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WEBB & KNAPP (CANADA) LIMITED · 1978 REPORT

WEBB & KNAPP (CANADA) LIMITED

DIRECTORS

Edward R. Loftus
Charles B. Riley
Robert J. Dick

OFFICERS

Edward R. Loftus, President
Robert J. Dick, Vice-President, Treasurer
Margaret L. Munro, Secretary

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company - Vancouver,
Toronto, Montreal, Winnipeg and Halifax

AUDITORS

Deloitte, Haskins & Sells
Chartered Accountants
Vancouver, B.C.

STOCK EXCHANGE LISTINGS

Vancouver and Montreal

HEAD OFFICE

400 Guinness Tower
1055 West Hastings Street
Vancouver 1, B.C.

REPORT TO SHAREHOLDERS

Your Directors are pleased to present herewith the Consolidated Financial Statements for the year ending December 31, 1978.

The highlight of the 1978 year was an increase over 1977 of $121,000 generated by the Webb & Knapp group of companies.

The rental income divisions are proceeding according to the long range plans of management, and the various companies continue to hold large tracts of prime developable land in the Lower Mainland of British Columbia.

The vacancy rate in the numerous rental properties remains relatively insignificant, and it is anticipated that the construction of additional warehouse space will continue to create a stable foundation for the on going development of your Company.

Your Board of Directors wishes to express its sincere thanks to the management and employees of Northern Thunderbird Air Ltd. for their efforts and success in creating a major improvement in the affairs of this Company. The substantial loss of 1977, which was converted to a reasonable profit in 1978, contributes significantly to the on going profitability of your Company.

As it appears the economic prosperity of both Canada and the Province of British Columbia are on the increase, we look forward to continued expansion in the ensuing years.

Respectfully submitted,

E.K. Loftus

President

WEBB & KNAPP (CANADA) LIMITED

(Under the Canada Corporations Act)

AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of
Webb & Knapp (Canada) Limited:

We have examined the consolidated balance sheet of Webb & Knapp (Canada) Limited as at December 31, 1978 and the consolidated statements of income, deficit 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 company as at December 31, 1978 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 year.

Vancouver, B.C.
March 23, 1979

DELOITTE HASKINS & SELLS
Chartered Accountants

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1978
(with prior year's figures for comparison)

	1978	1977
ASSETS:		
Cash and term deposits	$ 21,713	$ 32,076
Accounts receivable and other (Note 2)	366,316	367,612
Inventories	164,874	145,271
Land held for future development (Note 3)	1,496,280	1,404,167
Revenue-producing properties (Note 4)	5,486,432	5,309,266
Aircraft (Note 4)	2,087,298	2,342,931
Other fixed assets (Note 4)	331,479	353,349
Deferred income taxes	52,575	33,372
Total assets	$10,006,967	$ 9,988,044
LIABILITIES:		
Bank loans (Note 5)	$ 625,000	$ 864,327
Accounts payable and accrued charges	352,341	543,772
Estimated income taxes payable (Note 6)	299,909	301,743
Long-term debt on (Notes 5 and 7):		
Revenue-producing properties	5,279,331	4,589,906
Aircraft	1,354,660	1,647,513
Undeveloped land	—	10,000
Advances from minority shareholder of subsidiary	6,398	6,398
Deferred income	90,580	91,679
Total liabilities	8,008,219	8,055,338
MINORITY INTEREST IN SUBSIDIARY'S PREFERRED SHARES	89,551	53,396
SHAREHOLDERS' EQUITY:		
Capital stock (Note 8):		
Preferred	1,000,000	1,000,000
Common	2,765,300	2,765,300
	3,765,300	3,765,300
Premium on issue of common shares	20,600	20,600
	3,785,900	3,785,900
Deficit	(1,876,703)	(1,906,590)
Net shareholders' equity	1,909,197	1,879,310

Approved by the Board:

EDWARD R. LOFTUS, Director

CHARLES B. RILEY, Director

	1978	1977
TOTAL	$10,006,967	$ 9,988,044

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1978
(with prior year's figures for comparison)

	1978	1977
BALANCE AT BEGINNING OF THE YEAR	$ 1,906,590	$ 1,215,411
NET INCOME (LOSS) FOR THE YEAR	29,887	(91,179)
	1,876,703	1,306,590
DIVIDEND PAID ON PREFERRED SHARES	—	600,000
BALANCE AT END OF THE YEAR	$ 1,876,703	$ 1,906,590

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978
(with prior year's figures for comparison)

