C

1989 ANNUAL REPORT

GREYHOUND LINES OF CANADA LTD.

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Greyhound Lines of Canada Ltd. will be held at 10:00 am on Friday, May 4, 1990, at the Westin Hotel, Mayfair Room, 320 - 4th Avenue S.W., Calgary, Alberta.

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The Greyhound hot air balloon, featured on the front cover of this report and pictured here at the Abbotsford Air Show in British Columbia, made many promotional appearances at fairs and exhibitions as well as at Greyhound terminal locations during 1989.

CORPORATE PROFILE

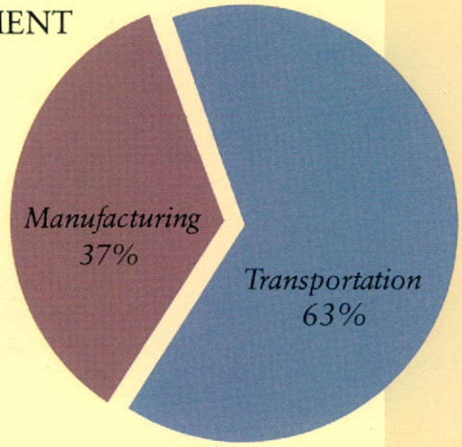
Greyhound Lines of Canada Ltd., established in 1929, is involved primarily in providing motor coach passenger transportation and courier express services and in manufacturing buses. Across Canada, approximately 3,500 people are directly employed by Greyhound and its subsidiary companies. In addition, about 3,000 people are employed by the network of Greyhound agents.

Through the Greyhound Bus Line, the company operates Canada's largest intercity scheduled bus line and provides charter and tour services across Canada. Greyhound Courier Express, operated as a division of Greyhound Lines of Canada, offers a variety of express services throughout the Greyhound service network and, through interline agreements with other carriers, to other locations in Canada.

A wholly-owned subsidiary, Brewster Transport Company Limited is western Canada's major charter and tour operator and is also involved in other aspects of the tourism industry. Motor Coach Industries Limited, also a wholly-owned subsidiary of Greyhound, is the major manufacturer of intercity motor coaches in Canada.

In 1989, Greyhound Lines of Canada celebrated its 60th Anniversary.

1989 REVENUE BY SEGMENT



FINANCIAL HIGHLIGHTS

	1989	1988
Gross Revenues	*$270,629,160*	*$263,382,692*
Net Income	*$ 22,102,331*	*$ 22,597,976*
Earnings per Share	*$2.61*	*$2.67*
Dividend per Share	*$1.20*	*$1.20*

1989 SHARE PERFORMANCE

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	*$27*	*$30¼*	*$32¾*	*$32½*
Low	*$23½*	*$25½*	*$29⅛*	*$29*

Shares of Greyhound Lines of Canada Ltd. are traded on the Toronto Stock Exchange (stock symbol: GHL).

REPORT TO SHAREHOLDERS

Looking back over 1989, which marked the company's 60th Anniversary, we are pleased with and proud of the progress that has been made in virtually all areas of Greyhound Lines of Canada's operations. Significant, positive changes have occurred in all three of our business units.

Consolidated gross revenues increased 2.7% from $263.4 million in 1988 to $270.6 million in 1989. Net income in 1989 was slightly below that of 1988 at $22.1 million or 2.2% less, mainly due to an unusual net loss on sales of properties and as a result of increased competitive bid business and an MC-9 promotional sales program in MCI. As well, the company realized an unusual gain in 1988 that increased earnings for that year by $0.5 million after tax.

Greyhound Bus Line operations recorded revenues of $148.0 million in 1989, an increase of 11.3% over 1988. Passenger revenues and Courier Express revenues increased by 15.9% and 9.4% respectively.

In the past year, passenger ridership grew by 6.12% over 1988, signalling a turnaround from continuous declines over the previous five years. A refocus on passenger service resulted in major improvements in service levels in operating areas and in the quality of equipment and facilities.

Motor Coach Industries recorded another strong year in 1989, in terms of units manufactured and sold. However, for consolidation purposes, intercompany sales have been eliminated and, on that basis, 1989 revenues were $100.6 million or 8.8% below last year. Coach deliveries to Canadian and American customers continued to grow, further solidifying MCI's strong position in the North American market. This reflects the company's dedication to product innovation, options offered and customer service.

Revenues at Brewster Transport Company increased to $22.0 million in 1989, a 9.2% improvement over 1988. Volumes in all segments of Brewster's business — group and independent tour programs, Columbia Icefield Snowmobile Tours, other transportation activities and lodging — grew in 1989 compared to 1988, reflecting the continued popularity of the provinces of Alberta and British Columbia as world class tourist destinations.

All three of our business units should be affected by the decision made by the federal government in 1989 to reduce subsidies to VIA Rail resulting in reduction of passenger rail services. This should have a positive impact on the Greyhound Bus Line in terms of increased ridership, on MCI in terms of the number of new coaches required by Canadian operators to respond to increased bus passenger demand, and on Brewster Transport in terms of increased demand for sightseeing itineraries through the Rocky Mountains.

