies	2.8
Depreciation charged to costs and expenses	265.9

(a) Exchange adjustments.

(b) Acquisitions.

SCHEDULE IX

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES
BONDS, MORTGAGES AND SIMILAR DEBT
AT DECEMBER 31, 1977

Name of issuer and title of each issue		Amount authorized by indenture	Amount issued and not retired or cancelled (Note (a))	Amount included in consolidated balance sheet
		(in millions of currency units)		(£ million)
Long-term loans				
The British Petroleum Company Limited				
Var. International Westminster Bank repayable by 1984	£	10.0	10.0	10.0
Var. Barclays Bank International Loan repayable by 1984	£	10.0	10.0	10.0
7% Eximbank Eurodollar Loan repayable by 1984	U.S. $	38.2	38.2	20.0
6% Bearer Bonds repayable by 1987	Sw. Francs	80.0	80.0	21.0
7¾% Bank of Tokyo Eurodollar Loan repayable by 1983	U.S. $	15.0	15.0	7.8
BP Australia Ltd.				
Var. Loan repayable by 1984	U.S. $	50.0	50.0	26.0
BP Canada Ltd.				
7¾% Series A Debentures repayable by 1993	U.S. $	25.0	22.0	11.5
8¼% Series B Debentures repayable by 1993	Can. $	25.0	22.0	10.5
BP Capital Ltd.				
8½% Loan repayable by 1984	U.S. $	33.0	33.0	17.2
8½% Loan repayable by 1984	U.S. $	18.0	18.0	9.4
BP Refinery Canada Ltd.				
5¾% Sinking Fund Debentures repayable by 1986	Can. $	30.0	19.3	9.2
BP North American Finance Corporation				
9¼% Guaranteed Debentures repayable by 2001	U.S. $	150.0	150.0	78.1
10% Guaranteed Debentures repayable by 2000	U.S. $	100.0	100.0	52.1
5½% Promissory Notes repayable by 1985	U.S. $	55.0	29.3	15.3
BP Pipelines Inc.				
Var. Revolving Credit Facility	U.S. $	175.0	–	–
9¾% Guaranteed Notes repayable by 1999	U.S. $	80.5	80.5	41.9
8⅝ % Guaranteed Notes repayable by 1983	U.S. $	80.5	80.5	41.9
10⅜ % Guaranteed Notes repayable by 1993	U.S. $	262.6	262.6	136.8
10⅝ % Guaranteed Notes repayable by 1998	U.S. $	300.9	300.9	156.7
9¾% Guaranteed Notes repayable by 1993	U.S. $	116.9	116.9	60.9
9¾% Guaranteed Notes repayable by 1998	U.S. $	44.1	44.1	23.0
6% Marine Terminal Revenue Bonds repayable by 2007	U.S. $	112.7	112.7	58.7
6.05% Marine Terminal Revenue Bonds repayable by 2007	U.S. $	101.4	101.4	52.8
British Petroleum Maatschappij Nederland B.V.				
8½% Loan repayable by 1987	D. Fls	125.0	125.0	28.7
British Petroleum Raffinaderij Nederland N.V.				
8% Debenture Loan repayable by 1986	D. Fls	75.0	67.5	15.5
7¼% Debenture Loan repayable by 1987	D. Fls	100.0	100.0	22.9
BP (Schweiz) A.G.				
7½% Bearer Bonds repayable by 1985	Sw. Francs	60.0	60.0	15.7
Oelwerke Julius Schindler GmbH				
6¾% Bond Loan repayable by 1983	D. Marks	50.0	50.0	12.4
Société Française des Pétroles BP				
8¾% Debentures repayable by 1989	Fr. Francs	150.0	132.3	14.7
Var. Loans repayable by 1990	Fr. Francs	100.0	100.0	11.1
Var. Loan repayable by 1983	Fr. Francs	50.0	50.0	5.6
Var. Loan repayable by 1986	Fr. Francs	50.0	50.0	5.6
Other Bonds, Debentures and Loans				78.7
Total Long-term Loans				1,081.7
Short-term Loans and Acceptances				1,016.0
Bank Loans and Overdrafts				64.8
				2,162.5
		Of which subject to repayment within one year		661.6

Note: (a) None of the amounts shown in this column is
(i) Held by or for the account of the issuer thereof
(ii) Held in sinking or other special funds of the issuer thereof
(iii) Pledged by the issuer thereof

SCHEDULE X

THE BRITISH PETROLEUM COMPANY LIMITED

INDEBTEDNESS TO AFFILIATES

	Balance at Beginning of Period	Balance at End of Period
	(£ million)	
Year ended December 31, 1977		
Deutsche BP A.G.	42.1	40.8
68 other companies at December 31, 1977	268.5	299.5
	310.6	340.3

Note: All changes result from corporate financial and trading activities.

SCHEDULE X

THE BRITISH PETROLEUM COMPANY LIMITED

INDEBTEDNESS TO AFFILIATES

	Balance at Beginning of Period	Balance at End of Period
	(£ million)	
Year ended December 31, 1976		
Deutsche BP A.G.	31.9	42.1
66 other companies at December 31, 1976	171.7	268.5
	203.6	310.6

Note: All changes result from corporate financial and trading activities.

THE BRITISH PETROLEUM COMPANY LIMITED

GUARANTEES OF SECURITIES OF OTHER ISSUERS
As at December 31, 1977

Name of Issuer of Securities Guaranteed by Person for Which Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding (£ million)	Amount Owned by Person or Persons for which Statement is filed (£ million)	Amount in Treasury of Issuer of Securities Guaranteed (£ million)	Nature of Guarantee	Nature of any Default by Issuer of Securities Guaranteed in Principal, Interest, Sinking Fund or Redemption Provisions, or Payment of Dividends
Long-term loans						
BP Australia Ltd.	6¼% Loan	26.0				
BP Canada Ltd.	7¾% A & 8¼% B Debentures	22.0				
BP Refinery Canada Ltd.	5¾% Sinking Fund Debentures	9.2				
BP North American Finance Corp.	5½% Promissory Notes/9¼% & 10% Debentures	145.5				
BP Pipelines Inc.	8⅝%/10⅝% Guaranteed Notes/6% & 6.05% Bonds	572.7				
British Petroleum Maatschappij Nederland B.V.	8½% Loan	28.7				
British Petroleum Raffinaderij Nederland N.V.	7¼%/8% Debentures	38.4				
BP (Schweiz) A.G.	7½% Bearer Bonds	15.7				
BP Capital Ltd.	8½% Loans	26.6				
4 Other Subsidiaries	Loans and Debentures	12.9				
Total long-term loans		897.7	None	None	Principal and Interest	No defaults
Short-term loans						
BP Thames Tanker Co. Ltd.	Promissory Notes/Loans	61.6				
BP Tanker Co. Ltd.	6%/7½% Promissory Notes	20.1				
BP New Zealand Ltd.	6¾%/7¼% Debentures/Loans	16.0				
BP North American Finance Corp.	9% Guaranteed Notes	26.0				
BP Pipelines Inc.	Promissory Notes	50.7				
British Petroleum (Overzee) B.V.	Revolving Credit/7% Notes	54.5				
British Petroleum Raffinaderij Nederland N.V.	6%/7¼% Debenture Loans	9.7				
BP Capital Ltd.	Loan	26.0				
7 Other Subsidiaries	Bonds, Loans and Promissory Notes	12.7				
Total short-term loans		277.3				

SCHEDULE XI

SCHEDULE XII

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

PROVISIONS

Deducted in the balance sheet from the assets to which they apply

	Balance Jan. 1, 1977	Additions Charged to: Costs and Expenses	Additions Charged to: Other Accounts	Deductions	Balance Dec. 31, 1977
			(£ million)		
Registrant					
Provision against investments in associated companies	2.1	–	–	–	2.1
Provision against investments in subsidiary companies	8.7	–	–	–	8.7
Group					
Provision against investments in associated companies	37.4	13.2	–	0.1	50.5
Provision against doubtful debts	33.5	7.0	(1.1)	4.4	35.0

SCHEDULE XII

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

PROVISIONS

Deducted in the balance sheet from the assets to which they apply

	Balance Jan. 1, 1976	Additions Charged to: Costs and Expenses	Additions Charged to: Other Accounts	Deductions	Balance Dec. 31, 1976
			(£ million)		
Registrant					
Provision against investments in associated companies	2.1	–	–	–	2.1
Provision against investments in subsidiary companies	8.7	–	–	–	8.7
Group					
Provision against investments in associated companies	34.9	2.8	–	0.3	37.4
Provision against doubtful debts	27.9	7.4	2.5	4.3	33.5

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES
CAPITAL SHARES AT DECEMBER 31, 1977

		Number of shares authorized	Number of shares issued	Not held by, or for account of issuer	Shares issued or outstanding Number	Shares issued or outstanding £ million	Number of shares held by consolidated affiliates
The British Petroleum Company Limited –							
8% (now 5.6% plus tax credit) Cumulative First Preference Stock		7,250,000	7,232,838	7,232,838	7,232,838	7.2	None
9% (now 6.3% plus tax credit) Cumulative Second Preference Stock		5,500,000	5,473,414	5,473,414	5,473,414	5.5	None
Ordinary Stock		386,518,085	386,518,085	386,518,085	386,518,085	386.5	None
Unclassified Shares		100,731,915	–	–	–	–	
						399.2	
Border Chemicals Ltd.	A Shares 300,000 B Shares 300,000 C Shares 300,000	900,000	900,000	900,000	300,000	0.3	600,000
BP Canada Ltd.	No par value Shares	30,000,000	21,016,024	21,016,024	7,243,302	30.2	13,772,722
	5% Cum. Redeemable Sinking Fund Preference Shares	11,912	11,912	11,912	11,912	0.6	–
Forth Chemicals Ltd.	A Shares 1,000,000 B Shares 500,000	1,500,000	1,500,000	1,500,000	500,000	0.5	1,000,000
Kwinana Nitrogen Company Pty Ltd.	A Shares 2,400,000 B Shares 600,000	3,000,000	3,000,000	3,000,000	600,000	0.7	2,400,000
Société Française des Pétroles BP	Ordinary Shares	7,724,721	7,724,721	7,724,721	2,328,319	12.9	5,396,402
Société Streichenberger	Ordinary Shares	63,762	63,762	63,762	16,384	0.3	47,378
Trouw & Co. N.V.	Ordinary Shares	391,500	391,500	391,500	130,500	0.6	261,000
Minority Shareholdings in 24 other companies						0.7	
						46.8	

SCHEDULE XIII

SCHEDULE XVI

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Year ended December 31, 1977

Description	Charged to Costs and Expenses (£ million)
Maintenance and repairs	195.4
Rents, tanker charters and hire of plant and machinery	273.5

(a) Depreciation and amounts provided, customs duties and sales taxes are shown as separate headings in the Consolidated Statement of Income.

(b) Oil royalties are treated as part of production costs in the Consolidated Statement of Income.

(c) Amounts charged to income in respect of amortization of intangibles, taxes other than income taxes, advertising costs, research and development costs and royalties other than oil royalties are, for each heading, less than 1% of total sales and revenues.

SCHEDULE XVI

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Year ended December 31, 1976

Description	Charged to Costs and Expenses (£ million)
Maintenance and repairs	171.9
Rents, tanker charters and hire of plant and machinery	249.5

(a) Depreciation and amounts provided, customs duties and sales taxes are shown as separate headings in the Consolidated Statement of Income.

(b) Oil royalties are treated as part of production costs in the Consolidated Statement of Income.

(c) Amounts charged to income in respect of amortization of intangibles, taxes other than income taxes, advertising costs, research and development costs and royalties other than oil royalties are, for each heading, less than 1% of total sales and revenues.

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The British Petroleum Company Limited
Annual Report & Accounts 1977

US DOLLAR EDITION

The Chairman's statement, Directors' report and the audited accounts, prepared under accounting principles generally accepted in the UK, were issued to stockholders on March 31, 1978.

This edition utilises the same narrative with arbitrary translation of Sterling to US dollars and conversion of tonnes to barrels.

The British Petroleum Company Limited
Annual report and accounts
Contents

Conversion bases

£ sterling to US dollars
Figures shown herein in US dollars have been translated from the sterling figures appearing in the Annual Report and Accounts of the company at the December 31, 1977 exchange rate of \$1·92 = £1 and it should not be construed as a representation that the amounts of the pound (£) sterling accounts represent, or have been or could be converted into, US dollars at this or any other rate.

Tonnes to barrels
Conversion of tonnes into barrels has been made at the rate of 7·5 barrels per tonne.

The BP Group

BP is the biggest industrial concern in the UK and ranks eighth largest of the world's industrial companies and third outside the US, on the basis of sales proceeds. About 81,000 people work for group companies worldwide. Other companies throughout the world in which BP has a minority interest employ a further 60,000 people.

BP is engaged in all phases of the oil and natural gas industry including exploration, production, shipping, refining, marketing, chemicals and research. BP's interests in the US are mainly through its stockholding in The Standard Oil Company (Sohio).

The group has pioneered the discovery and development of several of the world's most important oil producing areas from Iran to Alaska and the North Sea. The group is exploring in 20 countries.

The major part of the group's crude oil is obtained from the Middle East and Nigeria. Oil is flowing in large quantities from the North Sea Forties Field and Sohio is now producing substantial quantities from the Prudhoe Bay Field in Alaska.

On 31 December 1977 BP owned 71 ships totalling 7·4 million deadweight long tons and had some 7·8 million dwt on long-term charter.

About 45% of the group's crude oil supplies is sold to third parties and the remainder is processed for BP. The group refining interests are located in 25 countries and include 13 wholly-owned refineries, a majority interest in five refineries with 100% processing availability, together with part ownership of 18 other refineries.

Products are sold in Western Europe – which accounts for 70% of the group's volume of product sales – and in Africa, Canada, Australasia and parts of the Far East. UK product sales represent something over 15% of the group's business. BP meets more than 10% of total EEC oil demand. The BP Marine International Service supplies fuels and lubricants to world shipping through arrangements at 320 ports. Air BP is a major supplier to international aviation.

The group's large and growing interests in the chemicals and plastics industry include operations at eight centres in the UK and by associated companies in Germany, France, Australia, India and South Africa.

The group is diversifying into a number of activities outside its traditional oil and natural gas operations. These include coal, in which the group has substantial interests in Australia, Canada and southern Africa; the animal nutrition field; minerals; and technology related to the group's present activities. Other group companies are concerned with insurance, computers and international travel and freight forwarding.

BP's current interest in Sohio is approximately 40% and is expected to increase to more than 50% by mid-1978 at which time over 40% of the BP group's total assets will be in the US. Sohio's leases in Alaska entitle it to some 53% of the oil reserves of the main reservoir of the Prudhoe Bay Field which contains more than one quarter of total US proved reserves of crude oil. Sohio and BP together own a nearly 50% interest in the Trans Alaska Pipeline System. Sohio is a fully integrated company with sales of oil products totalling approximately 400,000 barrels per day (b/d) in Ohio and adjoining states and the Eastern Seaboard. Sohio operates tankers and pipelines, owns and operates three refineries and has interests in chemicals, plastics, coal production, oil shale and uranium ore mining and processing and has 22,000 employees.

Approximately 31% of the capital of BP is owned by the British Government and approximately 20% by the Bank of England. The remaining 49% is held by approximately 177,000 stockholders, one of which represents the interests of some 28,000 American Depositary Receipt holders.

When the government acquired its interest in 1914, the company's Articles of Association were amended to give the government the right to nominate two members of the Board with power to veto any resolution. The government, however, pledged itself not to interfere in the company's commercial affairs, and undertook not to exercise the right of veto except in regard to certain specific matters of general policy. The right of veto has never been exercised.

The Bank of England purchased its holding from The Burmah Oil Company, Limited on 23 January 1975 as part of the financing arrangements made by the Bank with that Company. In 1977 the government sold part of its original holding in BP in a public offer (thus reducing its interest from 48% to 31%) and at the same time stated its intention to acquire the Bank of England's holding in due course. At the time of this sale, the government stated it was its intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of the company as a commercial concern.

1976

Board of Directors

*Sir David Steel DSO, MC, TD, Chairman

*M M Pennell CBE, Deputy Chairman

*R W Adam

†Sir Lindsay Alexander Chairman, Ocean Transport and Trading Limited

*Dr J Birks CBE

Marshal of the Royal Air Force The Lord Elworthy KG, GCB, CBE, DSO, MVO, DFC, AFC, former Chief of the Defence Staff

†The Lord Greenhill of Harrow GCMG, OBE, former Permanent Under-Secretary, Foreign and Commonwealth Office

The Earl of Inchcape Chairman, Inchcape and Company Limited

†T Jackson General Secretary, Union of Post Office Workers

*C C F Laidlaw

Sir James Menter FRS, Principal, Queen Mary College, University of London

†Sir Alastair Pilkington FRS, Chairman, Pilkington Brothers Limited

*J W R Sutcliffe

†M J Verey TD, Chairman, The Charities Official Investment Fund

*P I Walters

*Managing Director

†Member of Audit Committee

Secretary
D A G Sarre

Registered Office
Britannic House, Moor Lane, London EC2Y 9BU

Auditors
Whinney Murray & Co

Depositary for American Depositary Receipts
Morgan Guaranty Trust Company of New York
23 Wall Street, New York, New York 10015

The Chairman's Statement

The Annual Report and Accounts, the Review of the BP group and the Financial Review, are each for the first time contained in separate documents in the hope that this will make the immensely complicated account of our affairs more digestible. They describe the group's performance in 1977 but here I would like to draw your attention to some specific issues.

The sale by the British Government of stock representing 17·2% of the ordinary capital of BP, has resulted in a welcome addition of some 70,000 new stockholders making a total, including individuals in the United States, of over 200,000. Approximately 31% of the capital remains in the ownership of the British Government and 20% with the Bank of England. The government has reaffirmed its intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of the company as a commercial concern.

As in the previous year, your company was responsible in 1977 for more than half the UK's production of North Sea crude oil. This, as you know, was a substantial contribution to the dramatic improvement in Britain's balance of payments position. In 1978 North Sea production will increase and I expect our share to be some 40%. The successful development of the Forties Field results in large revenues which are being split between the government by way of tax and the company, in the ratio of approximately 75 : 25 over the years. The government's tax measures are designed to provide a high cash flow to the producer in the early years. This has enabled the group to accelerate its repayments of the bank loans raised for the development of the Forties Field. The balance of the share which remains to the company is required to pay for further investment and growth, especially the increasingly costly search for and development of further oil and other energy supplies. The projected development of the Magnus Field in the North Sea at a cost at present estimated at $2·4 billion is one such investment.

The expected improvement in cash flow from the North Sea has been partly offset by a combination of adverse circumstances, notably the weakness of the oil and chemical markets, and the fall in the value of the dollar against sterling. In addition, the persistent surpluses of shipping and crude distillation capacity have imposed substantial losses on our European trade. In the absence of any effective action by governments, or the European Commission, to deal with these surpluses generally, we have now taken the decision to shut down our largest refinery, in Rotterdam, for two months and to lay up indefinitely five of our largest tankers. We are considering what further steps we can take ourselves to curtail these losses.

The Trans Alaska Pipeline System began transporting crude oil on target in mid-1977. This was a major achievement by all concerned. There was one serious commissioning problem when a pump station was destroyed. This substantially reduced the rate of delivery of crude oil, but the pump station has been rebuilt and the original design capacity should now be achieved thus giving us a majority shareholding in Sohio.

I would like to draw attention to a change in accounting policies. The directors have decided to adopt the proposals of the UK Accounting Standards Committee on deferred tax. As a result almost all amounts previously provided for deferred tax have been transferred to reserves and the tax charge for 1977 has been considerably reduced. This new treatment does not, of course, affect the underlying performance of the group, but it does provide a more realistic picture of the group's net income and financial position. It is covered in detail in the Report of the Directors and in the Notes to the Accounts.

There is much talk today of an impending energy crisis and we ourselves have drawn attention to the finite nature of UK – and world – crude oil and gas reserves. I would stress that our estimates still envisage an increase in world production for the next decade, to be followed by a decline, the severity of which will depend in part on the extent to which the world has succeeded in conserving supplies and developing other energy sources in the meantime. This means that oil and gas are going to be available for a long time, although increasingly devoted to the two uses for which alternatives will be least economic, namely transport and chemical feedstock. We continue to take steps in diversification against the time of eventual crude oil decline, but we have every confidence in oil and gas as the main basis of our business at least to the turn of the century.

As always our success depends on the efforts of our employees and I am pleased to say we have built up systems of consultation aimed at involving them more closely in the business and in matters which affect their working lives.

16 March 1978

DAVID STEEL

Highlights

		1976 (restated)	1977	1977
Sales	million barrels per day	3·5	**3·5**	
				%
Gross Income	$m	25,047	**28,748**	**100**
Division of gross income				
Cost of crude oil (including production taxes)	$m	14,842	**15,765**	**55**
Consumer duties and taxes	$m	4,312	**5,597**	**19**
Other operating costs	$m	5,244	**6,802**	**23**
Net income after extraordinary items				
Distributed to stockholders	$m	148	**167**	**1**
Retained for investment	$m	501	**417**	**2**
	$m	25,047	**28,748**	**100**

		1976 (restated)	1977
Dividends per unit of ordinary stock			
Additional 1976 paid in 1977	cents	0·4	
Interim	cents	13·2	**13·4**
Final	cents	24·8	**29·0**
	cents	38·4	**42·4**
Income before extraordinary items	$m	649	**688**
Expressed:			
per unit of ordinary stock	$	1·68	**1·78**
on average capital employed	%	10·3	**9·8**
on average net assets	%	11·4	**11·2**
Capital expenditure	$m	1,874	**1,527**
Funds generated from operations	$m	1,405	**2,024**
Assets employed	$m	10,690	**10,646**

Report of the Directors

The Directors submit their sixty-ninth annual report below and the accounts for the year ended 31 December 1977 on pages 13 to 22. Further information on the group's activities is this year given separately in a booklet entitled "1977 Review of the BP Group".

Group results and proposed dividends

Group income before extraordinary items for the year was $688 million, a 6% increase over the 1976 figure of $649 million. This result incorporates a change in the basis in accounting for taxation, which is referred to in more detail in a following section. The 1976 figure has been restated.

The 1977 result has been reduced by an extraordinary amount of $104 million in respect of overseas capital gains tax levied as a result of a corporate reorganisation in the UK in 1972. Income before UK corporation tax but after petroleum revenue tax amounted to $911 million compared with $515 million in 1976. Having regard to the new basis for providing for taxation a comparison of the group's net income for 1977 with that for the previous year must take account of the fact that in 1977 there is a UK corporation tax liability of $221 million and that in 1976 there was a credit of $146 million primarily in respect of advance corporation tax previously written off.

The year's net income per ordinary stock unit, before extraordinary items, was 92·6 pence ($1·78) (1976 87·4 pence – $1·68).

The group's after tax return before the extraordinary item, on average capital employed, fell to 9·8%, compared with 10·3% for 1976. This level of return remains inadequate to compensate for current rates of inflation, and reflects the continuing surpluses in certain phases of the oil industry's operations.

Of the year's net income, $417 million (1976 $501 million) has been retained for investment within the group leaving $167 million (1976 $148 million) provided for dividends.

A final ordinary dividend of 15·121 pence (29 cents) per stock unit is recommended, amounting to $112 million. This, when added to the interim ordinary dividend for 1977 of 6·981 pence (13 cents) per stock unit ($52 million) paid in November, makes a total ordinary dividend for 1977 of 22·102 pence (42 cents) per stock unit ($164 million). The result is an increase of 10% over the level for 1976 (after taking into account the additional amount of 0·198 pence (0·4 cents) per stock unit paid in November for 1976 because of the reduction in the rate of advance corporation tax, and adjusting for additional share capital). This increase is the maximum permitted under present UK legislation and presupposes no further change in the rate of advance corporation tax.

In addition, $59 million has been designated within reserves to reflect our intention to pay a special dividend when dividend restrictions are removed. This follows an unsuccessful application made to the Treasury in June 1977 for permission to increase the 1977 dividends by approximately 50% above 1976 levels. The designation represents the additional amount required to meet a 50% rather than a 10% increase, and is equivalent at the current rate of advance corporation tax to 7·898 pence (15 cents) per ordinary stock unit.

Trading conditions

The momentum of the 1976 economic recovery in OECD countries was not maintained. During 1977, growth in real GNP edged downwards to about 5% in the USA and less than 4% in the OECD countries in aggregate. In Europe, the position was particularly disappointing, with growth of about 2% compared with over 4% in 1976, and as a consequence, oil demand fell slightly.

Potential availability of crude oil, augmented by North Sea and Alaskan production, exceeded demand. In this situation official selling prices of Gulf crudes remained unchanged throughout the year, with the exception that from 1 July 1977 Saudi Arabia and the United Arab Emirates (the lower tier crudes) increased their prices to bring them into line with the remaining member States of OPEC (the upper tier crudes) which had increased prices by 10% from 1 January 1977. Market prices for these crudes declined steadily through the year and on into 1978. Also, towards the year-end, some producers introduced incentive discounts off their official prices in an attempt to reverse sharply falling demand for their crudes. Demand for the low sulphur crudes from Africa and the North Sea was particularly strong early in the year, reflecting the severe winter in the USA, and the African governments moved their

Report of the Directors (continued)

official selling prices up significantly. By mid-year market prices for these crudes were slipping, reflecting slack demand and the increasing availability from the North Sea; so that by the end of the year very substantial discounts off the African official selling prices were being conceded and North Sea prices were correspondingly depressed.

In terms of the margin on crude oil these developments were particularly unfavourable for BP. Having suffered disproportionately for the first half year because 85% of the group's OPEC supplies was upper tier crude, the restoration of margins into line with competitors in the second half year coincided with falling demand and thus there was no opportunity to offset the penalty of the first half year.

Similarly margins on shipping and refining, particularly for European trade, remained very depressed because of the continuing surplus of large tankers and of distillation capacity. The end of two tier crude prices at mid-year was barely reflected in Rotterdam product prices, and the earlier experience of refiners of upper tier crude became common to all. Thus for most of the year the group's shipping and refining margin covered only variable costs, with a negligible contribution to fixed costs and overheads.

Competition in European markets remained intense and losses were incurred particularly in Germany, where BP has no indigenous crude oil and gas to offset these, in France and in Switzerland. In the UK, refining and marketing operations produced no return on the capital employed.

In Australia, Canada, New Zealand and South Africa, where the trading environment was more favourable, good results were achieved.

Group oil operations

Over the year production from the Forties Field was built up to an average 456,000 barrels per day (b/d) in December. In Alaska, the Trans Alaska Pipeline System was commissioned, but an explosion at a pump station in July resulted in throughputs being constrained to 730,000 b/d in the year under review.

Despite the depressed oil trading environment, the group increased its sales of refined products in 1977 by 3·5% to 2·0 million b/d. This growth was predominantly in higher margin gasolines and middle distillates and our total sales of low margin fuel oils were little changed. Natural gas sales also increased by 2·0% to 358 million cubic feet per day. Crude oil sales fell by 4·2% to 1·5 million b/d, but this is regarded as satisfactory in the face of the expansion in direct sales by producing countries since 1974.

Income benefited considerably from Forties crude oil production but was adversely affected by the trading conditions discussed in the previous section. In addition, the weakness of the dollar against sterling, particularly in the last quarter of the year, reduced the reported results from the group's dollar-based operations. Moreover, the group's income suffered in sterling terms from the translation of some of its current assets at year-end rates of exchange from dollars into sterling.

The group's equity interest in Sohio grew over the year from 26% to approximately 40% as a result of the build-up in production from the Prudhoe Bay Field. Sohio's net income rose to $181 million, compared with $137 million in 1976, a reflection of the commencement of Alaskan earnings. The two factors together increased Sohio's contribution to group net income to $56 million, compared with $38 million in 1976.

Chemicals

After an encouraging start to the year, European chemicals prices came under increasing pressure as declining economic activity resulted in increasing amounts of spare production capacity overhanging the market. Consequently, although sales were increased by 2·1% to 50,000 b/d, the contribution of chemicals to group income dropped to $36 million, compared with $94 million in 1976.

This contribution consists of income from direct chemicals operations before interest and tax and the group's proportion of its associated chemical companies' income for the year. It excludes the chemicals activities of Sohio and those within the group's oil marketing companies.

Capital expenditure

Capital expenditure by the group in 1977, together with its proportion of the capital expenditure of associated companies other than Sohio, totalled $1,527 million. This included the continuing heavy cost involved in creating and developing new crude oil production and transportation facilities in the North Sea and Alaska. In addition, the group made a significant acquisition of coal mining interests in Australia.

Assets employed

The level of assets employed has not changed significantly over the year; the impact of increased capital investment having been offset by the expansion in the deferred liability in respect of petroleum revenue tax.

The Activity and Geographical Analysis on page 23 for the first time indicates the geographic spread of total assets less current liabilities.

Deferred taxation

The UK Accounting Standards Committee issued a Standard on Accounting for Deferred Taxation in August 1975 (SSAP 11) for mandatory application from 1 January 1976. Companies were advised that this new Standard should be adopted as soon as possible and consequently the BP group applied it in its accounts for 1975 and 1976. However, in October 1976 the implementation date of SSAP 11 as a Standard was deferred to allow time for a review of the principles and methods of accounting proposed.

In May 1977 a new Exposure Draft on Accounting for Deferred Taxation (ED 19) was issued. This proposes that deferred taxation need not be provided where it can be demonstrated that there is no reasonable probability of the tax becoming payable in the foreseeable future.

The Directors have decided to adopt ED 19. Had the group continued over the years to provide for deferred taxation on the basis of SSAP 11 then in our view this would have produced a major distortion in the presentation of annual results and in the division of funds between shareholders and other sources. A detailed review of existing deferred taxation provisions has therefore been made based on further interpretation of ED 19 particularly in relation to the time span envisaged by the term 'foreseeable future' and consideration of the taxation effects of the group's continuing investment in the UK North Sea.

This confirms that substantial sums can be released from past provisions and that for 1977 the taxation charged against income is materially reduced. The adjustments arising from the adoption of ED 19 are higher than previously indicated in the quarterly income statements during the year. The details are given in Note 3 to the accounts which includes a comparison of taxation charged under ED 19 and SSAP 11. The figures for income before extraordinary items on both bases are as follows:

	1977	1976
	$m	$m
Income as now reported applying ED 19	**688**	649
Income with full provision for deferred taxation	**481**	345

Developments in financial reporting

The accounts include this year for the first time additional information on page 23 on the industrial and geographical spread of the group's activities. Within an integrated international company any allocation presents some difficulties, largely on account of transactions between different reporting segments, but your Directors believe that the additional information now provided considered in conjunction with the explanatory notes will assist in an appreciation of the group's operations.

In November 1977 an interim recommendation on inflation accounting was issued by the Accounting Standards Committee ("The Hyde Guidelines") and consequently this year's report includes on page 28 a statement and supporting explanatory notes in line with the recommendation. While BP recognises the desirability of attempting to reflect the impact of inflation in financial reporting and accepts the Hyde Guidelines as a constructive step in this direction, nevertheless there remain many complex issues for discussion before inflation adjusted accounts can provide an alternative basis for the measurement of performance and therefore for reporting to shareholders. For example, the additional depreciation included in the statement is calculated predominantly by indexing the historic cost of assets but in current conditions of surplus the replacement cost for shipping and distillation assets so derived bears no relationship to either realisable asset values or earning capacity.

Report of the Directors (continued)

Contribution to the UK balance of payments With the production from Forties Field at higher levels in 1977, it is estimated that the balance of payments has benefited by $1,920 million from the group's North Sea activities (1976 $710 million). Exports of oil products and chemicals from the UK were valued at $2,068 million and $213 million respectively.

Significant events During the year the sale of £66·7 million Ordinary Stock was successfully concluded by HM Government. 20% of this Ordinary Stock was sold in North America. The sale reduced the proportion of BP's Ordinary Stock held by the Government to 30·9%, with a further 20·1% held by the Bank of England. This increased the number of registered BP Stockholders to 177,000 from 107,000 before the sale. Of these, one holding represents some 28,000 stockholders in the USA who hold their interests through American Depositary Receipts.

Sohio's net production from the Prudhoe Bay properties in Alaska sustained over 90 days exceeded 300,000 barrels per day during 1977. This increased the group's investment in Sohio to approximately 40% at 31 December 1977.

Articles of Association A resolution will be proposed at the Annual General Meeting to alter the Articles of Association in a number of respects. The major changes are as follows:—

(i) To reflect the nature of the Company's business it is proposed to eliminate the requirements that a Director must be a British subject (Article 81) and that Board and committee meetings cannot be held outside England without the consent in writing of the Directors appointed by the Government (Article 93).

(ii) Article 87 currently provides that each Director shall be entitled to remuneration at the rate of £1,000 per annum. It is considered that this fee is totally inadequate and, as flexibility is desirable, it is proposed to authorise the Board to fix each Director's fee from time to time subject to a maximum of £8,000 per annum. The provision in Article 87, which permits additional remuneration to be paid to Directors who perform services outside the scope of the ordinary duties of a Director, is retained. It should be noted, in this context, that Directors' fees will be increased only if this is consistent with whatever Government pay policy may currently be in force.

(iii) It is proposed, in accordance with modern practice, to amend the provisions of Articles 86 and 101 so that no shareholding qualification is required of a Director in place of the current requirement that a Director shall hold shares of an aggregate nominal value of £1,000.

(iv) An alteration is proposed to Article 73 under which the voting rights in respect of a share are suspended if there is a default in giving information as to beneficial ownership following a request by the Company for such information under section 27 of the Companies Act 1976.

Other alterations are proposed which are intended to bring the Articles of Association more into line with modern practice. These include elimination of the provisions in Articles 18, 24 and 30 relating to payment of fees by shareholders in certain circumstances, an addition to Article 28 which permits destruction of old share transfers and cancelled share certificates after retention for specified periods, amendments to Articles 74 and 75 regarding the execution and lodgment of instruments appointing a proxy and an amendment to Article 85 which extends the period of notice required to be given of an intention to propose the election of a Director who is not a retiring Director. Further changes are proposed to Articles 16, 24, 28, 113 and 117 to conform to current Stock Exchange requirements and to reflect certain provisions of The Stock Transfer Act 1963 and the Stock Exchange (Completion of Bargains) Act 1976.

Directors The Board appointed Dr J Birks a Managing Director as from 1 January 1978 and in accordance with the Articles of Association he retires and, being eligible, offers himself for re-election.

Lord Elworthy and Lord Inchcape retire from the Board by rotation and, being eligible, offer themselves for re-election.

The present Directors of the Company are listed on page 4.

Directors' interests in the Company

Interests of the Directors in the stock and debentures of the Company are shown below. These include family interests; other interests (e.g. as a trustee) are indicated by an asterisk.

	Type of Stock	1 Jan 1977 £ units	31 Dec 1977 £ units
Sir David Steel	Ordinary	1,066	1,066
M M Pennell	Second Preference	400	400
	Ordinary	600	2,000
R W Adam	Ordinary	1,000	1,000
Sir Lindsay Alexander	First Preference	1,000	1,000
	Ordinary	—	300
The Lord Elworthy	Ordinary	1,066	1,066
The Lord Greenhill of Harrow	†Ordinary	1,000	1,000
The Earl of Inchcape	Ordinary	3,383	3,383
	*Ordinary	1,871	1,871
T Jackson	†Ordinary	1,000	1,000
C C F Laidlaw	Ordinary	1,000	1,000
Sir James Menter	First Preference	1,000	1,000
	Ordinary	—	150
Sir Alastair Pilkington	First Preference	830	830
	Ordinary	170	170
J W R Sutcliffe	Ordinary	1,000	1,000
M J Verey	Ordinary	2,066	2,166
P I Walters	Ordinary	1,000	1,000

† held as nominee for HM Government

On appointment the interest of Dr J Birks was £1,013 Ordinary Stock.

