



Wardair International Ltd.
Annual Report 1980

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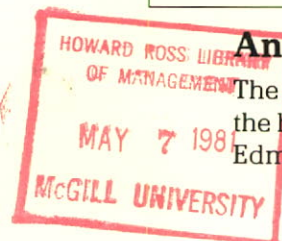
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Financial Highlights

	1980	1979
Revenue	\$301,359,000	\$215,678,000
Operating costs, before depreciation and amortization	241,246,000	186,219,000
Depreciation and amortization	18,381,000	17,113,000
Earnings from operations	41,732,000	12,346,000
Interest on long term debt	22,237,000	21,563,000
Gain on sale of aircraft and related equipment	2,230,000	5,432,000
Gain arising from changes in estimated useful lives of aircraft	—	1,368,000
Net earnings (loss) for the year	21,725,000	(2,417,000)
Operating margin	13.8%	5.7%
Return on average capital employed	17.4%	6.9%
Earnings (loss) per common share	\$6.55	\$(1.02)

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:00 p.m. (M.D.T.) on May 14, 1981 at the head office of Wardair International Ltd., 2201 Toronto Dominion Tower, Edmonton Centre, Edmonton, Alberta, T5J 0K4.



Wardair International Ltd.

BOARD OF DIRECTORS

Maxwell W. Ward

Chairman and President, Wardair International Ltd.

M. D. Ward

Secretary-Treasurer, Wardair International Ltd.

T. L. Spalding

Senior Vice-President, Wardair International Ltd.

W. T. Brown*

Chairman, Odium Brown and T. B. Read Ltd.

J. N. Hyland*

Corporate Director

G. D. Curley*

Vice-President, Operations, Wardair International Ltd.

*members of audit committee

OFFICERS AND SENIOR MANAGEMENT

Maxwell W. Ward, Chairman and President

T. L. Spalding, Senior Vice-President

G. D. Curley, Vice-President, Operations

M. D. Ward, Secretary-Treasurer

B. Walker, Vice-President, Sales and Marketing

D. W. Rouse, Executive Assistant to the President

B. R. Corbett, Director, Industrial Relations

T. S. Currie, Director, Financial Operations

R. N. Driscoll, Director, Tax Planning and Benefit Plans

J. R. Kidner, Director, Internal Audit

P. D. Ingham, Director, Purchasing

E. Lysyk, Director, Corporate Security and Safety

N. J. Parsons, Director, Financial Planning and Forecasting

J. L. Shaffer, Director, Customer Relations and Consumer Affairs

I. C. Wilkie, Director, Legal Services

CORPORATE INFORMATION

Head Office: 2201 Toronto Dominion Tower, Edmonton Centre,
Edmonton, Alberta, T5J 0K4

Shares Listed: Toronto Stock Exchange
Vancouver Stock Exchange

Auditors: Thorne Riddell
Edmonton, Alberta

Trustee: Montreal Trust Company

Registrar and Transfer Agent: Montreal Trust Company
Edmonton, Toronto and Vancouver

Principal Bankers: Canadian Imperial Bank of Commerce
Toronto-Dominion Bank

*The New Wardair Hangar
Toronto International Airport*



ardair

Wardair
Canada

C-FFUN

BOEING 747

To Our Shareholders and Employees

Nineteen Eighty was an excellent year for Wardair. Consolidated revenues reached \$301,359,000, an increase of 40% over 1979 while expenses increased 28% to \$259,627,000. Earnings from operations for the year were \$41,732,000.

After debt service, the profit from operations was \$19,495,000 and, including a one-time gain of \$2,230,000 realized on the sale of assets, 1980 net earnings totalled \$21,725,000.

Much of 1980's improved financial results can be attributed to broader government operating authority which gave Wardair greater access to the air travel market. The Canadian Transport Commission expanded our charter operating authority in late 1979 to the full extent that they could within their terms of reference. In February of 1980 the then Minister of Transport further expanded our operating authority, registering political recognition of our existence and our plight.

In the late Seventies, charter air fare increases failed to keep pace with the escalation of airline costs, particularly fuel prices and airport user charges. In order to correct this situation, charter air fares had to be substantially increased in 1980.

Certainly, these fare increases discouraged some Canadian passengers from travelling to Europe and the U.K. On the other hand, Canada was a good tourist buy for traffic originating in the U.K. and Europe as the pound sterling, the German mark, the Dutch guilder and the French franc remained strong in comparison to the Canadian dollar. As a result, the flow of North Atlantic traffic in 1980 was reversed from that of previous years and overall load factors remained good.

Passenger loads to the Caribbean, Mexico, Florida and Hawaii also held up well in 1980.

In addition, supplemental flying added approximately \$22,000,000 to our 1980 revenues. During the period from January to October, we operated a major refugee uplift program carrying 17,000 passengers from Kuala Lumpur, Malaysia, Bangkok,

Thailand and Hong Kong to Edmonton and Montreal. We also flew a series of Hadj pilgrimage flights from Libya to Saudi Arabia during the Mohammedan holy season in the fall of 1980.

All in all, 1980 was a record year in revenue passenger miles flown, number of passengers carried, and in revenues and profit achieved by the Wardair group of companies. Elsewhere in this report there are comments and statistical data relating to all phases of our operations.

We were not able to expand Domestic services in keeping with our expanded operating authority during 1980 to the extent we would have liked because of fleet restrictions. Specific commercial aircraft are designed to efficiently serve specific routes. Wardair's current fleet was purchased to serve long-range International routes; thus even with high load factors, they are considerably less efficient on medium-range routes than the aircraft our competitors are employing or plan to employ.