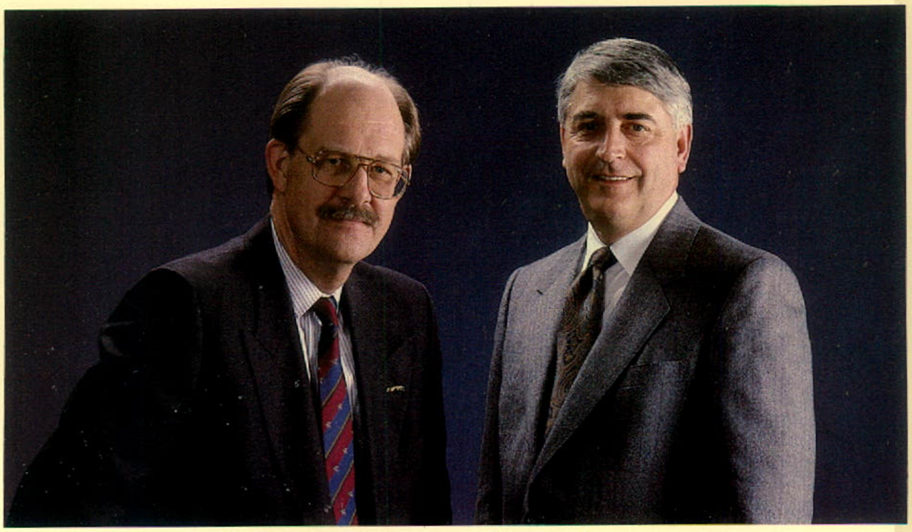
As Greyhound Lines of Canada Ltd. enters its seventh decade of business, our commitment to customer service has never been stronger nor has it ever been more important.

In every area of our operations, we will continue to work toward the achievement of new standards of excellence in customer service.

We wish to thank all our employees for their hard work and dedication to the company and the Board of Directors for their guidance to the company's affairs.

James A. Knight
Chairman

Dick Huisman
President and Chief Executive Officer



Dick Huisman, President and Chief Executive Officer (left), and James A. Knight, Chairman of the Board.

GREYHOUND PASSENGER AND CHARTER

In 1989, Greyhound passenger operations focused its efforts on passenger comfort and service, product improvement, increasing yield, fleet utilization, and providing easier passenger access to Greyhound fare and schedule information.

Continued passenger growth hinges on meeting the service expectations of a wider number of Canadians who have other travel options. Our rededication to customer service was accelerated in 1989 as a result of the announced cuts in VIA Rail service.

Customer service supervisors in red blazers were introduced at our Vancouver, Calgary, Edmonton, Winnipeg, Toronto and London terminals. Easily identifiable, these employees do not work behind a counter; instead, they proactively seek out passengers who require assistance in any way.

Our newest product, "InterCity Express", was introduced on a variety of city pair routes in 1989. It features fewer stops, onboard entertainment (movies and two channels of stereo music) with individual headsets, and a snack service. InterCity Express coaches offer more leg room, with 44 seats rather than the standard 47. We also successfully entered the commuter market in the London-Brantford-Toronto corridor using our new 44-seat coaches as well as 29-seat special business traveller coaches.

During 1989, 50 new coaches were purchased to replace older equipment; another 27 will be delivered in the first quarter of 1990. This is a significant step in our bus fleet renewal plan which will result in a very competitive fleet standard and improved efficiencies in terms of maintenance and performance.

Other initiatives in product improvement in 1989 included placing top priority on terminal appearance and cleanliness, adjusting schedules to better meet customer requirements, and delegating to front-line personnel decisions that are relative to our passengers' well being.

*John A. Munro,
Senior Vice President,
Operations & Marketing,
Greyhound Lines of Canada Ltd.*

PASSENGER AND CHARTER GROSS REVENUES

Headsets, which adjust individually, provide audio for video movies as well as two channels of stereo music.

Our passengers require quick access to accurate fare and schedule information. To provide this on a consistent basis, a centralized, totally automated system was sourced and adapted for Greyhound for implementation in March, 1990. Customers throughout the Greyhound network will access passenger sales and information representatives in Calgary through our toll-free telephone number, 1-800-661-TRIP.

During the past year, our regional offices and 550 commission agents were provided with new promotional programs such as our hot air balloon and more structured marketing programs such as our 60th anniversary contest with radio commercial support that was adaptable to local markets.

Charter sales of $10.8 million for the year were comparable to 1988, excluding the impact of the 1988 Winter Olympics. This reflects the continued activity of tour operators during the year as well as our own marketing activities directed in particular to off-season charter sales.

Photo courtesy Larry Fisher

Sponsorship of events such as World Cup Cross Country Skiing help keep the Greyhound name in front of the general public.

Passenger sales and information telephone centre in Calgary.

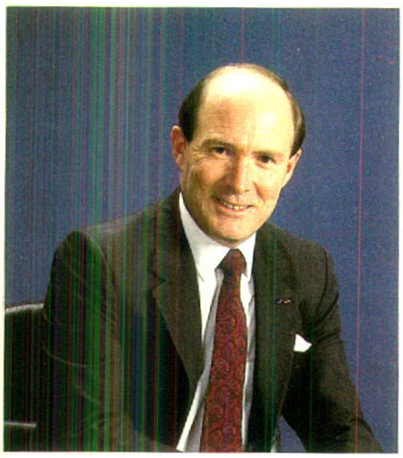
GREYHOUND COURIER EXPRESS

Significant changes were made to Greyhound Courier Express operations to enable the company to handle the 9% growth in volume in 1989 and future business activities. In this regard, Greyhound Courier Express was organized to function as an operating division separate from passenger service, yet with a mandate to optimize the use of the bus cargo space for its transportation needs.

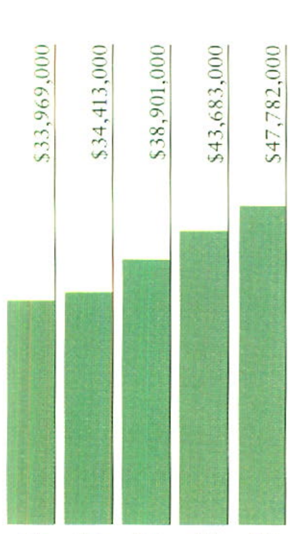
To accommodate overflow traffic and guarantee on-time performance a dedicated fleet of 19 specialized transport vehicles was purchased consisting of eight 52-foot tractor/trailer units and 11 five-ton box trucks.

