

KAPS

for TOTAL service

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MCGILL UNIVERSITY

KAPS

**TOTAL SERVICE IN THE
ARCTIC, ALASKA, YUKON,
NORTHWEST TERRITORIES,
WESTERN CANADA.**

TRANSPORTATION

LAND

Trucking
All terrain
vehicles
Tracked
vehicles
Cat trains
Containers
Oil field
hauling

MARINE

Tugs
Barges
Self-
propelled
barges
Seismic
boats

AIR

Passengers
Cargo
Executive
travel
Helicopters
Hovercraft

SUPPORT SERVICES

Camps
Catering
Air strips
Docks
Fuel storage
Radio bases
Storage
yards
Road
building
Equipment
Containers
Emergency
services

MANUFACTURING

Design, man-
ufacture,
installation
of oil field &
gas process-
ing equip-
ment.
Turn-key
jobs.
Special jobs.

ADDITIONAL SERVICES

- Big-inch pipeline construction
- Sale and rental of used heavy equipment and spare parts
- Gravel crushing for roads, railroads, storage yards
- Innovative services - design, manufacture, transportation, installation



TRANSPORTATION • LAND

OVER 350 UNITS OF ON- AND OFF-HIGHWAY EQUIPMENT

- Oilfield hauling over all terrains • Pipehauling and stringing • Transportation of men and materials • Transportation of construction equipment •

OPERATING AUTHORITIES:

ALASKA

Interstate: All locations except Panhandle

Intrastate: All zones except 1, 2 and 8 [Panhandle & Kodiak Island]

Alaska State Commission Authority & Interstate Commerce Commission
[Covers all freight except household goods]

YUKON, NORTHWEST TERRITORIES, ALBERTA, SASKATCHEWAN,
MANITOBA, ONTARIO

Complete general merchandise authority

BRITISH COLUMBIA

Oilfield equipment and supplies north of Dawson Creek

INTERPROVINCIAL AUTHORITY

British Columbia, Alberta, Yukon, Northwest Territories, Saskatchewan,
Manitoba and Ontario

KAPS TRANSPORT LTD., EDMONTON, ALTA. - 9303-51st Avenue,

Ph. 435-3861 [403]

TWX 037-2073

KAPS TRANSPORT LTD., HAY RIVER, NORTHWEST TERRITORIES

Ph. 874-2519 [403]

TWX 034-4225

KAPS TRANSPORT LTD., FORT ST. JOHN, BRITISH COLUMBIA

Ph. 785-2513 [604]

TWX 036-75114

KAPS TRANSPORT LTD., INUVIK, NORTHWEST TERRITORIES

Ph. 979-2150 [403]

TWX 034-44529



TRANSPORTATION • MARINE

We have: 2 - 400-ton Home Trade Tugs [a Bell Helicopter is carried for ice reconnaissance] • 4 - shallow draft river tugs to meet every need • 2 - 150-ton seismic vessels • 2 - 200-ton self-propelled barges • 5 - 1,000-ton barges • 12 - 800-ton barges • 6 - 400-ton barges • 3 small sectional barges [transportable] •

Note: Barges have double sidewalls to prevent oil spills.

Cargo is deck-loaded in pallets or in containers of 14,000 lbs. capacity. Used where storage facilities are not available, till freeze-up or on-going shipment, on a rental basis.

Remember: The shipping season on the Mackenzie River is only 120 days and on the Beaufort Sea, up to 50 days.

KAPS TRANSPORT LTD., EDMONTON, ALTA. -9303 - 51st Avenue,
Ph. 435-3861 [403]
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TWX 034-4225

KAPS TRANSPORT LTD., INUVIK, NORTHWEST TERRITORIES
Ph. 979-2150 [403]
TWX 034-44529



TRANSPORTATION • AIR

MACKENZIE AIR LTD., EDMONTON, ALTA.