None of the Directors had any interest in shares or debentures of subsidiary companies of the Company at 31 December 1977. Interests of all the Directors of the Company and their family interests do not, in the aggregate, in respect of either share capital or voting control, exceed 5% of the parent company or of any one subsidiary.

Since 31 December 1977, Lord Greenhill has notified the Company of a personal interest in £56 Ordinary Stock; no other change in the interests described above has taken place up to 16 March 1978.

UK staff The average weekly number of persons employed by the group in the UK during 1977 was 33,708 and their aggregate remuneration for that year was $317 million.

Charitable contributions During the year the group made payments in the UK amounting to $719,964.

Auditors Whinney Murray & Co. who are willing to continue in office offer themselves for reappointment.

By order of the Board
D A G Sarre, Secretary

16 March 1978

Report of the Auditors

The following is a reproduction of the Report given by the Auditors on the sterling accounts prepared in accordance with accounting principles generally accepted in the UK.

To the Members of The British Petroleum Company Limited

We have examined the accounts of The British Petroleum Company Limited set out on pages 13 to 22 and pages 30 to 33. These have been prepared under the historical cost convention.

In our opinion, the company's balance sheet and the group accounts give, under the accounting convention stated above, a true and fair view of the state of affairs at 31 December 1977 and of the net income, changes in reserves and source and application of funds for the year then ended, and comply with the Companies Acts, 1948 and 1967.

We have also examined the Current Cost Statement for the year ended 31 December 1977 on page 28. In our opinion the statement has been properly prepared, in accordance with the methods set out therein, to give the information indicated by the Accounting Standards Committee's Interim Recommendation on Inflation Accounting of November 1977.

Whinney Murray & Co.
Chartered Accountants
London, 16 March 1978

The British Petroleum Company Limited and subsidiary companies
Accounting Policies

Changes in Accounting Policies

Two changes in accounting policies have been made since last year—

(a) The group now accounts for deferred taxation in accordance with the method proposed in Exposure Draft 19, issued in 1977 by the UK Accounting Standards Committee. The effect of this change (see note 3 – Taxation) has been dealt with as a prior year adjustment and the corresponding figures for 1976 have been restated on the new basis.

(b) Provision against exploration expenditure is no longer made for expenditure relating to uncompleted wells and to completed wells awaiting determination of whether proven reserves have been found. No material sum is involved in this change.

Accounting Convention

The accounts are prepared under the historical cost convention.

Composition of Group Accounts

The group accounts comprise a consolidation of the accounts of the parent company and all its subsidiaries except for a number of minor companies the consolidation of whose accounts would cause undue expense and delay in presentation and whose income is insignificant. The investment in these minor companies is included in the group balance sheet with investment in associated companies.

Where accounting policies followed by subsidiaries differ significantly from those adopted for group accounts purposes appropriate consolidation adjustments are made for material items.

In the case of associated companies there is included in the income statement the group proportion of the income and costs of those companies, including The Standard Oil Company (Sohio), whose earnings are material. Dividends received are included for associated companies whose earnings are relatively small.

Currency Translation

Assets and liabilities expressed in currencies other than sterling and operating results of overseas subsidiaries are translated into sterling at the year-end rates of exchange.

Exchange fluctuations are included in the determination of income except those relating to the restatement at year-end exchange rates of

(a) opening balance sheets of overseas subsidiary and associated companies and

(b) long-term receivables and finance debts (excluding acceptance facilities) in other than local currencies

which are taken directly to reserves.

Stock Valuation

Stocks of oil and chemicals are valued at the lower of approximate group cost including overheads, using the first in, first out method, and net realisable value. For purposes of valuation Petroleum Revenue Tax (PRT) is treated as a cost. Stocks of stores are stated at or below cost calculated mainly using the average method.

Pensions

In most companies there are pension and retirement plans, the forms and benefits varying with regard to economic conditions and practices in the countries concerned. Where funds and provisions exist, payments and charges are made on the basis of actuarial assessment and where local regulations prevent the establishment of funds the cost of pensions paid is charged against income. Supplementary pension payments are charged against income when paid.

Depreciation and Amounts Provided

Properties and operating assets are depreciated over their estimated useful lives. North Sea Forties Field production assets are being amortised on a unit-of-production basis and the Trans Alaska Pipeline System on a unit-of-throughput basis. Other properties and operating assets are depreciated either on a straight line basis or by the reducing balance method.

Exploration properties are written-off over the estimated period of exploration and full provision is made against the group's proportion of other exploration expenditure whether incurred directly by subsidiary companies or indirectly by associated companies except for expenditure relating to uncompleted wells and to completed wells awaiting determination of whether proven reserves have been found.

Research

Expenditure on research and development is wholly written off in the year in which it is incurred.

Interest and Financing Costs

Interest and financing costs are charged against income but are capitalised where there is dedicated financing of major projects under development.

Petroleum Revenue Tax

The charge for PRT is calculated on a unit-of-production basis and is included in creditors or deferred liabilities as appropriate.

Deferred Taxation

The liability method is used in the calculation of deferred taxation, the charge to income reflecting the probable requirement in the foreseeable future.

The British Petroleum Company Limited and subsidiary companies
Group income statement for the year ended 31 December 1977

Figures in $ million

	Note	1977	1976 (restated)
Sales proceeds and other income			
Sales proceeds		**28,247**	24,685
Deduct: customs duties and sales taxes		**5,212**	4,370
Net sales proceeds	1	**23,035**	20,315
Other income		**501**	362
		23,536	20,677
Operating and other costs			
Cost of oil, ocean freight, refining and chemical manufacturing		**16,411**	14,658
Distribution, selling, administrative and other expenses		**1,946**	1,746
Depreciation and amounts provided		**583**	510
Interest and financing costs	2	**398**	338
		19,338	17,252
Income before taxation		**4,198**	3,425
Overseas taxation	3	**2,615**	2,662
Income after overseas taxation		**1,583**	763
UK taxation	3	**893**	102
Income after taxation		**690**	661
Minority shareholders' interest		**2**	12
Income before extraordinary items		**688**	649
Extraordinary items	4	**104**	—
Net income of the group of which parent company $175m ($327m)		**584**	649
Distribution to stockholders		**167**	148
Retained income for year	7	**417**	501
Income before extraordinary items per unit of ordinary stock	5	**$1·78**	$1·68

Reserves and distribution to stockholders

Figures in $ million

	Note	1977	1976 (restated)
Group reserves			
At 1 January as previously reported		**4,343**	3,993
Prior years' adjustments	6	**555**	235
As restated		**4,898**	4,228
Retained income for year	7	**417**	501
Exchange fluctuations			
Parent company		**(5)**	(74)
Subsidiary companies		**(202)**	243
Group reserves at 31 December of which parent company $1,182m ($1,179m)	7	**5,108**	4,898

	1977	1976
Distribution to stockholders		
Preference dividends	**1**	1
Ordinary dividends		
Additional dividend re 1976	**2**	—
Interim	**52**	51
Final recommended	**112**	96
	167	148

Dividends per unit of ordinary stock	**Rate**	Rate
Additional dividend re 1976 paid in 1977	—	0·4 cts
Interim	**13·4 cts**	13·2 cts
Final recommended	**29·0 cts**	24·8 cts
	42·4 cts	38·4 cts

The British Petroleum Company Limited and subsidiary companies
Balance sheets 31 December 1977

Figures in $ million

Parent 1976	**Parent 1977**		Note	**Group 1977**	Group 1976 (restated)
		Assets employed			
—	—	Properties and operating assets	8/9	**6,332**	6,046
		Investments			
—	—	The Standard Oil Company (Sohio)	10	**793**	842
23	**20**	Associated companies	11	**841**	660
2,220	**2,021**	Subsidiary companies	12	—	—
49	**30**	Long-term receivables		**418**	446
579	**737**	Current assets less current liabilities	13	**4,160**	4,205
2,871	**2,808**	Total assets less current liabilities		**12,544**	12,199
		Deduct:			
—	—	North Sea oil advance proceeds	15	**199**	612
—	—	Deposits and deferred liabilities	16	**1,271**	477
—	—	Deferred taxation	3	**42**	46
—	—	Insurance funds and provisions		**101**	102
—	—	Pension provisions	17	**285**	272
—	—			**1,898**	1,509
2,871	**2,808**			**10,646**	10,690
		Financed by			
766	**767**	Issued capital	18	**767**	766
379	**382**	Share premium account	18	**382**	379
1,179	**1,182**	Reserves	7	**5,108**	4,898
2,324	**2,331**	Stockholders' interest		**6,257**	6,043
—	—	Minority shareholders' interest		**237**	278
547	**477**	Finance debts	19	**4,152**	4,369
2,871	**2,808**			**10,646**	10,690

DAVID STEEL, Director

MICHAEL J VEREY, Director

Statement of source and application of funds

Figures in $ million

		1977	1976 (restated)
Source of funds	Income before extraordinary items and UK taxation	**1,581**	751
	Extraordinary items after taxation	**(104)**	—
		1,477	751
	Depreciation	**583**	510
	Other items	**(36)**	144
	Total generated from operations	**2,024**	1,405
	Increase in finance debts (excluding changes in currency values)	**86**	657
	North Sea oil advance proceeds	—	58
	Book amount of assets sold	**84**	91
	Net changes in currency values	**(234)**	278
	Prior year adjustment	—	204
	Other items	**138**	208
	Total other sources	**74**	1,496
	Funds available	**2,098**	2,901
Application of funds	Capital expenditure	**1,222**	1,551
	Investment in associated companies	**162**	295
	Reduction of North Sea oil advance proceeds	**371**	137
	Dividends paid	**151**	139
	UK tax paid	**67**	39
		1,973	2,161
	Increase in working capital	**125**	740
		2,098	2,901
	Increase in working capital		
	(Decrease)/increase in stocks	**(8)**	781
	(Decrease)/increase in debtors	**(335)**	1,075
	Decrease/(increase) in current liabilities (excluding UK tax and proposed dividends)	**372**	(888)
	Increase/(decrease) in liquid resources	**96**	(228)
		125	740

Notes on Accounts

1 Net sales proceeds

Crude oil and product sales by subsidiary companies amounted to $21,611 million ($19,129 million) in respect of 3·4 million b/d (3·4 million b/d). These included sales of petroleum products to associated companies for use as feedstocks in chemical manufacturing.

Chemical sales by subsidiary companies amounted to $1,101 million ($950 million) in respect of 0·1 million b/d (0·1 million b/d).

Natural gas sales amounted to $69 million ($52 million), animal feed sales to $243 million ($184 million) and coal to $11 million—0·2 million tonnes.

2 Interest and financing costs

	1977 $m	1976 $m
Expensed:		
Interest—Long-term debt	123	79
—Other finance debt	246	214
Forties Field financing costs	29	45
	398	338
Capitalised in respect of:		
Trans Alaska Pipeline System	63	95
Forties Field	5	10
Ninian Field	4	4
Other	3	—
	75	109

3 Taxation

	ED19 basis adopted in 1977		Previous basis	
	1977	1976	1977	1976
(a) OVERSEAS	$m	$m	$m	$m
Producer governments	2,452	2,574	2,452	2,574
Other areas—Current	154	95	154	95
—Deferred	9	(7)	(8)	21
	2,615	2,662	2,598	2,690
(b) UK				
Corporation tax at 52%				
Current	903	974	903	974
Deferred	—	—	223	276
Recoveries and provisions no longer required	(22)	(14)	(22)	(14)
	881	960	1,104	1,236
Overseas tax relief	(660)	(970)	(660)	(970)
	221	(10)	444	266
Advance corporation tax (ACT) previously written off	—	(136)	—	(136)
Transitional relief	—	—	—	—
	221	(146)	444	130
Petroleum revenue tax	672	248	672	248
	893	102	1,116	378

(c) DEFERRED TAXATION – OVERSEAS AND UK

The balance of deferred taxation at 31 December 1976 of $353 million as previously reported was after an offset of $290 million ACT. Of the resultant total of $643 million, $597 million is no longer required. As a result, $555 million has been transferred to reserves as prior years' adjustments and $42 million to minority shareholders' interest.

The potential amount of deferred taxation at 31 December 1977 of $606 million comprises tax on timing differences between the accounting and tax treatment of depreciation, net of other items and after deducting ACT of $216 million.

4 Extraordinary items

The amount of $104 million is in respect of overseas capital gains tax levied as a result of a group reorganisation in the UK in 1972 and is stated after taking into account related provisions and participation credits from the country concerned.

5 Income per unit of ordinary stock

The calculation of income per ordinary stock unit is based on income before extraordinary items of $688 million ($649 million) less preference dividends of $1 million ($1 million), related to the weighted average of 386·4 million (386·1 million) ordinary stock units in issue during the year.

6 Prior years' adjustments

	1977 $m	1976 $m
Deferred taxation provision no longer required – note 3 (c) – after minority shareholders' interest	555	235

7 Group reserves

Group reserves of $5,108 million at 31 December 1977 include associated companies' undistributed earnings of $144 million referred to in notes 10 and 11 and an unchanged parent company preference stock reserve of $19 million. Also included are amounts totalling $1,490 million ($1,484 million) retained by subsidiary companies themselves not subject to UK taxation.

In June 1977 it was announced that the Company had applied to the Treasury for permission to increase the 1977 dividends by approximately 50% to 30p net (58 cents) per £1 ordinary stock unit. The Company was informed by the Treasury that this application could not be granted under current dividend controls. In consequence of this the Directors declared their intention to reserve a sum equal to the difference between the 1977 dividends and that which would have been paid had the application to the Treasury been granted, such amount to be distributed as a special dividend when the removal of dividend restrictions permits. Accordingly $59 million, equivalent at the current rate of advance corporation tax to 7·898p net (15 cents) per ordinary stock unit has been designated within reserves as available for this purpose.

8 Properties and operating assets

At 31 December 1977 assets at cost amounted to $10,505 million ($10,056 million) and provisions amounted to $4,173 million ($4,010 million), summarised as follows:

	Production and Exploration $m	Tankers $m	Refineries $m	Marketing $m	Chemicals $m	Total $m
Cost						
1 January	3,835	582	2,423	2,556	660	10,056
Exchange adjustments	(238)	(9)	(109)	(162)	(2)	(520)
Acquisitions	—	—	—	13	42	55
Additions	721	—	109	280	112	1,222
Deletions	(99)	(24)	(99)	(78)	(8)	(308)
31 December	4,219	549	2,324	2,609	804	10,505
Depreciation						
1 January	674	221	1,552	1,255	308	4,010
Exchange adjustments	(53)	(5)	(59)	(83)	(1)	(201)
Acquisitions	—	—	—	5	25	30
Charge for year	248	37	101	134	38	558
Deletions	(36)	(22)	(99)	(61)	(6)	(224)
31 December	833	231	1,495	1,250	364	4,173
Net book amount						
31 December 1976	3,161	361	871	1,301	352	6,046
31 December 1977	3,386	318	829	1,359	440	6,332

9 Land

Included in the net amount of properties and operating assets of $6,332 million ($6,046 million) is $303 million ($307 million) in respect of land (including buildings acquired with the land) comprising:

	1977 $m	1976 $m
Freehold property, mainly service stations	275	276
Leases with unexpired terms of 50 years or more	9	10
Other leases	19	21
	303	307

10 Investment in The Standard Oil Company (Sohio)

At 31 December 1977 the group's investment in Sohio had increased to approximately 40%.

The original investment in Sohio was represented by 1,000 shares of special stock which entitled the group to the same rights (except as to dividends) as approximately a 25% common stock interest. The number of shares of common stock, to which the 1,000 shares of special stock are equivalent, rises with increases in the sustainable crude oil production from Sohio's Prudhoe Bay properties, or in certain circumstances from other Alaskan properties, to a maximum of approximately 54% if such production (net of one-eighth royalty owned by the State of Alaska) reaches 600,000 b/d prior to 1 January 1984.

In October 1975 Sohio sold 2,000,000 shares of its common stock and pursuant to the terms of the original agreement dated 7 August 1969 the group acquired 1,080,000 shares being a 54% interest of the issue thereby increasing the group's interest in Sohio to approximately 26% at which level it remained until commencement of production in mid-1977.

During the fourth quarter of 1977 a level of sustainable net production of 300,000 b/d was achieved thereby increasing the group's interest to its present level.

The group's investment as expressed in sterling has been affected by the movement during the year in the US dollar/sterling rate of exchange.

The group's interest has been equity accounted as from 1 January 1975 when dividends became receivable. This treatment has been reflected in these accounts by the inclusion in other income of $77 million ($57 million) with a charge of $21 million ($19 million) in overseas taxation. However, interest of $4 million ($11 million) on short-term loans related to this investment has been charged leaving a net benefit to group income of $52 million ($27 million). At 31 December 1977 the group's share of Sohio's undistributed income was $83 million ($46 million).

The net assets of Sohio are summarised as follows:

	1977 $m	1976 $m
Property, plant and equipment after depreciation and depletion	5,757	4,869
Investments and other assets	463	341
Current assets	1,558	1,050
	7,778	6,260
Less:		
Current liabilities	997	653
Other liabilities	46	36
Long-term debt	4,688	3,627
Deferred revenue	214	287
Deferred income taxes	154	108
Preferred stock	10	11
	6,109	4,722
Net assets applicable to common and special stock	1,669	1,538

11 Associated companies

INVESTMENT

At 31 December 1977 investment in these companies at cost amounted to $938 million ($731 million) and provisions amounted to $97 million ($71 million), summarised as follows:

	1977			1976
Group	Cost $m	Provisions $m	Net $m	Net $m
Production and exploration	284	64	220	187
Refineries	114	4	110	113
Marketing	182	24	158	180
Chemicals	164	—	164	180
Coal	194	5	189	—
	938	97	841	660
Parent	24	4	20	23

Group investments, almost entirely unquoted, in associated companies are mainly in the nature of partnerships with other oil groups having in many cases integrated trading operations with subsidiary companies of the group which take a wide variety of forms.

NET ASSETS

Information as to the group proportion of the net assets of associated companies at the end of 1977 is not yet available. However, from the accounts received during the year 1977 from major associated companies in which the group net investment at 31 December 1976 was $601 million (out of a total net investment of $660 million), it has been ascertained that the net assets of these companies amounted to $2,584 million and the group proportion thereof was $781 million as follows:

	Associated companies $m	Group proportion $m
Properties and operating assets (net)	3,801	1,121
Long-term receivables and investments	279	88
Intangibles including goodwill	35	11
Current assets	1,887	717
	6,002	1,937
Less: Finance debts	1,473	399
Liabilities mainly current	1,945	757
Net assets	2,584	781

The accounts referred to were largely prepared as at 31 December 1976 and were drawn up in accordance with the statutory regulations of the countries in which these companies were incorporated.

INCOME AND RETAINED EARNINGS—GROUP PROPORTION

The group share of the net income for the year 1977 based on accounts of major associated companies amounted to $137 million ($74 million) which has been reflected in group income by a reduction of $1,211 million ($997 million) in costs, the inclusion of $68 million ($7 million) in other income and a charge of $1,142 million ($930 million) in overseas taxation. At 31 December 1977 $61 million ($33 million) of the accumulated earnings were undistributed.

Considerable expense and undue delay would be occasioned in obtaining up-to-date completed accounts for the many associated companies incorporated and operating overseas whose earnings are relatively small. It is considered that the procedures adopted for dealing with the group share of the income of associated companies, including dividends received, effectively result, both as to costs and overseas taxation, in a meaningful presentation of the integrated operations of the group.

Notes on Accounts (continued)

11 Associated companies – (continued)

Dividends of \$17 million (\$20 million) and interest of \$8 million (\$7 million) from associated companies other than those referred to above are included in the group income statement as part of other income.

To comply with paragraph 5A of Schedule 2 to the Companies Act 1967 the following information, which excludes companies equity accounted, is given:

	Parent share \$m	Subsidiaries share \$m	Group share \$m
Aggregate results per accounts received during 1977			
before tax	7	39	46
after tax	3	19	22
Retained earnings since acquisition	5	36	41

The group share of losses is, in all material cases, covered by provisions in the parent or subsidiary companies.

Information relating to principal associated companies is given on pages 32 and 33.

12 Subsidiary companies

The parent company's investment in its subsidiary companies at 31 December 1977 was:

	1977 \$m	1976 \$m
Shares at cost less provisions	519	510
Advances, current accounts and accrued dividends	1,502	1,710
	2,021	2,220

Information relating to principal subsidiary companies is given on pages 30 to 32.

13 Current assets less current liabilities

Parent 1976 \$m	Parent 1977 \$m		Group 1977 \$m	Group 1976 \$m
		Current assets		
742	909	Bank balances	1,317	1,254
1	20	Marketable securities at net book amount (which approximates market value)	105	72
743	929	Liquid resources	1,422	1,326
35	19	Debtors	3,962	4,297
—	—	Stocks of oil and chemicals	3,272	3,295
—	—	Stocks of stores	241	226
778	948		8,897	9,144
		Current liabilities		
102	98	Creditors	4,038	4,235
—	—	Overseas taxation	550	560
—	—	Provisions	36	47
97	113	Dividends	113	97
199	211		4,737	4,939
579	737		4,160	4,205

14 Trans Alaska Pipeline System (TAPS)

BP Pipelines Inc., a group subsidiary, has a 15·84% undivided interest and Sohio Pipe Line Company, a subsidiary of The Standard Oil Company (Sohio) has a 33·34% undivided interest in TAPS.

The main construction phase of the System was completed and became operational in the second half of the year.

Sohio/BP Trans Alaska Pipeline Capital Inc. ("Capital") is owned by the two pipeline companies and its sole business is the issuance of debt securities from time to time, lending 67·8% of the proceeds to Sohio Pipe Line and 32·2% to BP Pipelines in exchange for notes in the principal amounts of their respective loans each unconditionally guaranteed by their respective parent companies.

In November 1975 and September 1976 Capital arranged private placements in aggregate of \$1,750 million $10\frac{3}{8}$% Notes (\$815·5 million due 1993 and \$934·5 million due 1998) and \$500 million $9\frac{3}{4}$% Notes (\$363 million due 1993 and \$137 million due 1998) with institutional lenders in the US. In respect thereof BP Pipelines has issued guaranteed notes to Capital for aggregate amounts of \$563·5 million and \$161 million respectively, being its proportionate share of these placements.

In addition to the above, Capital has publicly sold \$250 million $9\frac{3}{4}$% Debentures due 1999 and \$250 million $8\frac{5}{8}$% Notes due 1983 in respect of which BP Pipelines has issued guaranteed notes to Capital totalling \$161 million.

In July and August 1977 the City of Valdez, Alaska issued and sold in aggregate \$665 million Marine Terminal Revenue Bonds due 2007 (\$350 million 6% bonds and \$315 million 6·05% bonds) lending 67·8% of the proceeds to Sohio Pipe Line and 32·2% to BP Pipelines, such amounts being subject to the respective parent company guarantees.

In 1977 interest amounting to \$63 million (\$95 million) and issue expenses of \$6 million (\$1 million) in connection with TAPS financing have been capitalised and included as part of construction costs which at 31 December 1977 were \$1,482 million (\$1,416 million). This amount is included in properties and operating assets within the sub-heading production and exploration. Following the commencement of operations interest of \$49 million has been charged against income.

15 Forties Field financing

In accordance with the terms of an agreement by BP Oil Development Limited for a forward sale of crude oil and gas from the Forties Field (North Sea Block 21/10) advance proceeds of £156·0 million and \$405·6 million have been received.

Repayment of amounts advanced is being made from the proceeds of the sale of oil produced from 1 December 1975 which BP Trading Limited, a wholly-owned subsidiary, has under a separate agreement undertaken to purchase. If the flow of oil is interrupted, repayments will normally be suspended, but, subject to the presence of an adequate amount of recoverable oil, must in any event be completed by 31 December 1982. The advance proceeds outstanding at 31 December 1977 of £44·1 million (£126·1 million) and \$114·7 million (\$327·9 million) are secured on the assets and contracts connected with the development of the field.

Costs (mainly interest) incurred by the other party to the abovementioned agreement in servicing this arrangement with a consortium of banks have been reimbursed by BP Oil Development Limited. In 1977 \$29 million (\$45 million) relative to financing the facilities in operation has been charged against income and \$5 million (\$10 million) has been capitalised as part of the production assets.

The parent company has undertaken to procure the performance by its subsidiary companies of their obligations under the agreements.

16 Deposits and deferred liabilities

Deposits relate to certain payments received in advance in respect of crude oil deliveries which will be made during and after 1978 whilst deferred liabilities, which include PRT, are those which become due for settlement after 31 December 1978.

17 Pensions

The amount included in group costs for pension and retirement plans in 1977 was $173 million ($168 million).

In respect of subsidiaries with unfunded plans provisions of $285 million ($272 million) have been made, and in addition, where local regulations prevent the establishment of separate funds or creation of provisions, the liability for prior service will be met out of the income of future years.

18 Authorised and issued capital of the parent company

No changes were made during the year to the authorised capital of £500 million.

On 9 May 1977, 0·4 million ordinary shares, which were forthwith converted into £0·4 million ordinary stock, were issued under an agreement made in 1972 to acquire the remaining 40% of the Europa group of companies in New Zealand. The increase to share premium account in respect of this issue amounted to $3 million.

The nominal issued capital at 31 December 1977 was £399·2 million (£398·8 million) made up as follows:

	1977 £m	1976 £m
8% (now 5·6% + tax credit) cumulative first preference stock	7·2	7·2
9% (now 6·3% + tax credit) cumulative second preference stock	5·5	5·5
Ordinary stock	386·5	386·1
	399·2	398·8

Of the £386·5 million ordinary capital issued at 31 December 1977 Her Majesty's Government in the UK owned £119·3 million (30·9%) and the Bank of England £77·8 million (20·1%).

The above-mentioned Ordinary Stock held by the Bank of England was acquired by it on 23 January 1975 from The Burmah Oil Company, Limited. The validity of this acquisition is currently the subject of litigation. At the time of this transaction assurances were given to the Panel on Take-overs and Mergers ("the Panel") (a) by an undertaking from the Bank that it would not exercise the votes attaching to the BP Ordinary Stock so acquired so long as the Bank and the Government taken together held over 30% of the voting rights and (b) by a statement on behalf of the Government that, while the Bank held any part of such BP Ordinary Stock and its undertaking remained in force, the Government would not exercise a greater proportionate voting power in relation to other BP stockholders than it could have exercised prior to the transaction.

The Government has announced its intention to acquire the Bank of England holding in due course and thus increase the Government's holding of Ordinary Stock to 51%. The restrictions mentioned above will remain in force until such purchase, but the Panel has accepted that thereafter the Government will be free to vote the 51% stockholding which it then expects to have. The Panel will not require the Government to make an offer under the City Code to purchase the Ordinary Stock of BP held by the public. In its discussions with the Panel the Bank of England referred to the fact that the Government holding of BP Ordinary Stock had exceeded 50% for long periods in the past and to the restraint with which the Government had traditionally approached the use of its voting power. The Bank informed the Panel that it was authorised by the Government to say that it is the Government's intention to maintain its relationship with BP in a way which does not breach the

18 Authorised and issued capital of the parent company – (continued)

traditional practice of non-intervention in the administration of the Company as a commercial concern.

Apart from the above two holdings there were approximately 177,000 holders of the remaining £189·4 million (49%) ordinary stock; of these, one holding of £34·2 million stock represented the interests of approximately 28,450 American Depositary Receipt holders.

19 Finance Debts

Parent 1976 $m	Parent 1977 $m		Group 1977 $m	Group 1976 $m
152	132	Long-term	2,077	2,198
395	345	Short-term and acceptances	1,951	2,070
—	—	Bank loans and overdrafts	124	101
547	477		4,152	4,369

Long-term debts are those, as defined by the Companies Act 1967, which are wholly or in part repayable more than five years from the date of the balance sheet. Long-term debts at 31 December were as follows:

Parent 1976 $m	Parent 1977 $m		Average contractual interest rate %	Group 1977 $m	Group 1976 $m
38	38	Sterling	7·6	48	52
77	54	US dollars	9·1	1,555	1,497
—	—	Australian dollars	7·9	18	20
—	—	Belgian francs	7·5	3	21
—	—	Canadian dollars	6·9	47	63
—	—	Deutschemarks	7·2	50	70
—	—	Dutch guilders	7·9	131	229
—	—	French francs	9·8	104	137
—	—	Swedish kroner	3·6	35	29
37	40	Swiss francs	6·6	74	69
—	—	Other currencies	7·6	12	11
152	132	Total		2,077	2,198
—	—	Secured debt included in above figures		115	269

Parent 1976 $m	Parent 1977 $m		Group 1977 $m	Group 1976 $m
		Repayment periods from balance sheet date are as follows:		
—	—	1 year	27	48
—	6	2 years	41	62
8	12	3 years	91	77
13	17	4 years	123	115
18	17	5 years	138	165
76	80	6 to 10 years	754	863
37	—	thereafter	903	868
152	132		2,077	2,198

Short-term debts of the group which are repayable within five years of the date of the balance sheet amounted to $1,769 million ($1,741 million) of which secured $196 million ($178 million).

Acceptances under facilities with differing periods of duration in respect of oil movements amounted to $182 million ($329 million).

At 31 December 1977 the group had substantial amounts of undrawn borrowing facilities available including approximately $1,325 million ($1,574 million) which was covered by formal commitments.

Notes on Accounts (concluded)

19 Finance debts – (continued)

The parent company 5% debenture stock, repayable by 1 July 1978, of $16 million ($16 million) and the 6% debenture stock, repayable by 31 December 1980, of $15 million ($16 million) are secured by a floating charge on the assets of the parent company.

20 Research

Expenditure on research and development in 1977 amounted to $58 million ($49 million).

21 Hire charges

	1977 $m	1976 $m
Time-chartered tankers	216	225
Bare boat charters	57	57
Plant and machinery	170	114
	443	396

22 Contingent liabilities

There were contingent liabilities at 31 December 1977 in respect of guarantees, indemnities and claims entered into as part of and arising from the ordi... y course of the group's business, upon which no material losses ... e likely to arise.

There are two claims against the Company and four other major international oil groups which the Company and its advisers consider lack legal merit:

(a) a claim by Lonrho Limited in England in respect of the Beira pipeline for about $192 million which is being disputed and will be heard at arbitration; and

(b) a claim by the Zambian Government in Zambia in respect of alleged breaches of Rhodesian sanctions for about $7·7 billion.

The Company is not appearing before the Zambian court in the second action, since the court does not have jurisdiction over it. It is considered that no loss will result from either of these two actions and, accordingly, no provision has been made in these accounts.

The parent company has issued guarantees under which amounts outstanding at 31 December 1977 were $2,675 million ($2,782 million) including $2,469 million ($2,6·8 million) in respect of borrowings by its subsidiary companies.

23 Capital commitments

Authorised future capital expenditure by group companies is estimated at $2,726 million ($2,630 million) including approximately $614 million ($806 million) for which contracts have been placed.

24 Remuneration and loans

(a) Directors of the company: $828,814 ($730,771) made up of fees $69,120 ($65,487) and other emoluments (not including pension contributions) $759,694 ($665,284). One director waived fees of $9,600 ($9,600). Pensions, commutations of pensions and other superannuation payments to directors and former directors and their dependants $1,202,907 ($1,267,202).

	1977	1976
The Chairman: Sir David Steel	$185,284	$170,596

The number of all the directors (including two for part periods only in 1976) and those UK employees of the group whose emoluments exceeded $19,200 in the following bands were:

	Gross Emoluments $	Tax $	Take-home pay $	1977	1976
Directors	Up to 4,800			1	1
	4,80· – 9,600			3	3
	9,601 – 14,400			4	4
	91,201 – 96,000	66,150	29,850	–	4
	96,001 – 100,800	70,134	30,666	2	–
	105,601 – 110,400	78,102	32,298	2	–
	120,001 – 124,800	90,054	34,746	–	1
	148,801 – 153,600	113,956	39,644	1	–
	168,001 – 172,800	129,894	42,906	–	1
	182,401 – 187,200	141,844	45,356	1	–
Employees	19,201 – 24,000	8,769	15,231	611	462
	24,001 – 28,800	11,798	17,002	251	177
	28,801 – 33,600	15,118	18,482	130	82
	33,601 – 38,400	18,718	19,682	59	31
	38,401 – 43,200	22,326	20,874	35	20
	43,201 – 48,000	26,310	21,690	19	14
	48,001 – 52,800	30,294	22,506	15	10
	52,801 – 57,600	34,278	23,322	8	5
	57,601 – 62,400	38,262	24,138	6	6
	62,401 – 67,200	42,246	24,954	9	2
	67,201 – 72,000	46,230	25,770	4	1
	72,001 – 76,800	50,214	26,586	–	1
	76,801 – 81,600	54,198	27,402	1	–

The above shows the total amount of income tax at the appropriate graduated rates applicable for 1977/78 at the higher end of each band over $19,200 and the corresponding take-home pay; it has been assumed that the recipient is a married man with no dependants and with no other sources of income.

(b) Loans to officers – $142,176 ($134,496).

(c) Auditors' remuneration – group companies $4,435,200 ($3,722,880) of which the parent company $163,200 ($144,000).

Activity and Geographical Analysis for the year ended 31 December 1977

Figures in $ million

	Net sales proceeds	Operating result	Total assets less current liabilities	Capital expenditure
By activitity				
Petroleum	22,083	1,420	11,266	1,220
Chemical	1,269	42	975	215
Other	253	10	303	92
Less: sales between activities	(570)			
	23,035	1,472	12,544	1,527
By geographical area				
United Kingdom	6,960	754	5,582	590
Rest of Europe	7,786	(29)	2,460	323
Middle East and Africa	1,133	236	570	211
North and South America	770	202	2,761	319
Australasia and Far East	1,096	179	833	84
International	15,978	130	338	—
Less: sales between areas	(10,688)			
	23,035	1,472	12,544	1,527

(i) Net sales proceeds (after deduction of customs duties and sales taxes) comprise sales to third parties and between activities or geographical areas. Transfers between group companies are made at market prices taking into account the volumes involved.

(ii) Operating result, as above		1,472
Less Interest and financing costs	398	
Taxes excluding PRT and all production taxes	384	782
Income after taxation		690

(iii) Total assets less current liabilities are analyses of the figures set out in the balance sheet on page 16.

(iv) In the geographical analysis, the United Kingdom includes North Sea crude oil activities where the operating result is after PRT but before corporation tax. International consists of the group's trade in crude oil acquired mainly from national production companies in the Middle East and Africa.

Financial statistics 1973 to 1977

Figures for 1976 on pages 24-27 inclusive have been restated to take account of the change in accounting policy with regard to deferred taxation. Previous years' figures have not been similarly restated.