To ensure Greyhound Courier Express would consistently deliver at above competitive service levels, a pickup and delivery company operating in Edmonton and Calgary was acquired. In addition, exclusive contracts with companies in Regina, Saskatoon, Winnipeg and Toronto were signed. Similarly, Courier Express cross-dock facilities were added in Vancouver and Calgary with construction of a third facility on the way in Edmonton.

To further enhance customer service, efforts commenced on an automated billing and proof of delivery system which is planned to be operational in July, 1990.



*Ronald H. Parker,
Senior Vice President and
General Manager,
Greyhound Courier Express.*



GCX GROSS REVENUES

A review of all Courier Express services offered indicated a need to expand the number of products to better service our existing customers and potential new customers.

The traditional parcel depot-to-depot services have been repackaged to include special features such as next bus out, delivery at destination and advise of arrival for pickup.

In cooperation with other bus companies, the door-to-door courier express business is being expanded using the nation-wide bus network, adding pickup and delivery services in all key locations and introducing a common uniform door-to-door tariff. In early 1990, an overnight door-to-door and depot-to-depot courier express air product will be introduced to complement the existing services.

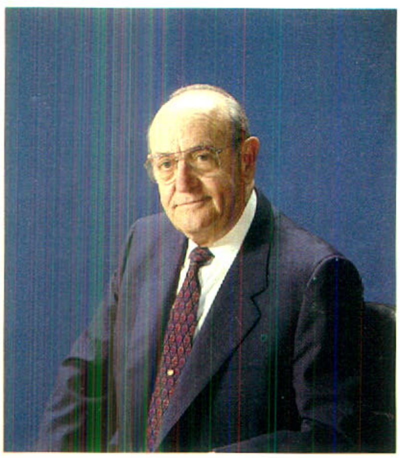
New storefront service centre in downtown Toronto.

New cross-dock facility in Calgary is located near the International Airport.

Part of the GCX transport fleet.

In the GCX network, cross-dock facilities are "hubs" where shipments are sorted immediately for distribution.

REGULATORY ENVIRONMENT



Robert N. Parke,
Vice President,
Government & Industry Relations,
Greyhound Lines of Canada Ltd.

Bus transportation in Canada provides a quality and quantity of service unmatched in North America. Provincial governments have endorsed and legislated the regulated environment to ensure that all communities are treated fairly.

Over the years, the Greyhound Bus Line has earned the respect of the communities it serves. This has been achieved by consistently providing safe, reliable and economical bus service. Although Greyhound has exclusivity in some communities, this is an overall benefit to those communities. Without the support of the entire Greyhound network, some communities might not be served by anyone.

The Greyhound Courier Express division and our Charter service are important elements of the Greyhound network. For many small communities, Greyhound provides the only regular parcel and freight service available.

Greyhound's policy of not leaving any passenger behind by providing capacity to meet demand is a further demonstration of our commitment to the people we serve. Our service is an excellent example of the total being greater than the sum of the individual components.

The hot air balloon helped celebrate the opening of new facilities for the Greyhound agency in Whitehorse, Yukon Territory.

BREWSTER TRANSPORT COMPANY LIMITED

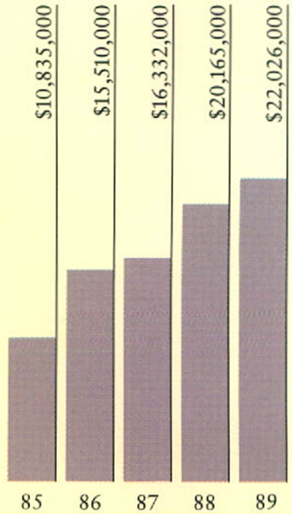
Brewster Transport Company Limited reported a continued trend in improved earnings in 1989. The company continued to build further on its leadership role in the expanding tourism industry in western Canada.

Brewster markets its various services and products nationally and internationally. Major markets are the United States, Japan, Eastern Canada, Great Britain and Australia/New Zealand. Marketing efforts are supported through participation in more than 100 trade and consumer shows as well as the distribution of over 700,000 brochures and folders.

Group, Independent and Charter programs all experienced continued growth in 1989. Large growth in the Charter market came from Japan, a trend expected to carry into 1990. The Group Travel and Independent Package Tour divisions both experienced growth in excess of 10%.

Brewster continues to operate one of the most modern, well maintained tour coach fleets in North America. In 1989, ten MCI model 102C3 tour coaches equipped with onboard video units and stereo systems were put into service. Four of these coaches have been equipped with galleys to add a further dimension to the services provided. Ten additional 102C3 coaches are on order from MCI for delivery in April, 1990.

David G. Morrison, President and Chief Executive Officer, Brewster Transport Company Ltd.



BREWSTER TRANSPORT GROSS REVENUES

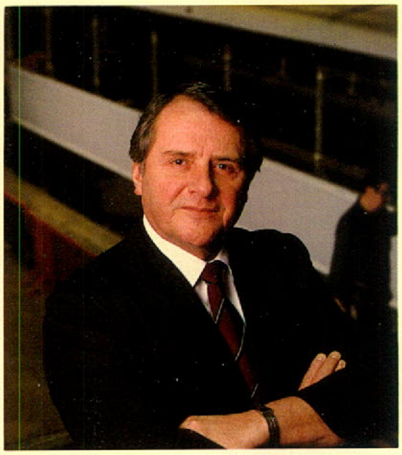
An expanded operating season for the Columbia Icefield Snowmobile Tours provided increased business volume in 1989. Three 57-passenger MCI 102 coaches were introduced to provide transport to and from the Icefield. In 1990, Brewster will purchase another three of these coaches and retire the remaining school bus vehicles which have been used in the past.