Control Base - Hangar No. 3, Industrial Airport
Ph. 479-5946 TWX 037-3419 Hay River: Ph. 874-2505

We have: 2 - Fairchild F27 Turbos, full cargo of 10,000 lbs., 40-passenger standard seating, 26-passenger executive style • Stretch Lear Jet 25, 2,000 lbs. cargo, 9 passengers, Medivac-equipped, high altitude photo equipment, certified for gravel strips • Dornier D0-28, twin-engine STOL capabilities, wheel, skis, floats, 6-passenger, 1,000 lbs. cargo • Piper Aztec, twin engine utility aircraft, 5-passengers, 1,000 lbs. cargo • Voyageur Air Cushion Vehicle [Hovercraft], fully amphibious over water, land, ice, snow, and marginal terrain such as beaches, marshland, tundra. Payload 20 tons, deck size 40' X 35' to accommodate oversize containers.

SHIRLEY HELICOPTERS LTD., EDMONTON, ALTA.

Control Base — Hangar No. 3, Industrial Airport

We have, for seismic, freight, personnel, ice reconnaissance: 2 - Bell 206 Turbines, 1,000 lbs. cargo, 4 passengers • 1 - Bell 47, 700 lbs. cargo, 2 passengers.

KAPS TRANSPORT LTD.

9303 - 51st Ave., Edmonton, Alta.
Ph. [403] 435-3861 TWX 037-2073



SUPPORT SERVICES

CAMPS: Our own and operated for customers, complete camp facilities including catering.

AIRSTRIPS: Building, operating, maintenance, cargo handling, fueling service, radio facilities, accommodation.

STORAGE YARDS: Gravel base, loading docks, cargo handling equipment, containers, undercover storage, fuel storage, mechanics, operators, radio facilities.

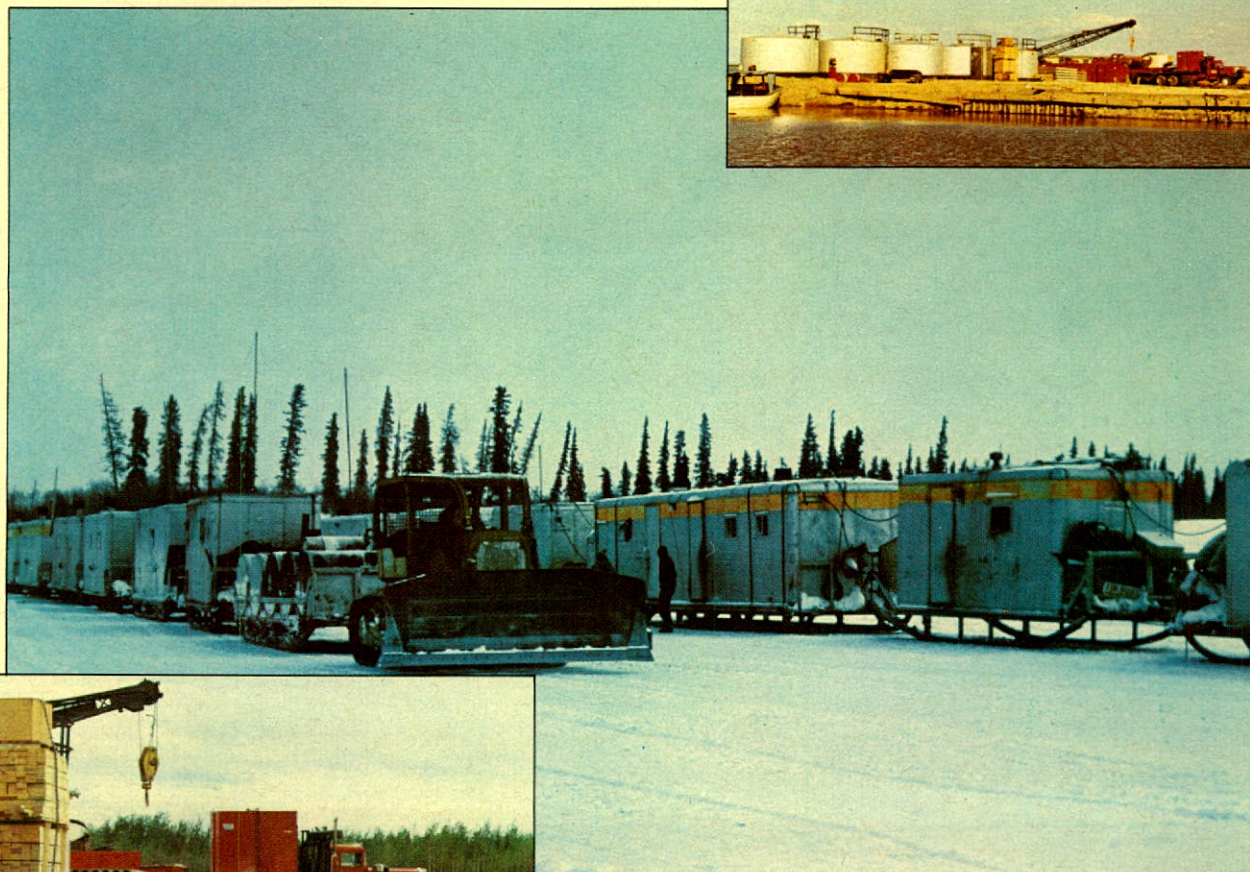
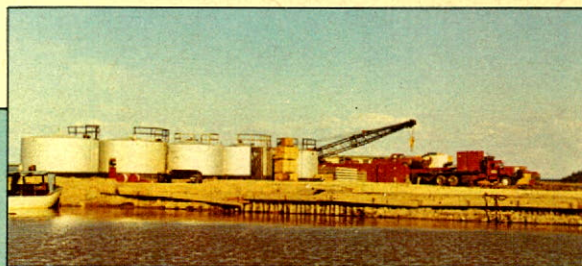
DOCKS: Built, operated, maintained. Complete loading and storage facilities.