Income statements

Figures in $ million

	1973	1974	1975	1976	**1977**
Sales proceeds and other income					
Sales proceeds	8,663	17,865	18,309	24,685	**28,247**
Deduct: customs duties and sales taxes	2,611	2,870	3,370	4,370	**5,212**
Net sales proceeds	6,052	14,995	14,939	20,315	**23,035**
Other income	180	334	342	362	**501**
	6,232	15,329	15,281	20,677	**23,536**
Operating and other costs					
Cost of oil, ocean freight, refining and chemical manufacturing	2,636	9,212	10,406	14,658	**16,411**
Distribution, selling, administrative and other expenses	1,054	1,288	1,380	1,746	**1,946**
Depreciation and amounts provided	261	315	373	510	**583**
Interest and financing costs	112	152	198	338	**398**
	4,063	10,967	12,357	17,252	**19,338**
Income before taxation	2,169	4,362	2,924	3,425	**4,198**
Overseas taxation	1,555	3,356	2,540	2,662	**2,615**
Income after overseas taxation	614	1,006	384	763	**1,583**
UK taxation	29	44	98	102	**893**
Income after taxation	585	962	286	661	**690**
Minority shareholders' interest	19	48	8	12	**2**
Income before extraordinary items	566	914	278	649	**688**
Extraordinary items after taxation	65	21	40	—	**(104)**
Net income of the group	631	935	318	649	**584**
Distribution to stockholders	113	127	134	148	**167**
Retained income	518	808	184	501	**417**
Income before extraordinary items per unit of ordinary stock	$1·46	$2·36	$0·72	$1·68	**$1·78**

Summarised balance sheets

Figures in $ million

	1973	1974	1975	1976	**1977**
Assets employed					
Properties and operating assets					
Production and exploration	511	1,041	2,016	3,161	**3,386**
Tankers	407	482	447	361	**318**
Refineries	756	762	787	871	**829**
Marketing	756	797	1,091	1,301	**1,359**
Chemicals	289	274	296	352	**440**
	2,719	3,356	4,637	6,046	**6,332**
Investments					
Sohio	501	521	689	842	**793**
Associated companies	810	764	563	660	**841**
Long-term receivables	363	334	463	446	**418**
Current assets less current liabilities	2,227	3,354	3,517	4,205	**4,160**
Total assets less current liabilities	6,620	8,329	9,869	12,199	**12,544**
Deduct:					
North Sea oil advance proceeds	48	292	624	612	**199**
Deposits and deferred liabilities and provisions	322	355	438	851	**1,657**
Deferred taxation	—	—	—	46	**42**
	6,250	7,682	8,807	10,690	**10,646**
Financed by					
Stockholders' interest	4,228	5,015	5,138	6,043	**6,257**
Minority interest	156	204	202	278	**237**
Deferred taxation	—	73	232	—	**—**
Finance debts	1,866	2,390	3,235	4,369	**4,152**
	6,250	7,682	8,807	10,690	**10,646**

Source and application of funds and capital expenditure

Figures in $ million

		1973	1974	1975	1976	**1977**
Source of funds	Income before extraordinary items and UK taxation	595	958	377	751	**1,581**
	Extraordinary items after taxation	65	21	40	—	**(104)**
	Sale of part production interest	526	—	—	—	**—**
		1,186	979	417	751	**1,477**
	Depreciation	261	315	372	510	**583**
	Other items	(38)	37	(125)	144	**(36)**
	Total generated from operations	1,409	1,331	664	1,405	**2,024**
	Increase in finance debts (excluding changes in currency values)	40	435	609	657	**86**
	North Sea oil advance proceeds	48	242	317	58	**—**
	Book amount of assets sold	138	58	63	91	**84**
	Net changes in currency values	44	10	96	278	**(234)**
	Prior year adjustment	—	—	—	204	**—**
	Other items	(20)	134	115	208	**138**
	Total other sources	250	879	1,200	1,496	**74**
	Funds available	1,659	2,210	1,864	2,901	**2,098**
Application of funds	Capital expenditure	576	946	1,284	1,551	**1,222**
	Investment in associated companies	56	(33)	221	295	**162**
	Reduction of North Sea oil advance proceeds	—	—	8	137	**371**
	Dividends paid	113	127	129	139	**151**
	UK tax paid (net of transitional relief)	21	31	44	39	**67**
		766	1,071	1,686	2,161	**1,973**
	Increase in working capital	893	1,139	178	740	**125**
	Total application	1,659	2,210	1,864	2,901	**2,098**
Capital expenditure	Production and exploration	340	720	1,129	1,304	**846**
	Tankers	142	113	19	23	**—**
	Refineries	111	123	108	117	**153**
	Marketing and coal	119	158	173	244	**313**
	Chemicals	27	38	86	186	**215**
		739	1,152	1,515	1,874	**1,527**
	of which:					
	Group companies	576	947	1,285	1,551	**1,222**
	Associated companies	163	205	230	323	**305**

Additional financial information

		1973	1974	1975	1976	**1977**
Assets employed	$m	6,250	7,682	8,807	10,690	**10,646**
Net assets representing stockholders' interest	$m	4,228	5,015	5,138	6,043	**6,257**
Income before extraordinary items	$m	566	914	278	649	**688**
Expressed:						
per unit of ordinary stock	$	1·46	2·36	0·72	1·68	**1·78**
on average net assets	%	15·5	19·8	5·5	11·4	**11·2**
per barrel sold	cents	33	58	21	49	**52**
per gallon sold	cents	1·0	1·7	0·6	1·3	**1·5**

Rates of dividend per unit of ordinary stock	cents	29	32	35	38	**42**
Return, being income before extraordinary items and interest on average capital employed (excluding Sohio, TAPS, Forties and Ninian Fields investment where applicable)	%	13·2	17·2	6·2	10·3	**9·8**

Inflation Accounting
Current Cost Statement for the year ended 31 December 1977

Figures in $ million

Net sales proceeds		23,035
Income before taxation	4,198	
Less: Producer government taxes	3,124	1,074
Adjustments:		
Cost of sales	236	
Depreciation	391	
	627	
Gearing	194	433
Adjusted income before taxation		641
UK and overseas taxation (excluding production taxes)		384
Adjusted income after taxation		257
Minority shareholders' interest		(29)
Adjusted income before extraordinary items		286
Extraordinary items		104
Adjusted net income of the group		182

(i) Prepared in accordance with an interim recommendation by the UK Accounting Standards Committee ("The Hyde Guidelines").

(ii) Cost of sales adjustment – the historical cost of total group sales has been adjusted to take into account the average time lag between acquiring crude oil and the subsequent sale of oil and chemical products.

(iii) Depreciation adjustment – calculated on the estimated replacement cost arrived at predominantly by applying indices appropriate to the function and location of the assets.

(iv) The gearing adjustment (calculated on a group basis) – attempts to recognise that the sums needed to provide the increased value of assets required to maintain the same level of business during periods of inflation are partially borne by the lenders of borrowed funds and other creditors. The burden attributable to outside parties is that proportion of the additional costs which the ratio of group net monetary liabilities bear to such liabilities plus stockholders' funds.

(v) UK and overseas taxation (excluding producer government taxes) has been provided in accordance with the method proposed in Exposure Draft 19 – Accounting for Deferred Taxation.

(vi) No inflation accounting adjustments have been made in respect of the group's interest in the assets and income of associated companies.

Organisation and Principal Executives

The British Petroleum Company Limited is the parent company of the BP group with direct and indirect holdings in about 900 subsidiary and associated companies in some 70 countries. The parent company's Board of Directors is responsible for corporate policy, finance and strategic development of the group; its executive officers are the managing directors –

Sir David Steel, Chairman

M M Pennell, Deputy Chairman

R W Adam Dr J Birks C C F Laidlaw J W R Sutcliffe P I Walters

BP Trading Limited is the principal subsidiary company and carries out the group's operations. In addition to the managing directors listed above the following are members of the BP Trading Board. Their main responsibilities are as indicated –

T R D Belgrave	Policy Adviser
*J E G Boxshall	Europe, excluding United Kingdom and Ireland
*L R Burchell	Chemicals
*G C Butcher	Africa, Planning, Nutrition, Coal and Management Consultancy
*P G Cazalet	Middle East, Far East and Bulk Trading
*P J Gillam	Western Hemisphere, Pricing, Shipping and Supply
*W P C Grassick	Australasia, Accounts and Computers
*A T Gregory	United Kingdom and Ireland, External Affairs and Public Affairs
*G A Lee	Engineering, Purchasing, Research and Processing
Q M Morris	Group Finance Co-ordinator
*M R Rendle	Personnel, Administration and International Marketing
*F K Rickwood	Exploration and Production, Environmental Control, Gas and Minerals
D A G Sarre	Secretary and Legal Adviser

The Executive Committee of the BP Trading Board implements parent company policies by providing a continuing executive and co-ordinating authority operating within the directives and guidance given to it by the managing directors through the BP Trading Board.

Members of the Executive Committee are the BP Trading directors above marked with an asterisk and D G Milne, the Chief Executive of BP Oil Limited which is responsible for the group's refining and marketing activities in the UK.

Chairman of the Executive Committee is G C Butcher and Deputy Chairman, A T Gregory.

The British Petroleum Company Limited
Subsidiary and Associated Companies

This list contains the names of the more important subsidiary and associated companies of the group at 31 December 1977 indicating group percentage of equity capital (to nearest whole figure). Those held directly by the parent company are marked with an asterisk, the percentage being that of the group unless otherwise indicated. A complete list of investments in subsidiary companies and of the parent company's investment in associated companies will be attached to the parent company's annual return.

Subsidiary Companies

International

		%	Country of Incorporation	Principal Activities
	BP Chemicals International	100	England	Holding company
	BP Coal	100	England	Coal production overseas
	BP Exploration	100	Scotland	Holding company
	BP Nutrition	100	England	Animal feed/Proteins
	BP Tanker	100	England	Oil transportation
	*BP Trading	100	England	Integrated oil operations
	*Rankin Kuhn International	100	England	Travel and freight forwarding
	Scientific Control Systems	100	England	Computer software
	*Tanker Insurance	100	England	Insurance

Europe

		%	Country of Incorporation	Principal Activities
UK	Alexander Duckham	100	England	Lubricants
	Bakelite UK	100	England	Chemicals
	Border Chemicals	67	England	Chemicals
	BP Chemicals	100	England	Chemicals
	BP Capital	100	England	Finance
	BP Nutrition (UK)	92	England	Animal feed
	BP Oil	100	England	Refining and marketing
	BP Oil Development	100	England	Oil production
	BP Petroleum Development	100	England	Oil and gas exploration and production
	BP Properties	100	England	Property
	Forth Chemicals	67	England	Chemicals
AUSTRIA	*BP Austria	100	Austria	Marketing
BELGIUM	*Anglo-Belge des Pétroles	100	Belgium	Processing/Supply
	*BP Belgium (parent 51%)	100	Belgium	Marketing
DENMARK	*BP Olie-Kompagniet	100	Denmark	Marketing
FINLAND	*Suomen BP	100	Finland	Marketing
FRANCE	*Société Française des Pétroles BP	70	France	Refining and marketing
	Société Maritime des Pétroles BP	70	France	Oil transportation
GERMANY	*Deutsche BP	100	Germany	Refining and marketing
	Oelwerke Julius Schindler	100	Germany	Refining
GREECE	*BP of Greece	100	England	Marketing
ITALY	*Britannica Petroli (BP)	100	Italy	Marketing

Europe		%	Country of Incorporation	Principal Activities
NETHERLANDS	British Petroleum BV	100	Netherlands	Holding company
	British Petroleum (Overzee)	100	Netherlands	Holding and finance company
	*British Petroleum Maatschappij Nederland	100	Netherlands	Holding company
	British Petroleum Raffinaderij Nederland	100	Netherlands	Refining
	Benzine en Petroleum Handel Maatschappij	100	Netherlands	Marketing
	British Petroleum Exploratie Maatschappij Nederland	100	Netherlands	Exploration
	Trouw	67	Netherlands	Animal feed
NORWAY	*BP Norge	100	Norway	Marketing
	*BP Petroleum Development of Norway	100	Norway	Oil exploration
PORTUGAL	*Companhia Portuguesa dos Petróleos BP	100	Portugal	Marketing
REPUBLIC OF IRELAND	*BP Ireland	100	Ireland	Marketing
SPAIN	*BP Española de Petroleos	100	Spain	Marketing
SWEDEN	*Svenska BP	100	Sweden	Marketing
	BP Raffinaderi (Göteborg)	100	Sweden	Refining
SWITZERLAND	*BP (Schweiz)	100	Switzerland	Marketing
TURKEY	*BP Petrolleri	100	Turkey	Marketing
	*BP Overseas Refining	100	England	Refining

Middle East

	*BP Arabian Agencies	100	England	Marketing
	BP-Japan Oil Development	55	Scotland	Marketing of crude oil
	Oil Trading (Iran)	100	England	Marketing of crude oil

Africa

	*BP Africa Medwest	100	England	Marketing
	*BP Nigeria	100	Nigeria	Marketing
	*BP Southern Oil	100	England	Holding company
	BP Southern Africa	100	South Africa	Marketing
	*Société des Pétroles BP d'Afrique Occidentale (parent 95%)	99	Senegal	Marketing

Far East

HONG KONG	*BP Oil Hong Kong	100	Hong Kong	Oil products supplier
INDONESIA	*BP Petroleum Development of Indonesia	100	England	Oil exploration
JAPAN	*BP Far East	100	England	Group services

Subsidiary and Associated Companies (continued)

Far East		%	Country of Incorporation	Principal Activities
MALAYSIA	*BP Malaysia	100	Malaysia	Marketing
SINGAPORE	*BP Refinery Singapore	100	Singapore	Refining
	*BP Singapore	100	Singapore	Marketing
THAILAND	BP Petroleum Development of Thailand	100	England	Oil exploration
Australasia				
AUSTRALIA	*British Petroleum Company of Australia	100	Australia	Holding company
	BP Australia	100	Australia	Integrated oil operations
	BP Coal Australia	100	Australia	Holding company
	Kwinana Nitrogen	87	Australia	Chemicals
FIJI	*BP South-West Pacific	100	Fiji	Marketing
NEW ZEALAND	*BP New Zealand Holdings	100	New Zealand	Holding company
	BP New Zealand	100	New Zealand	Marketing
	BP (Oil Exploration) New Zealand	100	New Zealand	Oil and gas exploration and production
	Europa Oil (NZ)	100	New Zealand	Marketing
PAPUA NEW GUINEA	BP (Papua New Guinea)	100	Australia	Marketing
Western Hemisphere				
CANADA	*BP Canadian Holdings	100	Canada	Holding company
	BP Canada	66	Canada	Integrated oil operations
USA	BP Alaska Exploration	100	USA	Oil exploration
	BP North America	100	USA	Services and marketing
	*BP North American Finance	100	USA	Finance company
	BP Pipelines	100	USA	Pipeline company
	BP United States	100	USA	Holding company

ASSOCIATED COMPANIES

International		%	Country of Incorporation	Principal Activities
	Irano-British Shipping	50	Bermuda	Oil transportation
	Sub Sea International	50	USA	Deep-sea diving service

Europe		%	Country of Incorporation	Principal Activities
UK	Associated Octel	37	England	Production and marketing
	BP-California (Grangemouth)	50	England	Chemicals
BELGIUM	*Société Belge des Gaz de Pétrole (parent 15%)	50	Belgium	Marketing
	*Société Industrielle Belge des Pétroles	50	Belgium	Refining
FRANCE	Distugil	50	France	Chemicals
	Naphtachimie	30	France	Chemicals
	Raffinerie de Strasbourg	23	France	Refining
GERMANY	Erdölchemie	50	Germany	Chemicals
ITALY	Italproteine	50	Italy	Proteins
Middle East				
	Abu Dhabi Gas Liquefaction	16	Bermuda	Natural gas liquefaction
	Abu Dhabi Marine Areas	37	England	Crude oil production and marketing
	Abu Dhabi Petroleum	24	England	Crude oil production
	Bunduq	33	England	Oil exploration and production
Africa				
	Central Chemical Investments	33	South Africa	Chemicals
	Consolidated Petroleum	50	England	Marketing
	Shell and BP South African Petroleum Refineries	50	South Africa	Refining
	Shell-BP Petroleum Development of Nigeria	50	Nigeria	Oil exploration and production
	Société Ivoirienne des Pétroles BP	50	Ivory Coast	Marketing
Australasia				
AUSTRALIA	Clutha Development	50	Australia	Coal production
	CS BP & Farmers	33	Australia	Marketing of fertilisers
NEW ZEALAND	New Zealand Refining	24	New Zealand	Refining
USA				
	Alyeska Pipeline Service (33% held by Sohio)	16	USA	Pipeline company
	Sohio/BP Trans Alaska Pipeline Capital (68% held by Sohio)	32	USA	Finance company
	Standard Oil Company (Sohio)	40	USA	Integrated oil operations

Notice of Annual General Meeting

Notice is hereby given that the sixty-ninth annual general meeting of the Company will be held at Britannic House, Moor Lane, London EC2Y 9BU, on Thursday 4 May 1978, at noon, for the transaction of the following business:

Resolution 1 **To consider and adopt the Report of the Directors and the Accounts for the year ended 31 December 1977**

Resolution 2 **To declare a dividend**

Resolution 3 **To re-elect Dr J Birks a Director**

Resolution 4 **To re-elect Lord Elworthy a Director**

Resolution 5 **To re-elect Lord Inchcape a Director**

Resolution 6 **To reappoint Whinney Murray & Co. as Auditors**

Resolution 7 **To authorise the Board to fix the remuneration of the Auditors for 1978**

Resolution 8 **To consider and, if thought fit, pass the Special Resolution to alter the Articles of Association as set out on page 35**

By order of the Board
D A G Sarre, Secretary

Britannic House, Moor Lane, London EC2Y 9BU
30 March 1978

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

A holding of debenture stock does not entitle a person to attend or to be represented at the meeting.

The dividend, if approved, will be paid:

(i) On 11 May 1978 to stockholders on the register on 14 April 1978 which will include transfers accepted for registration on that day.

(ii) On 25 May 1978 to holders of American Depositary Receipts of record on 14 April 1978.

The following information which is available for inspection during business hours at the office of the Registrar, Britannic House, Moor Lane, London EC2Y 9BU, will also be available for inspection at the place of the annual general meeting from 11.45 am until the conclusion of the meeting:

1 Register of interests of directors (and their families) in the share capital and debentures of the Company and its subsidiaries.

2 Copies of all contracts of service whereunder Directors of the Company are employed by the Company or any of its subsidiaries.

Special Resolution

That the Company's Articles of Association be altered hereby in the following manner:—

(i) Article 16 shall be deleted and the following Article substituted therefor:—

16. (A) Any person whose name is entered in the Register of Members in respect of shares of any one class upon the issue or transfer thereof shall (subject as provided by Article 17) be entitled without payment to a certificate therefor (in the case of issue) within one month (or such longer period as the terms of issue shall provide) after allotment or (in the case of a transfer of fully paid shares) within fourteen days after lodgment of transfer or (in the case of a transfer of partly paid shares) within two months after lodgment of transfer.

(B) Every share certificate shall be issued under the Seal (or an official seal kept under section 2 of the Stock Exchange (Completion of Bargains) Act 1976 or, in the case of shares on a branch register, an official seal for use in the relevant territory) and shall specify the number and class of shares to which it relates and the amount paid up thereon. No certificate shall be issued representing shares of more than one class. No certificate shall be issued in respect of shares held by a stock exchange nominee within the meaning of the said Act.

(C) Where some only of the shares comprised in a share certificate are transferred the old certificate shall be cancelled and a new certificate for the balance of such shares issued in lieu without charge.

(ii) The words "upon payment of such fee (if any) not exceeding one shilling as the Board may require," shall be deleted from Article 18.

(iii) The last sentence of Article 24 (providing for a registration fee) shall be deleted and in that Article the words "(except in the case of fully paid shares)" shall be inserted before the word "transferee", so that transfers of fully paid shares need not be signed by the transferee.

(iv) Article 28 shall be deleted and the following Article substituted therefor:—

28. (A) The instrument of transfer shall be lodged with the Company, accompanied by the certificate of the shares comprised therein, and such evidence as the Board may require to prove the title of the transferor, and thereupon the transferee shall (subject to the Board's right to decline to register hereinbefore mentioned) be registered as a member in respect of such share, and, subject as hereinafter provided, the instrument of transfer shall be retained by the Company. The Board may waive the production of any certificate upon evidence satisfactory to them of its loss or destruction. In the case of a transfer by a stock exchange nominee within the meaning of the Stock Exchange (Completion of Bargains) Act 1976 the lodgment of share certificates will not be necessary.

(B) The Company shall be entitled to destroy all instruments of transfer of shares of the Company which shall have been registered at any time after the expiration of six years from the date of registration thereof and all registered share certificates which have been cancelled at any time after the expiration of one year from the date of cancellation thereof and it shall conclusively be presumed in favour of the Company that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every such certificate so destroyed was a valid certificate duly and properly cancelled; provided always that:—

(1) the provisions aforesaid shall apply only to the destruction of documents in good faith and without notice of any claim (regardless of the parties thereto) to which the documents might be relevant;

(2) nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than aforesaid or in any case where the conditions of proviso (1) above are not fulfilled;

(3) references herein to the destruction of any document include references to the disposal thereof in any manner.

(v) The last sentence of Article 30 (providing for registration fee) shall be deleted.

(vi) Article 73 shall be deleted and the following Article substituted therefor:—

73. No member sh[illegible] entitled to be present or to vote, either personally or by pr[illegible]therwise, at any General Meeting or upon any poll, or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum presently payable by him to the Company in respect of any share of which he is the holder (not being a Government share) remains unpaid or if he or any person appearing to be interested in a share (not being a Government share) held by him has been duly served with a notice under section 27 of the Companies Act 1976 and is in default in supplying to the Company the information thereby required and no member shall be entitled to vote at any meeting in respect of any share (not being a Government share) that he has acquired by transfer, unless he has been registered as the holder of the share in respect of which he claims to vote for at least one month previously to the time of holding the meeting at which he proposes to vote.

(vii) Article 74 shall be deleted and the following Article substituted therefor:—

74. An instrument appointing a proxy shall be in writing in any usual or common form or in any other form which the Directors may approve and

(i) in the case of an individual shall be signed by the appointor or by his attorney; and

(ii) in the case of a corporation shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.

The signature on such instrument need not be witnessed. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy pursuant to the next following Article, failing which the instrument may be treated as invalid.

(viii) In Article 75 (providing for lodgment of instruments appointing a proxy) the word "Registered" shall be deleted and the word "Transfer" shall be substituted therefor and the words "or adjourned meeting" shall be inserted after the word "meeting".

(ix) Article 81 (providing that a Director must be a British subject) shall be deleted.

(x) In Article 85 (notice of intention to appoint a Director) the words "not more than seven clear days'" shall be amended to read "not more than forty-two clear days'".

(xi) Article 86 shall be deleted and the following Article substituted therefor:—

86. A Director shall not be required to hold any shares of the Company by way of qualification. A Director who is not a member of the Company shall nevertheless be entitled to attend and speak at all General Meetings of the Company and at all meetings of any class of members of the Company.

(xii) In Article 87 (dealing with Directors' remuneration) the words "at the rate of £1,000 per annum" shall be deleted and there shall be substituted therefor the words "at such rate, not exceeding £8,000 per annum, as the Board of Directors may from time to time determine".

(xiii) The last sentence of Article 93 (restricting Board and committee meetings outside England) shall be deleted.

(xiv) Paragraph (C) of Article 101 (relating to a Director's qualification) shall be deleted.

(xv) Article 113 shall be deleted and the following Article substituted therefor:—

113. The Directors shall provide for the safe custody of the Seal and any official seal kept under section 2 of the Stock Exchange (Completion of Bargains) Act 1976 and neither shall be used without the authority of the Directors or of a committee authorised by the Directors in that behalf. Every instrument to which either shall be affixed shall be signed autographically by one Director and the Secretary or some other person appointed by the Directors for the purpose except that a certificate or other document of title in respect of any shares, debentures, debenture stock or other form of security given under seal need not be signed.

(xvi) In Article 117 the words "to the Secretary of the Share and Loan Department, Stock Exchange, London and to the Secretary of the Glasgow Stock Exchange" shall be replaced by the words "and to the appropriate officer of The Stock Exchange".

Financial Calendar

Dividend and interest payments	Ordinary stock	
	Interim dividend	Announced in September, paid early November
	Final dividend	Proposed in March, paid early May
	First preference stock	Paid 31 January and 31 July
	Second preference stock	Paid 31 January and 31 July
	5% first debenture stock 1974/78	Paid 1 January and 1 July
	6% debenture stock 1976/80	Paid 1 January and 1 July

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SPRING 1980 FRASER INSTITUTE TITLE

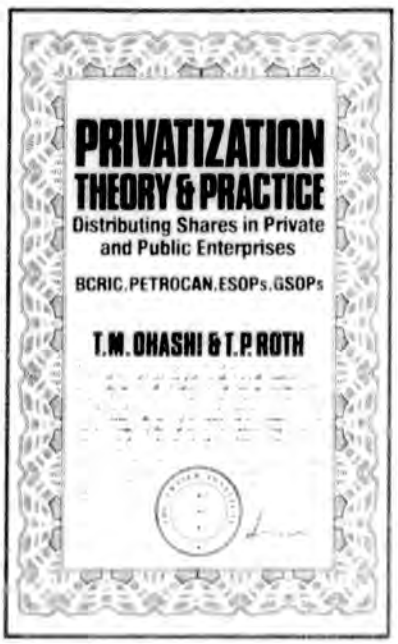
PRIVATIZATION: THEORY AND PRACTICE

Distributing Shares in Private and Public Enterprises:

BCRIC, PETROCAN, ESOPs, GSOPs

"Any Legislator seriously considering a BCRIC-type operation would be crazy not to read it."

David Helliwell, President, BCRIC



In March 1979, the government of British Columbia launched a unique, new experiment in economic policy by divesting itself of the ownership of the British Columbia Resources Investment Corporation and giving the shares to the citizens of British Columbia. This forthcoming Fraser Institute book by T.M. Ohashi and T.P. Roth analyses the BCRIC experiment. It provides for the first time the real story of how BCRIC was born as a private, widely-held corporation. It also provides an analysis of the largest share offering in Canadian history, (which was made at the same time as the "giveaway"), who bought it, and what impact it has had on Canada's financial markets.

The second part of the book provides a complete analysis of the effects of Generalized Stock Ownership Plans, particularly of the sort espoused by Louis O. Kelso. Given that some of the claims made by Kelso have been repeated by those who support BCRIC-type experiments, it is important at this time to re-examine Louis Kelso's ideas -- which have been widely circulated in his "Capitalist Manifesto" (with Mortimer J. Adler). Also included is a theoretical overview of privatization and the public interest by Zane Spindler.

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STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

September 18, 1979

David L. Helliwell, President
British Columbia Resources
Investment Corporation
2600 - 1177 W. Hastings Street
Vancouver, British Columbia V6E 3Y3
CANADA

Dear Mr. Helliwell:

I am writing on behalf of Representative Mike Miller who is the chairman of the State Affairs Committee of the Alaska House of Representatives. The committee currently has before it a bill creating a general stock ownership corporation. General stock ownership corporations were recently authorized under our federal law and appear to be similar in purpose to your B.C. Resources, i.e. to broaden capital ownership.

The committee is very much interested in learning more about B.C. Resources. Members have tentative plans to be in Vancouver the afternoon of November 2, 1979. If it is not inconvenient they would appreciate meeting with you in order to gain an overview of B.C. Resources, its successes, and its shortcomings. They are particularly interested in how the corporation is working as a business corporation, albeit one created by government mandate as opposed to individual action.

Currently, Chairman Miller and Speaker of the House Terry Gardiner are planning to make the trip. Most likely two or three other members of the committee will also attend along with two or three staff members, including myself.

For your information I am including copies of a draft CSSSHB 240 (relating to general stock ownership corporations) and the recent amendments to federal law authorizing the creation of such corporations.

I look forward to hearing from you.

Very truly yours,

Kenneth M. Rosenstein
Legislative Counsel

KMR:slk

Enclosures

cc: Representative Mike Miller
Chairman, State Affairs Committee

C. RESOURCES

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PRESS RELEASE

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or

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June 15, 1979

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) announced today that 1,614,805 British Columbians had applied for their five free shares.

In its final progressive report on share applications, BCRIC said its latest figures, to June 14, show that applications have been made for a total of 8,074,025 free shares.

David Helliwell, president of the corporation, also announced that up to June 14 British Columbians had applied to purchase 14,924,435 additional BCRIC shares at $6 each. This has yielded the corporation gross proceeds of $89,546,610 and reflects a registered shareholder application total of 47,000. Registered shareholders of BCRIC must have 100 or more shares.

The figures reported reflect only those applications processed as there is a significant number of unprocessed applications.

Mr. Helliwell noted that it will take some time to complete a tabulation of the number of share applications made up to the June 15 deadline. An announcement of final results will be made in about a week, when processing has been completed.

CHAPTER 28

Miscellaneous Statutes Amendment Act, 1978

[Assented to June 29, 1978.]

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of the Province of British Columbia, enacts as follows:

R.S.B.C. 1960 c. 6

1. Section 29 (1) of the Agrologists Act is repealed and the following substituted:
(1) Every member shall pay the fees prescribed by the by-laws.

S.B.C. 1964 c. 7

2. Section 55 of the British Columbia Hydro and Power Authority Act, 1964 is amended by inserting the following after subsection (1):
(1.1) Notwithstanding this or any other Act, the matters respecting the establishment and maintenance of a fund for the payment of superannuation allowances or allowances on the death or disability of directors or employees under subsection (1), including
(a) contributions to the fund by the Authority and directors and employees,
(b) the terms and conditions on which superannuation allowances or other allowances may be payable, and
(c) the persons to whom allowances may be paid,
shall not be the subject of a collective agreement between the Authority and its employees.

S.B.C. 1977 c. 47

2.1 The British Columbia Resources Investment Corporation Act is amended
(a) by repealing section 7 (1) (b) (ii) and substituting the following:
(ii) any other persons who are associated, or who would be deemed under this Part to be associated, with that person, if both he and the other persons were members,
(b) by repealing section 7 (5) (b) (ii) and substituting the following:
(ii) any other persons who are associated, or who would be deemed under this Part to be associated, with the trust, corporation, or person, if both the trust, corporation, or person and the other person were members,
(c) in section 9 by adding the following subsection:
(5) For the purposes of this Act, a person is associated with another person if, by agreement or arrangement, both are required to act in concert with respect to their interests in the company. ,

(d) in section 10 (b) by adding "of Canada" after "residents", and
(e) in section 11 (5) by striking out "subsection (3)" and substituting "subsection (2)".

R.S.B.C. 1960 c. 52

2.2 The Children of Unmarried Parents Act is amended by
(a) repealing sections 13 (2), 14, 21, 22 and 23, and
(b) substituting the following as section 13 (2):
(2) The provisions of the Family Relations Act for the enforcement of maintenance orders apply to the enforcement of maintenance provisions in an affiliation order.

S.B.C. 1977 c. 67

3. The Colleges and Provincial Institutes Act is amended
(a) by adding the following as section 52.1:

Financial administration

52.1 The provisions of section 11 (2) (b), (3) and (4) of the Science Council of British Columbia Act respecting the council under that Act apply to a council under this Act. , and
(b) by repealing section 53 and substituting the following:

Other employees

53. (1) In addition to persons employed under section 65, a council may appoint or employ such officers and other employees as it considers necessary to carry on the business and operations of the council and may define their duties and, subject to the regulations, determine their remuneration and other terms and conditions of employment and provide a system of organization to carry out the purposes of the council.
(2) The provisions of sections 6 (4) and (5), 7, 8 and 9 of the Science Council of British Columbia Act respecting the Government, the secretariat under that Act, the officers and employees of the secretariat and a trade-union apply to the Government, a council, the officers and employees of the council and a trade-union representing employees of the council, respectively.

S.B.C. 1969 c. 4

4. The Community Care Facilities Licensing Act is amended
(a) in section 1 by adding after the definition of "resident" the following:
"union board"
means a Union Board as defined in the Health Act;,
(b) in section 6 (f) by adding ", union board," after "municipality", and
(c) in section 16 (j) by adding "and maximum" after "minimum".

R.S.B.C. 1960 c. 99

5. The Dentistry Act is amended
(a) by adding the following after section 22:

Registration of academic members

22.1 (1) A person who
(a) is appointed to an assistant, associate, or full professorship on a fulltime basis in the faculty of dentistry at the University of British Columbia,
(b) is teaching at that faculty at the time he submits an application for registration to the Council, and
(c) meets the requirements for registration established by the rules, regulations and by-laws of the Council

shall be entitled to be registered as a member of the College and to receive a certificate of registration.

(2) The Council may make rules, regulations and by-laws respecting
(a) the requirements for registration of a person referred to in subsection (1),
(b) the limitations on the practice of dentistry of a person referred to in subsection (1), and
(c) the conditions that the person referred to in subsection (1) shall comply with after registration. ,

(b) by adding the following after section 36:

Right of appeal limited

36.1 Notwithstanding sections 51 and 58, where the council orders
(a) the suspension from practice, or
(b) the erasure of the name from the register

of a person registered under section 22.1, the order is final and conclusive, and is not open to question or review in court except under the Judicial Review Procedure Act. ,

(c) in section 54 (1) by striking out "subject to the provisions of this Act," and substituting "subject to his compliance with this Act, and the rules, regulations and by-laws made by the Council," and
(d) by repealing the first subsection of section 66 and substituting the following:

66. (1) A member who
(a) holds an unexpired annual certificate, and
(b) complies with this Act and the rules, regulations and by-laws made by the Council

is entitled to practise dentistry or dental surgery.

(1.1) Every member practising dentistry or dental surgery in the Province shall at his place of practice display his name on a conspicuously placed sign.

R.S.B.C. 1960 c. 139

6. Section 26 (4) of the Farmers' and Women's Institutes Act is repealed and the following substituted:

(4) The board of directors of the British Columbia Provincial Women's Institute shall

(a) consist of not less than 6 and not more than 10 members,
(b) be elected at the Provincial convention or, when a position becomes vacant, shall be appointed by the remaining directors of the board, and
(c) on election hold office for one term, as defined in the by-laws of the Provincial Women's Institute, and on appointment hold office until the election of a new board of directors.

S.B.C. 1973 (2nd Sess.) c. 116

7. The Farm Products Industry Improvement Act is amended

(a) in section 2

(i) by repealing paragraph (g) and substituting the following:

(g) undertake research on a food or agricultural product, and
(h) carry out a market development program. , and

(ii) by renumbering section 2 as section 2 (1) and adding the following subsection:

(2) Where the minister considers that financial, engineering, or technical advice is necessary

(a) to examine a proposal from an agricultural enterprise, or
(b) to review or monitor the operation of an agricultural enterprise that has received or is receiving financial assistance under this Act,

he may pay for these services from the Farm Products Industry Improvement Fund established under the Special Funds Appropriation Act, 1974. , and

(b) by repealing section 6 and substituting the following:

Loan condition

6. Where security for a loan under this Act is in the form of a fixed or floating charge on property, it shall be a condition of the loan that the loan becomes immediately due and payable if all or part of the property charged by the security is disposed of without the prior consent in writing of the minister.

R.S.B.C. 1960 c. 161

7.1 The Gas Act is amended in sections 2 and 3 (b) by striking out "690 kPa" wherever it appears and substituting "700 kPa".

R.S.B.C. 1960 c. 170

8. Section 35 (3) of the Health Act is repealed and the following substituted:

(3) Subject to any other enactment, a Health Officer may, in writing, delegate to any person a power granted to him or a duty imposed on him under this or another enactment.