At the Mount Royal Hotel, a new health club with sauna and whirlpool was completed. The upgrading program was continued with major renovations to all corridors. A new meeting room was added to help address demand for this type of facility by business clients.

The success of Brewster operations is dependent on the degree of service provided to customers. Brewster's employees are its greatest strength in the competitive environment in which it operates; this is reflected in the company's emphasis on training.

In 1989, Brewster acquired a 50% share in the Mount Norquay ski area near Banff. The company is actively involved in the expansion of the ski area which is due to be operational in December 1990.

MOTOR COACH INDUSTRIES LIMITED



Ronald R. Hogue,
Executive Vice President and
General Manager,
Motor Coach Industries Limited.

The past year was another good year for Motor Coach Industries Limited. The MCI brand increased its share of the intercity coach market in both Canada and the United States, strengthening its position as the industry leader in the North American market.

In 1989 the total Canadian intercity coach market increased by 20% over 1988 actual coach deliveries; however, MCI deliveries to Canadian customers, including Greyhound Lines and Brewster Transport, were up 32% over the previous year.

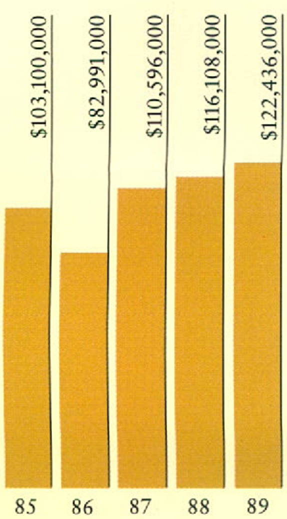
The dramatic cutback of VIA Rail passenger service in Canada favourably stimulated MCI's Canadian coach sales for delivery in the fourth quarter of 1989 and the first quarter of 1990. The VIA Rail cutbacks bode well for the long term for intercity coach operators and manufacturers as new bus passengers discover the significant changes and improvements that have been made in modern coach travel.

In the U.S. market in 1989, MCI brand leadership continued with strong sales performance, assisted by continued strength in the tour and charter market and a modest rise in line-haul passenger volume.

MCI's leadership position in the intercity coach market is illustrated by the fact that approximately 70% of the intercity coaches in operation today in North America are manufactured by MCI. This is a clear testimonial to the quality, durability, reliability and resale value of MCI products.

Sales highlights for 1989 reflect the rising popularity of the MCI flagship model 102C3 tour coach and the new 102C3SS which was introduced in 1989. These two tour coach models accounted for over 60% of MCI's production in 1989. Significant Canadian customer orders for MCI included 50 units for Greyhound Lines of Canada, 13 for Brewster Transport, 14 to the Canadian government Department of Supply and Services, 24 units for GO Transit, and other large orders for Acadian Bus Lines and Dicken Bus Lines.

In 1989, the company introduced the new Generation IV wheelchair lift system. Fifty-one of these specially built units were produced for U.S. and Canadian customers, including Hamilton Street Railway in Ontario which ordered six. MCI's technological leadership in this area will be particularly advantageous in light of proposed legislation to make wheelchair lifts mandatory on intercity coaches in the United States.



MCI GROSS REVENUES
(Including intercompany sales)

The MCI 102C3SS stainless steel coach.

MCI's long history as an industry innovator is exemplified by the development of a prototype 45-foot, fully accessible, dedicated wheelchair coach. The prototype is nearing completion and will be introduced in 1990 by MCI and Transport Canada which is providing partial funding of the project.

MCI's product line ensures broad customer appeal — line haul and tour coaches, prisoner transportation vehicles, wheelchair lift coaches, conversion and motor home units, and combo coaches. The company continues to focus on passenger room and comfort in coach travel and offers a wide variety of amenities, including luxury seating and interiors, video and stereo systems, air conditioning, modern lavatories and mini-galleys.

The MCI Service Parts Company is the recognized leader in the intercity coach and transit bus parts after-market in Canada. The company carries a wide selection of replacement parts for over 50 different coach and bus models, including competitors' products. With two strategically located distribution centres in Ontario and Manitoba to serve customers in every province and the territories, MCI Service Parts Company has built its business and reputation on fast, courteous and reliable customer service.

CART also uses an MCI 102C3 as a command headquarters.

High-tech hospital on wheels. A custom conversion of an MCI 102A3 into a mobile trauma, burn and x-ray unit for CART (Championship Auto Racing Teams, Inc.) provides racing car drivers with emergency treatment at the race track.

MCI's new generation wheelchair coach; Jay Padden demonstrates the lift.

FINANCIAL REPORT

Greyhound Lines of Canada Ltd.

Management Discussion and Analysis

The Company's Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Results of Operations for the Twelve Months ended December 31, 1989
Compared to 1988 and 1987 for the Same Period

Revenues for the Company for fiscal 1989 were $270.6 million, an increase of 2.7% from 1988 and an increase of $12.4% from 1987.

During 1989, the Transportation segment had improvements in all four business activities: scheduled passenger service, courier express, charters and tours. Transportation revenues were $170 million, or 11.1% higher than in 1988 and 19.4% higher compared to 1987. Passenger ridership increased 6.12% in 1989 compared to the corresponding period in 1988 and was 2% higher than the 1987 year. The increase in ridership reflects a turn-around from a continuing decline experienced over the last five years. We believe this turnaround to be as a result of the introduction of non-smoking onboard the buses in 1988, improvements in the general appearance of the depots across the network and upgrading of the bus fleet and service levels. Sales and promotion efforts further stimulated demand. Revenues were further enhanced as a result of approved fare increases by the various provincial regulatory bodies and the application of improved seat inventory control techniques.