ROAD BUILDING: Construction of off-highway roads.

DRILLING RIGS: Moving, erecting and dismantling, personnel and supply transportation.

EMERGENCIES: Rush transportation for men, parts and supplies, air ambulance.

KAPS TRANSPORT LTD.,
9303 - 51st Avenue,
Edmonton, Alberta.
Ph. [403] 435-3861
TWX 037-2073



MANUFACTURING

KAPS MANUFACTURING LTD.

Kaps Manufacturing Ltd. is a fully integrated steel fabricator serving the petroleum, petrochemical, and marine industries, with manufacturing, field service crews, design engineering, and turnkey construction. With a modern fully equipped shop of 32,000 square feet, located in Edmonton, Alberta, scope of manufacture is wide and varied. Manufacturing capabilities are utilized in the design, fabrication and field construction of process equipment, gas dehydration plants, amine plants, secondary recovery plants, treating plants, compressor stations, pumping stations, pipeline work, and bolted and welded steel tankage.

In addition, shop fabrication includes custom built pressure vessels, pipe spooling, structural items, including barges, tugs, and specialty items such as flare stack ignition systems, and arctic snow melters.

Field crews are all equipped with one-ton trucks completely equipped with field tools, gin poles and winches. Each foreman is experienced in all phases of construction, from earth moving to start-up.

A complimentary aspect of the organization is the Engineering Staff responsible for design, supervisory construction and assisting in start-ups. On staff are chemical, mechanical, civil, and metallurgical engineers with years of related experience.

KAPS MANUFACTURING LTD.