S.B.C. 1977 c. 71

9. Section 1 of the Independent Schools Support Act is amended
(a) by repealing the definition of "authority" and substituting the following:
"authority"
means
(i) a society incorporated under the Societies Act, or
(ii) a corporation incorporated under a private Act, or
(iii) a person designated in the regulations to be an authority for the purpose of operating a school in the Province on a non-profit basis; , and
(b) by repealing the definition of "qualifying pupil" and substituting the following:
"qualifying pupil"
means a person
(i) enrolled in an independent school to receive tuition through it for at least 135 days related to the school-year, as prescribed by the regulations, for which a grant application is made under this Act, and
(ii) of school age as determined under the Public Schools Act during that school-year or, where enrolled in kindergarten, not more than one year under school age as determined under the Public Schools Act during that school-year,
who has a parent or guardian resident in the Province, and
(iii) has a parent who is a Canadian citizen or has been lawfully admitted to Canada under the Immigration Act (Canada) for permanent residence, or
(iv) had a parent who, at the time of the death of that parent, satisfied the requirements of paragraph (iii),
and includes a qualifying pupil as defined in the regulations; .

S.B.C. 1973 c. 44

10. Section 3 of the Insurance Corporation of British Columbia Act is amended by inserting the following after subsection (4):
(4.1) Notwithstanding this or any other Act, the matters respecting the establishment of, support of, or participation in a plan referred to in subsection (4) (a) shall not be the subject of a collective agreement between the corporation and its employees.

S.B.C. 1973 (2nd Sess.)
c. 122

11. Section 69 of the Labour Code of British Columbia is amended by adding the following subsection:
(5) In this section "minister" includes a person authorized in writing by him.

S.B.C. 1970 c. 17

12. Section 31 of the Land Act is amended by renumbering it as section 31 (1) and by adding the following:

(2) Where an application is made under section 28 or 37, or notice is given of an intention to make application, the minister may estimate the cost

(a) to assess the impact of making the disposition, or

(b) to monitor compliance with terms and conditions to which the disposition would be subject if made,

and require the applicant or person giving notice to pay all or a part of this anticipated cost to the Government before the notice is acted on, the application is considered, or the disposition made, as the case may be.

S.B.C. 1967 c. 24

13. The Medical Services Act is amended

(a) in section 7 (2) by striking out "by the Comptroller-General" and substituting "by the auditor general",

(b) by repealing section 8 (1) (f),

(c) by repealing section 9 and substituting the following:

Premium assistance payments to the Commission

9. The Minister of Finance shall pay to the Commission out of the Consolidated Revenue Fund the difference between

(a) the full premium fixed by the Commission in respect of an eligible person, and

(b) the prescribed amount payable by that eligible person, determined in relation to the prescribed criteria. , and

(d) by repealing section 12 and substituting the following:

Regulations

12. The Lieutenant-Governor in Council may make regulations.

S.B.C. 1912 c. 36

14. Section 33 of the Pacific Great Eastern Incorporation Act is amended by renumbering the section as section 33 (1) and by adding the following after the section as renumbered:

(2) Notwithstanding subsection (1) or any other Act, where the directors establish a fund for the payment of superannuation allowances to its employees or allowances on the disability or death of employees, the matters respecting the establishment and maintenance of the fund or payment of superannuation allowances or allowances on the disability or death of employees, including contributions to the fund by the Company and its employees, the terms and conditions on which superannuation allowances or other allowances may be payable and the persons to whom allowances may be paid, shall not be the subject of a collective agreement between the Company and its employees.

S.B.C. 1965 c. 31

15. The Park Act is amended

(a) in section 4 by renumbering it as section 4 (1) and adding the following subsections:

(2) The Parks Branch has, subject to an order under section 6.1, jurisdiction over and shall manage and administer lands or a trail, path, or waterway comprised in an order under section 6.1.

(3) Money required for the purposes of subsection (2) shall, until March 31, 1979,

(a) in the absence of an appropriation, or

(b) where money appropriated is insufficient,

be paid out of the Consolidated Revenue Fund. , and

(b) by inserting the following after section 6:

Additional powers

6.1 (1) Where

(a) an order has been made in respect of Crown land under the Environment and Land Use Act, or

(b) Crown land has been designated as green belt land under the Greenbelt Act, or

(c) Crown land has been designated as a Provincial heritage site under the Heritage Conservation Act, or

(d) land is leased to the Crown or to an agent of the Crown for public outdoor recreation, or

(e) land is owned by a person who has entered into an agreement with the Crown or with an agent of the Crown respecting the use of the land for outdoor recreation, or

(f) a trail, path, or waterway owned by the Crown is available for use by the public as a trail or path, or as a waterway for canoes or small boats,

the Lieutenant-Governor in Council may, by order made under this and any other applicable Act, authorize the Parks Branch to manage and administer the land, or the trail, path, or waterway, or the interest of the Crown in it.

(2) An order under subsection (1) that is also made under another Act shall be consistent with that Act but, subject to that requirement, this Act applies to the land or to the trail, path, or waterway to the extent specified in the order.

R.S.B.C. 1960 c. 284

16. The Pipe-lines Act is amended in those of its sections listed in Column 1 by striking from those sections the words identified opposite them in Column 2 and inserting in place of the words struck out, the words shown opposite them in Column 3:

SCHEDULE

Column 1	Column 2	Column 3
Section	Deletion	Insertion
2 (1)	in the definition of pipe-line "five hundred pounds per square inch"	3 500 kPa
2 (1)	"one hundred pounds per square inch, gauge"	700 kPa, (gauge)
12 (2)	"eight miles to the inch"	1:500 000
13 (1) (a)	"one thousand feet"	300 m
13 (2)	"one thousand feet to the inch"	1:10 000
16 (3)	"three hundred feet"	90 m
21 (1)	"sixty feet"	18 m
22 (3)	"six feet", wherever it appears	1.8 m
23 (2)	"twenty-five miles"	40 km
29 (1)	"forty yards"	36 m
29 (2)	"three hundred feet"	90 m
30	"thirty-three feet"	10 m

R.S.B.C. 1960 c. 319

17. The Public Schools Act is amended

(a) in section 128 by adding the following subsection:

(5) Notwithstanding subsections (3) and (4), a Board may, after considering the recommendation of the District Superintendent of Schools, by written agreement with a teacher, appoint the teacher to a position referred to in subsection (3) for a term specified in the agreement. ,

(b) by repealing section 140 and substituting the following:

Arbitration

140. (1) Where a Board and an association are unable to make an agreement by November 15,

(a) a conciliator appointed to assist them shall report forthwith to the Minister,

(b) the dispute is referred to arbitration under this Division, and

(c) on receipt of the report under paragraph (a), the Minister shall forthwith notify the Board and the association that their dispute is referred to arbitration.

(2) The arbitration award for each dispute under this Division within a zone established under section 137 (1) shall be made by a salary arbitration board appointed by the Minister for the zone and composed of

(a) a member nominated unanimously by the Boards that are parties to the disputes,

(b) a member nominated unanimously by the associations that are parties to the disputes, and

(c) a chairman nominated by both members nominated under paragraphs (a) and (b).

(3) Where the Minister has not received a nomination to a salary arbitration board under subsection (2)

(a) by November 22, respecting a member, or

(b) by December 7, respecting the chairman,

the Minister of Labour shall appoint

(c) a single arbitrator, or

(d) a board consisting of 2 members and a chairman

to serve as the salary arbitration board for the zone.

(4) Where a person is appointed as a conciliator under section 138 or 139 he shall not in the same year

(a) be appointed as a member or chairman of a salary arbitration board or as a single arbitrator, or

(b) act as an advocate before a salary arbitration board.

(5) No person shall hold more than one appointment at one time under this section.

(6) No person shall be nominated or appointed under this section unless he states in writing to his nominators that he is willing to serve. ,

(c) by repealing section 141,

(d) in section 142

(i) by repealing subsection (1) and substituting the following:

(1) A salary arbitration board shall, before January 1,

(a) make its arbitration award for each dispute referred to it under section 140 (1), and

(b) forward to the Minister a written copy of each of its arbitration awards. , and

(ii) in subsection (2) by striking out "by December 31" and substituting "before January 1", and

(e) by repealing section 142A and substituting the following:

Costs, expenses and fees of arbitration

142.1 (1) The fees and expenses to be paid to a member of a salary arbitration board may be set by agreement between the Boards or between the associations, as the case may be, that nominate the member under section 140, and the fees and expenses to be paid to the chairman of that salary arbitration board may be set by agreement between these Boards and associations.

(2) Subject to subsection (3), where the Minister of Labour appoints a person under section 140 or where the Boards, associations, or both together, as the case may be, do not agree under subsection (1) on the fees and expenses to be paid to a member or the chairman of a salary arbitration board, the fees and expenses prescribed under the Arbitration Act for an arbitrator apply.

(3) Notwithstanding subsection (2), where the Minister of Labour considers that special circumstances so require, the Minister of Labour may set the fees and expenses to be paid to a person appointed under section 140.

(4) Unless the associations and Boards with disputes referred to the same arbitration board otherwise agree, each association or Board shall pay

(a) its own expenses and costs,

(b) the fee and expenses of a member of the salary arbitration board nominated by it, and

(c) an equal share of the fees and expenses of

(i) the chairman of the salary arbitration board or of the single arbitrator, and

(ii) where a salary arbitration board is appointed under section 140 (3) (d), the 2 members.

S.B.C. 1976 c. 45

18. The Public Service Act is amended
(a) by repealing section 67 and substituting the following:

Duties of board

67. (1) The duties of the board are
(a) to act as the sole board of arbitration in respect of differences between the parties to a collective agreement between the Government and its employees respecting the interpretation, application, operation, or any alleged violation of the collective agreement, including a dispute as to whether or not a matter is subject to arbitration, and
(b) to make general rules and regulations respecting the orderly consideration of the differences referred to in paragraph (a), and the procedures to be followed in making submissions to the board.

(2) Rules and regulations made under subsection (1) are regulations under the Regulations Act.,
(b) in section 68
(i) in subsection (6) (a) and (b) by striking out "grievance or", and
(ii) in subsection (7) by striking out ", grievance,"
(c) in section 69 by striking out "section 67 (1) (a) or (c)" and substituting "section 67 (1)", and
(d) in section 70 by striking out "section 67 (1) (c)" and substituting "section 67 (1)".

S.B.C. 1973 (2nd Sess.)
c. 144

19. The definition of "employee" in section 1 (1) of the Public Service Labour Relations Act is amended by adding the following after subparagraph (xii):
(xiii) a person employed as a member of the staff of the auditor general; and
(xiv) a person who is principally engaged in carrying out the various duties that protocol requires the Government to perform.

S.B.C. 1973 (2nd Sess.)
c. 144

19.1 Section 12 of the Public Service Labour Relations Act is repealed and the following substituted:

Exclusions from collective agreement

12. (1) A collective agreement concluded under section 9 or 10 may exclude from its application certain employees or classes of employees.

(2) Employees or classes of employees to be excluded from the collective agreement may be determined by negotiation between the parties, but where the parties are unable to agree, either party may refer the matter to the board for a final and binding decision.

(3) In making its decision under subsection (2) the board shall exclude those employees or classes of employees who are

(a) employed to exercise the functions, and do exercise the functions, of a manager or superintendent in the direction or control of employees, or

(b) employed in a confidential planning or advisory position in the development of management policy for the Government, or

(c) employed in a confidential capacity in matters relating to labour relations or personnel.

R.S.B.C. 1960 c. 57

20. Section 13 (3) of the Public Service Superannuation Act is amended by inserting the following after paragraph (e):

(f) in mortgages insured by the Central Mortgage and Housing Corporation, .

S.B.C. 1965 c. 43

21. The Regional Parks Act is amended

(a) in section 5

(i) in paragraph (f) by striking out "twenty-one years." and substituting "20 years;", and

(ii) by adding the following paragraph:

(g) where land is held that

(i) was at the time of acquisition shown on a regional park plan approved by the Minister to be surplus to park needs, or

(ii) is on application by the Regional Park District designated by the Lieutenant-Governor in Council as surplus to park needs,

by by-law,

(iii) sell it, or

(iv) exchange it for other land to be used for regional park purposes

and where land is sold the regional park district shall place the proceeds in a reserve fund to acquire land for regional park purposes. ,

(b) in section 13 by adding the following subsection after subsection (3):

(4) The expenditure of proceeds of a sale under section 5 (g) shall not be taken into account in determining a grant under subsection (1). , and

(c) by adding the following section after section 18:

Expenditures

19. A regional park district shall not, while it holds money in reserve under section 5 (g), expend money received under section 10 or 11.

S.B.C. 1961 c. 62

22. Section 25 (b) of the Teachers' Pensions Act is amended by adding the following subparagraph:

(iii) in mortgages insured by the Central Mortgage and Housing Corporation; .

S.B.C. 1974 c. 100

23. The Universities Act is amended

(a) by repealing section 67 and substituting the following:

Executive director and staff

67. (1) The Lieutenant-Governor in Council shall appoint an executive director, define his duties and determine his remuneration and other terms and conditions of employment.

(2) The Universities Council or, if authorized by it, the executive director, may appoint or employ such officers and other employees as the Universities Council considers necessary to carry on the business and operations of the Universities Council and may define their duties and, subject to the regulations, determine their remuneration and other terms and conditions of employment and provide a system of organization to carry out the purposes of the Universities Council.

(3) The provisions of sections 6 (4) and (5), 7, 8 and 9 of the Science Council of British Columbia Act respecting the Government, the secretariat under that Act, the officers and employees of the secretariat and a trade-union apply to the Government, the Universities Council, the officers and employees of the Universities Council and a trade-union representing employees of the Universities Council, respectively. ,

(b) by repealing section 76 and substituting the following:

Financial administration

76. The provisions of sections 11 (2), (3) and (4), 14, 15 and 16 of the Science Council of British Columbia Act respecting the council under that Act apply to the Universities Council. , and

(c) in section 82 by adding the following as subsection (4):

(4) Notwithstanding subsection (2), where the Open Learning Institute is designated under the Colleges and Provincial Institutes Act as a Provincial institute, it may grant baccalaureate degrees in arts or science in its own name.

S.B.C. 1968 c. 59

24. Section 74 of the Workers' Compensation Act is amended by inserting the following after subsection (3):

(3.1) Notwithstanding this or any other Act, the matters respecting the establishment and maintenance of the Superannuation Fund under subsection (3) or payment of superannuation allowances to employees or allowances on the disability or death of employees, including contributions to the Fund by the Board and its employees and the amounts of superannuation or other allowances and the conditions on which and the persons to whom they may be paid, shall not be the subject of a collective agreement between the Board and its employees.

Commencement

25. This Act comes into force on a day to be fixed by Proclamation.

Printed by K.M. MacDonald, Printer to the Queen's Most Excellent
Majesty in right of the Province of British Columbia.
1978

British Columbia Resources Investment Corporation Act

[Consolidated for convenience only, September 21, 1978.]

Interpretation.

1. In this Act

"agent" means,

(i) in respect of the Crown in right of the Province, or in right of Canada, or in right of another province, an agent of the Crown in that right, and includes a municipal or public body empowered to perform a function of government in Canada, a corporation empowered to perform a function or duty on behalf of the Crown in that right, or a corporation controlled directly or indirectly by the Crown in that right; but does not include a member of the Executive Council or a person performing a function or duty in connection with

(A) the administration or management of an estate or property of an individual, or

(B) the administration, management, or investment of a fund established to provide compensation, hospitalization, medical care, annuity, pension, or similar benefits to an individual or particular classes of individuals, or money derived from that fund, and

(ii) in respect of the government of a foreign state or a political subdivision of it, a person empowered to perform a function or duty on behalf of the government of the foreign state or political subdivision;

"articles" means the articles of the company;

"board" means the board of directors of the company;

"business day" means a day on which a stock exchange designated by the board is open for trading in securities;

"charter", in relation to the company, means this Act together with the memorandum and articles of the company;

"company" means the company incorporated pursuant to section 2;

"member" means a subscriber of the memorandum of the company and includes every other person who agrees to become a member and whose name is registered in its register of members or a branch register of members;

"minister" means that member of the Executive Council charged by order of the Lieutenant-Governor in Council with the administration of this Act;

"non-resident of the Province" means

(i) an individual who is not ordinarily resident in the Province, or

(ii) a corporation having its head office outside the Province, or

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(iii) the Crown or its agent in right of a province outside the Province, the Crown or its agent in right of Canada, or the government of a foreign state or a political subdivision of it or an agent of either, or

(iv) a corporation controlled directly or indirectly by non-residents of the Province as defined in this section, or

(v) a trust

(A) established by a non-resident of the Province as defined in this section, other than a trust for the administration of a pension fund for the benefit of individuals, a majority of whom are residents of the Province, or

(B) in which non-residents of the Province as defined in this section have more than 50% of the beneficial interest, or

(vi) a corporation of which the majority of the directors, or persons occupying the position of directors by whatever name called, are non-residents of the Province as defined in this section, or

(vii) a corporation that is controlled directly or indirectly by a trust defined in this section as a non-resident of the Province;

"non-resident of Canada" means

(i) an individual who is not ordinarily resident in Canada, or

(ii) a corporation incorporated, formed, or otherwise organized elsewhere than in Canada, or

(iii) the government of a foreign state or a political subdivision of it, or an agent of either, or

(iv) a corporation that is controlled directly or indirectly by non-residents of Canada as defined in this section, or

(v) a trust

(A) established by a non-resident of Canada as defined in this section, other than a trust for the administration of a pension fund for the benefit of individuals, a majority of whom are residents of Canada, or

(B) in which non-residents of Canada as defined in this section have more than 50% of the beneficial interest, or

(vi) a corporation of which the majority of the directors, or persons occupying the position of directors by whatever name called, are non-residents of Canada as defined in this section, or

(vii) a corporation that is controlled directly or indirectly by a trust defined in this section as a non-resident of Canada;

"person" includes the Government of the Province, any other government, and their respective agents;

"resident of the Province" means a person who is not a non-resident of the Province;

"resident of Canada" means a person who is not a non-resident of Canada;

"securities" means bonds, debentures, notes, or other evidences of indebtedness;

"shares of the company" means shares in the authorized share capital of the company;

"voting share" means a share of the company that has attached to it a right to vote, whether on the happening of a stated event or otherwise.

1977, c. 47, s. 1.

PART I

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Company established.

2. (1) The Lieutenant-Governor in Council may appoint 5 individuals to incorporate a company under the *Companies Act*.

(2) The name of the company shall be "British Columbia Resources Investment Corporation".

(3) The individuals appointed under subsection (1) shall, in accordance with this Act and the *Companies Act*,

(*a*) determine the contents of the memorandum and articles of the company,

(*b*) be the first directors of the company,

(*c*) while they remain in office, each be deemed to be the holder of one common share of the company on behalf of the Crown in right of the Province, and

(*d*) cease to hold office when the board is elected unless they are elected or appointed under this Act.

1977, c. 47, s. 2.

Company not Crown agent.

3. The company is not an agent of the Crown.

1977, c. 47, s. 3.

Share priority to residents.

4. On any offering of shares of the company to the public at large, preference shall be given to orders received from residents of the Province.

1977, c. 47, s. 4.

PART II

CONDITIONS AFFECTING ACQUISITION AND HOLDING OF VOTING SHARES

Canadians to hold shares.

5. No person other than a Canadian citizen or a person who is a resident of Canada is eligible to purchase, own, or hold voting shares of the company.

1977, c. 47, s. 5.

No trust for non-Canadians.

6. No person shall purchase or hold voting shares of the company in right of or for the use or benefit of a non-resident of Canada unless the non-resident is a Canadian citizen.

1977, c. 47, s. 6.

Total share entitlement.

7. (1) The total number of voting shares that may be held

(*a*) in the name or right of or for the use or benefit of a person, or

(*b*) in the name or right of or for the use or benefit of that person and either or both of the following:

(i) members associated with that person;

(ii) any other persons who are associated, or who would be deemed under this Part to be associated, with that person, if both he and the other persons were members,

shall not exceed 1% of the total number of the issued and outstanding voting shares of the company or such other percentage as may be prescribed by the Lieutenant-Governor in Council.

(2) Subsection (1) does not apply in respect of voting shares held by or on behalf of the Government.

(3) The total number of voting shares of the company that may be held

(*a*) in the name or right of or for the use or benefit of the Crown in right of Canada, or

(*b*) in the name or right of or for the use or benefit of the Crown in right of Canada and either or both of the following:

(i) an agent of the Crown in right of Canada;

(ii) a person associated with the Crown in right of Canada or with that agent,

shall not exceed 1% of the total number of the issued and outstanding voting shares of the company or such other percentage as may be prescribed by the Lieutenant-Governor in Council.

(4) The total number of voting shares of the company that may be held

(*a*) in the name or right of or for the use or benefit of the Crown in right of a province other than British Columbia, or

(*b*) in the name or right of or for the use or benefit of the Crown in right of a province other than British Columbia and either or both of the following:

(i) an agent of the Crown in right of that other province;

(ii) a person associated with the Crown in right of that other province or with that agent, shall not exceed 1% of the total number of the issued and outstanding voting shares of the company or such other percentage as may be prescribed by the Lieutenant-Governor in Council.

(5) Notwithstanding subsection (1), the total number of voting shares that may be held

(*a*) in the name or right of or for the use or benefit of a mutual fund trust or mutual fund corporation, each as defined in the *Income Tax Act* (Canada), or a person investing money derived from funds established to provide compensation, hospitalization, medical care, annuity, pension, or similar benefits to an individual or particular classes of individuals, or

(*b*) in the name or right of or for the use or benefit of such trust, corporation, or person and either or both of the following:

(i) members associated with that trust, corporation, or person;

(ii) any other persons who are associated, or who would be deemed under this Part to be associated, with the trust, corporation, or person, if both the trust, corporation, or person and the other person were members,

shall not exceed 3% of the total number of the issued and outstanding voting shares or such other percentage as may be prescribed by the Lieutenant-Governor in Council.

1977, c. 47, s. 7; 1978, c. 28, s. 2.1 (proc. eff. Aug. 24, 1978).

Crown agent not to hold shares.

8. No voting shares of the company shall be held in the name or right of or for the use or benefit of an agent of the Crown in right of the Province.

1977, c. 47, s. 8.

Associated members.

9. (1) For the purposes of this Part, a member shall, except as provided in section 10, be deemed to be associated with another member if

(*a*) one member is a corporation of which the other member is an officer or director, or

(*b*) one member is a partnership of which the other member is a partner, or

(*c*) one member is a corporation that is controlled directly or indirectly by the other member, or

(*d*) both members are corporations and one member is controlled directly or indirectly by the same individual or corporation or the same government in Canada that controls directly or indirectly the other member, or

(*e*) both members are members of a voting trust where the trust relates to voting shares of the company, or

(*f*) both members are agents of the Crown in right of Canada, or

(*g*) both members are persons performing on behalf of the Crown in right of Canada a function or duty in connection with the administration, management, or investment of a fund or money referred to in subparagraph (i) (B) of the definition of "agent", or

(*h*) both members are agents of the Crown in right of the same province, or

(*i*) both members are persons performing on behalf of the Crown in right of another province a function or duty in connection with the administration, management, or investment of a fund or money referred to in subparagraph (i) (B) of the definition of "agent", or

(*j*) both members are associated with the same member within the meaning of paragraphs (*a*) to (*i*), or

(*k*) both members are parties to an agreement or arrangement a purpose of which, in the opinion of the board, is to require the members to act in concert with respect to their interests in the company,

and "associate", when used with reference to a person, means a person deemed to be associated with him pursuant to this subsection.

(2) For the purposes of this Part, where a share of the company is held jointly and one or more of the joint holders is a non-resident of Canada, the share shall be deemed to be held by a non-resident of Canada.

(3) For the purposes of this Part, a corporation shall be deemed to be controlled by another corporation, individual, trust, or government if at any time, in the opinion of the board, it is at that time in fact effectively controlled by the other corporation, individual, trust, or government either directly or indirectly through the holding of shares of the corporation or any other corporation, through the holding of a significant portion of the outstanding debt of a corporation, trust, or individual, or by any other means whether of the same or a different nature.

(4) For the purposes of this Act, where a corporation or trust that was at any time a resident of Canada becomes a non-resident of Canada, shares of the company acquired by the corporation or the trust while it was a resident of Canada and held by it while it is a non-resident of Canada shall be deemed to be shares held by a resident of Canada for the use or benefit of a non-resident of Canada.

(5) For the purposes of this Act, a person is associated with another person if, by agreement or arrangement, both are required to act in concert with respect to their interests in the company.

1977, c. 47, s. 9; 1978, c. 28, s. 2.1 (proc. eff. Aug. 24, 1978).

Declaration of non-association.

10. Notwithstanding section 9 (1),

(*a*) where one member who is a resident of Canada and who, but for this section, would be deemed to be associated with another member, submits to the company a declaration stating that none of the voting shares of the company held by him or to be held by him, is or will be, to his knowledge, held in the right of or for the use or benefit of himself or a person with whom, but for this section, he would be deemed to be associated, neither member shall be deemed to be associated with the other so long as the voting shares of the company from time to time held by the member who made the declaration are not held contrary to the statements made in the declaration, or

(*b*) 2 members that are corporations and residents of Canada shall not be deemed to be associated with each other under section 9 (1) (*j*) by reason only that each is deemed under section 9 (1) (*a*) to be associated with the same member, or

(*c*) where it appears from the register of members of the company that not more than 5 000 of the voting shares of the company are held by a member, he shall not be deemed to be associated with any other members, and no other members shall be deemed to be associated with him.

1977, c. 47, s. 10; 1978, c. 28, s. 2.1 (proc. eff. Aug. 24, 1978).

PART III

TRANSFER, VOTING AND REDEMPTION OF SHARES

Transfer of shares.

11. (1) Subject to this section and the charter, the shares of the company are transferable in accordance with the *Companies Act*.

(2) A member of the company shall, on the request of the board made in accordance with the articles, submit a declaration to the company with respect to

(*a*) his direct or indirect ownership of shares of the company,

(*b*) whether or not he and the person in whose right or for whose use or benefit the share is held are residents of Canada or Canadian citizens,

(*c*) whether or not he is associated with another shareholder,

(*d*) whether or not he is a Canadian citizen,

(*e*) if the member is a corporation or trust, information establishing that it is a resident of Canada, and

(*f*) such other matters as the board may consider relevant for the purposes of determining whether the member complies with the conditions contained in Part II.

(3) Where

(*a*) a declaration has been requested by the board from a member under this section, and

(*b*) the member fails or neglects to submit to the board a declaration satisfactory to it within 30 days after the day the declaration was sent to the member,

the shares of the company held by that member shall be deemed to be held in contravention of the charter until a declaration satisfactory to the board has been submitted to it.

(4) It is a condition of every transfer of a share to be made or recorded in the register of members of the company and of every subscription for a share of the company that the transferee or subscriber shall, at the request of the board, submit to it a declaration to the same effect as the declaration referred to in subsection (2).

(5) Subject to subsection (7), where the board has requested a declaration pursuant to subsection (2), the board shall not accept a subscription for a share of the company or allow a transfer to be made or recorded in a register of members of the company unless

(*a*) the declaration has been submitted to the board, and

(*b*) it appears from the declaration that the subscriber or transferee would not, by the acceptance of the subscription for the shares being subscribed for or the entry in a register of members of the shares being transferred, hold those shares in contravention of the charter.

(6) Where, in the case of a subscription for or transfer of shares of the company, it appears to the board that the total number of shares held by the subscriber or the transferee, as shown by the register of members of the company, would not exceed 5 000 if the subscription were accepted or the transfer allowed, the board is entitled to assume

(*a*) that the subscriber or the transferee is not and will not be associated with another holder of shares of the company, and

(*b*) unless the address to be recorded in the register of members of the company for the subscriber or transferee is a place outside Canada, that the shares will not be held in contravention of the charter.

(7) Where there is a subscription for shares of the company pursuant to an offer of shares by way of rights granted by the company to holders of its shares to purchase additional shares, the company may count as shares issued and outstanding all the shares included in the offer.

1977, c. 47, s. 11; 1978, c. 28, s. 2.1 (proc. eff. Aug. 24, 1978).

No voting rights if excess share holdings.

12. (1) Where any of the shares of the company are held in contravention of the charter, the voting rights attaching to those shares shall not be exercised.

(2) Shares held in contravention of the charter include shares that are deemed to be so held.

(3) The validity of

(*a*) a transfer of shares of the company that has been made or recorded in a register of members of the company, or

(*b*) the acceptance of a subscription for shares of the company

is not affected by the fact that those shares are held in contravention of the charter.

(4) Where voting rights pertaining to shares of the company held in contravention of the charter are exercised at a general meeting of the

shareholders of the company, no proceeding, matter, or thing at the meeting is void for that reason; but the proceeding, matter, or thing is, at any time within one year after the commencement of the general meeting at which the voting rights were exercised, voidable at the option of the board by a resolution of the board.

1977, c. 47, s. 12.

Order for disposal of excess share holdings.

13. (1) Where voting shares of the company are held in contravention of the charter, the company may, on notice to such persons and in such manner as may be directed by the board, require the holder of the voting share to dispose of it to another person who may hold voting shares of the company, within such period, not less than 60 days, as may be limited by the notice.

(2) Where voting shares referred to in subsection (1) have not been disposed of within the time limited by the notice, the company may, at its option and at any time while those shares continue to be held in contravention of the charter, redeem them for cancellation on

(*a*) deposit by the company of the amount of their redemption price in a special account with a savings institution, and

(*b*) giving notice of redemption to the persons and in the manner prescribed by the articles, including notice of the deposit referred to in paragraph (*a*),

and, on the giving of the notice, the rights of the holder and beneficial owner of them shall cease, except the right of a beneficial owner to receive out of the amount so deposited, without interest, the redemption price payable with respect to the shares on presentation and surrender of the certificates representing the shares.

(3) Interest payable by the savings institution on the deposit made under subsection (2) (*a*) shall be paid to the company.

(4) Notwithstanding the *Companies Act,* the company

(*a*) is not bound to see to the application of the amount deposited or to the execution of a trust, whether express, implied, or constructive in respect of voting shares redeemed for cancellation under this section, and

(*b*) is not estopped by certificates outstanding in respect of voting shares redeemed for cancellation.

(5) The powers of the company under this section may be exercised at its option; but where voting shares of the company have, to its knowledge, been held in contravention of the charter for 10 years or such lesser period as may be fixed by the articles, the company shall, in the manner provided by this section, redeem those voting shares for cancellation.

(6) For the purposes of this section, the redemption of voting shares of the company shall be the lesser of

(*a*) the issue price per share on the initial issue of shares of that class, or (*b*) the closing price per share of the shares of that class on the stock exchange designated by the board on the business day immediately preceding the date of giving notice of redemption, or

(*c*) if there is no sale of them on that stock exchange on that business day, the average of the closing asked price and the closing bid price of them on that exchange on that business day, or

(*d*) if no bid price and asked price of them on that exchange are quoted for that business day, the last closing sale price of them on that exchange recorded before that business day.

(7) This section and section 7 shall be set out in each share certificate issued by the company representing a voting share or by a writing attached to the share certificate.

(8) Shares redeemed under this section do not reduce the total number of issued and outstanding voting shares for the purposes of sections 7 and 16.

1977, c. 47, s. 13.

Determination of excess share holdings.

14. In determining for the purposes of this Act whether or not

(*a*) shares are held in contravention of the charter, or

(*b*) a person is a resident of Canada, or

(*c*) an individual is a Canadian citizen, or

(*d*) a member is associated with another member, or

(*e*) a corporation is directly or indirectly controlled by persons who are not residents of Canada,

or any other circumstances relevant to the performance of the duties of the board under this Act, the company and a director, officer, employee, or agent of the company may rely on

(*f*) a statement made in a declaration submitted under section 11, or

(*g*) the knowledge of a director or officer of the circumstances, and the company, directors, officers, employees, or agents are not liable in an action for anything done or omitted by them in good faith as a result of conclusions made by them on the basis of the statement or knowledge.

1977, c. 47, s. 14.

PART IV

DIRECTORS

Director to be Canadian citizen.

15. (1) Subject to the *Companies Act*, an individual who

(*a*) is a Canadian citizen, and

(*b*) otherwise qualifies under the articles,

is qualified to be a director of the company.

(2) An individual ceases to be a director if he ceases to be qualified under subsection (1).

(3) At least 60% of the members of the board shall at all times be residents of the Province.

(4) No member of the Legislative Assembly is eligible to be appointed as a senior officer, as defined in the *Companies Act,* or to be elected or appointed or to act as a director of the company.

1977, c. 47, s. 15.

Crown appointment of directors.

16. (1) So long as the Government owns or controls 10% or more of the issued and outstanding voting shares of the company, notwithstanding the *Companies Act* or the charter, the Government shall not vote its shares for the election of directors; but the minister may annually, with the approval of the Lieutenant-Governor in Council and effective at the time the annual general meeting is held, by notice in writing to the company, appoint

(*a*) one director if the number of directors on the board is 4 or less,

(*b*) 2 directors if the number of directors on the board is 5, 6, 7, or 8, and

(*c*) 3 directors if the number of directors on the board is more than 8,

and may, by similar notice, remove those persons so appointed.

(2) An appointment under subsection (1) shall be made by notice in writing to the company at least 45 days before the date of the annual general meeting.

(3) Where a director appointed to the board under this section ceases to be a director the minister may, by notice in writing, appoint a person to replace that director.

(4) Directors appointed under this section cease to hold office, unless reappointed for a further term, at the time the directors elected at the next annual general meeting assume office.

(5) For the purpose of this section, the board shall notify the minister at least 56 days before the date of the annual general meeting.

(6) If the Government holds less than 10% of the voting shares, it may vote its shares in the ordinary way for the election of directors.

1977, c. 47, s. 16.

PART V

TRANSFER OF GOVERNMENT ASSETS AND REDEMPTION OF SHARES

Transfer of property for shares.

17. (1) The Government shall transfer, convey and dispose of to the company on the coming into force of this section the assets and rights in the Schedule, on the terms and conditions and at the price, if any, prescribed by the Lieutenant-Governor in Council, and shall accept the equivalent value in shares or securities of the company.

(2) A share or security held by or for the Government other than those referred to in section 2 (3) shall be registered in the records of the company in the name of Her Majesty the Queen in the right of British Columbia, and the voting rights attached to the shares or securities shall be exercised by the minister or his proxy in accordance with this Act and the regulations.

(3) The Minister of Finance may, with the approval of the Lieutenant-Governor in Council, dispose of a share or security held by or for the Government.

1977, c. 47, s. 17.

Government share holdings.

18. The company may, notwithstanding the *Companies Act*, redeem for cancellation voting shares of the company held by or on behalf of the Government at a price per share agreed on between the company and the Minister of Finance and approved by the Lieutenant-Governor in Council.

1977, c. 47, s. 18.

PART VI

GENERAL

Winding-up.

19. Proceedings to wind up the company under Part 9 of the *Companies Act* are, notwithstanding the *Companies Act*, invalid unless approved by the Lieutenant-Governor in Council.

1977, c. 47, s. 19.

This Act paramount.

20. Where there is a conflict between this Act and

(*a*) the *Companies Act* as it applies to the company, or

(*b*) the articles, or

(*c*) the memorandum of the company,

this Act prevails.

1977, c. 47, s. 20.

Securities Act.

21. The registration provisions of the *Securities Act* do not apply to savings institutions in the Province in respect of the primary distribution to the public of the first offering of shares of the company.

1977, c. 47, s. 21.

Authorized investments.

22. Shares of the company are an authorized investment for trust funds by

(*a*) a trust company under the *Trust Companies Act*, or

(*b*) a Provincial company under the *Insurance Act*, or (*c*) a trust in which

(i) a corporate trustee is the sole trustee, or

(ii) one of the trustees is a corporate trustee.

1977, c. 47, s. 22.

Regulations.

23. The Lieutenant-Governor in Council may make regulations.

1977, c. 47, s. 23.