	1978	1977
SOURCE OF FUNDS:		
From operations — representing net income or loss after adjusting for charges and credits for depreciation, deferred income taxes, unearned income, and minority interest which do not involve a flow of funds	$ 499,926	$ 178,901
From extraordinary income	28,198	3,097
Increase in bank loans:		
Construction	—	270,000
Operating	30,673	348,781
Increase in accounts payable and accrued charges	—	278,926
Increase in estimated income taxes payable	—	1,800
Increase in long-term debt for revenue-producing properties	775,000	—
Increase in long-term debt for aircraft	—	832,000
Increase in deferred income	—	30,000
Decrease in accounts receivable and other	1,296	—
Decrease in mortgage receivable	—	950,000
Decrease in inventories	—	42,167
Insurance and sale proceeds on aircraft (net of related income taxes)	93,850	905,780
Decrease in cash	10,363	29,184
	$ 1,439,306	$ 3,870,636
USE OF FUNDS:		
Increase in accounts receivable and other	$ —	$ 32,975
Increase in inventories	19,603	—
Additions to land held for future development	92,113	78,214
Additions to:		
Revenue-producing properties	314,006	778,159
Aircraft (including expenditures on engine overhaul)	153,326	1,906,082
Other fixed assets	8,565	16,300
Repayment of construction bank loan	270,000	—
Decrease in accounts payable and accrued charges	191,431	—
Decrease in estimated income taxes payable	1,834	—
Repayment of long-term debt	388,428	458,906
Dividend paid on preferred shares	—	600,000
	$ 1,439,306	$ 3,870,636

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1978
(with prior year's figures for comparison)

	1978	1977
REVENUE:		
Rental income	$ 1,089,568	$ 1,021,784
Airline revenues	2,364,721	1,999,853
Interest on agreements for sale and other	1,133	24,180
	3,455,422	3,045,817
COSTS AND EXPENSES:		
Direct operating before the undernoted:		
Rental operations	138,452	189,093
Airline operations	1,317,938	1,259,821
General and administrative:		
Rental operations	320,657	273,343
Airline operations	398,983	458,783
Interest on long-term debt:		
Rental operations	501,423	467,775
Airline operations	168,620	155,207
Other interest:		
Rental operations	44,128	9,251
Airline operations	40,446	44,613
Unpaid income taxes	16,723	10,397
Depreciation and amortization:		
Rental operations	146,194	134,867
Airline operations (including provision for engine overhaul)	380,885	334,751
	3,474,449	3,337,901
LOSS FROM OPERATIONS	(19,027)	(292,084)
GAIN (LOSS) ON AIRCRAFT DISPOSALS	35,178	(32,520)
INCOME (LOSS) BEFORE THE UNDERNOTED	16,151	(324,604)
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 6):		
Current	12,546	(6,500)
Deferred	15,259	(54,904)
	27,805	(61,404)
LOSS BEFORE MINORITY INTEREST AND EXTRAORDINARY INCOME	(11,654)	(263,200)
MINORITY INTEREST'S SHARE OF OPERATING INCOME (LOSS) OF A SUBSIDIARY	13,623	(72,889)
LOSS BEFORE EXTRAORDINARY INCOME	(25,277)	(190,311)
EXTRAORDINARY INCOME (Note 9)	55,164	99,132
NET INCOME (LOSS) FOR THE YEAR	$ 29,887	$ (91,179)
LOSS PER COMMON SHARE (Note 10):		
Loss before extraordinary income	$ .03	$ .09
Net loss for the year	$ .01	$ .05

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries, all of which are wholly-owned except for Northern Thunderbird Air (N.T. Air), of which the company owns 66% of the issued common shares and 71% of the issued preferred shares.

Inventories:

Inventories of aircraft parts and fuel are valued principally at first-in, first-out cost.

Land held for future development:

Land is recorded at its original cost plus property taxes ($142,173 and $105,300 in property taxes were capitalized in 1978 and 1977 respectively).

Revenue-producing properties:

All interim financing charges and the cost of supervisor's salaries incurred up to the date of structural completion of a project are capitalized as part of the cost of buildings ($14,381 and $27,726 were capitalized in 1978 and 1977 respectively).

Aircraft:

Used aircraft acquired which have a lapsed engine life are capitalized at original cost plus an estimate of the cost of engine overhaul.

Depreciation, amortization, and provision for engine overhaul:

Depreciation and amortization are provided principally on a straight-line basis at the rates shown in Note 4, except for construction in progress where no depreciation is provided until occupancy reaches the 50% level.

The Ministry of Transport regulations require that aircraft engines be overhauled within prescribed flying hour limits. A provision is made based on an estimated cost per hour. Actual expenditures made for overhaul are charged to the provision. The accumulated allowance is accounted for as a reduction of the carrying value of the aircraft.

