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Greyhound Lines of Canada Ltd.

1988 Annual Report



Notice of Annual General Meeting

The Annual General Meeting of Greyhound Lines of Canada Ltd. will be held at 10:00 a.m. on Friday, May 5, 1989, at the Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta.

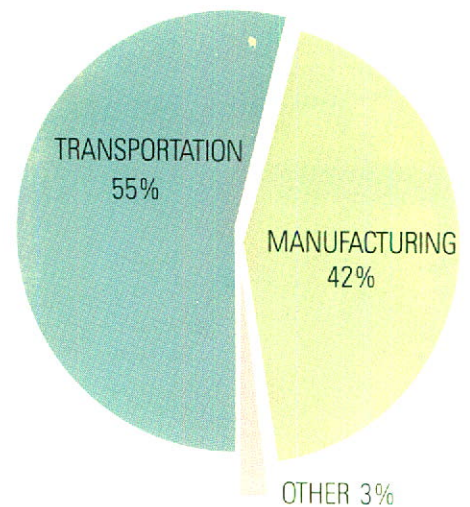
Financial Highlights

| | 1988 | 1987 |
|--------------------|---------------|---------------|
| Gross Revenues | \$263,382,692 | \$240,844,609 |
| Net Income | \$ 22,597,976 | \$ 17,652,470 |
| Earnings per Share | \$2.67 | \$2.08 |
| Dividend per Share | \$1.20 | \$1.20 |

1988 Share Performance

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|------|---------------|----------------|---------------|----------------|
| High | \$22.00 | \$23.88 | \$24.25 | \$25.50 |
| Low | \$19.50 | \$20.88 | \$22.50 | \$23.25 |

1988 Revenue by Segment



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Report From The Chairman

Building on the financial improvements achieved in 1987, Greyhound Lines of Canada Ltd. further strengthened its financial position in 1988.

The company's gross revenues increased 9.4%, from \$240,844,609 in 1987 to \$263,382,692 in 1988. Net income, which improved 18% in 1987, continued to improve in 1988 — from \$17,652,470 in 1987 to \$22,597,976, a 28% increase. These financial improvements are again very encouraging. Greyhound Lines of Canada has experienced two strong years in succession, since the downturn which occurred in 1986. Today, despite marketplace factors that continue to challenge us, the company is stronger, operating more efficiently and effectively.

In terms of our business segments, transportation revenues increased 7.5%, to \$153,064,481, and manufacturing revenues increased almost 5%, to \$116,108,338.

All three areas of our business — Motor Coach Industries Limited, Brewster Transport Company Limited, and the Greyhound bus line itself — experienced increased revenues in 1988; however, some improvements were more significant than others.

Motor Coach Industries had an excellent year. Due to an exceptionally strong Canadian bus market in 1988, MCI's sales to Canadian customers increased 46% compared to 1987. The booming North American tour business continues to impact favourably on MCI. New tour coach models introduced in 1987 and 1988 are meeting with enthusiastic response from tour and charter operators, enabling the company to further solidify its leadership position in both the Canadian and North American markets.

Major improvements were also seen last year in the operations of Brewster Transport. Growth occurred in Brewster's group and independent package tour programs; passenger volumes also improved for its Columbia Icefield Snowmobile Tours. A major legacy of the 1988 Winter Olympic Games, increased tourism in western Canada, is already being enjoyed by the tourism industry. This will bring increased competition; however, Brewster is well positioned to lead this dynamic growth industry.

For the two operating divisions of our bus line, Courier Express and passenger and charter operations, 1988 also brought improvement. Courier Express achieved an outstanding 12.1% improvement in revenues in 1988. Greyhound charter revenues made a dramatic improvement, partially as a result of Olympic charter contracts. Passenger revenues continued to decline in 1988; however, the decrease in 1988 was less than experienced in 1987 which is encouraging.

On December 1, 1988, Greyhound Lines of Canada appointed Mr. Dick Huisman President and Chief Executive Officer; the undersigned was appointed Chairman of the Board of Directors.

Mr. Huisman has strong senior management credentials in the hospitality, transportation, travel and tourism industry; his experience and expertise will be of significant benefit to Greyhound. His observations on our bus line and its potential for the future are included in this annual report.

As Greyhound Lines of Canada enters its 60th year of operation, we can all take pride in the accomplishments of our company. From modest beginnings in 1929, the company has grown and developed tremendously. There have been changes and challenges all along the way; however, in reality, the period of most dramatic

change and challenge is still ahead of us. We will build the future on the strengths of Greyhound's past.



A handwritten signature in black ink, appearing to read 'J. A. Knight', written in a cursive style.

James A. Knight
Chairman of the Board



Corporate Profile

Greyhound Lines of Canada Ltd. is a public Canadian company involved primarily in providing motor coach transportation services and in manufacturing buses.