Commencement.

24. This Act comes into force on a day to be fixed by Proclamation.

1977, c. 47, s. 24.

SCHEDULE

1. Shares and securities representing the interest of the Government in

(*a*) Canadian Cellulose Company Ltd.,

(*b*) Plateau Mills Ltd.,

(*c*) Kootenay Forest Products Ltd.,

(*d*) Westcoast Transmission Company Limited.

2. Notwithstanding the *Petroleum and Natural Gas Act, 1965,* such leases, licences, reservations, or permits respecting petroleum or natural gas rights as the Lieutenant-Governor in Council may determine, on such terms and conditions as he may approve.

1977, c. 47, Sch.

[NOTE.—Act, except section 17, proclaimed in force Sept. 14, 1977, B.C. Reg. 385/77, Part II Gazette Vol. 20, p. 734. Section 17 proclaimed in force Mar. 9, 1978, B.C. Reg. 107/78, Part II Gazette Vol. 21, p. 556.]

Printed by K. M. MACDONALD, Printer to the Queen's Most Excellent Majesty
in right of the Province of British Columbia.
1979

500-779-4115

21/9/78

British Columbia Resources Investment Corporation
(Free Shares) Regulation

Interpretation

1. In this regulation,

"Act"

means the British Columbia Resources Investment Corporation Act;

"age"

means the age of an individual attained on his or her last birthday preceding June 16, 1979;

"attorney"

means a person appointed as the attorney of an applicant for shares of British Columbia Resources Investment Corporation by instrument in writing required by this regulation and who furnishes the identification required by the instrument or this regulation;

"authorized agents"

means the persons authorized to receive and stamp applications as provided by this regulation;

"corporation"

means British Columbia Resources Investment Corporation;

"eligible resident"

means a Canadian citizen or individual qualified to be a Canadian citizen who has applied for Canadian citizenship, and who

(a) has ordinarily resided in British Columbia for at least the immediately preceding 12 months, or has so resided since birth, or

(b) is

(i) a member of the Canadian Forces,

(ii) an agent-general, officer or servant of the Province,

(iii) performing services in a country other than Canada under a program of the Government of Canada, or

(iv) attending an educational institution outside of the Province,

and before his posting, appointment or attendance described in subparagraphs (i) to (iv) inclusive, has ordinarily resided in British Columbia for the preceding 36 consecutive months, or

(c) has ordinarily resided in British Columbia for at least 10 consecutive years before leaving the Province for not more than 60 months and who before January 1, 1979 has returned to and has resumed permanent residence in British Columbia, or

(d) is the spouse living with, or is the child under the age of 16 years of, an individual described in paragraph (b) (i), (ii), (iii), (iv) or (c);

"minister"

means the Minister of Finance.

Applications

2. (1) The Final Date for applications for free shares of the corporation is June 15, 1979 or such later date as the minister may, before that date, specify.

(2) The application form must be in Form A to this regulation and must be presented and stamped by an authorized agent on or before the Final Date.

(3) Applications may be presented at locations in British

....../2

BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone. (604) 687-2600

David L. Helliwell
President & Chief Executive Officer

September 25, 1979

Mr. Kenneth M. Rosenstein
Legislative Counsel
State of Alaska
The Legislature
Legislative Affairs Agency
Pouch Y - State Capitol
Juneau, Alaska 99811

Dear Mr. Rosenstein:

Thank you for your letter of September 18th expressing interest in BCRIC. I would be pleased to meet with you and your team on the afternoon of November 2nd and hope that we can answer your questions. Perhaps closer to the date you can advise us more precisely of the time. We would be pleased to host you in our Boardroom for your visit.

Sincerely yours,

D. L. Helliwell

DLH/sw

PLEASE PRINT AND PRESS FIRMLY

FORM A

APPLICATION FOR COMMON SHARES

British Columbia Resources Investment Corporation

DO NOT WRITE IN THIS SPACE

"As a shareholder in the B.C. Resources Investment Corporation, you'll have a real stake in resource development throughout our province. I urge you, your family and friends to take advantage of this unique offer . . . and to participate directly in the future growth of British Columbia."

Bill Bennett

DATE OF APPLICATION (DAY / MO / YR)	APPLICATION ENTITLEMENT (SELF / CHILDREN / BOTH / OTHER)	PURCHASE ONLY	AGENCY NUMBER	PREVIOUS APPLICATION NO.	APPLICATION NO.
17, 9	☐1 ☐2 ☐3 ☐4	☐5			2086018

IDENTIFICATION OF APPLICANT (TWO PIECES OF IDENTIFICATION REQUIRED)

DRIVER'S LICENCE NO.	MSP IDENTITY NO. (FULL NO. INCL. DEPENDENT NO.)	SOCIAL INSURANCE NO.	BIRTHDATE (DAY / MO / YR)	APPEAL NO.

APPLICANT'S SURNAME

APPLICANT'S FIRST NAME FOLLOWED BY INITIAL(S)

APPLICANT'S ADDRESS

AGENT'S VALIDATION

NOT VALID UNLESS STAMPED BY AUTHORIZED AGENT

POSTAL CODE

APPLICANT'S PHONE NO.

FREE SHARES

X 5 SHARES =

CHILD ENTITLEMENT (CANADIAN CITIZENS BORN AFTER JUNE 15, 1962)

NAME	RELATIONSHIP	BIRTHDATE (DAY / MO / YR)	MSP IDENTITY NO.		FREE SHARES
				☐	X 5 SHARES =
				☐	X 5 SHARES =
				☐	X 5 SHARES =
				☐	X 5 SHARES =

TOTAL NO. OF ADDITIONAL COMMON SHARES PURCHASED		X	PRICE PER SHARE	=	TOTAL COST OF PURCHASE SHARES
=		X		=	

IF TOTAL SHARES THIS APPLICATION IS 100 OR MORE, SHARES WILL BE REGISTERED

CERTIFICATES REGISTERED (✓) ☐

TOTAL FREE SHARES APPLIED FOR: 0,0,0

TOTAL PURCHASE SHARES APPLIED FOR

TOTAL SHARES THIS APPLICATION

NAME OF ATTORNEY

PHONE NO.

ADDRESS

CERTIFICATION

I HEREBY CERTIFY AND CONFIRM THAT:

1. the information given in this application is true and correct and is made for the purpose of acquiring common shares of British Columbia Resources Investment Corporation;
2. the applicant is 16 years of age or older and each person in respect of whom common shares are hereby applied for is an ELIGIBLE RESIDENT as described on the back of this form;
3. if this application is for free common shares, no such application has previously been made by or in respect of the applicant or any child named in this application;
4. the additional common shares set out above are purchased in accordance with the terms on the back of this form; and
5. I am aware it is a serious offence to obtain common shares of British Columbia Resources Investment Corporation for or in respect of a person who is not an eligible resident or to obtain free common shares for a person who has previously obtained free common shares or in respect of a child named in another application.

APPLICANT'S/ATTORNEY'S SIGNATURE

DATE

DATA ENTRY

YOUR SHARE CERTIFICATES WILL BE AVAILABLE AUG. 7, 1979 TO SEPT. 28, 1979 AT POINT OF APPLICATION

RIC 003

DO NOT WRITE IN THIS SPACE

British Columbia Resources Investment Corporation

I ______________________________ HEREBY IRREVOCABLY
(FULL NAME OF APPLICANT)

CONSTITUTE AND APPOINT ______________________________
(FULL NAME OF ATTORNEY)

OF ______________________________
(ADDRESS OF ATTORNEY)

MY TRUE AND LAWFUL ATTORNEY FOR ME AND IN MY NAME AND ON MY BEHALF TO PRESENT MY IDENTIFICATION,* TO APPLY FOR FREE COMMON SHARES AND PURCHASE COMMON SHARES OF BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION AND TO RECEIVE MY SHARE CERTIFICATES FOR SUCH COMMON SHARES AND CERTIFY THAT:

1. I AM 16 YEARS OF AGE OR OLDER;
2. I HAVE NOT PREVIOUSLY APPLIED AS AN APPLICANT OR BASED ON CHILD ENTITLEMENT, OR AUTHORIZED ANY OTHER PERSON TO SO APPLY FOR FREE COMMON SHARES OF BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION; AND
3. THE FOLLOWING IS THE TRUE SIGNATURE OF MY ATTORNEY:

______________________________ DATED THIS ________ OF ______________ 1979
(SIGNATURE OF ATTORNEY) (DAY) (MONTH)

*TWO PIECES OF IDENTIFICATION REQUIRED, CHOICE OF:
1. B.C. DRIVER'S LICENCE
2. MSP CARD (FULL NO. INC. DEPENDENT NO.) OR PHARMACARE CARD
3. SOCIAL INSURANCE CARD
4. BIRTHDATE (AGE 65 AND OVER ONLY)

____
(SIGNATURE OF APPLICANT)

CERTIFICATION OF ATTORNEY (TO BE COMPLETED AT TIME OF APPLICATION)

I HEREBY CERTIFY THAT:

1. I AM THE ATTORNEY APPOINTED ABOVE AND THAT MY APPOINTMENT IS VALID AND HAS NOT BEEN REVOKED; AND
2. I AM 19 YEARS OF AGE OR OLDER.

DATED THIS ________ OF ______________ 1979 ______________________________
(DAY) (MONTH) (SIGNATURE OF ATTORNEY)

IDENTIFICATION OF ATTORNEY (TWO PIECES OF IDENTIFICATION REQUIRED)

B.C. DRIVER'S LICENCE NO.	MSP IDENTITY NO.	SOCIAL INSURANCE NO.

RIC 007

FORM C

APPEAL APPROVAL NOTIFICATION

British Columbia Resources Investment Corporation

DO NOT WRITE IN THIS SPACE

APPEAL NUMBER

DATE OF APPEAL DAY MONTH 17 9 | APPEAL AGENCY NUMBER | APPEAL AGENT NAME | AGENT'S TELEPHONE NO

B.C. DRIVERS LICENCE NO | M.S.P. IDENTITY NO (FULL NO. INCL. DEPENDENT NO.) | SOCIAL INSURANCE NO | BIRTHDATE DAY MONTH YEAR | APPLICATION NUMBER

APPLICANT'S SURNAME

NOT VALID UNLESS STAMPED BY AUTHORIZED APPEAL AGENT

APPEAL AGENT VALIDATION

APPLICANT'S FIRST NAME FOLLOWED BY INITIAL(S)

APPLICANT'S ADDRESS

POSTAL CODE

APPLICANT'S PHONE NO

APPROVAL OF APPLICANT

APPROVAL JUSTIFICATION (IF NECESSARY ATTACH A SEPARATE PAGE)

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

CHILD ENTITLEMENT (CANADIAN CITIZENS BORN AFTER JUNE 15, 1960)

NAME	RELATIONSHIP	BIRTH DATE	M.S.P. IDENTITY NO (FULL NO. INCL. DEPENDENT NO.)

APPROVAL OF DEPENDENT 1

APPROVAL JUSTIFICATION -

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

APPROVAL OF DEPENDENT 2

APPROVAL JUSTIFICATION -

☐ SAME AS DEPENDENT 1

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

APPROVAL OF DEPENDENT 3

APPROVAL JUSTIFICATION -

☐ SAME AS DEPENDENT 1

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

APPROVAL OF DEPENDENT 4

APPROVAL JUSTIFICATION -

☐ SAME AS DEPENDENT 1

☐ RESIDENT ☐ CITIZEN ☐ APPROVED

AGENT: SIGN IF APPROVED. IF NOT, PRINT NOT APPROVED

CERTIFICATION: I HEREBY CERTIFY THE INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT

PRINT NAME AND ADDRESS (ONLY REQUIRED FOR POWER OF ATTORNEY OR TRUSTEE)

TELEPHONE NO

SIGNATURE OF ☐ APPLICANT ☐ POWER OF ATTORNEY ☐ TRUSTEE

004

SHARE APPLICATION CAN BE MADE BETWEEN MARCH 15/79 AND JUNE 15/79 AT ANY FINANCIAL AGENCY

APPLICANT: RETAIN THIS COPY — IT MUST BE SURRENDERED WHEN YOU APPLY FOR SHARES

This prospectus constitutes a public offering of these securities only in British Columbia.

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

New Issue

British Columbia Resources Investment Corporation

Common Shares

(without par value)

This offer is made only to individuals who have qualified for free common shares of British Columbia Resources Investment Corporation ("BCRIC") to be distributed by the Province of British Columbia as described under "Distribution of Free Common Shares" on page 23. This offer commences on March 15, 1979 and will expire on June 15, 1979 unless extended by BCRIC. Up to 5,000 common shares may be purchased, in integral multiples of five, by or in respect of each eligible resident of British Columbia. Bearer share certificates will be issued on all applications for less than 100 common shares. See "Plan of Distribution".

Price: $6.00 per share

No market has been established for the common shares of BCRIC, but application will be made to list the common shares on the Vancouver Stock Exchange. The offering price for the common shares was determined by BCRIC and the Province of British Columbia was notified of this price. BCRIC has agreed to pay an agents' commission of $0.25 per common share purchased pursuant to this offer. The net proceeds to BCRIC from this offer will be $5.75 per common share sold, before deducting expenses of issue payable by BCRIC estimated at $2,500,000. Other expenses common to the distribution of free common shares by the Province of British Columbia will be borne by the Province.

The common shares are not guaranteed in any manner by the Province of British Columbia or any other government, nor has any government any direct or indirect obligation with respect to them. The common shares are subject to certain risk factors as described under "Risk Factors Affecting Common Shares" on page 23. If a material change occurs during the offering period that makes untrue or misleading any statement of a material fact contained in this prospectus, an amendment will be filed with the Superintendent of Brokers of British Columbia.

These common shares are conditionally offered if, as and when issued by BCRIC subject to enabling legislation and the distribution of free common shares by the Province, all as more particularly set out under "Plan of Distribution" and "Details of the Offering".

TABLE OF CONTENTS

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

British Columbia Resources Investment Corporation ("BCRIC") was incorporated under the Companies Act of British Columbia on February 22, 1978. The British Columbia Resources Investment Corporation Act (the "BCRIC Act"), which was proclaimed in parts on September 14, 1977 and March 9, 1978 and was amended on August 24, 1978, contains provisions relating to BCRIC, including conditions concerning the ownership and voting of its shares. Reference is made to "British Columbia Resources Investment Corporation Act" on page 21.

The head office and registered office of BCRIC is located at Suite 2600, 1177 West Hastings Street, Vancouver, British Columbia, V6E 3Y3.

Objective

The objective of BCRIC is to operate profitably and to maximize the value of BCRIC for the benefit of the shareholders through growth in earnings and asset values. BCRIC was established in part to encourage British Columbians to participate individually in equity investments based in British Columbia. The first efforts of BCRIC will be directed towards identifying additional investment or business opportunities within British Columbia which are consistent with its objective. However, BCRIC has the same unlimited investment opportunity available to it as any Canadian company and may vary or extend its investments in a manner that the directors believe will benefit the shareholders of BCRIC.

Dividend Policy

BCRIC has not paid dividends on its common shares and does not expect to pay dividends in the early years of its operation. All available funds are expected to be used by BCRIC to finance expansion and new investment until dividends from existing holdings improve or satisfactory cash returns are developed. This policy will be reviewed from time to time by the directors of BCRIC and any change in policy will be influenced by the level of earnings available for distribution in BCRIC, financial market and economic conditions in general, and the degree to which funds should be retained to finance internal requirements such as debt repayment, capital expenditures or working capital.

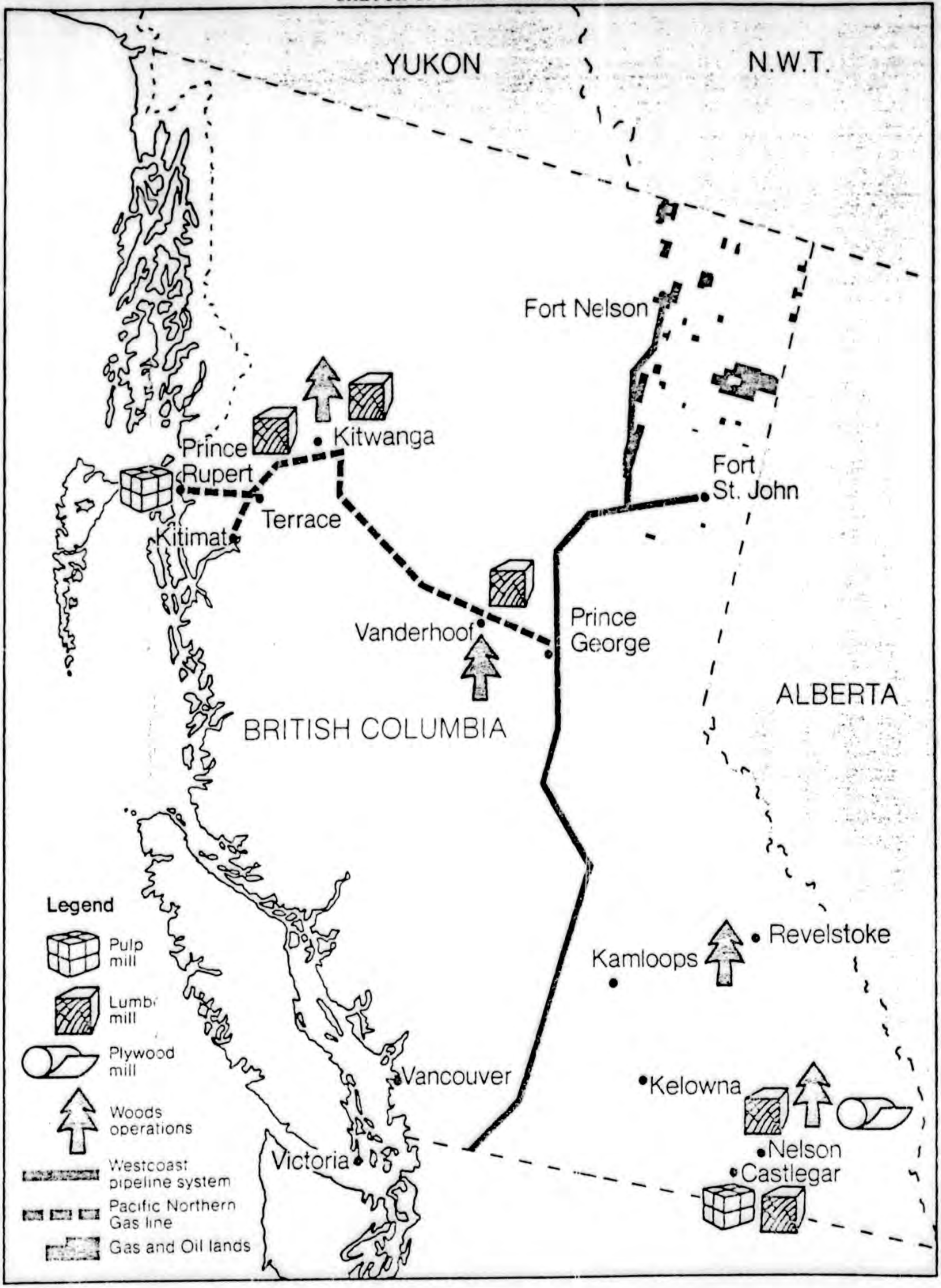
BUSINESS AND PROPERTIES OF BCRIC

BCRIC has to date acquired investments in the forest products industry, which involve the manufacture and sale of pulp, lumber and plywood, and in the energy industry, which involve the exploration, development and transmission of energy resources. The forest products investments consist of approximately 81% of the shares of Canadian Cellulose Company, Limited and all of the shares of Kootenay Forest Products Ltd. and Plateau Mills Ltd. The energy investments include a licence to explore for petroleum and natural gas over approximately 2.3 million acres of land located in northeastern British Columbia and approximately 10% of the common shares in Westcoast Transmission Company Limited.

These investments were acquired on March 9, 1978 from the Province of British Columbia at a transfer price of $151,532,930. As consideration for these interests BCRIC issued to the Province a non-interest bearing demand note which will be exchanged for 15,000,000 common shares of BCRIC. Reference is made to "Consolidated Capitalization", "Plan of Distribution" and Note 2 to the Consolidated Financial Statements.

Each of these investments is described in more detail below. However, BCRIC is not limited to these investments or industries and may invest in a broad spectrum of ventures. A sketch of the location of BCRIC's properties is presented on page 4.

SKETCH OF BCRIC PROPERTIES



FOREST PRODUCTS INVESTMENTS

CANADIAN CELLULOSE COMPANY, LIMITED

Canadian Cellulose Company, Limited ("CanCel") produces bleached softwood kraft pulp in British Columbia at Prince Rupert and Castlegar for sale in North America, Europe and the Far East. CanCel also manufactures lumber at Castlegar, Terrace and Kitwanga in British Columbia, for sale principally in North America.

CanCel's business had its origins in operations in British Columbia formerly controlled by Celanese Corporation of New York. These consisted of a sulphite pulp mill constructed near Prince Rupert in 1951, two bleached softwood kraft pulp mills, one constructed at Castlegar in 1961 and the other at Prince Rupert in 1966, and three sawmills at Castlegar, Terrace and Kitwanga. On June 29, 1973 the Province of British Columbia acquired 79% of the Common Shares and all of the 39,750 Non-Voting Shares of CanCel from Celanese Corporation in exchange for the Province's guarantee of $68,000,000 (U.S.) of First Mortgage Bonds of CanCel, formerly guaranteed by Celanese Corporation. There was no cash outlay by the Province. The remaining 21% of CanCel's Common Shares were received by the public and the Common Shares were listed on the Toronto, Montreal and Vancouver stock exchanges. In 1975 the Province acquired an additional 2% of the Common Shares from the public. In October 1976 production of sulphite pulp was discontinued.

Financial Summary

CanCel's net sales, earnings and dividends paid in each of the past five fiscal years ended December 31 were as follows:

	1978	1977	1976	1975	1974
			(in millions of dollars)		
Net sales	$175.5	$161.1	$177.6	$156.0	$191.5
Earnings before income taxes and extraordinary items	3.4	23.5	29.4	29.5	54.6
Provision for income taxes	.6	10.9	14.8	14.2	25.6
Earnings before extraordinary items	2.8	12.6	14.6	15.3	29.0
Extraordinary items (1)	4.0	4.7	11.5	12.2	21.9
Net earnings	$ 6.8	$ 17.3	$ 26.1	$ 27.5	$ 50.9
Dividends	$ 3.9	$ 3.9	$ 3.7	$ 3.7	$ 0.6

(1) In each of the years 1974 to 1977, the extraordinary item was a tax credit arising from prior years' losses. In 1978 the extraordinary item represented a reduction of provincial logging taxes of prior years due mainly to adjustment of tax depreciation claims.

CanCel's financial performance is dependent upon the demand for and supply of market pulp, the value of the Canadian dollar in terms of United States currency and, to a lesser extent, lumber prices. In the 1974 - 1976 period CanCel's results largely reflected a strong pulp market, offset in 1975 by low lumber prices and an industry-wide labour dispute and in 1976 by the closure of the sulphite mill and unfavourable foreign exchange. The pulp market weakened during 1977 and 1978. Earnings in 1977 were reduced by lower pulp prices, partially offset by fire insurance proceeds, foreign exchange gains and higher lumber sales and prices. A continuation of poor pulp prices into the third quarter of 1978 significantly lowered 1978 earnings. In addition, higher manufacturing costs at Prince Rupert associated with tie-ins and startup of the kraft pulp mill modification described under "Pulp Operations" below, failure of a turbo-generator, a major fire at the Castlegar sawmill and a disruption in operations and damage to logging roads and bridges caused by a severe winter flood in the northwestern region all contributed to the substantial earnings decline. Higher lumber prices and favourable foreign exchange partly offset these factors.

Sales and Marketing

CanCel's net sales by principal product, after deducting freight and delivery charges, in each of the last five years were as follows:

	1978	1977	1976	1975	1974
			(in millions of dollars)		
Kraft pulp	$126.0	$103.0	$112.1	$102.4	$106.7
Lumber	49.5	51.7	40.9	22.6	34.7
Sulphite pulp (1)	—	6.4	24.6	31.0	50.1
Total	$175.5	$161.1	$177.6	$156.0	$191.5

(1) Production of sulphite pulp was discontinued in October 1976.

The following table shows the geographic distribution of CanCel's net sales by principal product during the past five years:

	1978		1977		1976		1975		1974	
					(in millions of dollars)					
Pulp:										
Canada	—	—	$ 4.0	4%	$ 8.2	6%	$ 11.2	8%	$ 11.2	7%
United States	$ 33.5	27%	36.2	33	48.2	35	49.4	37	63.0	40
Europe	64.7	51	55.6	51	51.3	38	49.3	37	52.4	34
Far East	25.4	20	11.3	10	26.6	19	21.4	16	27.7	17
Other	2.4	2	2.3	2	2.4	2	2.1	2	2.5	2
	$126.0	100%	$109.4	100%	$136.7	100%	$133.4	100%	$156.8	100%
Lumber:										
Canada	$ 15.6	32%	$ 11.9	23%	$ 10.1	25%	$ 6.5	29%	$ 9.2	27%
United States	33.9	68	39.8	77	30.8	75	16.1	71	25.5	73
	$ 49.5	100%	$ 51.7	100%	$ 40.9	100%	$ 22.6	100%	$ 34.7	100%
Total	$175.5		$161.1		$177.6		$156.0		$191.5	

With the substantial completion of the kraft pulp mill modification at Prince Rupert in late 1978, CanCel has increased its kraft pulp capacity by approximately 35%. CanCel is susceptible to the cyclical demand and price trends of pulp markets as it lacks the product diversification and secondary manufacturing facilities of more integrated competitors. CanCel has attempted to minimize the effects of non-integration by negotiating longer term contracts and broadening its customer base. Approximately 90% of pulp production in 1979 and 1980 has been committed under contracts for fixed terms of between three and seven years, compared to virtually none before 1973. CanCel has broadened its customer base to more than 100 customers in 19 countries and operates sales offices in Vancouver, Montreal and Brussels.

Kraft pulp prices are principally determined by world market factors. CanCel's sales are based on its announced prices in force at the date of customers' requisitions, but some are subject to discounts based on volume and to meet competitive situations.

The principal market for pulp produced at Castlegar is the United States, where it is shipped by rail. Castlegar pulp also moves by rail to Vancouver for shipment to Southeast Asia, Europe and South America. Pulp manufactured at Prince Rupert is transported by bulk ocean carrier to Western Europe, the Mediterranean, China and Japan. CanCel maintains inventories at key distribution points in the United States and Europe.

All lumber is sold in the North American market by sales staffs at the Terrace and Castlegar sawmills.

Pulp Operations

The Prince Rupert pulp mill, located on Watson Island eight miles south of Prince Rupert, has a daily capacity of 1100 tonnes. In 1976 a modification project was undertaken which incorporated usable portions of the adjacent sulphite pulp mill into the kraft pulp mill and increased its capacity. The modified mill has been in a run-in phase since October 1978 and average daily production at Prince Rupert in the first two months of 1979 was 964 tonnes. The Castlegar pulp mill, completed in 1961, has a daily capacity of 515 tonnes.

Production of kraft pulp and sulphite pulp over the past five years was as follows:

	1978	1977	1976	1975(1)	1974
			(in thousands of tonnes)		
Kraft pulp					
Prince Rupert	195.6(2)	155.0(3)	200.5	143.3	194.2
Castlegar	171.2	164.0	164.8	126.2	176.7
Sulphite pulp					
Prince Rupert (4)	—	—	66.9	79.3	141.7

(1) Operations were suspended for 95 days due to a strike.

(2) Production was affected by power outages and the mill modification project.

(3) Production was affected by a shortage of chemicals due to a strike in the chemical industry and by a shutdown of approximately two months primarily for major improvements.

(4) Sulphite pulp production ceased in October 1976.

Lumber Operations

The Terrace sawmill produces annually 120 million board feet of dimension lumber and the Kitwanga mill, located on 22 acres of leased land, produces annually 40 million board feet of green dimension lumber. The Castlegar sawmill consists of a large log facility which produces annually 100 million board feet of lumber and a small log facility constructed in 1978 with an estimated annual capacity of 35 million board feet. The output of the Castlegar mill is approximately evenly divided between boards and dimension lumber.

On June 17, 1978 the Castlegar sawmill, including the just completed small log facility, was severely damaged by fire. Reconstruction of the sawmill was substantially completed in late 1978. Production from the large log facility reached approximately 80% of design capacity by the end of January 1979 and the small log facility commenced production in February 1979.

Production of lumber over the past five years was as follows:

	1978	1977	1976	1975(1)	1974
		(in millions of board feet)			
Terrace	122.5	127.2	111.8	66.6	93.6
Kitwanga	40.3	36.8	35.7	16.6	32.3
Castlegar	49.2(2)	94.0	102.5	83.9	116.8
	212.0	258.0	250.0	167.1	242.7

(1) Operations were curtailed by a labour dispute.
(2) Sawmill closed by fire on June 17, 1978.

Timber Resource

The Province of British Columbia owns approximately 95% of all forest lands in British Columbia and grants licences to harvest timber from these lands. CanCel holds tenure in the form of two tree farm licences ("TFLs") and three timber sale harvesting licences ("TSHLs"). Both TFLs were granted for terms of 21 years and were stipulated to be renewable. The present Forest Act, which came into force on January 1, 1979, provides that both TFLs will expire within the next five years and gives CanCel the right to replace them on expiry with new 25 year TFLs. A TFL grants to its holder the exclusive right to harvest timber from a designated area of forest land, under short term cutting permits, at a rate, called the "allowable annual cut" ("AAC"), that is calculated according to sustained yield forestry principles. The licensee is responsible for managing the licence area for timber production and forest renewal under the general supervision of the British Columbia Forest Service and has obligations respecting recreation, fish, wildlife and associated resources. Under its TFLs CanCel is obliged to pay to the Province annual rent, based on the AAC, and stumpage for timber harvested from the licence area. Stumpage rates fluctuate according to the market values of forest products, estimated logging, production and forest management costs and allowances for profit, risk and incentive.

TSHLs typically are for terms of ten years, although some are longer. The licensee is granted the right to harvest an AAC in a designated Public Sustained Yield Unit ("PSYU"), which is an area of forest land managed according to sustained yield forestry principles by the Forest Service. In almost all PSYUs harvesting rights are held concurrently by a number of licensees. The licence itself does not specify areas within the PSYU where the licensee will carry out his logging operations. Short term cutting permits are issued from time to time by the Forest Service to identify specific areas to be logged. The holder of a TSHL is obliged to pay annual rent, based on the AAC specified in the licence, and stumpage on timber harvested. The holder of a TSHL has the right to obtain a new form of tenure, a forest licence with a 15 year term, as a replacement for the TSHL when it expires or is surrendered.

The AAC authorized under an existing or replacement TFL, a TSHL or a forest licence may be reduced permanently by the Province if the licensee undercuts. Where the volume of timber actually harvested under the licence during a five year cut control period is less than the minimum volume required to be harvested during that period, the AAC may be reduced by as much as the deficiency. In the case of a TFL the Province may delete land from the licence area sufficient to account for the reduction in AAC or as an alternative grant timber sale licences in the TFL authorizing the reduction in the original holder's AAC to be harvested by others.

Northern Operations

CanCel harvests its wood supply for its northern operations (the Prince Rupert pulp mill and Terrace and Kitwanga sawmills) primarily from TFL No. 1 under which CanCel has exclusive cutting rights over certain forest lands in the Skeena and Nass river valleys in northwestern British Columbia. During 1978 CanCel and the Province agreed to reduce the area of the TFL from approximately 2,300,000 productive acres to approximately 935,000 productive acres and the AAC from 72,000,000 cubic feet to 45,606,000 cubic feet. The licence expires in 1983 and CanCel has the right to a replacement TFL. The three TSHLs held by CanCel have an aggregate AAC of 16,200,000 cubic feet. CanCel also manages two TSHLs held by others with a combined AAC of 3,253,000 cubic feet. The sulphite pulp mill which has now been phased out, required chips produced from roundwood at the mill whereas approximately 45% of the future requirements of the modified kraft pulp mill are anticipated to be supplied by residual chips produced as a lumber by-product by sawmills. CanCel believes that the reduced AAC for TFL No. 1, the AAC of the other tenures available to CanCel and purchased pulp logs and residual chips are sufficient to meet the requirements of its mills. Logs are transported to the mills by road, on the Canadian National Railway and by towed booms.

Interior Operations

TFL No. 23 grants CanCel cutting rights over approximately 968,000 productive acres of forest lands in the basin of the Columbia River. Timber from the TFL supplies logs for the Castlegar sawmill, which in turn supplies residual chips to the adjacent pulp mill. The balance of the requirement of the pulp mill is met by purchasing residual chips from other sawmills in the area and from pulp logs from the TFL. Logs are transported by truck to dumps along the Columbia River below Revelstoke and are towed to the mills in log booms. The construction of the Revelstoke Dam, two miles north of Revelstoke on the river, will affect log transport from the north block of the TFL. The conditional licence issued by the Comptroller of Water Rights to British Columbia Hydro and Power Authority ("B.C. Hydro") for the dam authorizes provision for such log handling facilities as the Comptroller may order.

In 1978 the Province amended TFL No. 23 to provide for licences to an independent sawmill operator to harvest timber in a designated area comprising approximately 112,000 productive acres of the TFL. Such a licence has been granted with an AAC of 5,660,000 cubic feet, effectively reducing CanCel's AAC from 41,500,000 cubic feet to 35,840,000 cubic feet in 1979. CanCel believes that this reduced AAC and available log inventory will provide sufficient wood for the mills in 1979 because the sawmill has not yet reached full production and CanCel is entitled to cut up to 50% in excess of the AAC in one year. When the sawmill achieves full production, CanCel believes that it will require approximately 46,000,000 cubic feet of AAC under the TFL to maintain full production at its mills. TFL No. 23 expires on December 31, 1979 and CanCel has the right to a replacement TFL. The AAC under the replacement TFL has not yet been determined, but will be based on the latest independent inventory of the TFL made in 1975. In CanCel's opinion this inventory substantiates an increase in the AAC for the TFL and CanCel anticipates that, subject to the concurrence of the Minister of Forests, its AAC will be increased under the replacement TFL to meet its wood requirements.

Employee Relations

CanCel employs approximately 2,700 people, of whom approximately 2,200 are represented by industrial unions. There are ten collective agreements involving four unions, the International Woodworkers of America (the "IWA"), the Pulp, Paper and Woodworkers of Canada (the "PPWC"), the British Columbia Government Employees Union, and the Canadian Merchant Service Guild, which directly affect CanCel's operations. The IWA is the certified bargaining agent for approximately 1,080 employees engaged in logging and sawmill activities and the PPWC bargains for approximately 1,025 employees at the pulp mills. Negotiations with the IWA and the PPWC are conducted on an industry-wide basis in British Columbia through employers' organizations of which CanCel is a member. Both unions are operating under two year contracts which were negotiated under federal anti-inflation controls without work stoppages and expire in June 1979.

In July 1975 a Province-wide pulp and paper workers' strike shut down CanCel's pulp mills. This strike also forced curtailment of CanCel's logging and sawmill operations. The strike continued until mid-October 1975 when the Province enacted "back-to-work" legislation. Operations may be affected by work

stoppages in other industries on which CanCel depends, such as the chemical, towboat, shipping and rail transportation industries. In early 1977, the pulp mill at Prince Rupert was shut down for about 20 days due to a shortage of chemicals caused by a strike in the chemical industry.