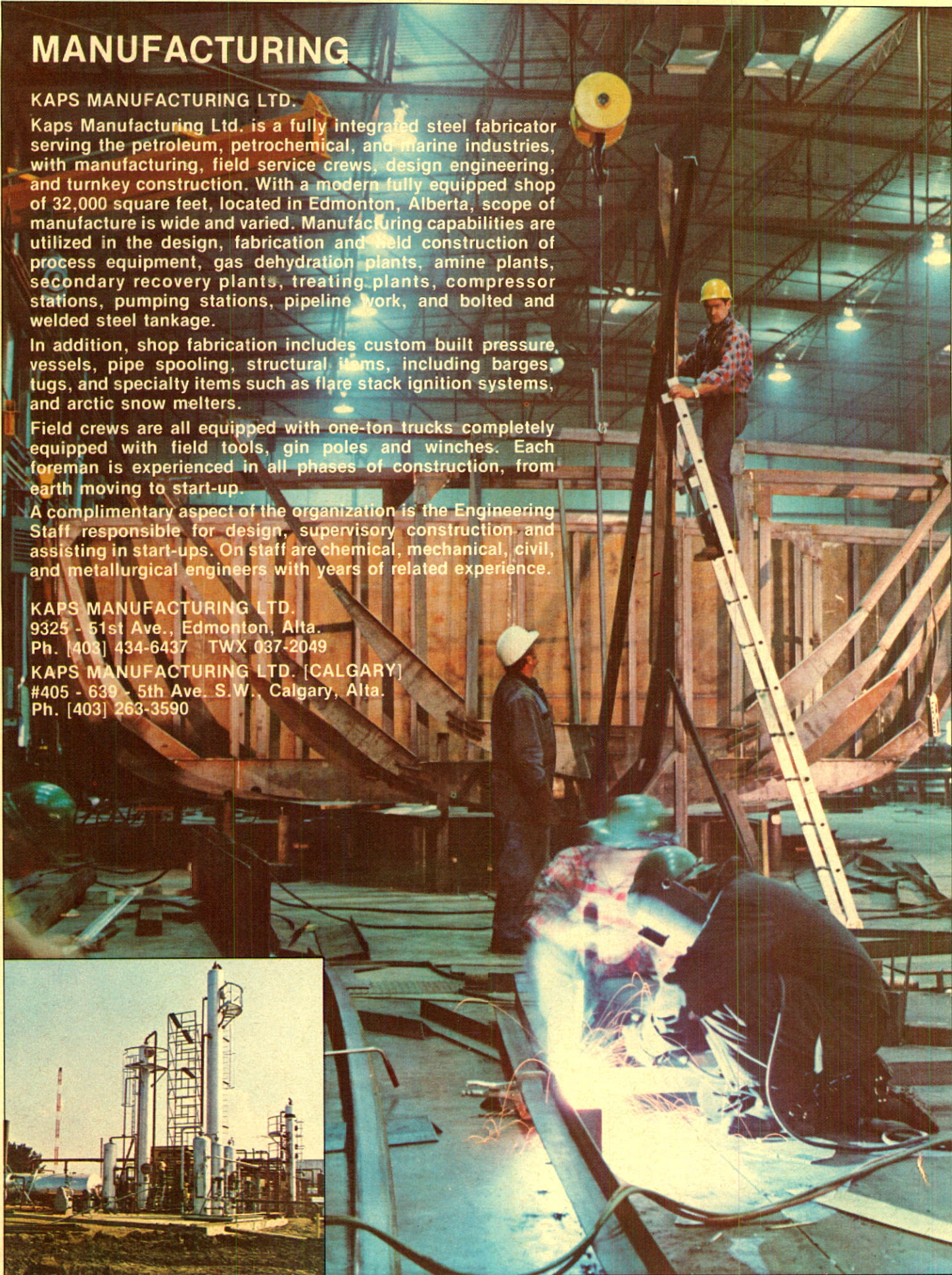
9325 - 51st Ave., Edmonton, Alta.

Ph. [403] 434-6437 TWX 037-2049

KAPS MANUFACTURING LTD. [CALGARY]

#405 - 639 - 5th Ave. S.W., Calgary, Alta.

Ph. [403] 263-3590



ADDITIONAL SERVICES

KAPS ENTREPOSE LTD.

Incorporated in Alberta by Kaps Transport Ltd., and Entrepose S.A. of France. Fully backed by the finance and expertise of both parent companies, the company is set up to build pipelines to the largest diameter in Western Canada and the Arctic. With Kaps facilities and over 20 years of experience in the Far North, this is a unique pipeline construction company.

Phone: [403] 436-5610
Telex: Kaps Edm. 037-2073
9410 - 51 Ave.
Edmonton, Alberta, Canada

R. R. DALES CONSTRUCTION CO. LTD.

Supplies gravel aggregate to industry and railroads from Ontario to the West Coast, and Yukon and Northwest Territories. Strips overburden, excavates, crushes, screens, washes and stockpiles. Contracts gravel road surfacing.