Canada's largest inter-city bus line is operated by Greyhound across a route network of over 22,000 kilometres. For many of the 570 communities in this extensive system, Greyhound is the only regularly-scheduled transportation service. Courier Express services are provided throughout Greyhound's service network and, through interline agreements with other carriers, to other locations in Canada. The Greyhound bus line is also directly involved in motor coach charter and tour services.

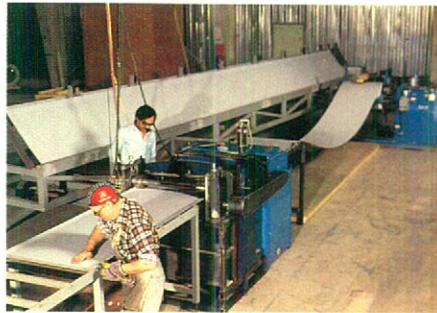
Brewster Transport Company Limited, a wholly owned subsidiary, is western Canada's major charter and tour operator. From its headquarters in Banff National Park, the company offers a variety of transportation and tour services and programs for charter groups and independent tourists throughout western Canada and the Rocky Mountains. Brewster also owns and operates the Mount Royal Hotel in Banff.

Motor Coach Industries Limited, also a wholly-owned subsidiary of Greyhound Lines of Canada, is a leading North American manufacturer, and the major Canadian manufacturer, of motor coaches. At its fabrication and manufacturing plants in Manitoba, MCI produces a complete line of vehicles for intercity travel and tour transportation purposes.

Headquartered in Calgary, Alberta since the company was established in 1929, Greyhound Lines of Canada celebrates its 60th Anniversary in 1989.

It is with great pride that this edition of the company's annual report is dedicated to the employees of Greyhound, Brewster, Motor Coach Industries and the affiliated agents and associated companies that are members of the Greyhound group in Canada.

The spirit, loyalty and hard work of Greyhound personnel have always been an important factor in the success of our organization. As we enter our sixtieth year of operation, it is recognized that the continuing commitment of our personnel — at all levels, throughout the organization — is integral to our future success.



Edwin Sawit (foreground) and Salvatore Garofalo work on panelling for the exterior of an MCI tour coach. The corporate roots of MCI are in the Fort Garry Motor Body and Paint Works, established in 1932. The company produced its first bus in 1933 and its first order for Greyhound in 1937. Motor Coach Industries became a member of the Greyhound group in 1948.



Louis A. Welsh (centre), who joined the Greyhound bus line in 1948, received the prestigious "Driver of the Year Award" from The Ontario Motor Coach Association in 1988. During his career, Lou has driven more than three million miles for Greyhound. (Left: Tony Lind, Greyhound Regional Manager, Toronto; right: Bob Dowd, Chairman of The Ontario Motor Coach Association.)



Lisa Jensen is a Brewster driver for Special Groups. Brewster Transport became part of the Greyhound organization in 1965. The company's history goes back to 1892 and an outfitting and guiding concern established by the Brewster family to guide fishermen staying at the Banff Springs Hotel.



Two generations of service to Greyhound are represented by the Gibb's in London. Ticket agent Bob Gibb has been with Greyhound for 43 years; his son Stephen is the London District Manager.



Report From The President

In this, my first report to the shareholders of Greyhound Lines of Canada Ltd., I will focus on the operations of the bus line. Since joining the company in December, 1988, I have visited a number of Greyhound facilities and met a variety of personnel located across our system.

There was much of interest to see and learn; however, two things in particular impressed me. The first is the incredible enthusiasm and interest of our people in the success of Greyhound; the second, the significance of the infrastructure of facilities and equipment the company has established. Together, the two represent opportunity, for the future of the bus line lies in both.

During the past year, it appears that we have seen a bottoming-out of the decline experienced in passenger revenues in the past two years. Growth has been evident, particularly in the last quarter of 1988, which brought an increase in passenger revenues over the same period in 1987. Although still in its beginning stages, this turn-around is undoubtedly the result of a settling-in of the impacts of airline deregulation in Canada.

Airline deregulation created unusual forces on the price-value relationships of public transportation. During the airlines' seat-sale wars, the relationship of price to distance and travel time grew out of balance. In some instances, Greyhound's prices simply could not compete with airline prices, especially when travel time was factored into the relationship. Now, however, with consolidation in the airline industry, we are seeing an upward trend in airline pricing. This will help restore the balance in the price-value relationship for motor coach operations. In many travel situations, consumers will readily sacrifice speed for reasonable prices; hence, value will again be seen in Greyhound travel.

To reinforce the price-value relationship of Greyhound travel, we must continue to improve the general comfort level for our passengers. We are doing this in many ways. New services and special equipment are being developed, tested and introduced. A reservation and seat selection system has been introduced on a regional basis. Complimentary, onboard snack and refreshment service is being expanded. Our operating network is being rescheduled to respond more closely to the regional travel patterns and needs of consumers. We are developing new products for special passenger markets such as college students and seniors.