Deferred income

Deferred income, which consists principally of prepaid rentals, is being credited to income on a straight-line basis over the terms of the leases.

Deferred income taxes:

Income taxes are accounted for using the tax-allocation basis, under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for income tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming capital cost allowance for income tax purposes in excess of depreciation charged in the financial statements.

2. ACCOUNTS RECEIVABLE AND OTHER:

	1978	1977
Accounts and notes receivable:		
Trade	$349,748	$335,825
Officers and directors	11,456	17,122
	361,204	352,947
Mortgages and notes receivable	3,840	13,393
Prepaid expenses and deposits	1,272	1,272
	$366,316	$367,612

3. RAILWAY LEAD TRACK:

Included in the balance sheet caption, land held for future development, is an amount of $132,682, representing construction costs of $329,852 for a railway lead track which are recoverable from a railway company, less refundable amounts of $197,170. The costs are recoverable at a rate based on usage of the track. Repayment of the refundable amounts shall commence once such amounts equal the balance of the recoverable costs and at a rate based on the greater of future usage of the track or the rate at which the funds were loaned to a subsidiary. This amount is non-interest-bearing.

4. REVENUE-PRODUCING PROPERTIES, AIRCRAFT, AND OTHER FIXED ASSETS:

	Depreciation and Amortization Rates	1978	1977
Revenue-producing properties:			
Land	—	$ 362,158	$ 362,158
Buildings (including construction in progress of $589,160 in 1977)	2½%	5,788,672	5,482,795
Total cost		6,150,830	5,844,953
Less accumulated depreciation		664,398	535,687
		5,486,432	5,309,266
Aircraft and related equipment:			
Total cost	10% or 80% of cost	2,851,975	2,872,093
Less accumulated depreciation and allowance for engine overhaul		764,677	529,162
		$2,087,298	$2,342,931
Other fixed assets:			
Land	—	$ 44,000	$ 44,000
Buildings	4%-10%	224,499	217,149
Ground radio equipment	20%-25%	63,270	63,270
Automotive equipment and trailers	10%-30%	64,189	64,189
Office and shop equipment	20%	38,578	37,363
Furniture and fixtures	20%	36,883	36,883
Railway lead track	6%	103,988	103,988
Leasehold improvements	20%	11,733	11,733
Total cost		587,140	578,575
Less accumulated depreciation and amortization		255,661	225,226
		$ 331,479	$ 353,349

5. PLEDGED ASSETS:

(a) The company and certain of its subsidiaries have made a general assignment of book debts as security for outstanding operating bank loans of $625,000.

In addition, a subsidiary has issued a debenture with a second floating charge on all of its other assets.

(b) Long-term debt (Note 7) is secured by:

	Carrying Value of Assets at December 31, 1978
Mortgages on revenue-producing properties — charges against respective revenue-producing properties	$5,389,276
Mortgages and loans on aircraft — mortgage on certain owned and leased properties, debentures, and chattel mortgages with a first fixed and second floating charge on aircraft and certain other assets	2,517,281

Certain subsidiaries have assigned, or have agreed to assign, the leases on certain revenue-producing properties as additional collateral for the mortgages payable.

6. INCOME TAXES:

During 1976 the Tax Review Board dismissed the appeal of notices of reassessment issued in 1975 by Revenue Canada to certain active subsidiaries in respect of their 1971 and certain other prior taxation years. On February 11, 1977 the subsidiaries filed Notices of Appeal with the Federal Court, which have not yet been heard. The subsidiaries have, however, provided for the estimated income tax liabilities resulting from these reassessments, together with interest thereon.

The liability at December 31, 1978 of $299,909 represents a subsidiary's unpaid balance of 1972 income taxes, including interest accrued thereon to December 31, 1978. This amount has not been paid pending the appeal referred to above. The subsidiary has furnished Revenue Canada with a bank letter of credit for the amount of income taxes and unpaid interest, if any, that will ultimately become payable.

The company has a tax loss carry-forward of $20,500 incurred during the year which expires in 1983. No recognition has been given in the accounts to the future potential income tax savings relative to this loss carry-forward.

Also, no recognition has been given in the accounts to a deferred income tax debit (representing a future potential income tax savings) relative to the excess of depreciation and provision for engine overhaul recorded in the accounts over the related amounts claimed for income tax purposes by N.T. Air, which excess amounts to approximately $277,000 at December 31, 1978.