In order to serve medium-range routes, we must introduce another type of aircraft into our fleet and to achieve this we have ordered six A310-200 Airbus aircraft. Our A310 aircraft will have two General Electric CF6-80A3 engines generating 48,000 pounds thrust each as compared to the four 52,500 pound thrust engines on a Boeing 747 or three 52,500 pound thrust engines on a Douglas DC10.

The Airbus Industrie A310 is a next generation aircraft and a scaled-down more efficient version of the currently well known Airbus A300 commonly seen in European skies and also operated by Eastern Airlines in the U.S.A. The A310 aircraft will produce a lower seat mile operating cost with 222 seats than will the A300 with 265 seats.

The A310 is assembled in Toulouse, France. It will be certified and introduced into airline service in March 1983. Delivery of Wardair's six aircraft will commence with one a month in October and November of 1983, a further two in October and November 1984 and finally two in the spring of 1985.

In addition to the firm deliveries, we have delivery options available for six additional Airbus aircraft commencing in 1986.

The intent of the medium-range aircraft purchase is to expand our operations on trans-border, Caribbean and Mexican routes and in particular to expand into Canadian Domestic trunk (east/west) routes on a scheduled basis.

The Canadian air transportation industry has evolved to the point where the concept of "charter" is obsolete.

During the past three years, the scheduled carriers have made massive inroads into "charter type" air service with "Charter Class" and other promotional fares being offered on scheduled flights. This has provided the low airfare traveller with a better choice of departure and return dates, and low frequency charter service has become uncompetitive. Wardair must offer the travelling public scheduled flight frequency in order to compete. In many respects, the Company has switched from the role of a "charter" air carrier to that of a "scheduled" carrier. We think the consumer has benefited greatly from these developments.

One major disadvantage to the Company has resulted. Unlike the scheduled carriers, we are not free to augment our charter fare levels with scheduled types of fares, nor can we offer the flexibility of the scheduled carriers within the confines of the current charter regulations.

The only real solution, as we see it, is to obtain authorization to operate scheduled as well as charter flights. Accordingly, we are asking the Federal Government to recognize that the original role of charter carriers has largely disappeared and are requesting the Government to license Wardair as Canada's third International and Domestic scheduled air carrier.

On behalf of the Board of Directors, I want to express our appreciation to our 2400 employees for their loyal and dedicated service, and to our customers and shareholders for their continued support.



Maxwell W. Ward

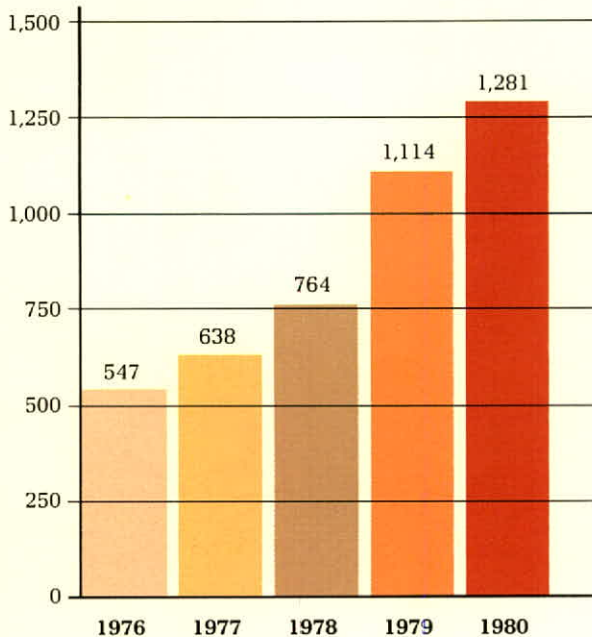
Maxwell W. Ward
Chairman and President

April 28, 1981

Review of Operations

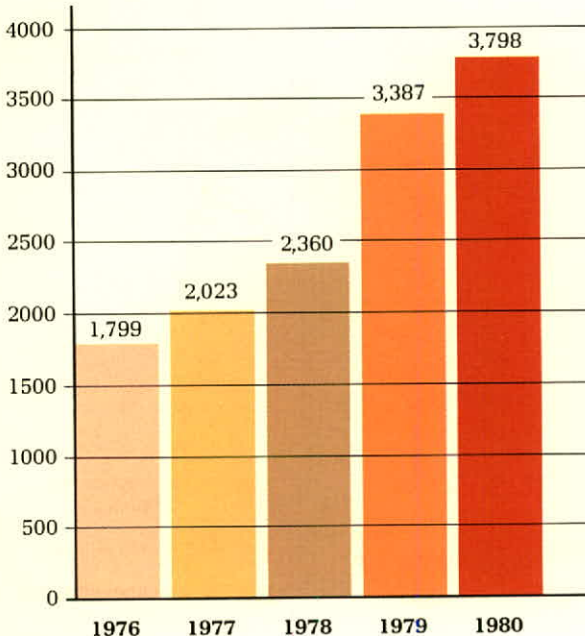
Passengers Carried

Thousands



Revenue Passenger Miles

Millions of Miles



SALES AND MARKETING

During the Seventies, Wardair's fleet grew to its present size of six wide-bodied aircraft. With no new aircraft to accommodate, 1980 was a year for improving load factors and, at the same time, increasing yields. These objectives were readily accomplished. While meeting the objectives of improved load factors and increased yields, the company also managed to increase its market penetration to the main areas served—Hawaii, Florida, Britain, Europe and the Caribbean.

In 1980, the results in each quarter showed a significant improvement over the corresponding period a year earlier. Even in the fourth quarter, in which a loss traditionally occurs, the operating loss was substantially reduced from the previous year, principally as a result of higher aircraft utilization and increased revenues.