We are constantly reviewing our products, services and equipment so that we can provide the highest level of service to our passengers. In doing so, we are aggressively positioning Greyhound against other modes of transportation.

In Greyhound charter operations, we are beginning to see significant increases in business volume. We will continue to develop new business in charters and focus on improving traditionally slow periods, spreading charter business more evenly throughout the year.

The unique advantage that the Greyhound route network gives our Courier Express operations will continue to be used to expand this sector of our business. In the past five years, Courier Express revenues have grown by more than 33%. To accommodate this and future growth, we are introducing automation to help cope with increasing express volumes.

As in the past year there have been many changes in our operations, the future will bring continued change to keep pace with the changing environment in which we operate.

Greyhound is customer-driven. Our objective is to provide our customers with more efficient, more competitive and more value-added services. At all levels, Greyhound personnel — employees, agents, and agents' employees — will play a vital role in participating in the achievement of our objective.



A handwritten signature in black ink, which appears to read "Dick Huisman". The signature is written in a cursive, flowing style.

Dick Huisman
President & Chief Executive Officer

Greyhound Passenger & Charter

Combined passenger and charter revenues increased in 1988 to \$88,173,097 compared to \$86,115,512 in 1987. The increase is attributed to a significant improvement in charter revenues.

Passenger revenues again experienced a decline, from \$77.216 million in 1987 to \$76.182 million; however, this decline was not as great as in the previous year.

In passenger operations in 1988, we concentrated on increasing operational efficiency through capacity and yield management, improving the comfort level of passengers, and introducing new products tailored to specific consumer groups.



Our computerized charter reservation system is helping Greyhound provide better service to charter customers. Donna Mitchell is a charter reservations operator at Calgary.

Several regional promotions were successfully tested in 1988 and will be expanded in 1989; these promotions were often tied to specific attractions or events. We continued to offer passengers more complete travel services. Hotel and bus travel packages, which were tested in 1987, were continued last year and resulted in incremental passenger increases. Providing service to connect bus passengers from nearby centres to airports also met with good customer response.

A major initiative, which received overwhelming approval from our passengers, was the system-wide implementation of non-smoking service on all schedules. In surveys, 85% of our passengers supported this leadership action by Greyhound.

During the busy summer travel season, connecting passenger operations in Ontario were disrupted by the Voyager bus strike in Ontario and Quebec.



Jim Knight, Chairman of Greyhound, presenting a plaque of appreciation to Yasumine Yamaguchi, General Manager of the Vancouver office of JTB International, a major tour wholesaler. Japan Travel Bureau is the largest travel organization in the world. Left to right: Tak Onaga, Manager Purchasing and Reservations, JTB; Jack Sheneman, Vice President Passenger & Charter Marketing, Greyhound; Yasumine Yamaguchi, JTB; Jim Knight; Katherine Morgan, Charter Manager, Western Region, Greyhound; Hidi Nishi, Managing Director, Iwata Tours.



Charter revenues, which were \$8.899 million in 1987, increased by more than \$3 million to \$11.991 million in 1988. The impact of the 1988 Winter Olympic Games is evident in these figures; Olympic contracts provided close to \$2 million in charter business.



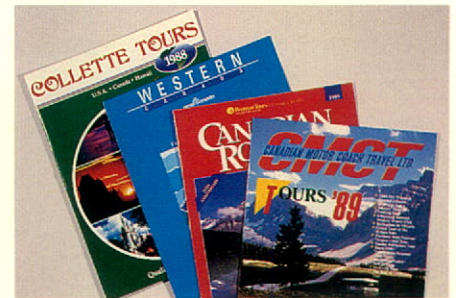
With only 29 seats, the Chauffeur coach offers a "business class" service with many amenities for the comfort of passengers.

Growth in charters was achieved predominantly by pursuing the tour operators' market. Emphasis was on major tour operators in the United States, the Pacific Rim, the United Kingdom and Europe, taking advantage of the continuing popularity of destinations such as southwestern Ontario and the Canadian Rockies.



Greyhound's new Chauffeur service will be introduced early in 1989 on the busy Calgary-Edmonton express route.

In the future, the continuing growth of tourism and the increase in leisure time of mature adults will have favourable impacts on the activities of both passenger and charter operations.



Through its co-op advertising program, Greyhound financially supports the marketing and advertising efforts of tour operators utilizing Greyhound as exclusive carrier.