Phone: [403] 452-4880
11920 - 145 St.
Edmonton, Alberta, Canada

NORCAN PARTS & EQUIPMENT [1965] LTD.

Warehouses and shops in Edmonton and Spokane. Sells and rents used heavy equipment, rebuilt and used parts. Disposes of surplus equipment from Kaps Group.

11241 - 156 Street, Edmonton, Alta.
Ph. [403] 489-4926 TWX 037-3359

NORCAN PARTS & EQUIPMENT [1965] LTD.,
SPOKANE, WASHINGTON, U.S.A.
E. 4331 Trent, Spokane, Washington 99211 [P.O. Box 311]
Ph. [509] 535-6639



INNOVATIVE SERVICES

The history of development in the North has been one of innovation — of overcoming harsh conditions and great distances with what was at hand.

Today, with greater experience of the North, we can plan, design, construct and transport swiftly and economically. We realize that the North, although still harsh, is also fragile, and planning includes protection of the environment.

If you have a problem of transportation, location, construction or whatever — why not give us a call? We may be able to help.

Example: Movement of fuel in the North. To make it more economical we designed and built special trailers with both wheels and skids for use on sand and snow. The skids automatically take over when soft snow is encountered. Each unit contains 4,000 gallons. A fuel hauling train consists of 2 fuel trailers and a trailer for living quarters, all moved by a D-8 Cat.

Call: 435-3861 [403]

TWX 037-2073

or

Write: KAPS TRANSPORT LTD.

9303 - 51 Ave.

Edmonton, Alberta, Canada



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KAPS
ANNUAL REPORT
1973

KAPS TRANSPORT LTD.

ANNUAL REPORT JUNE 30, 1973

DIRECTORS

Reinhold Kapchinsky	Edmonton, Alberta
H. David Kapchinsky	Edmonton, Alberta
Gerhard Kapchinsky	Fort St. John, B.C.
Lorne C. Leitch	Edmonton, Alberta
Richard A. N. Bonnycastle	Calgary, Alberta
Eric Connelly	Calgary, Alberta
G. Richard Chater	Toronto, Ontario
James W. McCutcheon	Toronto, Ontario
Andrew Sarlos	Toronto, Ontario

OFFICERS

Chairman	Reinhold Kapchinsky
President	H. David Kapchinsky
Vice-President	Gerhard Kapchinsky
Vice-President	Walter H. Horton
Secretary	Alan J. Emsley
Treasurer	Alan J. Emsley

REGISTERED OFFICES

9520 - 51st Avenue, Edmonton, Alberta

EXECUTIVE OFFICES

9303 - 51st Avenue, Edmonton, Alberta

TRANSFER AGENT AND REGISTRAR

Royal Trust Company, Edmonton, Vancouver,
Winnipeg and Toronto

STOCK EXCHANGE

Toronto Stock Exchange

BANKERS

Bank of Montreal
Mercantile Bank of Canada

AUDITORS

Thorne Gunn & Co.,
Edmonton, Alberta

ANNUAL MEETING

November 27th, 1973 at 10:00 a.m.
Chateau Lacombe, Edmonton, Alberta.

FINANCIAL HIGHLIGHTS

	1973	1972	1971	1970	1969	1968
Total revenue	\$21,864,000	\$21,927,000	\$16,193,000	\$14,047,000	\$8,034,000	\$6,480,000
Net income (note 1)	\$1,077,000	\$1,405,000	\$736,000	\$1,227,000	\$869,000	\$488,000
Net return (note 2)	3.2%	5.4%	4.5%	8.7%	8.4%	7.5%
Net income per common share						
Before extraordinary income	27.6¢	47.9¢	31.9¢	60.5¢	38.8¢	28.0¢
Extraordinary income	14.5¢	9.2¢			11.2¢	
Net income	42.1¢	57.1¢	31.9¢	60.5¢	50.0¢	28.0¢

Cash flow from operations	\$3,482,000	\$3,575,000	\$2,689,000	\$2,715,000	\$1,486,000	\$967,000
Per common share (Note 2)	\$1.36	\$1.45	\$1.17	\$1.34	\$0.85	\$0.56