Generally, the year as a whole was characterized as one in which the capacity on offer matched demand. As a positive consequence, costly price wars were avoided. Prices, particularly on sunspot flying, increased substantially in 1980 bringing seat yields closer to our objectives. This was encouraging, as for many years revenues to sunspot destinations have not produced significant operating profits. The company anticipates that as the cost of transportation increases the popularity of destinations closer to home will grow. The company's fleet expansion plans have been made so that we are suitably prepared to respond to these changing market conditions.

The marketing of Canada as a holiday destination in Britain and Europe significantly contributed to passenger revenues in 1980. Since the Canadian dollar continued to be depressed against European currencies, Canada stood out as a bargain in the British, German, French and Dutch markets. More than half of all North Atlantic passengers carried in 1980 originated in Britain and Europe. Aggressive contracting and promotional campaigns provided Wardair with a significant share of these markets.

One additional company objective for 1980 was to establish Wardair as a year-round operator to all the major destinations served. This was achieved by increased flying to Hawaii and Florida in the second and third quarters and the introduction of flights on the North Atlantic in the fourth quarter.

Two major supplemental contracts were undertaken by Wardair in 1980 which contributed positively to the overall results. One was signed with the Canadian government to bring refugees from various points in Asia to Canada. This flying commenced in January and operated on a weekly basis until October. Wardair also participated in the 1980 Hajj by flying 14,000 Moslems between Tripoli in Libya and Jeddah in Saudi Arabia over an eight-week period commencing in mid-September.

Changes to the regulations governing charter carriers in Canada permitted Wardair's entry into the domestic market in May, 1980. Although Wardair's domestic service achieved encouraging load factors in its first year of operation, yields, as expected, were low. Fare levels for domestic charter flights were set below normal charter levels in order to compete with the

scheduled carriers who made available a limited portion of their scheduled seat inventory at extremely low rates. It is believed this situation will change in the future and that the domestic market will grow in importance. The company will continue to expand its domestic programs.

While the regulatory environment is becoming less restrictive, there is still room for improvement. The regulations still deny Wardair an important element of the domestic market—the business traveller. In order to fairly compete in the marketplace for these passengers, the elimination of the minimum stay requirement, which now prohibits Wardair passengers from making their return prior to the first Sunday following their departure, is needed. Also, Wardair must have the authority to sell one-way tickets.

CARGO

In 1980, a Cargo department became operational to take advantage of changes to the Canadian Air Carrier Regulations which now allow charter carriers to carry cargo on aircraft engaged in passenger flights.

Results have been most encouraging. To date, Wardair has carried a wide variety of products such as pineapples and other produce from Hawaii to Canada, and hatching eggs and electronic components from Canada to the Caribbean.

Unfortunately, not all foreign governments have accepted the Canadian regulations. Consequently, Wardair is still unable to carry cargo on North Atlantic routes between Canada and the United Kingdom or Europe.

In time, we expect the regulatory environment will become more accommodating and the carriage of cargo will become a major source of revenue for the Company.

OTHER OPERATIONS

Redrock Reinsurance Limited, a Bermuda company, is a wholly-owned subsidiary of Wardair Canada (1975) Ltd. managed by Insurance Managers Ltd. of Bermuda. The company reinsures various forms of passenger cancellation insurance and baggage liability coverage written by primary underwriters in Canada and the United Kingdom. In 1980, premium volume increased while loss ratios were favourable and sound operating results were achieved.

Wardair Hawaii, Limited is engaged in rental pool management of condominium units in Hawaii. Approximately 200 rental units are managed in the Waikiki Banyan in Honolulu, including 33 units owned by Wardair Hawaii, Limited. A small loss was incurred in 1980, the first full year of operation, but we believe the long-term outlook is positive.

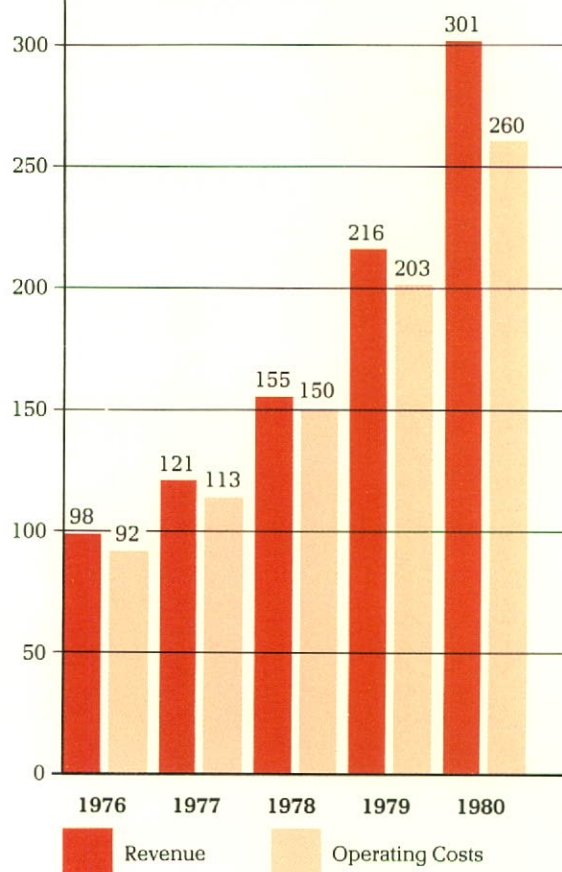
PERSONNEL AND INDUSTRIAL RELATIONS

At December 31, 1980, 2,350 employees were on staff within the Company. Through their friendliness and efficiency, these employees have played a vital role in providing passengers with one of the highest levels of service available in the airline industry today.

Within an environment of ever-increasing operating costs, inflationary pressures and competition, the spirit of consultation and cooperation between employees, unions and management will be of utmost importance in responding to future challenges.