Greyhound courier express revenues increased by 9.4% in 1989 over 1988 and were 22.8% higher than the 1987 year. The increases achieved by courier express are directly attributable to increased marketing and sales efforts. Charter and tour revenues increased 2.1% in 1989 compared to the same period in 1988 and 30.2% compared to the 1987 year. The growth in 1989 resulted from increased tourism demand for transportation services from abroad and within Canada. The 1988 revenue results included the impact of the Winter Olympics in Alberta.

In the Transportation segment, operating income increased to $21.9 million, 6.7% higher than the same period in 1988 and slightly better than 1987.

A major event, which happened in 1989 and which should favorably affect the financial performance of the Transportation segment in 1990, was the federal government's decision to reduce VIA Rail service. In response, the Company accelerated the introduction of InterCity Express service across the country paralleling former VIA Rail routes or sectors where service was reduced. The Transportation segment plans to continue to improve its services and to take advantage of market opportunities.

In the Manufacturing segment, the Canadian market for intercity coaches has been strong during the past two years. Independent bus operators have been acquiring new coaches to accommodate the growth in the tour and charter market. The Canadian government's Investment Tax Credit program, which also stimulated coach sales to independent bus operators, was repealed in 1988. Competitive bid business increased in 1989 offsetting a reduction in independent sales resulting from some advance buying in 1988.

Including intersegment sales to the Transportation segment, intercity coach sales in Canada were $73.1 million, 18.3% higher in 1989 compared to 1988 and significantly better than 1987. Excluding intersegment sales, coach revenues of $51.3 million decreased 8.4% compared to 1988, but increased 37.7% compared to 1987. In 1989, revenues of $49.3 million from sales of bus shells to affiliated companies were 9.2% lower than 1988, and 19.4% lower than 1987; in the latter year revenues included a major bid coach order.

In 1989, the U.S. market for intercity coaches was up from 1988 due to continued strength in the tour and charter market. The growth in tour and charter business now appears to be levelling off.

Product development and improvement are ongoing programs in the Manufacturing segment. The Company introduced a popular new version of the MCI tour coach in 1989, identified as the model 102C3SS. In addition, the Company introduced a new and more advanced Generation IV wheelchair lift system.

In the Manufacturing segment, operating income, including intersegment profits, was $14.5 million, 10.3% less than last year and 7.8% better than 1987. Excluding intersegment profits, operating income at $11.0 million was 31.2% lower compared to 1988 and 9.2% lower compared to 1987. The lower operating income results from a combination of the elimination of intercompany profits, increased competitive bid business, and an MC-9 promotional sales program.

The federal government cutback of VIA Rail passenger service should stimulate intercity coach line-haul business, and help sustain Canadian 1990 intercity coach sales volume similar to 1989. In the spring of 1990, the Manufacturing segment expects to complete development of a prototype 45-foot coach, designed for the comfort and accessibility of wheelchair passengers. The prototype is a research and development project partly funded by Transport Canada.

Consolidated operating expenses were $236.7 million in 1989 or 4.7% higher than 1988 and an increase of 14.9% compared to 1987. The increased costs were incurred in the Transportation segment as a consequence of growth in both passenger and courier express business. Expenses were also higher in this segment due to additional efforts by the Company to improve the overall quality of its services.

In 1989, consolidated operating income was $33.9 million, or 9.3% lower compared to 1988, and a 2.5% decrease compared to 1987. The reduction is directly associated with the lower operating results of the Manufacturing segment as a consequence of increased competitive bid business and the MC-9 sales special.

Interest and other income was $1.7 million or 48.0% higher than 1988 and was significantly better than 1987 due respectively to a stronger cash position and increased foreign exchange gains.

As the Company improved the quality of the fleet, several older coaches were sold in 1989. In addition, the Company disposed of two properties during the year resulting in a net loss of $0.5 million. The combined net gain of $0.7 million was $0.4 million higher than last year and slightly higher than the same period in 1987.

Including the manufacturing and processing tax deduction, current income taxes were $16.0 million for 1989 or an effective rate of 40.2%. The effective rate of tax was lower than 1988 and 1987 as a consequence of the federal government's reduction of corporate rates.

Net income in 1989 was $22.1 million, 2.2% lower than 1988, but 24.9% higher than 1987. In 1988, the Company purchased an annuity contract to satisfy specific pension obligations related to certain retired employees. As a consequence of settling these obligations, the Company realized a $1,153,000 settlement gain. This gain contributed $0.07 per share in 1988.

Liquidity and Capital Resources

Working capital was $26.1 million as at December 31, 1989 compared to $26.5 million at December 31, 1988. Although the total working capital did not change significantly compared to last year, there were major changes in specific asset and liability balances. Due from affiliated companies increased $13.0 million as the Company loaned funds to the parent company on a short-term basis. These funds were repaid in January 1990, and interest was charged at prevailing market rates. Receivables increased $3.7 million mainly due to increases in funds owing from Company agencies and proceeds from coach sales. The increases in liabilities relate primarily to current pension obligations and higher vendor liabilities as a consequence of the larger business volume. The Company considers its working capital to be adequate to support current and anticipated fiscal 1990 requirements.

The Company generated $11.1 million from operations during the year after paying dividends on common shares. Disposals of surplus properties and equipment contributed $3.4 million. The Company acquired $20.6 million of capital property in 1989. The major portion of these capital additions was in the Transportation segment with the purchase of 60 new coaches. In 1989, the Company invested $1.5 million in a joint venture project involving a 50% interest in the Mount Norquay ski area in the Banff National Park. The Company had available unused lines of credit of $41.5 million as at December 31, 1989.