Environment

In the forest products industry, pollution control is primarily regulated provincially under the Pollution Control Act, 1967 and federally under the Fisheries Act and the Clean Air Act. CanCel's operations do not currently comply with certain requirements of its permits and pollution control standards. CanCel is modifying its facilities to comply with some of the requirements and is evaluating alternatives for compliance with others.

During the last five years CanCel has expended approximately $6,200,000 on projects involving pollution abatement. In addition the modification project at Prince Rupert avoided pollution abatement requirements for the sulphite mill which were estimated in 1975 to cost $80,000,000. CanCel estimates that it may be required to expend during the period 1979 to 1987 approximately $40,000,000 (in 1978 dollars) primarily to meet existing and anticipated pollution control requirements. The specific facilities required and the amounts and timing of expenditures have not been determined and will be subject to the requirements of regulatory authorities and approval by CanCel's directors.

Additions to Property, Plant and Equipment

Capital expenditures on property, plant and equipment during the five fiscal years ended December 31, including expenditures on roads to the extent not offset against provincial stumpage payments, were as follows:

	1978	1977	1976	1975	1974	Total
			(in millions of dollars)			
Logging	$ 4.8	$ 7.2	$ 4.5	$ 9.9	$ 7.9	$ 34.3
Lumber	7.9	2.5	0.5	1.1	3.5	15.5
Pulp	67.6	68.0	22.2	3.9	3.2	164.9
Other	0.1	0.2	0.3	—	—	0.6
Total	$80.4	$77.9	$27.5	$14.9	$14.6	$215.3

Included in the above table are $133,000,000 of construction costs and $11,800,000 of interest and other capitalized costs relating to the modification of the pulp mill at Prince Rupert, $7,400,000 relating to the new small log facility at the Castlegar sawmill, and $22,100,000 relating to logging roads net of stumpage offsets. The balance relates mainly to logging operations, pollution abatement and plant replacement and improvement.

CanCel has planned capital expenditures of $12,600,000 in 1979 for additions to property, plant and equipment including an estimated $2,200,000 to complete the pulp mill modification. In addition expenditures of approximately $7,000,000 will be made in 1979 for logging roads, part of which will be eligible for stumpage offset. The planned expenditures may be increased as described under "Environment".

Energy

CanCel utilizes hydro-electric power, natural gas, petroleum products and hog fuel in its manufacturing processes. Natural gas, the price of which is set by the British Columbia Energy Commission, is supplied through pipelines to Prince Rupert and Terrace by Pacific Northern Gas Ltd. and to Castlegar by Inland Natural Gas Co. Ltd. Oil is supplied to Prince Rupert by barge and to Castlegar by rail. At Prince Rupert and Castlegar, part of CanCel's electrical energy requirements is met from its own steam driven turbo-generators and the balance is supplied at Castlegar by Cominco Ltd. and at Prince Rupert by B.C. Hydro. It is expected that a recent connection to the Peace River generating facilities through the provincial power grid will reduce disruptions in the supply of purchased power to Prince Rupert.

Investment

CanCel has a 24% interest in Babine Forest Products Limited ("Babine") which owns a sawmill, opened in 1975, at Burns Lake in the central interior of British Columbia. The sawmill's annual production is 100 million board feet of dimension lumber and 24% of its residual chips are committed for sale to CanCel's Prince Rupert pulp mill. In 1978 CanCel's equity in Babine's net earnings amounted to $1,230,000.

KOOTENAY FOREST PRODUCTS LTD.

Kootenay Forest Products Ltd. ("Kootenay") commenced sawmill operations in 1952 at Nelson in the Kootenay Lake area of British Columbia. In 1967 a plywood plant was added to the sawmill operations. In 1974 Kootenay was acquired by the Province of British Columbia.

Kootenay's net sales and earnings in each of the fiscal periods from 1975 to 1978 inclusive were as follows:

	12 months ended December 31		10 months ended December 31	12 months ended February	
	1978	1977	1976	1976	1975
			(in thousands of dollars)		
Net sales	$28,560	$21,522	$16,031	$15,263	$12,385
Earnings (loss) before extraordinary items (1) (3)	3,896	(11)	530	601	(4,210)
Extraordinary items (2)	—	848	—	84	1,284
Net earnings (loss) (3)	$ 3,896	$ 837	$ 530	$ 685	($2,926)

(1) Kootenay received a non-interest bearing advance of approximately $11.6 million from the Province in March 1974. This advance was repaid in March 1978 out of the proceeds of an issue of common shares to the Province. As part of these arrangements Kootenay agreed to transfer certain of its freehold lands to the Province.

(2) Gains arising on sale of private land to the Province.

(3) No provision has been made for income taxes as Kootenay has been exempt since March 1974 due to its status as a Crown corporation. Kootenay will lose this exemption in 1979.

Strong demand and higher prices for both plywood and lumber in 1978, the beneficial effects of the substantially lower value of the Canadian dollar in terms of U.S. currency, and improved productivity combined to increase Kootenay's sales and earnings over previous years. These favourable factors were partially offset by higher operating and stumpage expenses.

Business of Kootenay

Kootenay carries on logging operations primarily through independent contractors and operates a sawmill, a plywood plant and related facilities in Nelson on approximately 30 acres of land and nine acres of leased foreshore lots served by two railway lines. The sawmill has an annual capacity of 55 million board feet of dimension lumber and the annual capacity of the plywood plant is 570 million square feet (1/16th inch) of sheathing plywood.

Production, sales volumes and sales revenues by product for the past five years were as follows:

	Twelve months ended December 31				
	1978	1977	1976	1975	1974
Lumber					
Production (MMFBM)	52.2	52.8	38.8	25.2	32.1
Sales volume (MMFBM)	54.4	51.1	37.7	29.5	34.0
Sales revenue (millions)	$12.8	$9.9	$6.2	$3.9	$5.1
Plywood					
Production (MMSF 1/16") (1)	530.7	504.4	552.4	452.1	412.9
Sales volume (MMSF 1/16")	533.3	500.5	554.5	466.2	413.0
Sales revenue (millions)	$15.7	$11.6	$13.1	$9.9	$7.9

(1) Includes purchased veneer.

(2) MMFBM means millions of board feet and MMSF 1/16" means millions of square feet on a 1/16 inch basis.

Inadequate log supply resulted in curtailed production in 1974 and 1975. Increased expenditures on logging and road construction together with sawmill modifications have led to increased sawmill production.

Kootenay's lumber and plywood production is marketed by its own sales staff at Nelson. Lumber is sold primarily to wholesalers and is shipped by both rail and truck. In 1978, approximately 22% of lumber

was sold in Canada and 78% in the United States. The majority of Kootenay's plywood is transported by rail and sold in Eastern Canada. In 1978, 90% of plywood was sold to Canadian purchasers and 10% was exported.

Kootenay also sells wood chips to CanCel's pulp mill at Castlegar and to Georgia-Pacific Corporation in Bellingham, Washington. In 1978, wood chip sales revenues were approximately $959,000.

Kootenay employs approximately 500 people of whom 82% are union members represented by the IWA. The present collective agreement, which was negotiated under federal anti-inflation controls, expires on June 30, 1979. Collective bargaining is conducted by the Interior Forest Labour Relations Association which represents Kootenay and other forest industry employers in the southern interior region. Kootenay may be affected by work stoppages in other services on which it depends such as transportation.

Kootenay is subject to various environmental protection laws and regulations and is currently installing emission control devices at an estimated cost of $200,000 to meet provincial requirements. Additional expenditures to meet environmental protection requirements in 1979 are projected to be $160,000.

Timber Resource

Kootenay holds two TSHLs expiring in 1981 and 1982 which it expects to replace with a forest licence having a 15 year term. The present AAC is approximately 12,600,000 cubic feet. The timber consists of many species and contains a high proportion of small, over-mature and decadent trees. Harvesting operations are conducted in steep terrain at relatively long distances from conversion facilities resulting in high raw material costs. Logs are transported by truck and by towing on Kootenay Lake.

In previous years Kootenay has logged its private timberlands to supplement its AAC by between 900,000 and 3,200,000 cubic feet per annum. These private lands were recently transferred to the Province. Kootenay retains harvesting rights on these lands and is preparing a plan for logging operations over a maximum of twenty years. Kootenay anticipates continuing to cut approximately 1,200,000 cubic feet per year for its mills from these lands.

Kootenay's conversion facilities annually require approximately 14,500,000 cubic feet of timber composed of 7,500,000 cubic feet of peeler logs and 7,000,000 cubic feet of saw logs. Logging operations have generally yielded an insufficient supply of peeler logs and an excess of small saw logs. To overcome this wood imbalance, Kootenay has had to purchase peeler logs. As a result of inadequate log handling and log preparation facilities it has also had to purchase green veneer. Both these problems have contributed to excessive saw log inventory. Kootenay expects to continue to depend upon purchases of between 3,500,000 and 4,500,000 cubic feet of peeler logs per annum for the foreseeable future as well as purchasing varying quantities of veneer.

Kootenay has increased expenditures on roads to improve its access to timber stands with a higher peeler log content. Continued substantial expenditures are anticipated because of the imbalance between Kootenay's timber resources and its conversion facilities.

Capital Expenditures

Total capital expenditures during the five years ended December 31, 1978, including expenditures on roads to the extent not offset against provincial stumpage payments, were as follows:

1978	1977	1976	1975	1974
		(in thousands of dollars)		
$1,515	$1,996	$2,317	$2,256	$1,464

Capital expenditures in recent years have been directed primarily to renovation of the sawmill in 1975 and 1976 and development of logging roads. BCRIC and Kootenay are studying plans to adapt facilities for better use of the timber resource and to improve log handling and log preparation. These plans, if implemented, would increase sawmill capacity, reduce inventory and eliminate purchases of veneer. Current projections for such expenditures through 1980 amount to approximately $10 million. In addition Kootenay expects to spend an average of $1.7 million annually, before stumpage offsets, over the next three years on road development to provide access to better stands of timber suitable for plywood manufacture as well as

to increase the supply of harvestable timber. Roads currently developed permit access to sufficient timber which, together with purchases of peeler logs and veneer at present levels, will supply present mill requirements for approximately one and one-half years.

PLATEAU MILLS LTD.

Plateau Mills Ltd. ("Plateau"), incorporated in 1967, has sawmill operations at Engen, twelve miles west of Vanderhoof, British Columbia. The Province of British Columbia acquired control of Plateau in 1973 and the remaining minority interest in 1974.

Plateau's net sales and earnings in each of the past five fiscal years ended December 31 were as follows:

	1978	1977	1976	1975	1974
		(in thousands of dollars)			
Net sales	$28,224	$21,826	$11,573	$8,624	$9,385
Earnings (loss) before extraordinary item (1)	4,432	4,378	1,937	68	(316)
Extraordinary item (2)	—	—	—	—	229
Net earnings (loss) (1)	$ 4,432	$ 4,378	$ 1,937	$ 68	$ (87)

(1) Plateau has been exempt from income taxes since 1974 due to its status as a Crown corporation. Plateau will lose this exemption in 1979.

(2) Reduction of deferred income taxes upon acquiring status as a Crown corporation.

Plateau's results in 1978 compared to 1977 were favourably affected by strong demand and higher prices for lumber, as well as by exchange gains resulting from the lower value of the Canadian dollar. Earnings were affected adversely by higher stumpage, logging and operating costs and by marketing and productivity problems.

Business of Plateau

Plateau operates two sawmills and related facilities in Engen on its 1,080 acre site adjacent to the Canadian National Railway and the Yellowhead Highway. The older mill, constructed in 1970, handles larger diameter logs and the newer mill, constructed in 1976, handles small logs. The combined annual capacity of these mills is 149 million board feet of dimension lumber. The newer mill is being expanded so as to be able to process both small and large logs. Upon completion of the expansion in March 1979, the older mill will be phased out. The designed annual capacity of the expanded mill is 156 million board feet. Plateau anticipates a reduction of unit costs and an improvement in timber utilization as a result of the expansion.

Lumber production and sales volumes for the past five years ended December 31 have been as follows:

	1978	1977	1976	1975	1974
		(in millions of board feet)			
Production	133.9	142.6	95.5	66.8	86.3
Sales	141.7	138.4	89.3	82.3	84.7

Plateau's sales staff at Engen markets its lumber to wholesalers, retailers and industrial users. In 1978, approximately 6% was sold in Canada and 94% in the United States. Wood chips are sold to Prince George Pulp and Paper Ltd. In 1978 wood chip sales revenues amounted to $2,068,000.

Plateau employs approximately 330 full-time employees of whom 85% are represented by the IWA. The collective agreement which was negotiated under federal anti-inflation controls expires on August 31, 1979. Collective bargaining is conducted by the North Cariboo Forest Labour Relations Association on behalf of Plateau and any of the forest employers in the northern interior region. Shortages of skilled labour and a high turnover rate have adversely affected productivity. Plateau expects that the improvement in working conditions associated with the sawmill expansion will reduce turnover.

Plateau depends on outside sources for transportation of lumber products and for supply of energy. Plateau is pioneering a wastewood burner as a heat source for two of its six kilns used for drying lumber. If this process is commercially successful, Plateau will significantly reduce natural gas purchases.

Plateau is subject to various environmental protection laws and regulations. Plateau believes its operations are generally in compliance with all requirements.

Timber Resource

Plateau holds three TSHLs and one timber sale licence with a total AAC of 26,468,000 cubic feet and annually harvests approximately another 720,000 cubic feet under a private agreement. Licences for 63% of the AAC have been extended under the new Forest Act to expire in 1981 and the other licences expire in 1988. Plateau intends to replace its existing licences with a forest licence having a term of 15 years.

Plateau's timber consists of accessible stands of lodgepole pine, spruce and balsam fir. Most logging operations and log transport are carried out by independent contractors. Plateau does not foresee any shortage of suitable wood for its existing facilities.

Capital Expenditures

Total capital expenditures during the past five years ended December 31, including expenditures on roads to the extent not offset against provincial stumpage payments, have been as follows:

1978	1977	1976	1975	1974
		(in thousands of dollars)		
$8,814	$4,291	$4,069	$4,537	$2,750

This table includes approximately $6.3 million relating to construction of a new sawmill completed in November 1976 and $5.7 million relating to the current mill expansion. Road expenditures in recent years have been increased to support the increase in production. Existing logging roads provide access to sufficient timber to supply the present mill requirements for approximately four years. Plateau anticipates that total capital expenditures in 1979 will be approximately $4.5 million, including about $2 million for the sawmill expansion and log yard improvements.

ENERGY INVESTMENTS

GAS AND OIL DIVISION

On March 9, 1978, the Province of British Columbia issued to BCRIC a petroleum and natural gas licence (the "Licence") under which BCRIC has the exploration rights described below covering 2,343,667 acres of unproven and undeveloped land in northeastern British Columbia ("the Licenced Lands"). BCRIC paid $40,896,043 for the Licence. The location of the Licenced Lands is illustrated on the map on page 15.

The Licence

The Licence stipulates that BCRIC may undertake geological and geophysical methods of exploratory work, alone or in conjunction with others, but may not drill, in its own right, exploratory wells for petroleum and natural gas on the Licenced Lands. In order to drill and prove potentially productive geological horizons, farmout agreements must be negotiated with third parties who undertake the drilling operation on behalf of themselves and BCRIC. This provision ensures that the oil and gas industry will have the opportunity to participate in the exploration and development of the Licenced Lands.

During the five year term of the Licence, BCRIC has the exclusive right to receive petroleum and natural gas permits from the British Columbia Ministry of Energy, Mines and Petroleum Resources for any portion of the Licenced Lands which will be evaluated under a farmout agreement. Each permit will cover a land area specified by BCRIC in its application and will be issued for a term of eight years where the permit relates to blocks designated "A" on the map on page 15 or for a term of ten years where the permit relates to blocks designated "B" on the same map. The Licence makes provision for the renewal of a permit for a five year term if a subsequent agreement is entered into for further exploration. Land under permit may be surrendered by BCRIC at any time subject to outstanding farmout agreements.

The right to produce from the Licenced Lands may be granted by way of leases issued pursuant to the Petroleum and Natural Gas Act, 1965 of British Columbia (the "PNG Act") after a well has been drilled. The area covered by these leases will be determined by the geographical location and depth of the well and its capability of producing.

Most of the provisions of the PNG Act and the regulations thereto will apply to BCRIC under the terms of the Licence. However, there are provisions of the Licence which supersede provisions of the PNG Act, including reduced rentals, the elimination of work obligations while under permit and enhanced lease entitlements.

The properties included in the Licenced Lands were valued in a report dated February 15, 1978 and prepared for the Minister of Energy, Mines and Petroleum Resources of British Columbia by D & S Petroleum Consultants (1974) Ltd. and D & S Geological Services Ltd. of Calgary, Alberta and London, England. The report set out appraised values for each of the tracts of land comprising the Licenced Lands and established a total value for the Licenced Lands of $40,896,043 or an average price of $17.45 per acre ($43.11 per hectare). (A hectare is a metric unit of area which equals 10,000 square metres or 2.471 acres.) Because much of the Licenced Lands was remote from exploration activity in 1977, the valuation was based on a variety of factors including the results of recent land sales in the area, prevailing land prices for unproven wildcat acreage, the results of drilling on offsetting lands which might indicate reservoirs which could be encountered on the Licenced Lands, and the general level of exploration activity in the area.

Industry Price and Drilling Statistics

As BCRIC has no existing production or established oil and gas reserves on the lands managed by it, the following statistical information is provided in connection with land value and drilling activity trends in British Columbia. The bonuses paid on the sale of Crown reserve petroleum and natural gas rights for each of the last five years by type of disposition are set out below.

Crown Reserve Disposition Bonuses

	1978	1977	1976	1975	1974
	(in millions of dollars)				
Permits	$ 49.5	$ 60.0	$27.5	$ 6.6	$15.4
Drilling reservations	64.5	30.6	6.2	2.7	2.7
Leases	63.5	34.8	9.5	3.4	4.9
Total	$177.5	$125.4	$43.2	$12.7	$23.0

During 1978, monies paid by the oil and gas industry to acquire petroleum and natural gas permits covering British Columbia Crown lands amounted to $49.5 million or $61.14 per acre, which compared to a total of $60.0 million in 1977 on significantly more land area for an average of $38.31 per acre. While the rights obtained by BCRIC under the Licence are not directly comparable to any of the disposition categories shown above, the bonus amounts realized on permit dispositions represent most closely the trend in values which might apply to the Licenced Lands.

The following table sets out a review of drilling activity and results over the past five years in British Columbia.

Drilling Activity in British Columbia

	1978	1977	1976	1975	1974
Oil wells	72	38	13	2	6
Gas wells	201	165	95	31	51
Dry holes	129	118	71	44	84
Servicing and standing wells	6	7	5	4	6
Total wells completed	408	328	184	81	147

Operating Strategies

BCRIC opened a Gas and Oil Division office in Calgary in June 1978. A small staff of experienced professionals is pursuing the following operating strategies and priorities for the Gas and Oil Division:

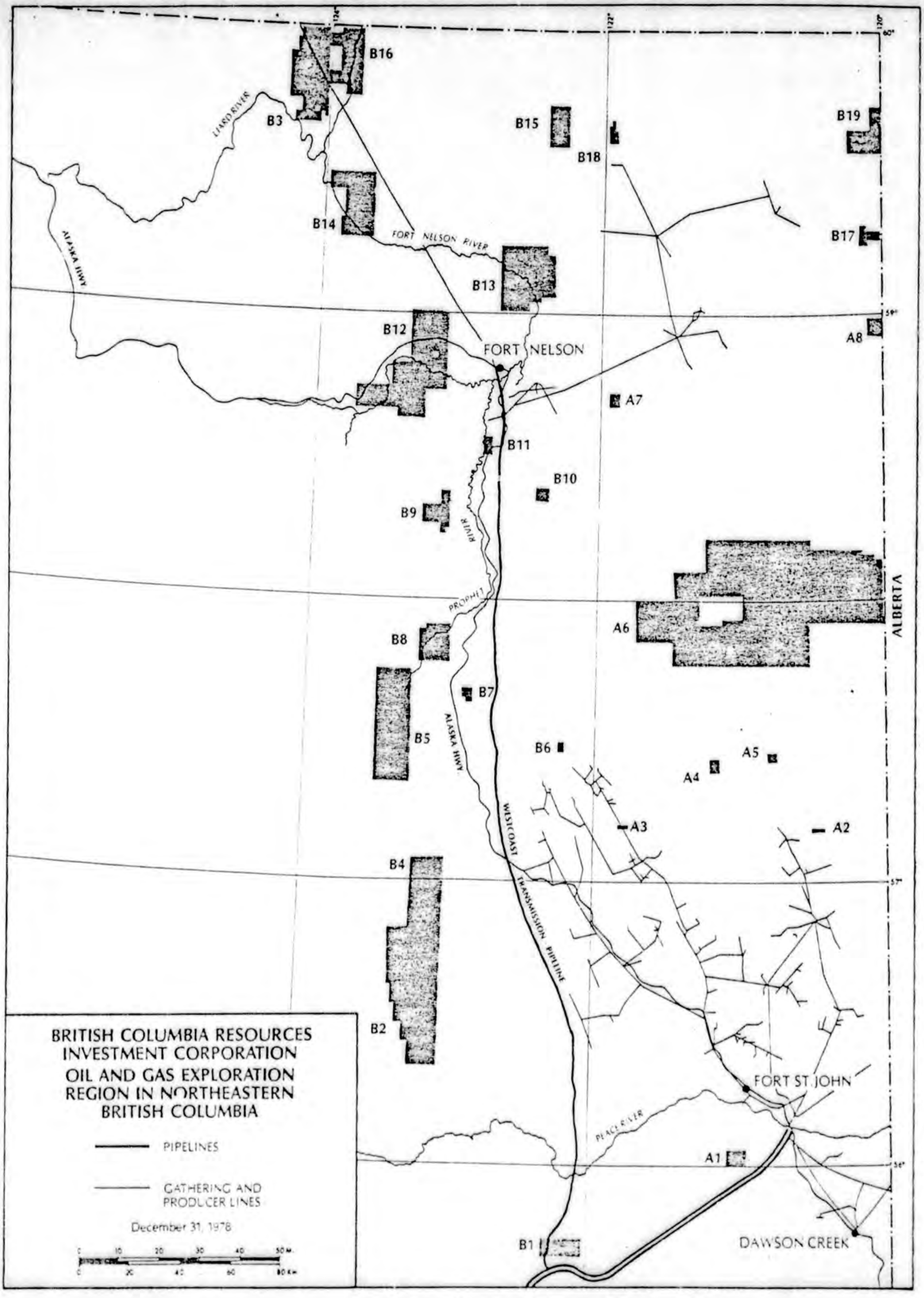
— to negotiate farmout agreements requiring farmees to provide all exploratory funds for seismic and drilling activity on Licenced Lands so that these lands are fully and expeditiously explored;

— to participate fully in development activity with others on the Licenced Lands;

— to pursue exploration prospects on other than Licenced Lands;

— to acquire selectively both semi-proven and unproven acreage in order to offset the dilution of BCRIC's land inventory which results from farmout agreements on the Licenced Lands; and

— to pursue opportunities to acquire interests in producing properties.



B16
B3
LIARD RIVER
B15
B18
B19
B14
FORT NELSON RIVER
B17
ALASKA HWY
B13
B12
FORT NELSON
A8
A7
B11
B10
B9
RIVER
PROPHET
ALBERTA
A6
B8
B7
B5
ALASKA HWY
B6
A5
A4
A3
A2
WESTCOAST TRANSMISSION PIPELINE
B4
B2
FORT ST. JOHN
PEACE RIVER
A1
B1
DAWSON CREEK
BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION
OIL AND GAS EXPLORATION REGION IN NORTHEASTERN BRITISH COLUMBIA
PIPELINES
GATHERING AND PRODUCER LINES
December 31, 1978

Farmout Agreements

All farmout agreements negotiated to date essentially provide that the third party farmee absorb all costs of exploratory activities on the Licenced Lands, although BCRIC has undertaken some minor seismic programs for control purposes on Licenced Lands prior to farmout. In addition, each farmee must drill one or more wells to a prescribed depth to earn a 50% interest in any leases which may issue from a permit. The interest earned extends down only to the depth or geological horizon penetrated by the well. Since a field discovered on Licenced Lands may extend to adjacent areas, another feature of most agreements is that an area of mutual interest is established covering the petroleum and natural gas rights on land adjacent to the farmout block. BCRIC will attempt to protect its interest in the related lands by participating with its farmee in any subsequent development work.

Twenty-two of the twenty-seven blocks comprising the Licenced Lands have been committed to farmout agreements, although formal agreements have not been signed in every case. Over 89% of the Licenced Lands are covered by these commitments. To this date in negotiations, farmees are obligated to conduct a minimum of 1,460 kilometres of seismic and to drill 18 wells over the next three and one-half years. Farmees on commitments negotiated to date include a broad range of experienced exploration companies.

Block A-6, the largest block in the Licenced Lands consisting of 905,019 acres, was divided into eleven parcels and farmed out to a number of operators in order to generate more concentrated exploration activity. One parcel has been retained by BCRIC. Some of the operators on Block A-6 have subsequently joined with others to explore jointly on this land. Approximately 550 kilometres of seismic line and nine wells have been committed on this block.

Drilling Activity

Four of the wells referred to above under "Farmout Agreements" are being drilled in the 1978-1979 winter drilling season. The first well on the Licenced Lands was Wainoco BCRIC Sojer, drilled in November 1978 on Block A-3 in the Nig Creek area 120 kilometres northwest of Fort St. John. An area of mutual interest was established adjacent to Block A-3. Consequently three parcels of land were purchased jointly by Wainoco Oil & Gas Limited and BCRIC at the November 22, 1978 Crown sale. The Sojer well found a gas-bearing section capable of commercial production and has been capped.

Gulf BCRIC Cheves, a 3,140 metre test, has been drilled on Block B-9 and is currently testing. This well is 3.5 kilometres south southeast of an earlier Gulf Cheves well which was drilled in early 1978.

Esso BCRIC Stanislas, a 3,000 metre test, commenced drilling operations on January 19, 1979 on Block B-15.

Czar BCRIC Dobin, a 1,000 metre test, commenced drilling operations on February 15, 1979 at the southwest extremity of Block B-19.

As the first investment in BCRIC's strategy to expand its activities beyond the Licenced Lands and related mutual interest lands, BCRIC has entered into a farmin agreement on a parcel of land located in the Sahtaneh area east of Fort Nelson. By paying 12½% of well costs, BCRIC will earn a 6¼% interest in production from the well after well costs have been recovered. The well, known as Tri Star et al Sahtaneh, is currently drilling and offsets Mobil Sahtaneh to the southwest, a well which flowed gas at a rate in excess of 11.5 million cubic feet per day.

Oil and gas exploration involves a high degree of risk, which can be reduced by a combination of experience, knowledge and careful evaluation. BCRIC intends to engage in the drilling of both exploratory and development wells. There is no assurance that commercial quantities of gas or oil will be discovered by BCRIC. The marketability of gas and oil which may be acquired or discovered by BCRIC will be affected by market fluctuations, the proximity and capacity of gas and oil pipelines and processing equipment and government regulations, including regulations related to prices, taxes, royalties, land tenure, methods of operation, allowable production, importing and exporting of oil and gas and environmental protection. Hazards such as unusual or unexpected formations, high pressures or other anomalous conditions are encountered in drilling and operating wells. BCRIC will have the benefit of insurance placed in such amounts as it considers adequate. BCRIC may become subject to liability for pollution, blow outs or other hazards against which it is not fully insured.

Expenditure Plans

BCRIC has established a preliminary five year expenditure plan totalling approximately $55 million. This amount is allocated approximately equally to expenditures on Licenced Lands and to expenditures for or on other lands. The amount of actual expenditures will depend upon many factors including the success of prior expenditures in this program, the cash flow which may result from these expenditures, the amount of net proceeds from the present sale of BCRIC common shares which can be dedicated to this program and the opportunities for expenditure which become available to or are developed by BCRIC's Gas and Oil Division.

As part of this five year plan, BCRIC has developed an expenditure budget of $8.3 million for 1979. These expenditures may include seismic and drilling work and land acquisition costs and will be allocated to participating in joint operations on Licenced Lands and mutual interest lands, the purchase of semi-proven and wildcat acreage not related to the Licenced Lands, and exploratory drilling on new acreage. The 1979 program will be financed from internal cash flow of BCRIC, the proceeds from the sale of common shares offered by this prospectus and debt capital where the expenditure plan will support such financing.

Government Regulation

All of BCRIC's present exploration activities are being conducted in British Columbia. The exploratory work carried out by BCRIC and its farmees and any production of petroleum or natural gas will be governed by the PNG Act as modified by the Licence.

The PNG Act and regulations prescribe royalties payable in respect of the sale of natural gas, natural gas by-products and petroleum produced in British Columbia. Virtually all natural gas and by-products produced in the Province are sold under contract with the British Columbia Petroleum Corporation ("BCPC"), a Crown corporation, and are exempt from royalties. The price payable to producers is based upon a "field price" reviewed annually by the British Columbia Energy Commission and is adjusted in accordance with changes in the average market value and volume of export and domestic gas sales, transmission costs and federal taxes. In December 1978 the price payable for "new gas" (generally, gas drawn from a pool which did not flow prior to November 14, 1973) was fixed at $1.046 per thousand cubic feet and the price payable for "old gas" was fixed at $0.766 per thousand cubic feet, at wellhead. The time of completion of a well also determines the royalty payable on "new oil" and "old oil". New pool discovery wells are exempt from royalties for the first three years of production and royalties on "new oil" (generally, oil drawn from a pool which did not contain a completed well prior to November 1, 1975) are usually less than those levied on "old oil". Royalty rates are also determined by the volume of monthly production from a particular well.

The Federal Government regulates the prices of crude oil and natural gas in interprovincial and export trade and controls the volumes of crude oil and natural gas exported from Canada.

WESTCOAST TRANSMISSION COMPANY LIMITED

BCRIC owns 3,471,375 common shares (approximately 10% of the outstanding common shares and the second largest shareholding) in the capital of Westcoast Transmission Company Limited ("Westcoast"). Westcoast is primarily engaged in purchasing, gathering, processing, transmitting and selling natural gas.

The following table sets out a five year history of Westcoast's operating revenues, net income, cash flow, net income per common share (weighted average) and dividends per common share and the high and low prices for Westcoast's common shares on The Toronto Stock Exchange.

	Year ended December 31				
	1978	1977	1976	1975	1974
Operating revenues (in thousands)	$843,902	$780,164	$579,276	$416,677	$266,600
Net income after preferred dividends (in thousands)	41,538	39,450	36,059	29,619	25,172
Cash flow (in thousands)	85,805	81,419	75,867	55,060	47,161
Net income per common share	1.21	1.19	1.11	0.99	0.97
Dividends per common share	0.69	0.653	0.612	0.60	0.433
Common share price high—low	12¾-10⅜	11¾-8⅞	9⅜-7⅜	7¾-6⅛	8⅜-4⅞

The Pipeline System

Westcoast, together with two wholly-owned subsidiaries, owns and operates a natural gas pipeline system (the "Pipeline System") consisting on May 31, 1978 of 1,400 miles of main transmission pipeline in British Columbia with 17 mainline compressor stations, 1,101 miles of gathering lines in British Columbia, Alberta, the Yukon Territory and the Northwest Territories with 13 field compressor stations, three gas processing plants located at Fort Nelson, Taylor and Boundary Lake, British Columbia with a total marketable gas capacity of 1,430 million cubic feet per day and two elemental sulphur recovery plants located at Fort Nelson and Taylor. The main transmission pipeline runs from Fort Nelson and Taylor in northern British Columbia to a point on the United States border near Huntingdon, British Columbia where it connects with the pipeline system of Northwest Pipeline Corporation ("Northwest"). The Pipeline System has a mainline transmission capacity (mainline sales plus compressor fuel) of approximately 1,360 million cubic feet per day.

Westcoast is in the midst of an extensive construction program involving expenditures in the order of $225,000,000 during 1978 and 1979. Major projects completed in 1978 include the Grizzly Valley—Sukunka pipeline, the Silver—Dahl pipeline and the Clarke Lake South and Red Creek gas field connections. Scheduled for completion in 1979 are a processing plant near Chetwynd associated with the Grizzly Valley—Sukunka pipeline and other gathering facilities and additions to the Pipeline System.

Gas Supply, Cost of Service and Rate of Return

Westcoast has, in connection with the operation of the Pipeline System, entered into an agreement (the "BCPC Agreement") with BCPC. Under the BCPC Agreement substantially all of the gas produced in British Columbia is sold by the producers to BCPC which, in turn, commits and sells the gas to Westcoast. In addition, approximately 22% of Westcoast's gas is purchased from producers in northwestern Alberta, the Yukon Territory and the Northwest Territories.

Under the BCPC Agreement the price paid by Westcoast for the gas purchased from BCPC is an amount equal to the gross revenues received by Westcoast from the sale of gas transmitted through the Pipeline System and gas by-products from the processing and sulphur recovery plants, less both the cost incurred in purchasing gas from sources other than BCPC and the cost of service, including a return on rate base.

The rate base consists of actual investment in plant, property and equipment in service less depreciation plus working capital. The BCPC Agreement provides that the rate of return on rate base is subject to change by agreement or by arbitration. The present 11% rate of return has been in effect since January 1, 1977. Because operating income is generated by a return on rate base, the net income of Westcoast is not affected by fluctuations in the price or volume of gas sold and delivered through the Pipeline System. Net income is increased with additions to rate base by expansion of the Pipeline System.

National Energy Board Rate Application

Westcoast's tariffs, tolls and charges applicable to its customers are subject to the jurisdiction of the National Energy Board ("NEB"). The price payable for gas purchased outside British Columbia is governed by The Petroleum Administration Act.

In 1977 Westcoast filed its first rate application to be heard by the NEB. The application is being heard in three phases. Phase I which dealt with the depreciation and income tax components of cost of service has been heard. The NEB has approved an alteration of Westcoast's accounting treatment of depreciation, effectively increasing the recovery of depreciation, and a change from flow-through to normalized income tax accounting. A decision on methods of allocating these costs to domestic and export sales was postponed until Phase II. The components of rate base and the remaining components of the cost of service, including the return on rate base, are being considered in Phase II which is scheduled to be completed in March 1979. The design of rates and tolls charged to domestic customers will be considered in Phase III which is scheduled to be completed in April 1979.

Substantially all the decisions of the NEB as to depreciation, amortization and income taxes will be given effect to by the BCPC Agreement for purposes of determining the price to be paid by Westcoast for gas purchased from BCPC. Any increase in Westcoast charges authorized by the NEB will not necessarily result in additional after tax net profits.

Gas Sales

All gas transported through the Pipeline System, other than compressor fuel, is either exported to Northwest or sold to distributors in British Columbia, primarily B.C. Hydro, Inland Natural Gas Co. Ltd. ("Inland") and Pacific Northern Gas Ltd. ("Pacific Northern").

B.C. Hydro, Inland and Pacific Northern distribute approximately 95% of all the natural gas distributed to consumers in British Columbia. B.C. Hydro distributes gas throughout the lower mainland area of British Columbia including the metropolitan area of Vancouver. Inland carries on a gas distribution business principally in central and southern British Columbia. Pacific Northern carries on a gas distribution business in northwestern British Columbia as referred to under "Other Businesses" on page 20. Westcoast sells gas to B.C. Hydro, Inland and Pacific Northern pursuant to agreements each of which terminates on October 31, 1991.