Shareholders' equity	\$12,787,000	\$11,928,000	\$10,122,000	\$7,283,000	\$3,172,000	\$2,493,000
Per common share	\$4.99	\$4.70	\$4.15	\$3.36	\$1.82	\$1.43

Working capital	\$1,270,000	\$1,760,000	\$1,370,000	\$1,424,000	\$1,139,000	\$107,000
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Total assets	\$32,431,000	\$28,426,000	\$22,036,000	\$16,094,000	\$10,475,000	\$4,854,000
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Shares outstanding (note 3)	2,557,109	2,459,638	2,306,845	2,027,010	1,740,000	1,740,000
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Note 1 - Including extraordinary income

Note 2 - Excluding extraordinary income

Note 3 - Weighted average common shares outstanding for the year. Common shares outstanding in 1969 and 1968 are adjusted for the 3 for 1 stock split of November, 1969 and all per share figures are adjusted accordingly.

REPORT TO SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to report to you on the results of your company for the past fiscal year. 1973 was a most significant year for your company because during the year a number of long-anticipated events materialized:

1. The Alyeska Pipeline to carry crude from Prudhoe Bay to American markets was approved by the U.S. Senate.
2. Two new projects of major capital proportions for the extraction of oil from the Athabasca Oil Sands were announced.
3. Imperial Oil confirmed the significance of its findings in the Mackenzie Delta. Each of these announcements will mean increased opportunities for the services your company is able to provide.

During the past year Kaps Transport Ltd. has improved its capabilities to capitalize on these opportunities in a number of ways. For example, your company improved its portfolio of fixed assets with certain strategic additions and improvements. Also your company embarked upon a program aimed at developing the more structured management organization now demanded by the size and scope of the company's activities.

Kaps Transport Ltd. remains a unique service company in northern Canada and Alaska as it is the only company able to integrate four modes of transportation service for its customers. The company is strategically located to exploit the opportunities resulting from the imminent start of construction on the Alyeska Pipeline, the commencement of an Athabasca Oil Sands Project and the continuous exploration work in the Mackenzie Delta and the Arctic Islands. The proposed Mackenzie Pipeline and Polar Gas Project continue to offer long term prospects for Kaps Transport Ltd.

It is important for the company's shareholders to recognize that there are many factors, environmental, political and international, that affect the demand for the company's services. As a result, while it is expected that the overall trend for Kaps Transport Ltd. shall be one of growth, the shareholders should expect fluctuations in the company's performance occasioned by these factors. Political uncertainty in the energy field, the delay of the announcements referred to previously and extraordinary environmental conditions all resulted in decreased growth in the demand for transportation services in the North, with the result that Kaps Transport Ltd. in 1973 generated about the same volume of business as it did in 1972. However, increased competition, particularly for ground transportation, reduced the company's profit margins.

Financial Highlights for 1973 versus 1972

Revenues amounted to \$21,864,000 versus \$21,927,000 in 1972

Net profit amounted to \$705,000 or 27.6¢/share versus \$1,179,000 or 47.9¢/share in 1972

Extraordinary profit yielded an additional \$372,000 or 14.5¢/share versus \$226,000 or 9.2¢/share in 1972.

The following is a breakout of the company's divisional gross revenues.

	1973	1972
Transportation	\$ 15,522,000	\$ 14,786,000
Manufacturing	4,665,000	3,628,000
Other	5,873,000	5,085,000
	26,060,000	23,499,000
Interdivision Eliminations ...	4,196,000	1,572,000
Net Reported Revenues	\$ 21,864,000	\$ 21,927,000

Of the \$4,196,000 eliminated for interdivisional transactions in 1973, \$3,288,000 related to the construction of one tug and six barges for Kaps Transport by Kaps Manufacturing and the construction of the Kaps Manufacturing plant by Alberta Equipment Centre.

The decline in net earnings before extraordinary items was the result of decreased operating profits of \$1,423,000 in 1973 versus \$2,316,000 in 1972, resulting from decreased revenues (\$63,000), increased operating costs (\$618,000), increased interest costs (\$138,000) and increased depreciation (\$379,000) on new equipment. Your management reacted to increased costs by reducing its administrative costs \$305,000.