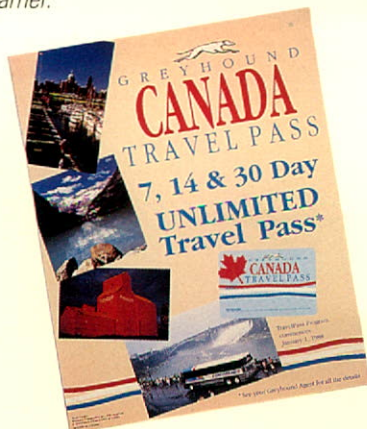
In December 1988, the Harlem Globetrotters began their five-month North American tour with Greyhound Canada as their official charter carrier.



Seat selection was introduced last fall on passenger schedules originating in Vancouver, Edmonton, Calgary and Winnipeg.



Passenger ticket counter at Abbotsford.



In 1988, Greyhound introduced the new Canada Travel Pass which offers unlimited travel, single-price fares for seven, 14 or 30-day periods.



New Abbotsford, B.C. terminal was completed in 1988.

Greyhound Courier Express

In 1988, Greyhound Courier Express revenues increased 12.1% over 1987 revenues to \$42,025,081. This increase can be attributed to several factors, including improvements in service efficiency, the introduction of new products, an aggressive marketing and advertising program, and the residual effects of a nation-wide postal strike in October, 1987.

We continued to build on the unique advantage our bus line route network provides Courier Express operations, expanding business by working with our more than 550 agency locations throughout the bus system.

We are working closely with our agents, helping them recognize and take advantage of local business opportunities. Particularly in smaller urban centres, the initiative of our local Greyhound agents can have a substantial impact on the use of Courier Express services by local businesses. Local pickup and delivery services were added at many locations. By year end, over 100 locations offered this service which will be expanded further in 1989.



Reliable, dependable service is critical for many time-sensitive shipments made by Greyhound Courier Express customers.



A new Courier Express depot was opened in Richmond, B.C. during 1988.

During the year, major operational changes were made to improve consistency, reliability and dependability of service. In some markets, service schedules were increased. Where warranted, truck routes were added to handle increased volumes. Our truck fleet is now virtually 100% containerized.

During 1988, we successfully tested guaranteed, same-day service between Calgary and Edmonton. This service will be expanded to include other high-density city pairs in 1989. As well, door-to-door service was enhanced with the introduction of more simple and competitive rates.

The Voyageur bus strike in Ontario and Quebec disrupted our interline shipments during the spring and summer months.

The competitive atmosphere and increased service expectations of customers, combined with more just-in-time inventory stocking and the reduction of warehouse locations among distributors, are keeping the courier market buoyant but competitive. Courier Express is well positioned to become an even stronger player in this market.



In 1988, four 52-foot trailer units were added to the Courier Express truck fleet.



Bill Steed, Courier Express agent at Richmond depot.

Brewster Transport Company Limited

In 1988, Brewster Transportation & Tours, the operating division of Brewster Transport Company Limited, maintained profitability and its leadership role in the expanding tourism industry in western Canada.

The 1988 Winter Olympic Games had positive impacts, both direct and indirect. Brewster's bus charter and hotel revenues during February topped \$1,000,000 as a direct result of the Olympics. With the Olympics successfully raising the profile of Calgary, the Rocky Mountains and western Canada as international destinations, the indirect benefits of the Olympics will be experienced by Brewster, and by the tourism industry as a whole, for years to come.

The company effectively expanded into a complimentary business area during the past year, with the announcement of Brewster's entry into the ski business. Brewster will acquire a 50% interest in the Mount Norquay ski area and, by 1990, will be directly involved in the operation of this highly popular ski area which is located just outside the Banff townsite.

As the majority of our business volume is experienced during the short summer season, it is important that we expand our activities during winter months. The Norquay ski operation acquisition will enable us to make more efficient use of our human and equipment resources during the winter season.

Our group and independent package tour programs both experienced growth in 1988. The group tour program again drew most of its business from the North American market. In the package tour program, business increased from the United Kingdom and New Zealand as well as from Eastern Canada.



*Dave Morrison
President & Chief Executive Officer
Brewster Transport Company Limited*



*Urs Meyre, member of Brewster's professional
maintenance team.*

To facilitate growth in the package tour segment of our business, Brewster continued its fleet modernization program with the addition of ten MCI 102C3 tour coaches in December, 1988. Our fleet now totals 60 coaches.

In 1988, our Columbia Icefield Snowmobile Tour passenger volume recovered from the decline experienced in 1987. It now appears that the 1987 decrease was an anomaly, created by the unprecedented passenger volume carried in 1986 during Vancouver's EXPO celebrations. The tour operating season, which is totally dependent on weather and snow conditions, was successfully extended into October this past year to meet increased demand from major international tour wholesalers. In June 1989, we expect to take delivery of two new snowmobiles and three new shuttle buses which will allow us to provide improved customer service during peak periods.