Northwest, which is Westcoast's largest customer, owns and operates a gas transmission system in the United States serving markets in the States of Washington, Oregon, Idaho, Colorado, Utah, Nevada and Wyoming. Westcoast and Northwest have the necessary regulatory authorizations to export and import natural gas near Huntingdon under a contract which terminates on October 31, 1989. This contract provides for delivery of a maximum volume of 809.2 million cubic feet of gas per day.

Alaska Highway Pipeline Project

Westcoast owns 50% of the voting shares of Foothills Pipe Lines (Yukon) Ltd. ("Foothills Yukon") which, through its subsidiaries, is responsible for the construction and operation of the Canadian portion of the Alaska Highway Pipeline Project (the "Project"). The Project is sponsored by Westcoast, The Alberta Gas Trunk Line Company Limited and Northwest Alaskan Pipeline Company, an affiliate of Northwest, and will comprise a gas transmission system totalling 2,759 miles of large diameter pipe extending from Alaska through Canada to the lower 48 States with a throughput capacity of approximately 2.4 billion cubic feet of gas per day. Approximately 2,000 miles of the pipeline will be located in Canada. Completion of the Project is scheduled for the winter of 1984-85.

Five subsidiaries of Foothills Yukon, each of which will be owned to the extent of at least 51% of its voting shares by Foothills Yukon, will construct separate segments of the Canadian portion of the Project. Westcoast will be responsible for construction and operation of the northern British Columbia segment (approximately 440 miles) and will hold the remaining 49% voting interest in Foothills Pipe Lines (North B. C.) Ltd., the subsidiary company handling this phase of the Project.

The capital costs of the Project were estimated in mid-1978 to be approximately $8.1 billion of which approximately $4.4 billion was to be expended by Foothills Yukon and its subsidiaries for the Canadian portion of the Project. The foregoing capital cost estimates are currently being revised upward due to delays in the scheduled completion of the Project. These estimates are also subject to definitive design, timing and certain other factors affecting the Project and do not include capital cost estimates for a pipeline system from the Mackenzie Delta/Beaufort Basin along the route of the Dempster Highway to connect with the Project at Whitehorse, Yukon Territory.

As of December 31, 1978 Westcoast's total expenditures in respect of Foothills Yukon and its subsidiaries were $24.5 million. Westcoast will continue to contribute its proportionate share to cover the costs to be incurred by Foothills Yukon and its subsidiaries to develop the Project. The amount and timing of any commitment with respect to Project construction will be subject to a number of factors including regulatory approvals, the execution of gas sales and transportation contracts and the financing of the Project. Westcoast estimated in mid-1978 that its equity contribution to Foothills Yukon and its subsidiaries in connection with the construction of the Project would be approximately $440 million. This estimate will be updated based upon the revised capital cost estimates for the Project. Westcoast proposes to fund its equity contribution by means of a combination of debt issues, preferred share issues and funds received upon the exercise of outstanding share purchase warrants as well as cash flow which may result from the early construction and operation of the southern Alberta, southern British Columbia, and Saskatchewan sections of the Project or cash flow from other operations.

Feasibility studies are also progressing through Foothills Oil Pipe Line Ltd. on a concept to carry Alaskan oil through the same Alaska Highway transportation corridor to supply markets in the mid-western United States.

Other Businesses

Westcoast Petroleum Ltd. ("Westpete"), which is 59.8% owned (including 57.6% of the voting shares as at December 31, 1978), is engaged in oil and gas exploration, development and production and as at December 31, 1978 had interests in 8,249,090 gross acres (2,304,571 net acres) of prospective oil and gas lands in western Canada, the Yukon Territory, the Northwest Territories and the Arctic Islands. Westpete also owns and operates an oil pipeline extending for 505 miles between Taylor and Kamloops, British Columbia. Westpete accounted for approximately 10.6% of Westcoast's 1978 net income after tax.

Pacific Northern, which is 45% owned (including 100% of the voting shares), is a gas transmission and distribution company serving communities along its system which extends from a point on the Westcoast main transmission line near Summit Lake to Prince Rupert and Kitimat on the Pacific Coast as shown on the sketch on page 4.

The foregoing information with respect to Westcoast's business and operations was obtained from or based upon publicly available documents and records, particularly reports and other information which Westcoast has filed with the Superintendent of Brokers of the Province of British Columbia or the United States Securities and Exchange Commission, the 1977 Annual Report, the 1978 Mid-Year Update, the 1978 Third Quarter Interim Report to Shareholders and Westcoast's announcement of preliminary results for 1978.

CONSOLIDATED CAPITALIZATION

	Authorized	Outstanding as at December 31, 1978	Outstanding as at January 31, 1979
		(in thousands of dollars)	
Indebtedness			
Indebtedness of BCRIC			
Non-interest bearing promissory note payable (1)	$151,533	$151,533	$151,533
Long term debt of CanCel			
6⅛% Bonds due January 2, 1981 (2)	$ 71,136	$ 14,202	$ 9,531
5⅜% Bonds due July 1, 1985 (2)	$ 47,424	$ 26,664	$ 26,807
10½% Promissory notes due December 15, 1992 (2)	$ 59,288	$ 59,288	$ 59,570
11½% Promissory notes due December 15, 1992	$ 20,000	$ 20,000	$ 20,000
Bank loans (3)	$ 65,000	$ 50,000	$ 55,000
Sundry indebtedness		$ 7,377	$ 7,369
Minority interest in a subsidiary			
Common shares and retained earnings		$ 23,066	$ 23,101
Share capital (4)			
Common shares without par value (1)	100,000,000 shs.	5 shs. ($5.00)	5 shs. ($5.00)

NOTES:

(1) The Province of British Columbia which holds the note has agreed to exchange it for 15,000,000 fully paid common shares of BCRIC. Reference is made to "Plan of Distribution".

(2) Payable in U.S. dollars. Amounts shown are the Canadian dollar equivalents translated on the basis set out in Note 1 to the Consolidated Financial Statements.

(3) Reference is made to Note 7 to the Consolidated Financial Statements for further details.

(4) In addition to the stated dollar value for capital stock as indicated above, BCRIC had consolidated retained earnings of $15,922,000 at December 31, 1978.

(5) Reference is made to Note 9 to the Consolidated Financial Statements for particulars of long term leases.

DETAILS OF THE OFFERING

Common Shares

The authorized capital of BCRIC consists of 100,000,000 common shares without par value. The holders of common shares are entitled to dividends as and when declared by the board of directors; are entitled upon liquidation to receive pro rata such assets of BCRIC as are distributable to the holders of common shares; and have no pre-emptive, conversion or subscription rights. The common shares offered hereby will be fully paid and non-assessable. The holders of common shares are subject to the provisions of the BCRIC Act which are summarized below under "British Columbia Resources Investment Corporation Act".

Holders of common shares who hold registered share certificates are "members" of BCRIC for the purposes of the British Columbia Companies Act, are entitled to attend meetings of shareholders of BCRIC and will have one vote for each registered common share held. **The holder of common shares represented by a bearer share certificate will not be a "member" of BCRIC and will not be entitled to notice of or to attend at meetings of shareholders of BCRIC nor to vote as a shareholder.**

Bearer Share Certificates

Bearer share certificates will be issued on all applications for less than 100 common shares, including free common shares received from the Province of British Columbia as described under "Plan of Distribution". Holders of common shares represented by bearer share certificates will have the rights and restrictions summarized below. Amendments to the BCRIC Act will be required to authorize the issue by BCRIC of bearer share certificates. For full particulars reference should be made to the BCRIC Act and the Articles of BCRIC when amended and to the Companies Act of British Columbia.

Shareholder Rights

The holder of common shares represented by a bearer share certificate will be entitled to the principal rights and protections afforded individual registered shareholders under the Companies Act of British Columbia except the right to attend shareholders' meetings and to vote as a shareholder and the right to receive information mailed by BCRIC.

Share Registration

The bearer of bearer share certificates aggregating at least 100 common shares of BCRIC may become a registered shareholder of BCRIC by having such shares registered in his or her name subject to the restrictions on share ownership and share holdings described below.

Dividends

Declaration of dividends will be advertised and dividends payable on common shares represented by bearer share certificates will be paid to the bearer on presentation of such certificates to any dividend paying agent named in such advertisements. Dividends declared and not claimed within six years following their respective payment dates will be paid to the Minister of Finance to be held pursuant to the Unclaimed Money Deposits Act.

Loss or Destruction

Bearer share certificates will not be replaced by BCRIC if lost, stolen or destroyed.

British Columbia Resources Investment Corporation Act

Restrictions on Share Ownership

Only Canadian citizens or residents of Canada are eligible to purchase, own, or hold voting shares of BCRIC. Common shares of BCRIC represented by bearer share certificates will, by definition, not be voting shares. Voting shares may not be purchased or held in right of or for the use or benefit of a non-resident of Canada who is not a Canadian citizen.

For this purpose a resident of Canada is a person other than any of the following:

- — an individual who is not ordinarily resident in Canada;
- — a corporation that is incorporated, formed or otherwise organized elsewhere than in Canada or that is controlled directly or indirectly by non-residents or by a non-resident trust or of which the majority of directors are non-residents;

— the government of a foreign state or a political subdivision thereof, or an agent of either;

— a trust established by a non-resident (other than a trust for the administration of a pension fund for the benefit of individuals, a majority of whom are residents of Canada) or in which non-residents have more than 50% of the beneficial interest.

Maximum Share Holdings

The maximum number of voting shares of BCRIC which may be owned by or held for the use or benefit of any person or associated group of persons, other than the Province of British Columbia or a mutual fund, or pension or other similar fund, is 1% of the outstanding voting shares of BCRIC. A mutual fund or pension or other similar fund may hold up to 3% of the total number of the outstanding voting shares. The Lieutenant-Governor in Council is authorized by the BCRIC Act to change these limits.

Disposal of Excess Shareholding

Where voting shares of BCRIC are held in contravention of the BCRIC Act, BCRIC may require the holder to dispose of such shares to an eligible holder within a specified period of not less than sixty days. Failing compliance with such requirement, the voting shares may be redeemed for cancellation by BCRIC at its option at a price which is the lesser of the issue price on the initial issue of shares of that class or the market price prevailing at the time of redemption.

Voting Restrictions

The Province of British Columbia, while it owns 10% or more of the outstanding voting shares of BCRIC, may not vote those shares for the election of directors but may appoint:

— one director if the number of directors is four or less;

— two directors if the number of directors is five, six, seven or eight; and

— three directors if the number of directors is more than eight.

Where any of the shares of BCRIC are held or deemed to be held in contravention of the BCRIC Act, the voting rights attaching to those shares shall not be exercised, and any proceeding at a meeting at which voting rights pertaining to shares of BCRIC so held are exercised is, at any time within one year after the commencement of that meeting, voidable at the option of the directors.

Declarations

To ensure compliance with the restrictions imposed by the BCRIC Act on the holding and ownership of shares, BCRIC is entitled to receive, as a condition of registration of any shares of BCRIC on any subscription or transfer or on registration of bearer share certificates and at any time after registration, a declaration confirming that the subscriber or transferee or shareholder meets the requirements of the BCRIC Act. When a declaration is not received within 30 days after being requested, shares are deemed to be held in contravention of the BCRIC Act until the declaration is filed.

Redemption of Shares Held by the Province

BCRIC may redeem for cancellation voting shares held by or on behalf of the Province of British Columbia at a price per share agreed upon between BCRIC and the Minister of Finance, and approved by the Lieutenant-Governor in Council.

Company Meetings

BCRIC is seeking an amendment to the BCRIC Act which would provide that where the Supreme Court of British Columbia determines that it is impracticable to call or to conduct any general meeting of registered shareholders in the usual manner, or for any other reason the Court considers appropriate, the Court may order that the business to be transacted or the votes to be cast at the meeting be transacted or taken in such manner, and with or without the holding of a meeting, as the directors or the Court may prescribe. BCRIC is also seeking amendments to the BCRIC Act which would permit the directors of BCRIC to publish materials usually mailed to registered shareholders where they consider the cost of producing and mailing such material to be excessive or for any other reason they consider appropriate.

Winding Up

Proceedings to wind up BCRIC are invalid unless approved by the Lieutenant-Governor in Council.

Risk Factors Affecting Common Shares

The common shares are not guaranteed in any manner by the Province of British Columbia or any other government, nor has any government any direct or indirect obligation with respect to them. Future prices of the common shares will be determined by such factors as the selling intentions of persons receiving free common shares from the Province, the general economic climate, conditions in financial markets and the success or otherwise of BCRIC and its subsidiaries in attaining their objectives. Since BCRIC has only recently commenced operations, potential projects and investments in which BCRIC may participate or which may be acquired by it are not yet known. In addition results experienced by BCRIC's subsidiaries over the past five years are not necessarily indicative of future performance. No representations can be made as to the future influence of these factors on prices for BCRIC's common shares.

PLAN OF DISTRIBUTION

General

The common shares offered by this prospectus are offered for sale to individuals who qualify for free common shares of BCRIC to be distributed by the Province of British Columbia as described below. This offer is conditional upon such distribution being made by the Province.

An application for free common shares must be completed and validated before the expiry of this offer to establish qualification to purchase additional common shares. Each qualified applicant may purchase common shares in integral multiples of five, up to a total of 5,000 in respect of each eligible resident of British Columbia named in the application. The purchase price must be deposited with the application and will be invested by BCRIC in short term securities of Canadian financial institutions or governments until share certificates are available for delivery. Any interest earned from the time of deposit will accrue to BCRIC.

If any cheque tendered in payment with an application for common shares is returned "N.S.F.", the purchase is voidable at the option of BCRIC. Free common shares applied for in the same application must be re-applied for through the office of the Minister of Finance after October 1, 1979.

Distribution of Free Common Shares

On January 11, 1979 the Province of British Columbia announced its intention to make a gift of five common shares to each eligible resident of British Columbia. An eligible resident is an individual who is a Canadian citizen, or has qualified and applied for Canadian citizenship, and has either (i) ordinarily resided in British Columbia for at least the immediately preceding twelve months or has so resided since birth, or (ii) not met the qualifications in (i) but is otherwise qualified by residency as determined by the Minister of Finance.

Applicants must be 16 years of age or older. The parent or guardian is qualified to apply for and receive common shares in respect of eligible residents born after June 15, 1963. Applications to obtain free common shares may be made only at offices in British Columbia of participating chartered banks, trust companies, credit unions and registered investment dealers and at government offices designated by the Minister of Finance. The application period for free common shares is stated to commence on March 15, 1979 and to close on June 15, 1979, subject to the processing of appeals.

At the date of this prospectus the Province is the beneficial owner of the five outstanding common shares in the capital of BCRIC, which are held of record in the names of five of the directors of BCRIC. Pursuant to the BCRIC Act, on March 1, 1979 the Lieutenant-Governor in Council authorized the Minister of Finance to exchange the non-interest bearing demand note of BCRIC in the amount of $151,532,930 described under "Business and Properties of BCRIC" for 15,000,000 fully paid common shares of BCRIC. The Province's gift of common shares will be distributed from these common shares to be issued by BCRIC. The Province estimates that there are approximately 2,400,000 residents of British Columbia who are eligible for free common shares. If free common shares are distributed to or in respect of all such eligible residents, the Province will continue to hold approximately 3,000,000 common shares of BCRIC and has announced that it intends to retain beneficial ownership of any free common shares not distributed.

Dilution

After the issue of the 15,000,000 fully paid common shares of BCRIC, the pro forma net book value per common share of BCRIC, based on the Consolidated Balance Sheet of BCRIC as at December 31, 1978, would be $11.16 per share. The increment to the net book value of BCRIC for common shares sold on this offering is $6.00 per share, less agents' commissions and expenses of issue. The sale of each common share will result in immediate dilution of the pro forma net book value per share referred to above. The full

extent of the dilution resulting from this offering cannot be determined until the offering is completed and the number of common shares sold is known.

Necessary Legislation

The offering of common shares by BCRIC by this prospectus is conditional upon the necessary amendments to the BCRIC Act being passed to authorize the issue by BCRIC of bearer share certificates representing common shares of BCRIC. For particulars of the proposed bearer share certificates see "Details of the Offering".

Agents

Participating chartered banks, credit unions, trust companies and registered investment dealers have agreed in principle to act as agents of the Province in connection with the distribution of free common shares and as agents of BCRIC for the sale of the common shares offered by this prospectus. BCRIC has agreed to pay to the agents a commission of $.25 per common share purchased.

Delivery of Share Certificates

Share certificates will be available for delivery between August 7 and September 28, 1979 at the point of application and through the office of the Minister of Finance from October 22 to December 31, 1979. If the total of free and purchased common shares covered by any application form is less than 100, the common shares will not be registered in the name of the applicant but will be delivered in the form of bearer share certificates.

USE OF PROCEEDS

The proceeds to be derived from the sale of common shares offered hereby will depend upon the degree to which BCRIC's offer is accepted by qualified purchasers. BCRIC estimates that its expenses associated with this offering will amount to approximately $2.500.000, which amount and commissions will be deducted from the proceeds.

BCRIC proposes to allocate a portion of the net proceeds to expenditures of its Gas and Oil Division as described under "Expenditure Plans" on page 17. The balance will be applied towards future expenditures, investments and projects related to both the presently owned interests and ventures hereafter acquired or participated in by BCRIC. The exact timing, amount and identification of these expenditures or investments cannot be determined at this time and accordingly no amount has been allotted to any particular project. Pending such expenditures or investments, the net proceeds of this offering will be deposited with or invested in instruments issued by Canadian financial institutions and in such marketable securities as from time to time are approved by the directors of BCRIC.

TAXATION MATTERS

Taxation of BCRIC

At the present time, BCRIC and its wholly-owned subsidiaries are exempt from tax under the Income Tax Act (Canada) and the Income Tax Act (British Columbia) (the "Tax Acts") because all the shares of BCRIC are owned by the Province of British Columbia. BCRIC and its wholly-owned subsidiaries will lose this exemption during 1979 because of the distribution of the free common shares and the sale of additional common shares.

Taxation of a BCRIC Shareholder

A tax ruling has been received from the Department of National Revenue to the effect that a recipient of free common shares of BCRIC will have received them as a gift with no immediate tax consequences. The cost of the free common shares for tax purposes will be equal to their fair market value at the time of receipt, which value has yet to be determined. Where such common shares are capital property to a shareholder resident in British Columbia, no Canadian tax consequences will arise (except with respect to any dividends which may be paid in the future) until such time as the common shares are, or are deemed to be, disposed of under the provisions of the Tax Acts or any other applicable legislation. Where such shareholder has also purchased common shares of BCRIC, the purchase price of these shares will be averaged with the fair market value of free common shares for the purpose of computing any gain or loss on disposition. If BCRIC pays a dividend, such dividend will be subject to the normal rules respecting the taxation of dividends in the hands of a shareholder.

DIRECTORS AND MANAGEMENT

Directors and Officers

Name and Address	Office	Principal Occupation
JOHN WILSON PITTS 4391 Agar Drive, Richmond, British Columbia	Chairman of the Board and Director	Chairman, President and Chief Executive Officer, Okanagan Helicopters Ltd.
DAVID LEEDOM HELLIWELL 2600 - 1177 West Hastings Street, Vancouver, British Columbia	President and Director	President and Chief Executive Officer, BCRIC
TREVOR WILLIAM PILLEY 555 Burrard Street, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, a Canadian chartered bank
JOHN WILSON POOLE 1050 West Pender Street, Vancouver, British Columbia	Director	President and Chief Executive Officer, Daon Development Corporation
CHARLES NAMBY WYNN WOODWARD 101 West Hastings Street, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Woodward Stores Limited
WILLIAM MAURICE YOUNG 555 Great Northern Way, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Finning Tractor & Equipment Company Limited
RICHARD ARTHUR DANIEL COMMERFORD 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Vice President and Controller	Vice President and Controller, BCRIC
ROBERT GORDON SCOTT CURRIE 200 - 355 - 4th Avenue S.W. Calgary, Alberta	Vice President	Vice President, Gas and Oil Division, BCRIC
MICHAEL GILDAY MCKIBBIN 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Vice President and Treasurer	Vice President and Treasurer, BCRIC
GEORGE BUCHAN MCINTOSH 2800 - 650 West Georgia Street, Vancouver, British Columbia	Secretary	Barrister and Solicitor, Partner, Lawson, Lundell, Lawson & McIntosh
DAVID JOHN ROBERT PETITPIERRE 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Assistant Secretary	Assistant Secretary, BCRIC

During the last five years, all of the directors and officers have been associated in various capacities with the companies or firms listed opposite their names except Mr. Helliwell who prior to March 1978 was employed by Steel Brothers Canada Ltd., Mr. Pilley who prior to May 1974 was employed by another Canadian chartered bank, Mr. Commerford who prior to June 1978 was employed by CanCel and prior to July 1975 was employed by MacMillan Bloedel Limited, Mr. Currie who prior to June 1978 was employed by Panarctic Oils Ltd., Mr. McKibbin who prior to March 1978 was employed by Okanagan Helicopters Ltd. and prior to September 1976 was employed by Wood Gundy Limited, and Mr. Petitpierre who prior to October 1978 was employed by The White Pass and Yukon Corporation Limited and prior to November 1975 was employed by the Canadian Cancer Society — British Columbia and Yukon Division.

Messrs. Helliwell and Poole, directors of BCRIC, are also directors of CanCel. Mr. Woodward, a director of BCRIC, is also a director of Westcoast and Mr. Helliwell has been proposed by management of Westcoast for election as a director of that company.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by BCRIC and its subsidiaries to the directors and senior officers of BCRIC was $262,684 for the ten months ended December 31, 1978 and was $31,667 for the month ended January 31, 1979.

STOCK OPTIONS

Under the employee stock option plan of CanCel, as of January 31, 1979 there were options outstanding for senior officers of CanCel to purchase an aggregate of 19,900 Common Shares of CanCel and for other employees of CanCel to purchase an aggregate of 55,500 Common Shares of CanCel as shown in the following table:

Date of Grant	Held by Senior Officers	Held by Other Employees	Option Price
February 26, 1974	12,660	38,060	$6.375
April 23, 1974	—	1,140	$6.375
July 29, 1974	—	1,500	$5.562
August 1, 1974	440	—	$5.687
November 12, 1974	—	800	$4.325
August 3, 1976	—	1,300	$6.875
November 30, 1976	700	1,500	$6.250
July 25, 1977	600	—	$7.375
August 2, 1977	—	300	$7.438
November 28, 1977	—	5,800	$5.312
February 28, 1978	400	2,500	$6.375
March 1, 1978	5,000	—	$6.875
August 22, 1978	100	2,600	$7.625
	19,900	55,500	

In each case the option price is the average of the high and low prices on The Toronto Stock Exchange on the date of grant. The options expire ten years after the date of grant subject to earlier expiration in the event of death or cessation of employment and may be exercised on a cumulative basis to the extent of 20% each year commencing one year after the date of grant. The closing price of the Common Shares of CanCel on The Toronto Stock Exchange on January 31, 1979 was $9.625 per share.

MATERIAL CONTRACTS

The only contracts entered into by BCRIC and its subsidiaries within the two years prior to the date of this prospectus, other than in the ordinary course of business, which could reasonably be regarded as presently material to the purchasers of the common shares offered hereby are the following:

(1) Two note agreements, each dated April 15, 1977, entered into by CanCel with The Prudential Insurance Company of America and Metropolitan Life Insurance Company, respectively, providing for the issue and sale by CanCel of $50,000,000 (U.S.) 10½% Notes due December 15, 1992 and $20,000,000 11½% Notes due December 15, 1992, and amending agreements dated June 15, 1978 and December 15, 1978.

(2) Agreement dated March 9, 1978 between the Province of British Columbia and BCRIC providing for the acquisition of assets by BCRIC from the Province. See "Business and Properties of BCRIC".

(3) The Petroleum and Natural Gas Licence dated March 9, 1978 issued by the Province of British Columbia to BCRIC. See "Gas and Oil Division".

(4) hree loan agreements, each dated May 1, 1978, entered into by CanCel with three Canadian artered banks, respectively, establishing lines of credit aggregating $45,000,000 and amending agreements dated December 15, 1978 increasing the lines by an aggregate of $20,000,000. See Note 7 to the Consolidated Financial Statements.

(5) Agreement dated March 1, 1979 between the Province of British Columbia and BCRIC providing for the exchange of BCRIC's non-interest bearing demand note for 15,000,000 common shares of BCRIC, the introduction of enabling legislation including a provision that the issue of common shares at the offering price is deemed to be in the best interests of BCRIC and in compliance with sections 41 and 42 of the Companies Act, the establishment of procedures for the distribution of common shares and the allocation of the costs of the distribution.

Copies of these contracts except item (4) may be examined during ordinary business hours at the head office of BCRIC during primary distribution of the common shares offered by this prospectus. When the agreements with the financial institutions referred to under "Agents" on page 24 have been entered into, copies of these agreements may also be so examined.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Within the three years preceding the date of this prospectus, there have been no material transactions with BCRIC or its subsidiaries in which any of the directors, senior officers or any associate thereof has any material interest, direct or indirect. The Province of British Columbia, the holder of all of the outstanding common shares of BCRIC, has a material interest in the material transactions described under "Business and Properties of BCRIC" and "Plan of Distribution".

Within the three years preceding the date of this prospectus, the Province, B.C. Hydro and other governmental agencies of, and corporations beneficially owned by, the Province have entered into certain leases, licences, permits, contracts and other instruments with CanCel, Kootenay and Plateau in relation to timber rights and forest products, the supply of electricity and water and other matters, all in connection with, and in the ordinary course of, their respective businesses and which may materially affect them.

The Province, as guarantor of the 6⅛% and 5⅜% Bonds of CanCel, assented to the release on February 1, 1977 of all property mortgaged by CanCel as security therefor, and to the amendment on June 15, 1978 and December 15, 1978 of the trust deed relating to such Bonds to permit CanCel to incur indebtedness under the bank lines of credit referred to in Note 7 to the Consolidated Financial Statements.

In February 1979, Kootenay completed the transfer to the Province of approximately 32,900 acres of timber and other lands. This transfer was made pursuant to commitments arising out of the purchase of Kootenay and the loan of $11.6 million to Kootenay by the Province in 1974. On the condition that Kootenay transfer these lands, the Province subscribed in 1978 for 11,602,729 common shares of Kootenay with a par value of $1.00 each, the proceeds of which were used to repay the Province's loan. Kootenay retained certain harvesting and other rights on the lands. In addition, Kootenay sold approximately 337 acres of land to the Province in 1977 for approximately $920,000.

LEGAL MATTERS

BCRIC has advised General Telephone & Electronics Corporation that it is prepared, in principle, to act as a voting trustee in respect of certain ordinary shares of British Columbia Telephone Company ("B.C. Tel") which may be issued by B.C. Tel to GTE International Incorporated in exchange for shares in GTE Automatic Electric (Canada) Ltd. The latter company owns all the issued shares of GTE Lenkurt Electric (Canada) Ltd. If the transaction does proceed, BCRIC would have no beneficial interest in those shares.

BCRIC is not party to nor is its property the subject of any pending legal proceedings nor are any such proceedings known to be contemplated. The only proceedings to which any subsidiary of BCRIC is a party or to which any of its property is subject, and the only such proceedings known to BCRIC to be contemplated, other than proceedings the outcome of which is not considered material to BCRIC, are as follows:

(1) CanCel commenced an action against B.C. Hydro on June 28, 1977 in the Supreme Court of British Columbia for damages for additional costs to transport logs arising out of the operation of the Mica Dam on the Columbia River and consequent deprivation from 1973 of rights to float logs down the river. The claim for damages is estimated at approximately $1,000,000.

(2) The Supreme Court of British Columbia has found Star Bulk Shipping Company liable to CanCel for breach of a contract of affreightment. The original claim was for approximately $1,300,000, but the estimate of damages, not yet determined, on the basis of the present finding is approximately $100,000. On February 8, 1978, CanCel commenced an appeal in the British Columbia Court of Appeal.

(3) CanCel commenced an action against Royal Insurance Company of Canada, The Boiler Inspection and Insurance Company of Canada and New Hampshire Insurance Company on January 19, 1979 in the Supreme Court of British Columbia claiming approximately $309,000 under contracts of insurance. The claim concerns costs and damages to CanCel resulting from a spill of polychlorinated biphenyls into Porpoise Harbour at Prince Rupert.

(4) CanCel is contemplating proceedings against Brown Boveri Canada Limited, the supplier of a turbo-generator at its Prince Rupert pulp mill which failed in July 1978. The contemplated proceedings are to recover partial reimbursement of total costs of approximately $2,800,000. The supplier has denied liability.

Legal matters in connection with this offering have been approved on behalf of BCRIC by Lawson, Lundell, Lawson & McIntosh, Vancouver. Mr. G. B. McIntosh, the Secretary of BCRIC, is a partner of Lawson, Lundell, Lawson & McIntosh.

AUDITORS

The auditors of BCRIC are Clarkson, Gordon & Co., Chartered Accountants, 700 West Georgia Street, Vancouver, British Columbia.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the common shares will be Montreal Trust Company at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal.

PURCHASER'S RIGHTS OF RESCISSION

An applicant may rescind the purchase of common shares to which this prospectus relates if written notice of the intention to rescind is received by BCRIC before the earlier of:

(a) seven days after the date of the application covering the purchase of such shares, or

(b) June 15, 1979.

For these purposes, a notice of rescission received by BCRIC by mail at P.O. Box 4800, 349 West Georgia Street, Vancouver, B.C. V6B 4A4, shall be deemed to be received on the date postmarked on the enclosing envelope.

An applicant may also rescind the purchase of common shares to which this prospectus relates, while still the owner of the shares, if the prospectus and any amended prospectus filed with the Superintendent of Brokers of British Columbia as of the date of application for the shares contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement contained therein not misleading in the light of the circumstances in which it was made. No action for rescission under this paragraph may be commenced after September 15, 1979, nor may any action be commenced under this paragraph if the purchaser knew of the untruth of the statement or knew of the omission at the time he made application for the shares. It shall be a good defence to an action for rescission under this paragraph if the untruth of the statement or the fact of the omission was unknown to BCRIC at the time the application was filed and, in the exercise of reasonable diligence, could not have been known to BCRIC.

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Consolidated Statement of Earnings and Retained Earnings
For the Period from Incorporation on February 22, 1978 to December 31, 1978

(in thousands of dollars)

Revenues	
Sales of forest products	$ 202,659
Other income (Note 10)	10,960
	213,619
Costs and expenses	
Cost of goods sold	184,130
Selling and administration	9,603
Interest on long term debt	4,715
Other	1,694
	200,142
Earnings before the undernoted items	13,477
Provision for income taxes (Note 8)	303
Earnings before minority interest and extraordinary item	13,174
Minority interest in earnings of subsidiary	494
Earnings before extraordinary item	12,680
Recovery of logging taxes, net of minority interest - $758 (Note 8)	3,242
Net earnings and retained earnings at end of the period	$ 15,922

See accompanying notes

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION
(Incorporated under the laws of British Columbia)

Consolidated Balance Sheet

December 31, 1978

(in thousands of dollars)

Assets

Current	
Cash and short term investments	$ 9,787
Accounts receivable (Note 3)	52,040
Inventories (Note 4)	75,475
Prepaid expenses	1,328
	138,630
Investments and advances (Note 5)	41,067
Fixed	
Property, plant, and equipment (Note 6)	198,773
Petroleum and natural gas rights	40,959
	239,732
Unrealized foreign exchange losses	5,639
	$425,068

Liabilities

Current	
Bank loans	$ 7,017
Accounts payable and accrued charges	44,507
Current portion of long term debt	9,284
	60,808
Long term debt (Note 7)	168,247
Promissory note payable to the Province of British Columbia (Note 13)	151,533
Deferred income taxes (Note 8)	5,492
Minority interest in subsidiary	23,066

Shareholders' Equity

Share capital (Note 13)	
Authorized - 5 common shares without par value	
Issued - 5 common shares for one dollar each	
Retained earnings	15,922
Commitments (Note 9)	
	$425,068

See accompanying notes

Approved by the Board of Directors:

(Signed) D. L. HELLIWELL, Director (Signed) JOHN W. PITTS, Director

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Consolidated Statement of Changes in Financial Position

For the Period from Incorporation on February 22, 1978 to December 31, 1978

(in thousands of dollars)

Source of funds			
From operations			
Earnings before extraordinary item			$ 12,680
Charges to earnings not requiring an outlay of funds			
Depreciation, amortization and depletion			12,207
Deferred income taxes			256
Other			(591)
			24,552
Recovery of logging taxes (Note 8)			4,000
Acquisition of assets from the Province of British Columbia (Note 2)			
Promissory note issued as consideration		$151,533	
Less assets acquired			
Investment in Westcoast Transmission Company Limited	$37,364		
Petroleum and natural gas licence	40,896		
Net long term assets of subsidiary companies	21,722	99,982	
Working capital of subsidiary companies acquired			51,551
Issue of long term debt			79,998
Proceeds on sale of fixed assets			591
Other			571
			161,263
Application of funds			
Additions to fixed assets			77,669
Reduction in long term debt			5,031
Dividends paid to minority shareholders			741
			83,441
Working capital at end of the period			$ 77,822

See accompanying notes

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements using information available up to February 27, 1979, except for Note 13 which was prepared as of March 1, 1979. Because a precise determination of many assets and liabilities is dependent upon future events, estimates and approximations have been used where necessary. The financial statements have been prepared within the framework of the accounting policies summarized below:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries (see Notes 2 and 14).

Translation of foreign currencies

Transactions in foreign currencies are translated at rates in effect on the dates of the transactions. Cash, receivables, payables and other assets and liabilities carried at current prices are translated at the rate at the end of the period. Unrealized gains or losses are included in income except for those related to long term debt which are amortized over the remaining term of the debt. This policy conforms to the recommendations of the Canadian Institute of Chartered Accountants on foreign currency translation.

Inventories

Logs, pulp chips and other raw materials are valued at the lower of average cost and replacement cost. Finished products (pulp, lumber and plywood) are valued at the lower of average cost and net realizable value.

Property, plant and equipment

These assets are stated at cost less accumulated depreciation, amortization and depletion. Depreciation, amortization and depletion are computed as follows:

Asset	Rate and Method
Pulp mills	4% composite rate; straight-line
Sawmills	4% to 6% composite rate; straight-line
Logging equipment	10% to 20% rate; diminishing balance
Timber cutting rights, roads and related facilities	unit of production method, using current log production as a percentage of estimated total log production available from such assets.

Petroleum and natural gas rights

The gas and oil operations of the Corporation are in the exploratory stage. The costs of acquiring petroleum and natural gas rights, including the licence acquired from the Province of British Columbia (see Note 2), and exploration costs are being capitalized.

2. INCORPORATION AND ACQUISITION OF ASSETS

On September 1, 1977, the British Columbia Resources Investment Corporation Act was enacted. The Act authorized the incorporation of British Columbia Resources Investment Corporation under the Companies Act (British Columbia). Incorporation took place on February 22, 1978 and 5 common shares were issued for $1 each.

Effective March 9, 1978, the Corporation acquired the following assets from the Province of British Columbia:

81% of the outstanding shares of Canadian Cellulose Company, Limited, a pulp and lumber manufacturer ("CanCel")
100% of the outstanding shares of Kootenay Forest Products Ltd., a lumber and plywood manufacturer ("Kootenay")
100% of the outstanding shares of Plateau Mills Ltd., a lumber manufacturer ("Plateau")
10% of the outstanding shares of Westcoast Transmission Company Limited, a gas transmission company ("Westcoast")
A petroleum and natural gas licence covering 2.3 million acres in northeastern British Columbia.