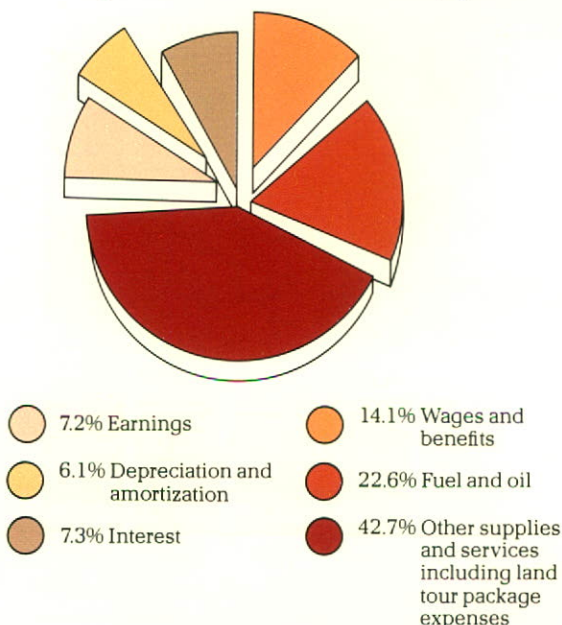
Revenue and Operating Costs

Millions of Dollars



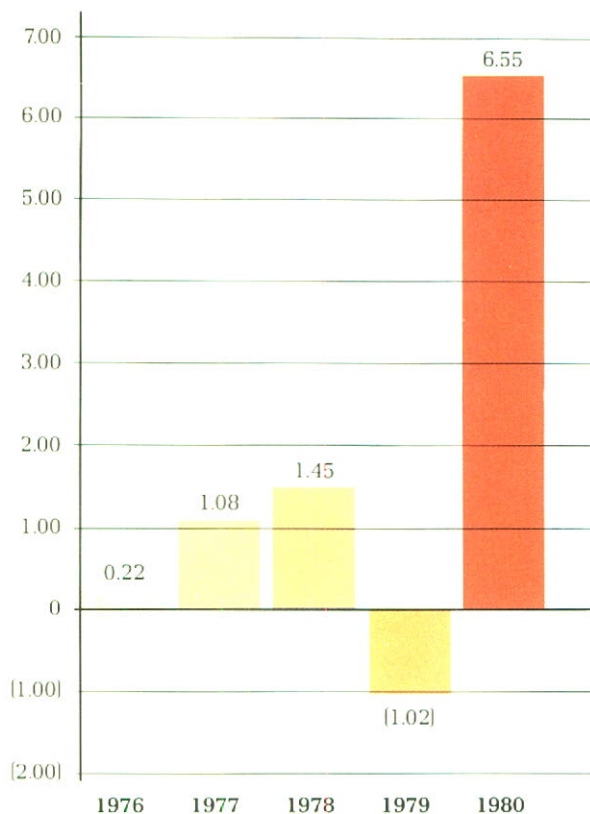
Distribution of 1980 Revenue

(includes gain on sale of aircraft and related equipment)



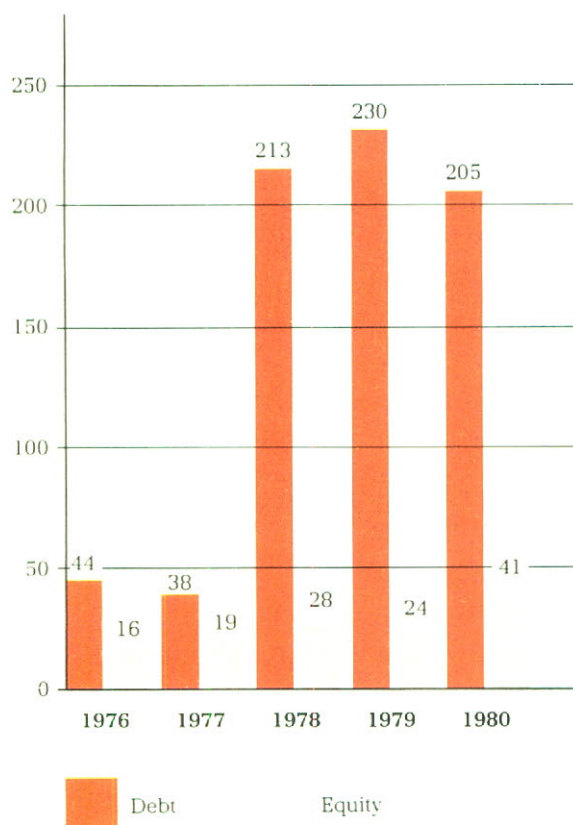
Earnings/(Loss) per common share

In Dollars



Capital Invested

Millions of Dollars



In 1980, the Company entered into the following agreements with representatives of various groups of employees:

- On July 1, 1980, Wardair Canada (1975) Ltd. entered into a two-year agreement ending June 30, 1982 with the Canadian Airline Supervisors and Inspection Association (CASIA) representing certain employees in the Maintenance, Engineering and Ramp Services Departments.
- A two-year agreement with the Canadian Association of Passenger Agents (CAPA), which represents the agents at various airports in Canada, was reached effective September 1, 1980.
- The Canada Labour Relations Board certified the International Association of Machinists and Aerospace Workers (IAM) as the bargaining unit for certain employees in the Operations Control Department. A one-year agreement was reached effective July 1, 1980 between the IAM and Wardair Canada (1975) Ltd.
- Effective July 1, 1980 the company, in consultation with representatives of certain non-union clerical and accounting staff of International Vacations Ltd., Wardair Canada (1975) Ltd. and Wardair International Ltd., agreed to the implementation of a retroactive wage adjustment.

The Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees (BRAC) applied to the Labour Relations Board in the Province of B.C. to represent certain employees of the Vancouver office of International Vacations Ltd. Certification was granted on January 12, 1981. The parties are currently in the process of negotiating a collective agreement.

An application by the International Association of Machinists and Aerospace Workers (IAM) to represent certain employees in the Toronto Reservations Department of International Vacations Ltd. is currently before the Ontario Labour Relations Board.

A collective agreement between Wardair Canada (1975) Ltd. and the Canadian Airline Flight Attendants Association (CALFAA) expired on March 31, 1981. Negotiations for a new agreement commenced in February, 1981.

The collective agreement between Wardair Canada (1975) Ltd. and the International Association of Machinists and Aerospace Workers (IAM) representing certain employees in the Maintenance, Engineering, Ramp Services, Commissary and Crew Scheduling Departments expires June 30, 1981. Negotiations for a new collective agreement are scheduled to commence in April, 1981.

FACILITIES

By 1980 it was evident that the continued growth of operations in Eastern Canada necessitated an expansion in the Company's hangar, shop and office facilities in the Toronto area to complement existing hangar and office facilities in Western Canada.

The acquisition of hangar space, to replace rented facilities, became a matter of the highest priority. To this end, construction began in the late spring of 1980 at the Toronto International Airport on a company-owned hangar capable of holding two B747's along with one smaller aircraft. Ready in late 1980, the hangar is 85 metres wide and 153 metres long—the largest rigid frame hangar in North America.

In addition to the hangar, an adjoining shop annex and an office building are planned. On completion of these structures in the spring of 1982, all Toronto operations will be housed in the same complex. The total cost of these facilities will be approximately \$27 million.

Outlook

To meet future equipment requirements, Wardair recently ordered six wide-bodied A310-200 aircraft powered by General Electric engines and took options on six more aircraft with the manufacturer, Airbus Industrie. Airbus Industrie, the world's second largest manufacturer of wide-bodied aircraft, is composed of a consortium of Europe's leading aerospace companies. Deliveries of the firmly-ordered aircraft are scheduled at two a year in the years 1983, 1984 and 1985. This will double the fleet size to twelve aircraft from the present level of four B747's and two DC10-30's.

The decision to purchase this equipment resulted from the Company's desire to continue to provide comfortable and efficient service to the travelling public at economical prices. These new medium-range aircraft are ideally suited to serving domestic flights within Canada and expanding and opening up destinations in the continental U.S.A., Central America and the Caribbean.

While the A310 is capable of seating 255 passengers, the configuration chosen by Wardair will seat 222 passengers, with no passenger further than one seat away from an aisle.

One of the most technically advanced aircraft coming into production, the twin-engined A310 offers extremely good fuel efficiency—an important factor in view of the increasing impact of fuel expense on airline operating costs today.

A total investment of approximately \$500 million is required to purchase the six ordered aircraft and associated parts and equipment. Favourable financing is presently being arranged at a blended interest rate which is substantially lower than existing commercial rates.

The Company is also actively searching for several long-range wide-bodied aircraft to meet present market demands.

This new equipment should satisfy our needs for the foreseeable future and allow us to even better serve the travelling public.



Airbus A310-200

Wardair International Ltd. Consolidated Financial Statements

Auditors' Report

To the Shareholders of Wardair International Ltd.

We have examined the consolidated balance sheet of Wardair International Ltd. as at December 31, 1980 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.

As discussed in note 7, the company's policy is to provide only for income taxes payable for the year whereas generally accepted accounting principles require that the provision for income taxes should be based on reported earnings.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 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, except for the change with which we concur in the method of accounting for the expected cost of scheduled overhauls as described in note 2, on a basis consistent with that of the preceding year.

Edmonton, Canada
February 16, 1981

Chartered Accountants

Consolidated Balance Sheet

As at December 31, 1980

(In thousands of dollars)

ASSETS

Current Assets

Cash and short term investments (note 3)	\$ 79,379	\$ 46,273
Accounts receivable	5,042	2,807
Inventories	7,784	6,586
Prepaid expenses and sundry deposits	3,714	3,845
	<u>95,919</u>	<u>59,511</u>

Property and Equipment

Flight equipment	268,031	270,926
Land, buildings and ground equipment	35,806	18,413
	<u>303,837</u>	<u>289,339</u>
Less accumulated depreciation	54,946	38,041
	<u>248,891</u>	<u>251,298</u>

Deferred Charges (note 4)	2,076	2,523
	<u>\$346,886</u>	<u>\$313,332</u>

LIABILITIES

Current Liabilities

Bank indebtedness	\$ 4,126	\$ -
Accounts payable and accrued liabilities	27,162	20,267
Dividends payable	180	216
Charter prepayments	62,124	39,243
Principal due within one year on long term debt	28,418	28,080
	<u>122,010</u>	<u>87,806</u>

Long Term Debt (note 5)	176,296	201,573
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Provision for Scheduled Overhauls	8,055	-
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Preference Shares of Subsidiary Company	-	4,670
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SHAREHOLDERS' EQUITY

Capital Stock

AUTHORIZED

300,000 12% cumulative redeemable non-voting
convertible preferred shares of \$10.00 each, par value
5,000,000 common shares without par value

ISSUED

150,000 preferred shares (1979-180,000) (note 6)	1,500	1,800
3,287,570 common shares	1,059	1,059
Purchase Fund for Redemption of Preferred Shares (note 6)	300	300
Retained Earnings (notes 6 and 7)	37,666	16,124
	<u>40,525</u>	<u>19,283</u>
	<u>\$346,886</u>	<u>\$313,332</u>

Approved by the Board:



Director



Director

Consolidated Statement of Earnings

Year Ended December 31, 1980	(In thousands of dollars)	1980	1979
REVENUE		\$301,359	\$215,678
EXPENSES			
Operating		187,300	145,624
Marketing and administration		53,946	40,595
Depreciation		17,873	16,653
Amortization of deferred charges		508	460
		259,627	203,332
EARNINGS FROM OPERATIONS		41,732	12,346
Interest on long term debt (note 5)		22,237	21,563
		19,495	(9,217)
Gain on sale of aircraft and related equipment.		2,230	5,432
		21,725	(3,785)
Adjustment arising from changes in the estimated useful lives of jet aircraft and related equipment.		—	1,368
NET EARNINGS (LOSS) (notes 2 and 7)		\$ 21,725	\$ (2,417)
EARNINGS (LOSS) PER COMMON SHARE (notes 2 and 7)			
After preferred share dividends		\$ 6.55	\$ (1.02)
Fully diluted earnings per common share assuming conversion of preferred shares		\$ 5.74	\$ (1.02)

Consolidated Statement of Retained Earnings

Year Ended December 31, 1980	(In thousands of dollars)	1980	1979
BALANCE AT BEGINNING OF YEAR		\$ 16,124	\$ 19,469
NET EARNINGS (LOSS)		21,725	(2,417)
		37,849	17,052
DIVIDENDS			
Preferred shares		180	216
Preference shares of subsidiary company		3	712
		183	928
BALANCE AT END OF YEAR		\$ 37,666	\$ 16,124

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1980

(In thousands of dollars)

WORKING CAPITAL DERIVED FROM

Operations.....	\$ 45,931	\$ 7,896
Proceeds from sale of property and equipment.....	7,383	11,106
Increase in long term debt.....	3,016	34,201
Issue of preference shares of subsidiary company.....	—	5,289
	<u>56,330</u>	<u>58,492</u>

WORKING CAPITAL APPLIED TO

Additions to property and equipment.....	20,619	39,301
Reduction of long term debt.....	28,293	28,812
Deferred charges incurred, net of recoveries.....	61	557
Dividends.....	183	928
Redemption of preferred shares.....	300	300
Repurchase of preference shares of subsidiary company.....	4,670	5,330
	<u>54,126</u>	<u>75,228</u>

INCREASE (DECREASE) IN WORKING CAPITAL POSITION.....

2,204 (16,736)

WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR.....

28,295 11,559

WORKING CAPITAL DEFICIENCY AT END OF YEAR.....

\$ 26,091 \$ 28,295

Notes to Consolidated Financial Statements Year Ended December 31, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned.

Translation of Foreign Currencies

Amounts in foreign currencies are translated to Canadian dollars on the following basis:

- current assets and current liabilities at exchange rates in effect at the balance sheet date except principal due within one year on long term debt
- property and equipment at exchange rates in effect at the dates of acquisition
- long term debt at exchange rates in effect at the dates incurred
- revenues and expenses at the average annual rate of exchange.

Gains and losses resulting from foreign exchange transactions are reflected in earnings for the year.

Inventories

Inventories are valued at the lower of cost, replacement cost or estimated realizable value.

Property and Equipment

Property and equipment is stated at cost. Significant expenditures for modifications are capitalized. Upon retirement or disposal of equipment, the related cost and accumulated depreciation are removed from the accounts and the gain or loss, if any, is reflected in earnings.

Depreciation is computed by the straight-line method:

- jet aircraft and related equipment—over sixteen years to 10% residual value
- other equipment and property—at various rates over the estimated useful life of the asset.

Deferred Charges

Deferred charges are amortized on the straight-line method:

- financing costs over the term of the debt
- training, telephone system and reservation system costs over ten years
- condominium development costs over three years.

Capitalized Interest

Interest, based on the average rate for long term debt outstanding, is capitalized on expenditures related to the acquisition of property and equipment before those assets enter regular service.

Comparative Figures

Certain comparative figures for 1979 have been reclassified to conform with the presentation used in the current year.

2. CHANGE IN ACCOUNTING PRACTICE

In 1980, the Company adopted the policy of accruing the expected cost of scheduled overhauls to airframes and aircraft engines acquired after 1977. Amounts have been accrued on the basis of hours flown to December 31, 1980 and the costs when incurred will be charged to the provision.

As a result of this change, which has not been applied retroactively, net earnings for 1980 have been reduced by \$8,055,000 (\$2.45 per share, \$2.12 on a fully diluted basis).

3. CASH AND SHORT TERM INVESTMENTS

Short term investments includes \$58,735,000 set aside as segregated securities, to meet charter prepayment obligations.

4. DEFERRED CHARGES

(In thousands of dollars)	1980	1979
Financing costs	\$1,507	\$1,780
Training expenses	259	333
Telephone system costs	166	185
Condominium development costs	104	138
Reservation system costs	40	—
Inclusive tour development	—	87
	<u>\$2,076</u>	<u>\$2,523</u>

5. LONG TERM DEBT

(In thousands of dollars)