The Company has specific surplus properties for sale that could potentially generate additional funds. Available funding, including funds provided by operations, would be utilized as required for improvements to equipment and facilities, for general corporate purposes as well as to provide financing for any potential acquisitions. The Company is continuing to evaluate business opportunities that would enhance shareholder value.

A legal suit was recently initiated against the Company by one of its labor unions. The action is being reviewed by the Company's legal counsel to ascertain the merits of the matter. In addition, a subsidiary's income tax returns for the fiscal years 1981 through 1984 are currently under review by Revenue Canada. Authorities are considering imputing additional income relating to transactions with U.S.-based affiliates. The Company is of the opinion that Revenue Canada's arguments are without merit and discussions are continuing. In the event of an adverse judgement, the additional income taxes for the years 1981 to 1984 could amount to as much as $16 million plus interest, and these issues would have applications to subsequent years.

Bruce J. Elmore,
Vice President,
Finance and Corporate Secretary.

Consolidated Statement of Financial Condition as at December 31, 1989

Assets	1989	1988
Current		
Cash and short-term deposits	$ —	$ 5,788,409
Accounts receivable	21,266,523	17,599,600
Due from affiliated companies	16,734,701	3,747,679
Inventories	32,636,317	31,951,410
Prepaid expenses and other current assets	1,459,284	2,172,539
	72,096,825	61,259,637
Property and equipment, at cost		
Land	32,098,752	33,675,454
Buses	71,611,430	60,710,657
Buildings	58,814,244	57,203,382
Equipment	29,849,481	26,362,107
	192,373,907	177,951,600
Less accumulated depreciation	65,128,847	61,101,474
	127,245,060	116,850,126
Other		
Notes receivable (Note 2)	18,526,825	17,469,384
Investments	2,424,910	924,910
Intangibles, at cost	3,859,096	3,864,847
	24,810,831	22,259,141
	$224,152,716	$200,368,904

Liabilities and Stockholders' Equity		
Current		
Bank overdraft	$ 2,309,398	$ —
Accounts payable and accrued expenses	27,235,077	19,574,947
Accrued compensation	12,572,244	9,416,438
Income taxes	—	1,436,224
Due to affiliated companies	3,860,043	4,404,213
	45,976,762	34,831,822
Reserve for injuries and damages	957,423	1,053,019
Pension obligations	3,934,776	5,376,270
Deferred income taxes	17,752,842	16,068,672
	68,621,803	57,329,783
Contingency (Note 3)		
Stockholders' equity (Note 4)		
Common stock	8,523,185	7,955,056
Retained income	147,007,728	135,084,065
	155,530,913	143,039,121
	$224,152,716	$200,368,904

Signed on behalf of the Board

J.A. Knight, Director

D. Huisman, Director

Consolidated Statement of Income for the Year Ended December 31, 1989

	1989	1988
Operating revenues	$270,629,160	$263,382,692
Operating costs and expenses	236,699,646	225,978,122
Operating income	33,929,514	37,404,570
Interest and other income	5,172,072	3,482,795
Unusual gain	—	1,153,000
Gain on disposal of property and equipment	677,745	347,611
Income before income taxes	39,779,331	42,387,976
Provision for income taxes (Note 5)		
Current	15,992,830	17,782,023
Deferred	1,684,170	2,007,977
	17,677,000	19,790,000
Net income	$ 22,102,331	$ 22,597,976
Net income per share	$2.61	$2.67
Dividend declared per share	$1.20	$1.20

See accompanying notes

Consolidated Statement of Retained Income for the Year Ended December 31, 1989

	1989	1988
Retained income		
Balance at beginning of year	$135,084,065	$122,654,932
Net income	22,102,331	22,597,976
Dividends paid	(10,178,668)	(10,168,843)
Balance at end of year	$147,007,728	$135,084,065

See accompanying notes

Consolidated Statement of Changes in Financial Position for the Year Ended December 31, 1989

	1989	1988
Summary		
Cash was provided by (used in)		
Operations	$ 11,118,085	$ 23,914,934
Investments	(18,726,580)	(3,216,140)
Financing	(489,312)	(14,520,937)
Increase (decrease) in cash	(8,097,807)	6,177,857
Cash (bank overdraft) at beginning of year	5,788,409	(389,448)
Cash (bank overdraft) at end of year	$ (2,309,398)	$ 5,788,409
Operations		
Cash provided by (used in) operations		
Net income	$ 22,102,331	$ 22,597,976
Depreciation and amortization	7,515,142	6,512,123
Deferred income taxes	1,684,170	2,007,977
Provision for injuries and damages	(95,596)	22,535
Gain on disposal of property and equipment	(677,745)	(347,611)
Decrease in pension obligations	(1,441,494)	(442,666)
	29,086,808	30,350,334
Change in operating net current assets	(7,790,055)	3,733,443
Dividend	(10,178,668)	(10,168,843)
	$ 11,118,085	$ 23,914,934
Investments		
Cash (used in) provided by investing activities		
Acquisition of property and equipment	$ (20,641,710)	$ (4,517,312)
Proceeds from disposal of property and equipment	3,415,130	1,301,172
Increase in investments	(1,500,000)	—
	$ (18,726,580)	$ (3,216,140)
Financing		
Cash provided by (used in) financing activities		
Decrease in long-term debt	—	$ (10,000,000)
Redemption of preferred shares investments	—	2,316,472
Issue of shares	568,129	—
Increase in long-term notes receivable	(1,057,441)	(6,837,409)
	$ (489,312)	(14,520,937)

See accompanying notes

Auditors' Report

The Shareholders
Greyhound Lines of Canada Ltd.