7. LONG-TERM DEBT

	Maturing In	1978	1977
Mortgages on revenue-producing properties:			
9.0%	1993	$ 218,183	$ 225,217
9.5%	1995	360,140	369,472
9.5%	1999	2,035,146	2,065,912
10.5%	1996	377,680	385,181
10.5%	1994	775,000	—
11.0%	1990	1,513,182	1,544,124
		$5,279,331	$4,589,906
Mortgages and loans on aircraft:			
10.1%	1981	$ 292,078	$ 393,557
Prime bank rate (11.5% at December 31, 1978):			
Plus 1.75%	1981	181,317	242,211
Plus 2.0%	1984	693,792	781,655
Plus 2.5%	1982	187,473	230,090
		$1,354,660	$1,647,513
Agreement payable on undeveloped land:			
8.0%	1978	$ —	$ 10,000

In respect of certain mortgages a subsidiary is required to pay certain percentages of gross annual income ($11,095 and $10,472 were payable for 1978 and 1977).

The aggregate principal payments due in the next five years on long-term debt approximate:

1979 —	$419,000	1982 —	302,000
1980 —	472,000	1983 —	301,000
1981 —	380,000		

8. CAPITAL STOCK:

The authorized and outstanding capital stock of the company is as follows:

		1978	1977
Authorized:			
2,000,000	redeemable preferred shares of a par value of $5 each, issuable in one or more series		
10,000,000	common shares of a par value of $1 each		
Issued and fully paid:			
200,000	5% cumulative voting preferred shares, Series A, redeemable at 105% of the par value	$1,000,000	$1,000,000
2,765,300	common shares	2,765,300	2,765,300
		$3,765,300	$3,765,300

As at December 31, 1978, the arrears of dividends on the outstanding preferred shares amounted to $100,000 (1977 - $50,000).

9. EXTRAORDINARY INCOME:

Extraordinary income consists of the following:

	1978	1977
Wholly-owned subsidiaries:		
Realization of tax saving on applications of loss carry-forwards	$ —	$ 3,097
Partially-owned subsidiary:		
Excess of insurance proceeds over net book value of aircraft (net of current income taxes of $15,650 in 1978 and deferred income taxes of $63,364 in 1977)	15,036	135,261
Realization of tax saving an application of loss carry-forwards	28,196	—
Realization of unrecorded deferred income tax debit	34,464	—
	77,696	135,261
Less minority interest's share thereof	22,532	39,226
	55,164	96,035
	$ 55,164	$ 99,132

10. LOSS PER COMMON SHARE

The net loss per common share has been calculated after adjustment for $50,000, being the annual arrears of cumulative dividends on the outstanding preferred shares (Note 8).

11. LEASE COMMITEMENTS AND OPTIONS:

Commitments under long-term leases require the following approximate minimum annual payments:

Leases on revenue-producing properties:

1979 and 1980	—	$126,000
1981	—	103,000
1982 and 1983	—	97,000

Leases on office and other premises:

1979	—	$ 33,000
1980	—	24,000
1981 to 1983	—	12,000

Certain of the lease agreements contain renewal provisions for additional three-to-five year periods at rentals to be negotiated.

One of the leases on revenue-producing properties requires the payment of additional annual rentals based on a specified amount of rentals received ($17,855 and $18,288 were payable for 1978 and 1977 respectively).

A subsidiary has options to lease certain other premises in 1982 through to 1984 for periods up to ten years at aggregate annual rentals of $25,000. These option agreements provide that the subsidiary may sublet the premises and retain any rentals received in excess of the required rental payments.

12. OTHER CONTINGENT LIABILITIES:

(a) The company has guaranteed or is contingently liable for the performance of various obligations of another corporation of which the company was formerly a major shareholder. Consequent upon the sale in 1964 of the company's investment in the other corporation, that corporation and certain of its other major shareholders have agreed to indemnify the company against any such liability.

(b) There are certain claims in unspecified amounts pending against the airline subsidiary. Management is of the opinion that any liability arising from these claims will be adequately covered by its insurance policy.

(c) In 1973, an inactive subsidiary, which had no assets according to its December 31, 1971 audited financial statements, received notices of reassessment from Revenue Canada for the taxation years 1963 to 1969 inclusive whereby its reported taxable incomes were increased. Management disagrees with these reassessments and accordingly, no provision has been made in the accounts for a possible liability of approximately $105,700 (exclusive of interest thereon) for that company's 1979 taxation year.

13. REMUNERATION OF DIRECTORS AND OFFICERS:

The total remuneration of directors and officers, as defined in the Canada Corporations Act, for the year was as follows:

The company's three directors received no remuneration as directors of the company or its subsidiary companies.

The company's three officers received no remuneration as officers of the company.

The company's three officers received $87,623 as officers of a subsidiary company.

Two of the company's officers are also directors.

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