	1980	1979
(a) Under the terms of a Trust Indenture, the Series A, B, C and D Secured Income Debentures, due November 30, 1987, may be converted into secured debentures at the option of the Company or the holders, upon the occurrence of certain prescribed events. Series A, B and C are repayable in U.S. funds and Series D in Canadian funds. The Company is required to redeem specified amounts of the debentures on May 31 and November 30 in each year. Interest is payable at 52% of the lending institution's base interest rate plus 1.5% for the U.S. funds and 52% of the bank prime rate plus 1.5% for Canadian funds. The Company's obligations under the income debentures and Trust Indenture are secured by a specific mortgage upon certain property and by a floating charge upon all other property and assets of the Company, and have been further secured by limited guarantees of manufacturers and government agencies.		
(i) SERIES A Secured by two McDonnell Douglas DC-10 series 30 aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment.	\$ 84,334	\$ 94,141
(ii) SERIES B Secured by two Boeing Model B747 series 211B aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment.	90,848	101,450
(iii) SERIES C Secured by six General Electric Model CF6-50 series engines and auxiliary equipment.	6,429	7,159
(iv) SERIES D Secured by ground support, tooling and commissary equipment, one Univac Model 1100/80 computer and auxiliary equipment, and steel buildings.	6,340	7,080
	187,951	209,830
Less undrawn amounts held by Trustee.	2,663	3,979
	185,288	205,851
(b) Conditional Purchase Agreements with interest at 8-12.65%, due April, 1983; \$5,907,000 is payable in U.S. funds. Secured by one Boeing 747 and auxiliary equipment.	9,525	12,814
(c) Secured Note Purchase Agreement, due November, 1983, with interest at 2.25% above prime lending rate. Secured by one Boeing 747 and auxiliary equipment.	2,120	2,915
(d) 8% Term loan, due November, 1982, payable in U.S. funds to Export-Import Bank of the United States. This loan is guaranteed by a commercial bank for a fee of 2.25% of a portion of the loan and 1.0% of the remainder.	5,619	7,493
(e) Bank term loans, with interest at 1.5% above bank prime rate, final instalment due November, 1983. Secured by a chattel mortgage on specific aircraft and engines and general assignment of accounts receivable.	414	566
(f) 11% mortgage loan due January, 2005, payable in U.S. dollars. Secured by condominium units in Hawaii.	1,736	-
(g) Miscellaneous mortgages.	12	14
	204,714	229,653
Less principal due within one year.	28,418	28,080
	\$176,296	\$201,573

The debt agreements contain certain restrictions as to the creation of additional debt, the creation of additional liens and guarantees, the payment of cash dividends and the amounts of loans to officers and employees. In addition, certain debt agreements include covenants by the Company with respect to maintenance of working capital, debt-equity ratios, capital expenditures, investments, sale of assets and issue of shares.

Principal due on existing long term debt in each of the years 1982 to 1985 is \$28,733,000, \$26,534,000 and \$28,126,000, and \$34,247,000, respectively, expressed in Canadian funds at historical rates.

Long term debt outstanding and repayable in U.S. dollars translated at current rates at December 31, 1980 would be \$203,168,000 which is \$8,291,000 more than the amount at which it is recorded in the financial statements.

Interest on long term debt includes interest on secured income debentures in the amount of \$20,088,000 which is not deductible for income tax purposes.

6. PREFERRED SHARES

Each preferred share is convertible, at the option of the holder, into 3½ fully paid common shares and is redeemable at par value or under certain prescribed conditions at \$11 per share.

In accordance with these provisions, the Company redeemed 30,000 preferred shares during the year under review.

Annually, prior to December 31, the Company is required to appropriate \$300,000 of its retained earnings as a Purchase Fund for Redemption of Preferred Shares, which appropriation is returned to retained earnings subsequent to the redemption of a related number of preferred shares. At December 31, 1980, the Purchase Fund totalled \$300,000.

In addition, on the redemption of each 30,000 preferred shares the Company is required to designate \$300,000 of its retained earnings as a Capital Redemption Reserve Fund as defined in the Alberta Companies Act. At December 31, 1980, a total of \$1,500,000 of retained earnings is so designated and is not available for dividends.

7. INCOME TAXES

The Company and its subsidiaries claim capital cost allowances and other deductions allowed for income tax purposes in excess of the related amounts reflected in the accounts and provide in their accounts only for the taxes payable for the year. This

accounting treatment differs from the tax allocation basis which requires that the income tax provision be based on earnings reported in the accounts.

If the tax allocation basis had been followed in current and prior years, the net earnings for 1980 would have decreased by \$18,241,000 and the loss for 1979 increased by \$6,818,000. Reported net earnings (loss) per common share would have been \$1.00 for 1980 (\$0.92 on a fully diluted basis) and (\$3.09) for 1979. The cumulative effect on retained earnings to December 31, 1980 would have been a reduction of \$38,460,000.

The Canadian Institute of Chartered Accountants recommends the tax allocation basis for all but certain regulated corporations. Management does not concur that this principle is appropriate for the Company. The capital cost allowance on flight equipment is substantially in excess of the depreciation recorded in the accounts and accordingly the payment of income taxes is deferred into the future.

8. COMMITMENTS

a) Leases

The Company has obligations under long term leases for computer equipment, office and airport facilities. The minimum aggregate rentals under these leases amount to approximately \$22,000,000 of which payments required in each of the next five years are approximately: 1981—\$3,107,000; 1982—\$2,702,000; 1983—\$2,625,000; 1984—\$2,552,000; 1985—\$1,398,000.

b) Forward Exchange Contracts

The Company has contracted to acquire \$31,508,000 U.S. between May and October 1981 with pounds sterling, equivalent to \$37,253,000 Canadian. The value of these contracts at the prevailing exchange rates on December 31, 1980 was \$37,495,000 Canadian.

9. SEGMENTED INFORMATION

The Company considers its international air charter passenger service operations to be the dominant segment of its business.

Revenue from sales originating in foreign countries approximated \$64,000,000 in 1980.