We have examined the consolidated statements of financial condition of Greyhound Lines of Canada Ltd. as at December 31, 1989 and 1988 and the consolidated statements of income, retained income and changes in financial position for the years 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, 1989 and 1988 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
January 26, 1990

Touche Ross & Co
Chartered Accountants

Notes to the Consolidated Financial Statements December 31, 1989

1. *Significant Accounting Policies*

The financial statements are prepared in accordance with generally accepted accounting principles. Described below are those accounting policies which are particularly significant to Greyhound Lines of Canada Ltd. including those selected from acceptable alternatives.

Principles of Consolidation
The consolidated financial statements include the accounts of all subsidiary companies. All material inter-company transactions and accounts are eliminated on consolidation.

Inventories
Inventories of buses, parts and supplies are stated at the lower of cost and net realizable value.

Property and Equipment
Property and equipment are stated at cost and depreciation is provided principally on the straight-line method over estimated useful lives after considering estimated residual values. No depreciation is taken on construction in progress. The ranges of annual depreciation rates are as follows:

Buildings	2.5% - 10.0%
Buses	6.0%
Machinery and other equipment	10.0% - 30.0%

Intangibles
Intangibles arising from the acquisition of operating bus routes and from the Company's investment in subsidiary companies were all acquired prior to April 1, 1974. They are generally stated at cost and will not be amortized unless there is deemed to be a permanent diminution in the value of the related investment.

Pension Plans
Pension plans are funded on the basis of annual actuarial determinations of current service costs plus amortization of unfunded prior service costs, if any, over periods specified by statute. Pension plan experience gains and losses and pension plan surpluses are amortized, on a straight-line basis, over the expected average remaining service life of the employees in the plans.

Investment Tax Credits
Investment tax credits are deducted from the cost of the related asset or expense in the year in which the investment tax credits are claimed.

Reserve for Injuries and Damages
The Company's potential cost of settling claims for injuries and damages is proved annually on the basis of management's and counsel's assessment of specific liability for each claim.

Deferred Income Taxes
Earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable, which result primarily from claiming amounts for tax purposes in excess of book depreciation, are reflected as deferred income taxes in the consolidated financial statements.

Foreign Currency Exchange
Transactions denominated in a foreign currency are converted at the exchange rate in effect at the date of the transaction. Any gain or loss arising from the translation is included in the income statement.

2. *Notes Receivable*

At December 31, 1989, the Company had long term notes receivable due under installment sales contracts amounting to $18,526,825. Payments due on these notes receivable are as follows:

1991	$ 2,563,283
1992	4,387,766
1993	5,565,973
1994	3,867,009
After	2,142,794
	$18,526,825

3. *Contingency*

As reported last year, a subsidiary's income tax returns for the fiscal years 1981 through 1984 are currently under review by Revenue Canada. Authorities are considering imputing additional income relating to transactions with U.S. based affiliates. The Company is of the opinion that Revenue Canada's arguments are without merit and discussions are continuing. In the event of an adverse judgement, the additional income taxes for the years 1981 to 1984 could amount to as much as $16 million plus interest, and these issues would have applications to subsequent years.

4. *Stockholders' Equity*

The Company's authorized stockholders' capital consists of unlimited no par value common shares.

The Company has granted to officers, directors and certain key employees stock options under its 1983 stock option and incentive plan. The plan's stock options are exercisable at market value at date of grant and expire after 10 years of grant.

		Exercised	
	Granted Shares	Shares	Average Price Per Share
1989	68,500	24,225	$ 23.45
1988	95,400	—	—

Stock options were cancelled during 1989 with respect to 3,500 shares (1988 - 1,900 shares).

At December 31, 1989, stock options with respect to 162,475 shares are outstanding (1988 - 121,700 shares) exercisable at a weighted average price of $26.92 (1988 - $23.70) per share.

5. *Income Taxes*

A reconciliation of the provision for income taxes and the amount that would be computed using federal and provincial tax rates on income before income taxes is set forth below:

	1989	1988
Computed income taxes at statutory federal and provincial income tax rates	$ 17,963,000	$ 20,514,000
Manufacturing and processing profits deduction	(429,000)	(820,000)
Permanent differences	(48,000)	(71,000)
Reassessments and other items	191,000	167,000
Provision for income taxes	$ 17,677,000	$ 19,790,000

6. *Pension Plans*

The Company has available pension plans covering substantially all of its employees. With the exception of one money purchase plan, all of its pension plans are defined benefit plans. Pension expense for the year is approximately $1,801,000 (1988 - $1,173,000).

At the date of the most recent actuarial valuations, January 1, 1989, projected pension plan benefits and the market value of plan net assets from all of the defined benefit plans were as follows:

Actuarial present value of projected pension plan benefits	
Vested	$48,059,000
Non-vested	7,737,000
Total projected benefit obligations	$55,796,000
Market value of pension trust fund net assets	$57,335,000
Plan assets over projected benefit obligations	$ 1,539,000

7. *Operating Segments*

The Company's business activities are categorized into two segments for reporting purposes — transportation and manufacturing. The principal data of the Company's two business segments are as follows:

	1989	1988
Operating revenues		
Transportation	$170,002,896	$153,064,481
Manufacturing		
Unaffiliated	51,283,123	55,984,816
Affiliated	49,343,141	54,333,395
Intersegment	21,810,029	5,790,127
	122,436,293	116,108,338
Adjustment and eliminations	(21,810,029)	(5,790,127)
	100,626,264	110,318,211
Consolidated operating revenues	$270,629,160	$263,382,692
Operating Income		
Transportation	$ 21,924,613	$ 20,515,889
Manufacturing	14,511,489	16,175,829
Intersegment eliminations	(2,506,588)	712,852
Consolidated operating income	33,929,514	37,404,570
Other corporate income, expense and income taxes	(11,827,183)	(14,806,594)
Consolidated net income	$ 22,102,331	$ 22,597,976
Other information		
Assets		
Transportation	$176,831,343	$151,653,505
Manufacturing	72,528,708	70,918,725
Intersegment eliminations	(25,207,335)	(22,203,326)
	$224,152,716	$200,368,904
Capital expenditures		
Transportation	$ 18,941,846	$ 6,271,568
Manufacturing	2,391,388	1,172,220
Intersegment eliminations	(691,524)	(2,926,476)
	$ 20,641,710	$ 4,517,312
Depreciation		
Transportation	$ 7,181,830	$ 6,342,922
Manufacturing	1,306,020	1,023,349
Intersegment eliminations	(972,708)	(854,148)
	$ 7,515,142	$ 6,512,123

Intersegment sales have been made on the same basis as transactions with unrelated parties. Export sales to the United States aggregated $49,343,141 (1988 - $54,333,395).

8. *Interest Expense*

Total interest incurred on loans and the bank overdraft was $363,239 (1988 - $1,095,241).

9. *Related Party Transactions*

At December 31, 1989 the Company advanced $16,710,000 (1988 - $3,366,000) to its parent company. Interest is paid on these advances at the current market rates and amounted to $292,000 [1988 - $(94,000)].

Operating costs and expenses include purchases and bus completion charges from affiliated companies in the amount of $21,646,169 (1988 - $26,559,075) which is net of a recovery of costs from an affiliated company in the amount of $4,155,467 (1988 - $1,177,982). Also included are management and administration fees from affiliated companies, net of charges, in the amount of $4,341,043 (1988 - $2,633,996).

10. *Lease Commitments*

The Company has entered into various lease commitments for facilities and equipment. The leases expire in periods ranging from 1 to 10 years. The aggregate remaining lease obligation is $8,274,000 and the minimum annual lease payments required for the next five years are as follows:

1990	$2,488,000
1991	$2,275,000
1992	$1,323,000
1993	$ 831,000
1994	$ 436,000

SUPPLEMENTARY INFORMATION

Summary of Consolidated Net Income by Quarter

(Unaudited)

Fiscal 1989	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$71,047,740	$76,040,605	$74,180,268	$49,360,547
Income before income taxes	$ 8,160,179	$10,010,995	$16,970,173	$ 4,637,984
Income taxes	3,614,000	4,221,000	8,131,000	1,711,000
Net income	$ 4,546,179	5,789,995	8,839,173	2,926,984
Earnings per share of common stock	$0.54	$0.68	$1.04	$0.35
Earnings per share (excluding non-recurring gain/loss)	—	$0.59	$1.04	$0.45
Average number of common shares outstanding	8,474,369	8,475,769	8,482,919	8,493,511

Fiscal 1988	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 56,161,006	$ 67,912,001	$77,366,743	$ 61,942,942
Income before income taxes	$ 7,362,043	$10,916,210	$16,574,462	$ 7,535,261
Income taxes	3,515,000	5,104,000	7,918,000	3,253,000
Net income	$ 3,847,043	5,812,210	8,656,462	4,282,261
Earnings per share of common stock	$0.45	$0.69	$1.02	$0.51
Earnings per share (excluding non-recurring gain/loss)	—	$0.69	$1.02	$0.44
Average number of common shares outstanding	8,474,036	8,474,036	8,474,036	8,474,036

Greyhound Lines of Canada Ltd.

Directors

Charles J. Clark, Q.C.
Partner, McTague, Clark
Barristers and Solicitors
Windsor, Ontario

Charles R. Hetherington
President & Chief Executive Officer
Panarctic Oils Ltd.
Calgary, Alberta

Dick Huisman
President & Chief Executive Officer
Greyhound Lines of Canada Ltd.
Calgary, Alberta

William E. Ireland, Q.C.
Partner, Owen, Bird
Barristers & Solicitors
Vancouver, British Columbia

James A. Knight, C.A.
Chairman of the Board
Greyhound Lines of Canada Ltd.
Calgary, Alberta

David G. Morrison
President & Chief Executive Officer
Brewster Transport Company Limited
Banff, Alberta

Alan Sweatman, Q.C.
Partner, Thompson, Dorfman, Sweatman
Barristers and Solicitors
Winnipeg, Manitoba

John W. Teets
Chairman of the Board
President & Chief Executive Officer
Greyhound Dial Corporation
Phoenix, Arizona

Officers

James A. Knight, C.A.
Chairman of the Board

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Senior Vice President, Operations & Marketing

Ronald H. Parker
Senior Vice President & General Manager, GCX

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Robert N. Parke
Vice President, Government & Industry Relations

Bruce B. Tyson
Vice President, Labour Relations

Ronald G. Nelson
Treasurer

Frederick G. Emerson
Assistant Secretary

Stock Transfer Agent & Registrar

Montreal Trust Company
Montreal, Toronto, Winnipeg,
Calgary, Vancouver

Greyhound Lines of Canada Ltd.
A Greyhound Company
877 Greyhound Way S.W.
Calgary, Alberta T3C 3V8
Telephone (403) 260-0877

Brewster Transport Company Limited

David G. Morrison
President & Chief Executive Officer

Head Office
100 Gopher Street
P.O. Box 1140
Banff, Alberta T0L 0C0
Telephone (403) 762-6700
Toll-free reservations 1-800-661-1152

Motor Coach Industries Limited

Ronald R. Hogue
Executive Vice-President &
General Manager

Head Office
1149 St. Matthews Avenue
Winnipeg, Manitoba R3G 0J8
Telephone (204) 786-3301

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