Occupancy levels increased slightly at the Mount Royal Hotel in Banff and the Columbia Icefield Chalet. As well, during the past year we continued our facilities upgrading program at the Mount Royal Hotel.

Responding proactively to fast-changing developments in the tourism industry is key to the successful operation of Brewster. We are constantly changing our products — adding, deleting and fine-tuning our tour and package details — in order to effectively and competitively meet the needs of our customers.

Naturally, as tourism in western Canada increases, so does the competition to provide products and services to this growing market. As one of the oldest, most experienced and well respected tour operators in western Canada, Brewster is well positioned to meet the growing challenges and opportunities of the tourism industry.



Banff continues to maintain its world-class resort status and is the most popular year-round tourist destination in western Canada.



Julee McDonald, manager of the cafeteria at Brewster's Banff terminal.

Motor Coach Industries Limited

The past year was an excellent sales and profit year for Motor Coach Industries Limited. The MCI brand continued to strengthen its position as the volume leader in the North American intercity coach market.

MCI's sales to Canadian customers increased dramatically in 1988, up 46% over 1987, in a market that, influenced by the Canadian government's investment tax credit program, increased by 19%. In 1988, MCI further improved its significant leadership edge in the Canadian market.

Our luxurious, new MCI intercity tour coach, Model 102C3, has been a sales success from the outset and represented 37% of our coach production in 1988, its first full year on the market.



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

In 1988, engineering development of the new Model 102C3SS tour coach was completed. A sister to the 102C3, which has an exterior that can be completely painted, the 102C3SS features highly durable, smooth stainless steel lower sidewall panels. Deliveries of the stainless steel tour coach began in January 1989. Considering the strong customer response to these two models, production of the 102C3 and the 102C3SS is forecast to account for as much as 75% of MCI's production in 1989.

Development of a new generation of the MCI wheelchair lift took place in 1988 and a prototype unit was completed. First deliveries of new generation wheelchair lift coaches began in March 1989.

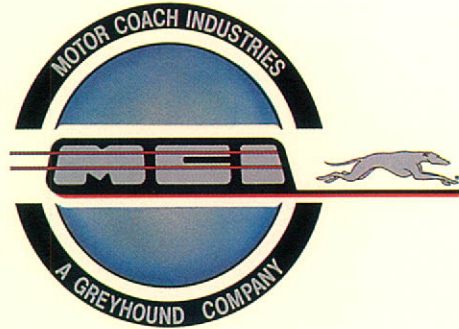
In May 1988, MCI received a \$960,000 Research and Development contract from Transport Canada for the design and engineering of the prototype for a new 45-foot intercity coach with improved accessibility for disabled passengers. Five feet longer than conventional intercity buses, the new model can accommodate up to eight additional passengers. One passenger section can be converted to provide extra baggage or cargo capacity.



Bob Koerner at Frank Fair Industries removing a finished vacuum-formed fiberglass panel which will become the underside of the parcel rack, housing the passenger reading lamp and air distribution system.



The first MCI 102C3SS tour coach, used as a demonstration model by the Canadian sales division. This model has highly-durable polished stainless steel lower side panels, especially suitable for harsh climatic conditions.

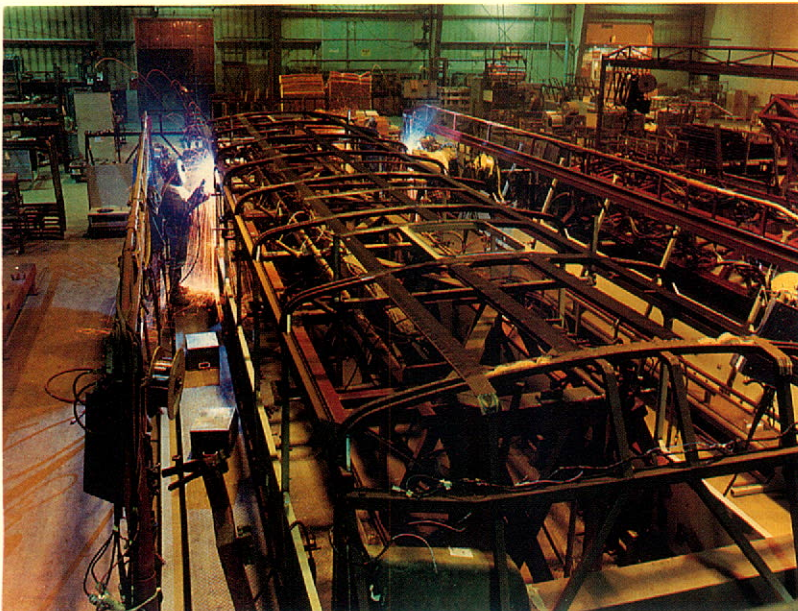


MCI also introduced a new corporate identity in 1988, exemplified in our new logo in the new corporate colors of "Motor Coach blue, silver and red". We also introduced a new company motto: "Our Pride is in Every Product". Pride in the company's 57-year history as a Winnipeg manufacturer was displayed in a print advertising campaign chronicling the origins of the company and its place as the North American industry leader in intercity coach manufacturing.