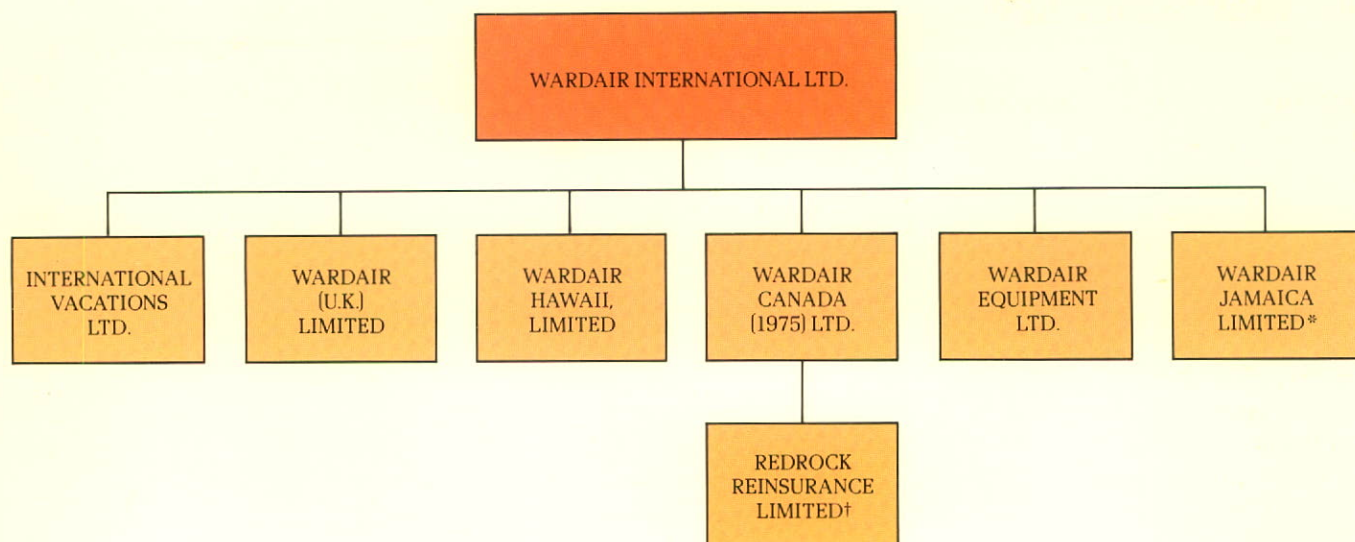
10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of the directors and senior officers of the Company, as defined in the Alberta Companies Act, amounted to \$594,000.

Five Year Summary

FINANCIAL (In thousands of dollars)	1980	1979	1978*	1977*	1976*
Revenue	\$301,359	\$215,678	\$155,410	\$121,066	\$ 97,685
Operating costs	259,627	203,332	149,978	113,308	91,889
Earnings from operations	41,732	12,346	5,432	7,758	5,796
Interest on long term debt	22,237	21,563	11,456	3,924	4,759
(Gain) on sale of aircraft and related equipment	(2,230)	(5,432)	(11,433)	-	-
(Gain) arising from changes in estimated useful lives of aircraft ...	-	(1,368)	-	-	-
Net earnings (loss)	21,725	(2,417)	5,409	3,834	1,037
Dividends					
Preference shares of subsidiary company	3	712	383	-	-
12% preferred	180	216	252	288	324
Common	-	-	197	197	197
	183	928	832	485	521
Increase (decrease) in retained earnings	\$ 21,542	\$ (3,345)	\$ 4,577	\$ 3,349	\$ 516
Long term debt	\$204,714	\$229,653	\$213,401	\$ 38,251	\$ 44,434
Preference shares of subsidiary company	-	4,670	4,711	-	-
Shareholders' equity	40,525	19,283	22,928	18,651	15,602
Invested capital	\$245,239	\$253,606	\$241,040	\$ 56,902	\$ 60,036
Depreciation and amortization	\$ 18,381	\$ 17,113	\$ 9,293	\$ 5,820	\$ 5,279
Cash flow provided by operations	\$ 45,931	\$ 7,896	\$ 3,269	\$ 9,654	\$ 6,316
Additions to property and equipment	\$ 20,619	\$ 39,301	\$190,940	\$ 5,320	\$ 3,662
Reduction of long term debt	\$ 28,293	\$ 28,812	\$ 18,524	\$ 6,327	\$ 6,129
Operating margin	13.8%	5.7%	3.5%	6.4%	5.9%
Return on average capital employed	17.4%	6.9%	9.5%	12.8%	9.0%
Debt-equity ratio	5.1	9.6	7.7	2.1	2.8
Price-earnings ratio	1.9	(loss)	3.2	3.0	10.4
Per common share data (in dollars)					
Earnings (loss)	\$6.55	\$(1.02)	\$1.45	\$1.08	\$.22
Dividends	-	-	.06	.06	.06
Book value	11.87	5.32	6.34	4.94	3.92
OPERATING					
Passengers carried	1,280,948	1,114,173	764,307	637,674	547,149
Revenue passenger miles (000's)	3,797,932	3,386,818	2,359,672	2,022,889	1,798,700
Aircraft miles (000's)	12,254	11,249	9,602	8,265	7,991
Aircraft hours	25,820	23,706	19,860	16,959	16,165
PERSONNEL					
Average number of employees	2,202	2,021	1,652	1,410	1,384
Employee wage and benefits (000's)	\$ 42,764	\$ 34,052	\$ 25,307	\$ 20,630	\$ 17,810
COMMON SHARE INFORMATION					
Shares issued	3,287,570	3,287,570	3,287,570	3,287,570	3,287,570
Shares held by Canadian residents	99.59%	99.59%	99.45%	99.53%	99.47%
Total number of shareholders	1,376	1,565	1,620	1,476	1,462
Shareholders resident in Canada	97.60%	97.89%	97.96%	98.10%	98.29%

*Does not reflect adjustment made in 1979 arising from changes in estimated useful lives of aircraft.



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