In consideration for the above, the Corporation issued a non-interest bearing promissory note payable on demand to the Province of British Columbia in the amount of $151,532,930 (see Note 13). The purchase price was allocated as follows:

	(in thousands)
CanCel, Kootenay and Plateau	$ 73,273
Westcoast	37,364
Petroleum and natural gas licence	40,896
	$151,533

The acquisition of CanCel, Kootenay and Plateau has been accounted for by the purchase method and the results of operations and the changes in financial position of these companies since the date of acquisition have been consolidated with those of the Corporation. A summary of the net assets acquired is as follows:

	CanCel	Kootenay	Plateau	Total
		(in thousands)		
Working capital	$ 41,998	$ 4,435	$ 5,118	$ 51,551
Net book value of fixed assets	157,256	9,162	11,193	177,611
Less long term debt, deferred income taxes and minority interest	103,068	2,226	5,347	110,641
Book value of net assets	$ 96,186	$11,371	$10,964	$118,521
Excess of book value of net assets acquired over the consideration paid				45,248
Consideration				$ 73,273

The excess of book value of net assets acquired over the consideration paid, less $4,217,000 which has been allocated to increase long term debt, is not allocable to specific assets or liabilities. The balance of $41,031,000 has been deducted from the net book value of fixed assets and is being amortized as a reduction of depreciation expense over the remaining lives of these assets, estimated at fifteen years (see Note 6).

3. ACCOUNTS RECEIVABLE

	(in thousands)
Trade	$ 40,700
Insurance claims	5,112
Other	6,228
	$ 52,040

4. INVENTORIES

	(in thousands)
Logs, pulp chips and other raw materials	$ 48,877
Pulp, lumber and plywood	18,106
Supplies	8,492
	$ 75,475

5. INVESTMENTS AND ADVANCES

	(in thousands)
Investment in Westcoast, at cost (quoted market value of $40,784,000 which does not necessarily reflect the realizable value of this investment)	$ 37,364
Investment in an associated company, at cost plus equity in earnings less dividends received	2,117
Other	1,586
	$ 41,067

6. PROPERTY, PLANT AND EQUIPMENT

	(in thousands)
Pulp mills	$325,876
Sawmills	64,466
Timber cutting rights, roads and related facilities	58,722
Logging equipment and other facilities	21,369
	470,433
Less accumulated depreciation, amortization and depletion	272,956
	197,477
Land	1,296
	$198,773

Accumulated depreciation, amortization and depletion has been increased by $38,731,000 which represents an allocation of the excess of the book value of acquired net assets of subsidiary companies over the consideration paid, net of the $2,300,000 amortization of this excess for the period ended December 31, 1978 (see Note 2).

7. LONG TERM DEBT

CanCel	(in thousands)
6⅛% Bonds due January 2, 1981 with annual principal payments (U.S. $12,000,000)	$ 14,202
5⅜% Bonds due July 1, 1985 with annual principal payments (U.S. $22,500,000)	26,664
10½% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983 (U.S. $50,000,000)	59,288
11½% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983	20,000
Bank loans on revolving credit facilities, with interest at various rates	50,000
Other	527
	170,681
Other subsidiaries	
Term bank loan with repayments in 1979 and 1980, with interest at bank prime plus ¾%	2,200
Term loan with quarterly principal payments to 1986 with interest at bank prime plus ½%	4,650
	177,531
Less amounts due within one year	9,284
	$168,247

CanCel has bank lines of credit of $45,000,000 on revolving credit facilities with any loans at June 30, 1981 converting into term loans repayable over periods of up to nine years in equal semi-annual or annual installments, and an additional $20,000,000 on a revolving credit facility repayable by December 15, 1980. At December 31, 1978 the outstanding loans under these facilities were $45,000,000 and $5,000,000 respectively.

The bonds, promissory notes and bank loans on revolving credit facilities are unsecured. Certain assets have been pledged as collateral for the term loan and the term bank loan.

CanCel's trust deed relating to its bonds and the agreements relating to its promissory notes, in general terms, restrict dividends and certain other payments by CanCel to a maximum of $4,000,000 plus 50% of its net earnings after December 31, 1976. The amount available for payment of dividends at December 31, 1978 was $6,985,000.

Principal payments required on long term debt in each of the next five years with the United States dollar component translated at the December 31, 1978 rate of exchange are:

	(in thousands)
1979	$ 9,284
1980	$14,529
1981	$10,075
1982	$ 9,771
1983	$17,711

8. INCOME TAXES

The Corporation and two of its subsidiaries were exempt from income taxes in 1978 because not less than 90% of their outstanding shares were owned by the Province of British Columbia. When this condition is no longer met the companies will become taxable and will provide for income taxes based on the earnings reported in their accounts. The companies will be able to deduct from future taxable income various amounts comprised primarily of depreciation which were charged to earnings while the companies were exempt from income taxes. The potential future tax reduction is estimated to be $5,400,000 at December 31, 1978. Had the Corporation and its two subsidiaries not been exempt from income taxes in 1978, and on the basis that the potential tax reduction will be accounted for as realized, the provision for income taxes in the Consolidated Statement of Earnings and Retained Earnings would have been increased by $3,000,000, there would have been an extraordinary credit in the amount of $2,400,000 and net earnings for the period would have been decreased by $600,000.

In prior years, CanCel claimed depreciation for tax purposes in excess of depreciation recorded in its accounts in order to maximize the deferral of liability for income taxes. This resulted in increased liability for logging taxes. In 1978 the liability for such logging taxes was reduced by $4,000,000 due to revision by CanCel of its tax depreciation claims as a consequence of the high level of capital expenditures in recent years and other factors. These revisions have been accepted by the taxing authorities. The logging tax reduction has been shown as an extraordinary item.

CanCel has made fixed asset acquisitions qualifying for federal investment tax credits which would enable it to reduce income tax expense by approximately $6,000,000 if sufficient income taxes became payable prior to December 31, 1983. These benefits will not be recorded in the consolidated accounts of the Corporation until they are realized.

9. COMMITMENTS

Rental obligations under long term leases amount to approximately $2,600,000 in each of the years 1979, 1980 and 1981, $2,200,000 in 1982 and $1,100,000 in 1983.

At December 31, 1978 commitments for expenditures on fixed assets amounted to $4,400,000.

10. OTHER INCOME

	(in thousands)
Insurance proceeds relating to estimated loss of earnings due to a fire at CanCel's Castlegar sawmill	$3,570
Income related to cancellation of a sales contract	3,370
Equity in earnings of an associated company	1,104
Income from other investments	2,916
	$10,960

11. INSURANCE DEDUCTIBLES

During 1978 CanCel experienced a major fire, a severe storm and the failure of a major piece of equipment. The estimated insurance recoveries have been recorded as other income or as reductions in cost of goods sold, as appropriate. The deductible portion of the losses has been included as a reduction of earnings and amounts to approximately $5,000,000.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable to directors and senior officers amounted to $262,684 in 1978.

13. SUBSEQUENT EVENT

The Corporation has increased its authorized common shares to 100,000,000 and has agreed to carry out the following in 1979:

(a) issue 15,000,000 common shares to the Province of British Columbia in exchange for the promissory note of $151,532,930, and

(b) subject to enabling legislation being passed, offer for sale up to 5,000 common shares to or in respect of each eligible resident of British Columbia at a price of $6.00 per share. Management anticipates that, in addition to agents' commissions which are dependent on the number of shares sold, expenses of approximately $2,500,000 will be incurred in connection with the share offering.

14. SUBSIDIARY COMPANIES

Canadian Cellulose Company, Limited
- Calum Lumber Limited
- Canadian Cellulose International S.A.
- Celgar Properties Limited
- Celtran Equipment Limited
- High Arrow Limited
- Pohle Lumber Co. Ltd.
- Twinriver Timber Limited

Kootenay Forest Products Ltd.

Plateau Mills Ltd.
- Plateau Timber Ltd.
- Nechako Valley Pulp Mill Ltd.

AUDITORS' REPORT

To the Directors of
British Columbia Resources Investment Corporation:

We have examined the consolidated balance sheet of British Columbia Resources Investment Corporation as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the period from incorporation on February 22, 1978 to December 31, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Vancouver, Canada,
February 27, 1979
(except for note 13 which is
dated March 1, 1979).

(Signed) Clarkson, Gordon & Co.
Chartered Accountants

CERTIFICATES

Dated: March 1, 1979

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act (British Columbia) and the regulations thereunder.

(Signed) JOHN W. PITTS
Director

(Signed) D. L. HELLIWELL
Director

(Signed) T. W. PILLEY
Director

(Signed) J. W. POOLE
Director

(Signed) C. N. W. WOODWARD
Director

(Signed) W. M. YOUNG
Director

PRINTED IN BRITISH COLUMBIA

739

APPROVED AND ORDERED MAR 13 1979

Lieutenant-Governor

EXECUTIVE COUNCIL CHAMBERS, VICTORIA MAR 13 1979

On the recommendation of the undersigned, the Lieutenant-Governor, by and with the advice and consent of the Executive Council, orders that the attached British Columbia Resources Investment Corporation (Free Shares) Regulation be made.

Minister of Finance

Presiding Member of the Executive Council

(This part is for administrative purposes and is not part of the Order.)

Authority under which Order is made:

Act and section British Columbia Resources Investment Corporation Act, sections 17 (3) and 23.

Other (specify)

British Columbia Resources Investment Corporation
(Free Shares) Regulation

Interpretation

1. In this regulation,

"Act"
means the British Columbia Resources Investment Corporation Act;

"age"
means the age of an individual attained on his or her last birthday preceding June 16, 1979;

"attorney"
means a person appointed as the attorney of an applicant for shares of British Columbia Resources Investment Corporation by instrument in writing required by this regulation and who furnishes the identification required by the instrument or this regulation;

"authorized agents"
means the persons authorized to receive and stamp applications as provided by this regulation;

"corporation"
means British Columbia Resources Investment Corporation;

"eligible resident"
means a Canadian citizen or individual qualified to be a Canadian citizen who has applied for Canadian citizenship, and who

(a) has ordinarily resided in British Columbia for at least the immediately preceding 12 months, or has so resided since birth, or

(b) is

(i) a member of the Canadian Forces,

(ii) an agent-general, officer or servant of the Province,

(iii) performing services in a country other than Canada under a program of the Government of Canada, or

(iv) attending an educational institution outside of the Province,

and before his posting, appointment or attendance described in subparagraphs (i) to (iv) inclusive, has ordinarily resided in British Columbia for the preceding 36 consecutive months, or

(c) has ordinarily resided in British Columbia for at least 10 consecutive years before leaving the Province for not more than 60 months and who before January 1, 1979 has returned to and has resumed permanent residence in British Columbia, or

(d) is the spouse living with, or is the child under the age of 16 years of, an individual described in paragraph (b) (i), (ii), (iii), (iv) or (c);

"minister"
means the Minister of Finance.

Applications

2. (1) The Final Date for applications for free shares of the corporation is June 15, 1979 or such later date as the minister may, before that date, specify.

(2) The application form must be in Form A to this regulation and must be presented and stamped by an authorized agent on or before the Final Date.

(3) Applications may be presented at locations in British

Columbia specified by the minister before the close of business of the respective branches or offices on the Final Date.

(4) Employees of the institutions and civil servants at the locations specified under subsection (3) shall be referred to as "authorized agents" and are authorized to stamp applications that comply with this regulation and are received at the specified locations before the close of business on the Final Date.

(5) The documents that must be presented to an authorized agent in support of an application for shares of the corporation on the application being made at a branch of a bank, trust company or credit union or at an office of an investment dealer shall be:

(a) where an applicant is over 15 years old but less than 65 years old, any 2 of the following:
   (i) the applicant's British Columbia driver's licence;
   (ii) the applicant's medical services plan card;
   (iii) the applicant's social insurance card;

(b) where an applicant is 65 years of age or older, any one of the applicant's British Columbia driver's licence, medical services plan card, social insurance card or pharmacare card;

(c) where an applicant makes application based on child entitlement, the documents required by paragraph (a) or (b), and
   (i) a medical services plan card showing a separate dependent number for the child, or
   (ii) a Canadian birth certificate for the child, or
   (iii) a certificate of Canadian citizenship of the child;

(d) where an application is made by an attorney, the documents respectively specified in paragraphs (a), (b) or (c), as the case may require, and either
   (i) any 2 of the following:
      (A) the attorney's British Columbia driver's licence;
      (B) the attorney's medical services plan card;
      (C) the attorney's social insurance card, or
   (ii) where the attorney is 65 years of age or older, any one of the items listed in subparagraph (i) (A), (B) or (C) or the attorney's pharmacare card.

(6) The application must be signed by the applicant or his attorney in the presence of the authorized agent.

(7) Where the application is made

(a) at a branch of a bank, trust company or credit union or at an office of an investment dealer, the appointment of attorney must be in Form B to this regulation, or

(b) at a government office for an Appeal Approval Notification, the appointment of attorney must be in Form B or another written instrument acceptable to the authorized appeal agent.

(8) Where the parents of an eligible resident under 16 years of age are not divorced or separated and such eligible resident is in their custody, or where the mother has custody of such eligible resident, application must be made by the mother or her attorney.

(9) Where the mother does not have custody of an eligible resident under 16 years of age, application must be made by the person who has custody of the eligible resident or that person's attorney.

(10) An eligible resident who is 16 years of age or older may appoint an attorney who is 19 years of age or older for the purpose of applying for shares and the person so appointed may present the identification, complete the application form and take delivery of the share certificates as provided in the power of attorney.

<u>Appeal procedure</u>

3. (1) Where an application is made on or before the Final Date at a branch of a bank, trust company or credit union, or at an office of an investment dealer and is rejected or not stamped by the authorized agent, the applicant or the attorney may appeal

at a designated government office by completing an Appeal Approval Notification in Form C to this regulation.

(2) Where an Appeal Approval Notification has been stamped by the authorized appeal agent designated by the minister, and is presented at a location specified by the minister before the Final Date, the applicant, attorney or trustee signing the Appeal Approval Notification may complete an application for free shares to the extent approved in the notification.

(3) Where an application for free shares is made after the Final Date the application shall be made by completing an Appeal Approval Notification at an office designated by the minister.

(4) Where an Appeal Approval Notification has been stampec by the authorized appeal agent and is not presented at a bank, trust company, credit union or investment dealer's office before the Final Date, the applicant, attorney or trustee may, before a date specified by the minister, complete an application for free shares to the extent approved in the notification at an office designated by the minister.

Procedure to receive shares applied for

4. (1) Either the applicant or his attorney may receive the share certificates for the total shares applied for as shown in the space designated "Total Shares This Application" on the application form.

(2) Subject to paragraph 4 (7), the share certificates for the shares applied for will be available for delivery to the applicant or his attorney at the branch or office where the application was made on or after August 7 and before September 28, 1979.

(3) If the shares are applied for before the Final Date and the total shares applied for exceeds 99 shares, the shares shall be registered in the name of the applicant in the register of members of the corporation, the address of the applicant shown in the application form shall be entered in the register, and the share certificate delivered to the applicant or his attorney shall be a registered certificate in the name of the applicant.

(4) If the total shares applied for are less than 100 shares, the shares will not be registered in the name of the applicant in the register of members of the corporation and the share certificates delivered to the applicant or his attorney will be bearer share certificates.

(5) In order to receive the share certificates the applicant or attorney must surrender his copy of the application form and sign for receipt at the branch or office where the application was made.

(6) If the applicant or attorney has not taken delivery of the share certificates by September 28, 1979, the share certificates will be made available for delivery to the applicant or his attorney at an office designated by the minister.

(7) Where the application includes purchased shares and the payment is dishonoured or the purchase is rescinded the free shares applied for in the application may be reapplied for after October 1, 1979 at a Government office designated by the minister.

(8) If the applicant or attorney has not taken delivery of the share certificates for free shares by December 31, 1979, the right to receive the free shares applied for shall lapse.

(9) Where the application includes purchased shares and the applicant or his attorney has not taken delivery of the share certificates by December 31, 1979, the share certificates will be made available for delivery to the applicant or his attorney on surrender to the corporation at its offices of his copy of the application and signing for receipt.

BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: David Helliwell
687-2600

or

Jack Morris
687-2600/736-8644

For immediate Release, February 4, 1980

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) today reported consolidated net earnings of $40.8 million on total revenues of $359.5 million for 1979. There were no directly comparable figures for 1978 because the company was not incorporated until February 22, 1978.

In announcing the results, BCRIC president David Helliwell said the company's performance largely reflects income earned from short term investments and earnings from its forest product holdings. At the year end short term investments totalled $517 million.

He reported that forest product earnings benefited from strong pulp prices, buoyant demand and prices for lumber for most of the year and foreign exchange gains. Partially offsetting these factors were work stoppages at Canadian Cellulose's Prince Rupert pulp mill, an easing of plywood demand and prices in the second half of the year and protracted start-up problems at a sawmill expansion at Plateau Mills at Engen, B.C.

Mr. Helliwell noted that in its gas and oil exploration activities, two well drillings had been completed in the fourth quarter, bringing the number of wells drilled to eleven in the 1978 - 1979 exploration program. Of the eleven wells drilled, four were gas wells, one was an oil well and six proved unsuccessful. He said it was too early to determine the extent of these discoveries but this evaluation would be completed in 1980.

He said the company had decided to make a major investment in the gas and oil sector and that this is expected to result in cash expenditures of about $170 million to the end of 1984 for further land acquisition and exploration activities.

"In addition to this decision to become an active participant in the energy field, we are also examining investments in other resource industries and will be making announcements as soon as firm arrangements have been reached."

FINANCIAL SUMMARY

	Fourth Quarter ended December 31, 1979	Year ended December 31, 1979
Revenues	$112.0 million	$359.5 million
Earnings	$ 12.9 million	$ 40.8 million
* Earnings per share	$0.13	$0.69
	(96.2 million shares)	(59.2 million shares)

* Based on weighted average shares outstanding, calculated on the basis of 15 million shares outstanding January 1, 1979, with the balance assumed to be outstanding on the dates the company received the subscriptions.

BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: David Helliwell
687-2600

or

Jack Morris
678-2600/736-8644

For Immediate Release, March 13, 1980

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) today announced that the company's annual general meeting will be held in the Pacific Coliseum in Vancouver at 10:00 a.m. on April 7.

The meeting was originally set for March 27 at the Orpheum Theatre in Vancouver provided requests for admission tickets did not exceed 2,700, the seating capacity of the theatre. However, as of today ticket requests have exceeded that number, and -- as previously announced in the company's annual report and notice of meeting -- the meeting has been automatically adjourned by Court Order to the Coliseum on April 7. The Coliseum is capable of seating more than 15,000.

Through the co-operation of various cablevision companies in British Columbia, the BCRIC annual meeting will also be televised live over cablevision channels in most major cities in the province for the convenience of those shareholders unable to attend the annual meeting.

Registered shareholders who wish to attend the annual meeting should send their requests to BCRIC for an admission ticket which will help avoid registration delays on the day of the meeting.

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BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone (604) 687-2600

PRESS RELEASE

Contact: David Helliwell
687-2600

or

Jack Morris
687-2600/736-8644

For Immediate Release, March 3, 1980

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) today announced agreement in principle with Canadian Pacific Investments Limited (CPI) for the purchase of CPI's 13.4% interest in MacMillan Bloedel Limited (MB). BCRIC also contemplates the purchase by BCRIC of additional common shares representing approximately 1% of MB from five pension funds associated with Canadian Pacific Limited.

David Helliwell, president of BCRIC, said in making the announcement that the agreement with CPI involves a purchase price of $35.00 per share for CPI's 2,849,600 common shares of MB. Purchases from the pension funds would be at the same price.

Mr. Helliwell stated BCRIC had decided to acquire a significant minority interest in MB in order to expand and broaden

BCRIC's forest industry holdings. "Our studies show that MB represents one of the best opportunities in the Province to further our position in the forest products industry," said Mr. Helliwell. "MB has substantial forest land holdings in British Columbia and elsewhere, and since basically all of the available forest land has been allocated to existing producers we felt MB would be an ideal investment for BCRIC."

MB is one of Canada's largest integrated forest products companies with sales and other income of $2.2 billion in 1979. It operates a number of pulp, paper, lumber and plywood plants in British Columbia and employs approximately 24,000 persons in its various operations in British Columbia and elsewhere.

Mr. Helliwell stated that BCRIC's purchase of MB shares was discussed with Mr. Knudsen, president of MB, prior to the agreement being reached. BCRIC understands that MB is not opposed to this transaction nor to the possible purchase by BCRIC of further shares to enable it to hold a 20% interest in MB.

Mr. Helliwell said that upon completion of the purchase, BCRIC will be proposing to MB that two of BCRIC's nominees be included on MB's board of directors.

BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: David Helliwell
687-2600

or

Jack Morris
687-2600/736-8644

For Immediate Release, March 4, 1980

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) today announced it had been granted an option to purchase a substantial minority position in Kaiser Resources Ltd., a British Columbia-based coal company.

David Helliwell, president of BCRIC, said the option was granted by Kaiser Steel Corporation of Oakland, California, for the purchase at $44 (Canadian) per share up to and including April 15, 1980, of all of Kaiser Steel's shares of Kaiser Resources that are not purchased by Kaiser Resources through its current tender offer for its own shares.

The option is subject to the approval of Kaiser Steel's board of directors.

Mr. Helliwell said BCRIC had obtained an option on the shares because of Kaiser Resources' strong position in coal development in Western Canada and BCRIC's desire to participate in this significant resource industry.

BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: David Helliwell
687-2600

or

Jack Morris
687-2600/736-8644

For Release, April 3, 1980, 8:30 A.M., P.S.T.

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) today announced it had obtained an extension of its option to purchase a substantial minority position in Kaiser Resources Ltd., a British Columbia-based coal company.

David Helliwell, president of BCRIC, said the option granted by Kaiser Steel Corporation of Oakland, California, has now been extended from April 15 to April 30.

"We sought this extension from Kaiser Steel to give us more time to complete our assessment of the situation," said Mr. Helliwell. "Our deliberation has taken somewhat longer than originally anticipated so we felt a two-week extension to our option would be prudent."

The option is for approximately 25 per cent of Kaiser Resources' outstanding common shares at a price of $44 per share.

BCRIC NEWS

British Columbia Resources Investment Corporation
2600—1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: M. G. McKibbin
D. M. Meekison
687-2600

For immediate Release, May 30, 1980

VANCOUVER, B.C. -- British Columbia Resources Investment Corporation ("BCRIC") today announced that it had been successful in obtaining acceptance of its offer by holders of slightly more than 90% of the publicly held Common Shares of Canadian Cellulose Company, Limited ("CanCel").

In making the announcement David Helliwell, President of BCRIC, stated that pursuant to its offer BCRIC would be taking up and paying for all shares on deposit at the expiry of the offer on May 30. All common shares properly deposited under the offer will be registered in the name of BCRIC on May 30 and cheques in payment for the shares will be mailed by Montreal Trust Company next week.

Mr. Helliwell also stated that BCRIC would be exercising its right under the British Columbia Company Act to acquire the remaining shares held by public shareholders, after which, subject to the provisions of the Act, CanCel would become a wholly-owned subsidiary of BCRIC.

The acquisition of all of the publicly held CanCel common shares by BCRIC at $15 per share will total approximately $36.2 million.

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BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

David L. Helliwell
President & Chief Executive Officer

December 7, 1979

The Honourable Mike Miller
House of Representatives
& Chairman of the
State Affairs Committee
Alaska State Legislature
Box 1494
Juneau, Alaska 99802
U.S.A.

Dear Mr. Miller:

Thank you for your kind letter of November 28, 1979.

Enclosed is a copy of a promotional flyer on a publication that will be available in January, 1980, which may be of interest to you and your Committee Members. We have placed you on our mailing list for future BCRIC releases and if we can be of further assistance, please do not hesitate to contact us.

I too, enjoyed our session.

Sincerely,

DLH/dgd
Enclosure

BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: Bob Currie
(403) 265-6140

or

Jack Morris
687-2600/736-8644

For Immediate Release, February 20, 1980

CALGARY -- British Columbia Resources Investment Corporation (BCRIC) announced today it will participate in gas and oil exploration in the Nechako Basin between Williams Lake and Quesnel, B.C.

Bob Currie, Vice President of BCRIC, said the company has entered into an agreement in which it will earn a 50 per cent share of a 17.5 per cent interest held by Esso Resources Canada Limited under an existing agreement with Canadian Hunter Exploration Limited. Canadian Hunter has acquired 43 permits in the area.

A geophysical program will be conducted and the first well drilled this year. It is expected this will be the first of several wells drilled in the area.

-30-

BCRIC

British Columbia Resources Investment Corporation
2600-1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: David Helliwell
687-2600

or

Jack Morris
687-2600/736-8644

For Immediate Release, February 20, 1980

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) said today it is continuing study into further investments in the forest industry but that preliminary discussions with West Fraser Timber Co. Ltd. have ended.

David Helliwell, president of BCRIC, said the Ketcham family, which owns approximately 90 per cent of West Fraser, had informed BCRIC today that it does not wish to sell its interest.

Mr. Helliwell said BCRIC had been examining several possible investments in the forest industry, including West Fraser. He said BCRIC intends to continue its study into additional forestry investments.

KELSO & CO.
INCORPORATED
INVESTMENT BANKERS

GREENSBORO, N.C. SAN FRANCISCO LOS ANGELES

January 2, 1980

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BUDGET/AUDIT
COMMITTEE

Hon. James Duncan
Chairman
Legislative Budget and
Audit Committee
State of Alaska
Pouch V
Juneau, Alaska 99811

Report 4
AGSOC Study

Dear Jim:

In this report we will update our report on TAPS, summarize our research into the potential of AGSOC engaging in the leasing business and report on the results of our research into other potential AGSOC investments.

TAPS

During this past month we have reviewed the past year's performance of TAPS and the current status of the FERC hearings on TAPS rates. In addition, we have updated our files on the BP ownership interest in TAPS.

The FERC hearings are proceeding at a slow pace with current interim rates in effect at the operators' requested levels. However, there is still the possibility that carriers may have to refund revenues if permanent rates are set by FERC at a level lower than the current rates. It is expected that final rate determination will be made by mid 1980.

Although no new oil has been discovered and total proven reserves are still 9.1 billion barrels, expansion of TAPS capacity is under way. Current flow capacity has been raised to 1.36 million barrels per day (up from the initial capacity of 1.16 million barrels per day) and should reach 1.42 million barrels per day by the end of 1980. Most of the higher flow capacity has been achieved through use of a special chemical additive, without construction of new pump stations, although new pump stations are being completed.

To date, only Arco, Exxon, and BP are participating in the capital expansions and BP's share should increase to a 16.8% ownership of TAPS by the end of 1980. Other revenue and expense items are in line with past projections except for the high cost of the additive. However, profitable operations exist with the interim rates in effect.

LEASING

As we mentioned in our last report, leveraged leasing could offer some favorable tax advantages for AGSOC. Additionally, an AGSOC leasing program could stimulate many segments of the Alaskan economy which are currently restricted by lack of capital.

Although leasing is an alternative source of financing capital equipment, it offers advantages to both sides of the relationship. Both have some tax advantages, and although the leasing company assumes more risk, the lessee grants compensation for its diminished risk in higher rental payments.

There are many variables in the structure of a lease so that a single financial model would not cover all cases. However, for illustrative purposes, the following example shows the advantages to AGSOC:

> Suppose a company were to lease a \$1,000,000 piece of equipment through AGSOC. If this equipment had a 20 year life, possible lease payments (under today's high interest rates) might be as high as \$175,000 per year or higher if a short term lease were executed. On the other hand, AGSOC's principal and interest payment could be under \$150,000 per year. Thus AGSOC could achieve a cash flow spread of at least 2-1/2% of the equipment value per year and under certain conditions this could be as much as 5%. However, the significant tax factors which would benefit AGSOC and its stockholders would be the investment tax credit and depreciation. In the first year of the investment, 10% of the value of the equipment could be claimed as a tax credit. Under the Federal legislation, Subchapter U to the Internal Revenue Code, this would be passed through directly to AGSOC's shareholders. The distribution of profits could be controlled by the depreciation schedule used so that up to the full value of the positive cash flow could be retained by AGSOC without tax penalty. This reserve could be used to offset future cash requirements or for new investment

A major attractiveness of leasing for AGSOC is that it could borrow nearly 100% of the purchase price of certain investments. Our recent discussions with major banks, indicate that the banks would loan to AGSOC at favorable rates assuming a reasonable AGSOC capitalization. Additionally, for large investments, most institutions will provide necessary expertise in structuring the lease and managing the asset through the lease term.

Leasing is a competitive business. Initially, we investigated AGSOC leasing aircraft to Alaska Air Lines, for example. However, Alaska Air Lines has multiple proposals for such leases and at much more favorable rates than could be offered by AGSOC. The reasons for strong competition, especially in aircraft, are the favorable tax advantages (increasing for those in higher than 50% tax brackets) and high resale residual values for aircraft after the initial lease terms. Many lessors will therefore sacrifice short term cash flow for current tax benefits and long term profits. The best opportunities for AGSOC would seem to be areas of leasing where lease competition is not so high, e.g., for leasing to start-up business ventures, and in other situations where financing sources are difficult to obtain.

We have reviewed the component parts of the Alaskan economy outlined in our October 2, report and have identified some possible areas where leasing opportunities may be found. We will summarize these findings here.

MOTEL AND HOTEL

We are currently reviewing opportunities in sale and leasebacks of hotel/model sites and structures. This industry offers more favorable opportunities for AGSOC leasing since there are more favorable tax credits available in motel/hotel leasing than for other forms of commercial real estate.

FISHING

Currently, there are investment opportunities in Alaska for both processing vessels and on-shore processing plants. The vessels offer good opportunities since interim financing during construction would not be as big a handicap as construction of new plants. Leasing of fishing vessels, or sale and leasebacks of converted fishing vessels, also offer opportunities in the fishing industry. We are continuing to investigate these possibilities.

HARD ROCK MINERALS

There seems to be a potential for leasing mining equipment. We will investigate further.

OIL AND GAS

In gas pipeline construction, leasing opportunities exist in rolling stock used during construction. There also are opportunities for leasing drilling rigs or LNG storage tanks. The high value of storge tanks is attractive for an AGSOC investment.

PETROCHEMICALS

The development of a petrochemical industry using Alaskan resources has stimulated much interest in parts of Alaska. Construction financing is not an attractive leasing opportunity, but certain installed equipment may offer attractive opportunities.

AGRICULTURE

Agricultural equipment offers some lease opportunities although AGSOC might not want to compete in the financing for the leasing of relatively low value equipment.

Hon. James Duncan, Chairman
Legislative Budget and Audit Committee
State of Alaska
January 2, 1980
Page 4

ELECTRIC POWER

Potential for the leasing of prefabricated plants exists in Alaska. Major users of electric power or new hydroelectric plants may have financing difficulties. AGSOC may be able to lease a full plant to potential operators.

ALASKA RAILROAD

While we are studying the actual purchase of the ARR, there is also a potential lease opportunity in freight cars, locomotives and other equipment. As in the airline industry, rail car leasing is competitive with many players. We will analyze this further in our study of the Alaska Railroad.

TRANSPORTATION

We are currently investigating other surface transportation opportunities within which areas leasing potential is generally good.

FURTHER CANADIAN MOVES TO
BROADEN OWNERSHIP OF INDUSTRY

The Federal Progressive Conservative Government of Canada has announced that if it is reelected in the forthcoming Federal election, it would offer five free shares in the $3.3 billion integrated petroleum corporation, Petro-Canada, to every Canadian adult and to young Canadians upon their becoming eighteen years of age. Individuals and institutions in Canada would be permitted to purchase up to a maximum of 3% of Petro-Canada shares, but one-third of the equity would be retained by the Federal Government.

This is further evidence that Canada is moving in the direction of encouraging broad ownership of basic industry and resources by Canadians.

Very truly yours,

KELSO & CO., INCORPORATED

By Louis
Louis O. Kelso
Chairman of the Board

BCRIC NEWS

British Columbia Resources Investment Corporation
2600—1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

Contact: David Helliwell
687-2600

or

Jack Morris
687-2600/736-8644

For Release, April 28, 1980, 1:00 P.M., P.D.T.

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) today reported consolidated net earnings of $13.5 million in the first three months of 1980. In the same quarter a year ago net earnings amounted to $6.1 million.

David Helliwell, president of BCRIC, also announced that the company had completed its study of a possible minority investment in Kaiser Resources Ltd., and had decided not to exercise its option to purchase a 25 per cent interest in that company.

"We negotiated this option with the view of obtaining a direct participation in the coal industry in a manner that would fit with our plan to achieve operating-company status. Upon analysis we decided that this particular investment did not meet that criteria and we have therefore decided not to exercise the option."

In announcing the quarterly results, Mr. Helliwell said the figures are not directly comparable since the company in the first quarter of 1979 was a tax-exempt government-owned corporation and the company had not yet received significant funds from the public share issue.

Total revenues in the first quarter were $110.4 million. In the same period of 1979 revenues totalled $72.6 million.

In reviewing the performance of BCRIC's various resource interests, Mr. Helliwell said earnings from forest products were lower than those of the 1979 quarter. He attributed this to a sharp decline in lumber prices, particularly in March. However, this was offset in part by significantly higher pulp shipments and prices.

The gas and oil division continued its development program with a total of 20 wells having been drilled or presently drilling so far. Of these wells, three are still drilling, four have been suspended for testing, nine were dry holes and four were gas wells, one of which appears to have significant potential reserves.

Mr. Helliwell said the company had completed its purchase of a 14.25 per cent interest in MacMillan Bloedel Limited at a cost of $106 million and had in late April announced plans to offer to purchase all of the publicly held common shares of Canadian Cellulose Company, Limited (CanCel) at a price of $15.00 per share for a total cost of approximately $36 million. BCRIC currently holds 81 per cent of CanCel.

He said the detailed first quarter report will be mailed to shareholders shortly.

FINANCIAL SUMMARY

	First Quarter ended March 31, 1979	First Quarter ended March 31, 1980
Net Earnings	$ 6.1 million	$ 13.5 million
Total Revenues	$ 72.6 million	$110.4 million
Earnings Per Share	See Note	$ 0.14

Note: As the company was a government owned corporation, without significant public shareholding, during the three month period ended March 31, 1979, a comparative earnings per share figure would be misleading.

BCRIC NEWS

British Columbia Resources Investment Corporation
2600—1177 West Hastings Street, Vancouver, B.C. V6E 3Y3 Phone: (604) 687-2600

PRESS RELEASE

Contact: Jack Morris
687-2600/736-8644
939-7703

For Release, 4:00 p.m., April 20, 1980

VANCOUVER -- British Columbia Resources Investment Corporation (BCRIC) today announced plans to offer to purchase all of the publicly-held common shares of Canadian Cellulose Company, Limited (CanCel) at a price of $15.00 per share. BCRIC currently owns 81 per cent of the shares of CanCel, a British Columbia based pulp and lumber producer. At the offering price, the approximately 2,400,000 publicly-held shares have a value of $36,000,000.

It is expected the offer will be mailed in early May and will be conditional upon obtaining at least 90 per cent of the shares held by public shareholders.

"We believe the price being offered is appropriate both for BCRIC and for the other CanCel shareholders," said David Helliwell, president of BCRIC. "We have engaged an independent valuation which supports $15 as a fair price for the CanCel shareholders.

"From BCRIC's standpoint, obtaining 100 per cent ownership of CanCel is consistent with our operating company objectives. It will complement our 100 per cent ownership of Kootenay Forest Products and Plateau Mills and enable us to undertake an effective rationalization and integration of these operations, particularly in terms of the available forest resource.