A significant expansion of our Service Parts facilities in Winnipeg and Newcastle, Ontario in 1988, effectively doubled our capacity.

In a move designed to improve the efficiency of operations in 1988, the company made several significant changes to strengthen its senior and middle management organizational structure. Another important action was the signing of new three-year labour contracts with our Winnipeg manufacturing and shell production plants and with the company's affiliated final assembly plant in Pembina, North Dakota. A new two-year labour contract was also entered into with Winnipeg-based Frank Fair Industries, a sister company which produces fibreglass and plastic components for MCI's bus operations. Achieving long-term contracts ensures uninterrupted performance by the Canadian operations and allows effective planning.

For 1989, MCI is forecasting increased sales, due to the strong customer response to our new tour coach models and an improved customer business outlook in the tour and charter markets. The positive reaction from Canadian intercity coach operators to the new 102C3SS tour coach has already resulted in a large volume of orders for 1989 delivery.



Welders in MCI's Fort Garry plant work on an upper frame assembly.



A 102C3 tour coach with fully paintable exterior body panelling.

Consolidated Statement of Financial Condition as at December 31, 1988

| Assets | 1988 | 1987 |
|---|----------------------|----------------------|
| Current | | |
| Cash and short-term deposits | \$ 5,788,409 | \$ — |
| Accounts receivable | 17,599,600 | 14,603,059 |
| Due from affiliated companies | 3,747,679 | 8,213,766 |
| Inventories | 31,951,410 | 28,091,744 |
| Prepaid expenses and other current assets | 2,172,539 | 1,997,586 |
| | <u>61,259,637</u> | <u>52,906,155</u> |
| Property and equipment, at cost | | |
| Land | 33,675,454 | 33,660,053 |
| Buses | 60,710,657 | 62,244,983 |
| Buildings | 57,203,382 | 56,292,101 |
| Equipment | 26,362,107 | 24,266,742 |
| | <u>\$177,951,600</u> | <u>176,463,879</u> |
| Less accumulated depreciation | 61,101,474 | 56,672,347 |
| | <u>116,850,126</u> | <u>119,791,532</u> |
| Other | | |
| Notes and other receivables | 17,469,384 | 10,631,975 |
| Investment in preferred shares | 924,910 | 3,241,382 |
| Intangibles, at cost | 3,864,847 | 3,871,813 |
| | <u>22,259,141</u> | <u>17,745,170</u> |
| | <u>200,368,904</u> | <u>\$190,442,857</u> |
| Liabilities and Stockholders' Equity | | |
| Current | | |
| Bank overdraft | \$ — | \$ 389,448 |
| Accounts payable and accrued expenses | 19,574,947 | 17,470,869 |
| Accrued compensation | 9,416,438 | 8,036,670 |
| Income taxes | 1,436,224 | 1,972,223 |
| Due to affiliated companies | 4,404,213 | 1,053,544 |
| | <u>34,831,822</u> | <u>28,922,754</u> |
| Long-term debt (Note 2) | — | 10,000,000 |
| Reserve for injuries and damages | 1,053,019 | 1,030,484 |
| Pension obligations | 5,376,270 | 5,818,936 |
| Deferred income taxes | 16,068,672 | 14,060,695 |
| | <u>57,329,783</u> | <u>59,832,869</u> |
| Contingencies (Note 3) | | |
| Stockholders' equity (Note 4) | | |
| Common stock | 7,955,056 | 7,955,056 |
| Retained income | 135,084,065 | 122,654,932 |
| | <u>143,039,121</u> | <u>130,609,988</u> |
| Signed on behalf of the Board | <u>\$200,368,904</u> | <u>\$190,442,857</u> |

Signed on behalf of the Board



J.A. Knight, Director



D. Huisman, Director

Consolidated Statement of Income for the Year Ended December 31, 1988

| | 1988 | 1987 |
|---|----------------------|----------------------|
| Operating revenues | \$263,382,692 | \$240,844,609 |
| Operating costs and expenses | <u>228,783,208</u> | <u>210,600,712</u> |
| Operating income | 34,599,484 | 30,243,897 |
| Interest and other income | 6,287,881 | 4,879,089 |
| Unusual gain (Note 9) | 1,153,000 | — |
| Gain on disposal of property and equipment | 347,611 | 674,765 |
| Income before income taxes | <u>42,387,976</u> | <u>35,797,751</u> |
| Provision for income taxes (Note 5) | | |
| Current | 17,782,023 | 16,368,172 |
| Deferred | 2,007,977 | 1,777,109 |
| | <u>19,790,000</u> | <u>18,145,281</u> |
| Net income | <u>\$ 22,597,976</u> | <u>\$ 17,652,470</u> |
| Net income per share, based upon average number of shares outstanding | <u>\$2.67</u> | <u>\$2.08</u> |

See accompanying notes



Consolidated Statement of Stockholders' Equity for the Year Ended December 31, 1988

| | 1988 | 1987 |
|--|-----------------------|-----------------------|
| Common stock, no par value, unlimited number of shares authorized (Note 4) | \$ 7,955,056 | \$ 7,955,056 |
| Retained income | | |
| Balance at beginning of year | \$ 122,654,932 | \$ 115,171,305 |
| Net income | 22,597,976 | 17,652,470 |
| Cash dividends paid, \$1.20 per share (1987 - \$1.20 per share) | <u>(10,168,843)</u> | <u>(10,168,843)</u> |
| Balance at end of year | <u>\$ 135,084,065</u> | <u>\$ 122,654,932</u> |
| See accompanying notes | | |

Consolidated Statement of Changes in Financial Position for the Year Ended December 31, 1988

| | 1988 | 1987 |
|--|------------------------|-----------------------|
| Summary | | |
| Cash was provided by (used in) | | |
| Operations | \$ 23,914,934 | \$ 8,002,629 |
| Investments | (3,216,140) | (8,251,823) |
| Financing | <u>(14,520,937)</u> | <u>(2,428,732)</u> |
| Increase (decrease) in cash | 6,177,857 | (2,677,926) |
| Cash (bank overdraft) at beginning of year | (389,448) | 2,288,478 |
| Cash (bank overdraft) at end of year | <u>\$ 5,788,409</u> | <u>\$ (389,448)</u> |
| Operations | | |
| Cash provided by (used in) operations | | |
| Net income | \$ 22,597,976 | 17,652,470 |
| Depreciation and amortization | 6,512,123 | 5,886,376 |
| Deferred income taxes | 2,007,977 | 1,777,109 |
| Provision for injuries and damages | 22,535 | 253,372 |
| Gain on disposal of property and equipment | (347,611) | (674,765) |
| Net difference between pension expense and amount funded | <u>(442,666)</u> | <u>133,364</u> |
| | 30,350,334 | 25,027,926 |
| Change in operating net current assets | 3,733,443 | (6,856,454) |
| Dividend | <u>(10,168,843)</u> | <u>(10,168,843)</u> |
| | <u>\$ 23,914,934</u> | <u>\$ 8,002,629</u> |
| Investments | | |
| Cash (used in) provided by investing activities | | |
| Acquisition of property and equipment | \$ (4,517,312) | \$ (9,405,238) |
| Proceeds from disposal of property and equipment | 1,301,172 | 1,127,269 |
| Reclassification of investment | — | 225,000 |
| Goodwill acquired | <u>—</u> | <u>(198,854)</u> |
| | <u>\$ (3,216,140)</u> | <u>\$ (8,251,823)</u> |
| Financing | | |
| Cash provided by (used in) financing activities | | |
| Change in long-term debt | \$ (10,000,000) | \$ (2,000,000) |
| Redemption of preferred shares investments | 2,316,472 | 663,569 |
| Increase in long-term note receivable | <u>(6,837,409)</u> | <u>(1,092,301)</u> |
| | <u>\$ (14,520,937)</u> | <u>\$ (2,428,732)</u> |
| See accompanying notes | | |

Auditors' Report

The Shareholders
Greyhound Lines of Canada Ltd.

We have examined the consolidated statement of financial condition of Greyhound Lines of Canada Ltd. as at December 31, 1988 and the consolidated statements of income, stockholders' equity 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, 1988 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.

Notes to the Consolidated Financial Statements December 31, 1988

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% - 32.5% |

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. Long-Term Debt

The Company has available, unsecured, revolving lines of credit of \$41,500,000 convertible into term loans repayable in equal monthly installments over a three- to five-year term with interest calculated at prime rate until conversion date and prime rate plus ¼% for the term period following.

| | | |
|--|-------------|----------------------|
| | 1988 | 1987 |
| Banker's acceptances at 8.67% due January 20, 1988 | \$ — | \$ 10,000,000 |
| | <u>\$ —</u> | <u>\$ 10,000,000</u> |

Total interest incurred on loans and the bank overdraft was \$1,095,241 (1987 - \$1,068,945).



3. Contingencies

Income Taxes

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.

Letters of Credit

At December 31, 1988, the Company had outstanding letters of credit and letters of guarantee amounting to approximately \$960,000.

4. Stockholders' Equity

Common stock issued and outstanding at December 31, 1988 was 8,474,036 (1987 - 8,474,036).

During 1988, 1,900 share options were cancelled, and 95,400 were issued leaving option grants outstanding and exercisable as at December 31, 1988 on 121,700 (1987 - 28,200) shares at a weighted average price of \$23.70 (1987 - \$25.50) per share. Under a new Stock Option and Incentive Plan, 200,000 shares are reserved for future issuance. At December 31, 1988, a total of 78,300 (1987 - 159,400) shares are available for future option grants under the plan.

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:

| | 1988 | 1987 |
|--|----------------------|----------------------|
| Computed income taxes at statutory federal and provincial income tax rates | \$ 20,514,000 | \$ 18,637,000 |
| Manufacturing and processing profits deduction | (820,000) | (960,000) |
| Permanent differences | (71,000) | (165,000) |
| Reassessments and other items | 167,000 | 633,000 |
| Provision for income taxes | <u>\$ 19,790,000</u> | <u>\$ 18,145,000</u> |

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 \$1,173,000 (1987 - \$1,155,000).

At the date of the most recent actuarial valuations, January 1, 1988, 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 | \$37,273,000 |
| Non-vested | <u>6,705,000</u> |
| Total projected benefit obligations | <u>\$43,978,000</u> |
| Market value of pension trust fund net assets | <u>\$52,834,000</u> |
| Plan assets over projected benefit obligations | <u>\$ 8,856,000</u> |

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:

| | 1988 | 1987 |
|------------------------------------|----------------|----------------|
| Operating revenues | | |
| Transportation | \$ 153,064,481 | \$ 142,387,058 |
| Manufacturing | | |
| Unaffiliated | 55,984,816 | 37,235,981 |
| Affiliated | 54,333,395 | 61,221,570 |
| Inter segment | 5,790,127 | 12,137,988 |
| | 116,108,338 | 110,595,539 |
| Adjustment and eliminations | (5,790,127) | (12,137,988) |
| | 110,318,211 | 98,457,551 |
| Consolidated operating revenues | \$263,382,692 | \$240,844,609 |
| Operating Income | | |
| Transportation | \$ 17,572,224 | \$ 17,374,953 |
| Manufacturing | 15,691,800 | 11,527,369 |
| Adjustments and eliminations | 1,335,460 | 1,341,575 |
| | 17,027,260 | 12,868,944 |
| Consolidated operating income | 34,599,484 | 30,243,897 |
| Other corporate income and expense | (12,001,508) | (12,591,427) |
| Consolidated net income | \$ 22,597,976 | \$ 17,652,470 |
| Other information | | |
| Assets | | |
| Transportation | \$ 133,262,783 | \$ 135,009,492 |
| Manufacturing | 67,106,121 | 55,433,365 |
| | \$200,368,904 | \$190,442,857 |
| Capital expenditures | | |
| Transportation | \$ 3,345,092 | \$ 7,838,764 |
| Manufacturing | 1,172,220 | 1,566,474 |
| | \$ 4,517,312 | \$ 9,405,238 |
| Depreciation | | |
| Transportation | \$ 5,486,134 | \$ 4,830,984 |
| Manufacturing | \$ 1,025,989 | 1,055,392 |
| | \$ 6,512,123 | \$ 5,886,376 |

Inter segment sales have been made on the same basis as transactions with unrelated parties. Export sales to the United States aggregated \$54,333,395 (1987 - \$61,221,570).

8. Related Party Transactions

Operating costs and expenses include purchases and bus completion charges from affiliated companies in the amount of \$26,559,075 (1987 - \$15,140,876) which is net of a recovery of costs from an affiliated company in the amount of \$1,177,982 (1987 - \$1,874,701). Also included are management and administration fee charges from affiliated companies of \$1,047,735 (1987 - \$854,203) and management and administration fee charges recovered from affiliated companies in the amount of \$4,213,862 (1987 - \$1,919,233).

9. Unusual Gain

During the year, 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 has been included in the Company's income for 1988.

10. Lease Commitments

The Company has entered into two operating leases for computer equipment expiring in June 1992. The aggregate lease obligation is \$1,658,000 and the annual lease payments required for the next four years are as follows:

| | |
|------|-----------|
| 1989 | \$520,000 |
| 1990 | \$520,000 |
| 1991 | \$520,000 |
| 1992 | \$ 98,000 |



Directors and Officers

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 and 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
The Greyhound Corporation
Phoenix, Arizona

Officers

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

Dick Huisman
President & Chief Executive Officer

Bruce J. Elmore, C.A.
Vice President, Finance & Corporate Secretary

Robert N. Parke
Vice President, Traffic & Government Relations

Bruce B. Tyson
Vice President,
Transportation & Labour Relations

Jack D. Sheneman
Vice President, Passenger & Charter Marketing

Ronald G. Nelson
Treasurer

Frederick G. Emerson
Assistant Secretary

Stock Transfer Agent & Registrar

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

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



Greyhound Lines of Canada Ltd.

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