The company's fourth quarter was particularly disappointing with revenues declining from \$5,117,000 in 1972 to \$3,308,000 in 1973 with substantial losses resulting. Cash flow in 1973 was a healthy \$3,854,000 including extraordinary item, versus \$3,801,000 in 1972 calculated on the same basis.

Divisional Reports

A. Transportation

i. Land

As reported earlier, revenues declined in this area of activity as a result of increased competition which we expect will continue in the future.

ii. Marine

During the past year the Company built one ocean-going tug and six barges, bringing its total to 10 tugs and 26 barges. As a result of the recent permit modifications by the Canadian Transport Commission, Kaps Transport is now licensed to carry 18,000 tons of cargo. Since the shipping season runs 100 to 110 days per year allowing 4.5 trips per season, Kaps can carry 81,000 tons per season. For the year ended June 30, 1973 Kaps carried 70,000 tons compared with 55,000 tons in 1972 and 40,000 tons in 1971. Kaps will have carried a reduced volume this current year of approximately 60,000 tons as a result of the rail strike and reduced activity on the river.

iii. Air

Revenue in 1973 increased 57% over the previous year. Mackenzie Air Ltd. received approval of its application for a U.S. Foreign Air Carrier Permit. Also during the year the company applied to the Canadian Transport Commission for permission to operate an F-28. This application is still pending.

B. Manufacturing

During the year Kaps Manufacturing Limited, formerly Moffat Tank Co. Ltd. completed the construction of its new 38,000 sq. ft. manufacturing facility adjacent to the company head office in Edmonton. These facilities represent a 10-fold increase over the facilities that were previously occupied by Moffat Tank Co. Ltd. We believe that Kaps Manufacturing Limited has the largest and most modern manufacturing facilities of this type in Alberta. This plant places the company in an excellent position to construct gas plants, repair compressors and service the company's own marine requirements. The potential volume of business available to Kaps Manufacturing Limited can be significant in the next few years and would serve to lessen the company's dependence on its transportation revenues. During the past year the company incurred certain extra costs associated with the startup of its new facility. Of these costs \$262,000 were deferred and will be written off over a period not to exceed five years.

C. Other

- i. During the year the company sold the goodwill of Harvey Agencies Ltd. for \$416,000, realizing an extraordinary profit of \$372,000 to your company after tax.
- ii. Kaps Transport Ltd. transferred its pipeline business, including all of its pipeline equipment, to Kaps-Entrepose Ltd. which is 50% owned by Kaps Transport. This company has now received its first contract for pipeline construction. Kaps

Entrepose Ltd. also moved into its new offices and repair shop in Edmonton. It is believed that Kaps-Entrepose Ltd. will continue to benefit from the demand for new pipeline construction in Western Canada and the North. During the past year Kaps Entrepose has expended a great deal of time and effort modifying the techniques of underwater pipeline construction, primarily for the Arctic Islands. Kaps' partner in Kaps-Entrepose, Société Entrepose of Paris, France, has had extensive experience in underwater pipeline construction in many parts of the world. Your management feels that there is potential for substantial business of this type.

- iii. Management is continuing to evaluate the relevant returns on investment generated by the companies in the service group to determine the financial contribution on invested capital and the contributions to corporate objectives. It is expected, as opportunities present themselves, that the companies not meeting acceptable criteria will be disposed of.

Management

On February 1st, 1973, Mr. Alan Farmer became President and Chief Executive Officer replacing Mr. Reinhold Kapchinsky who became Chairman of the Board, a position he still retains. Your Board of Directors accepted Mr. Farmer's resignation on July 18th, 1973 and appointed Mr. H. David Kapchinsky as President and Chief Executive Officer of the company.

General

Your company's equity now amounts to \$4.99 per share. This represents in excess of a three fold increase in value over the year that the company's shares were first offered to the public. Kaps Transport Ltd. has an excellent asset base from which to benefit from demand for its services, occasioned by the exploration, extraction or transportation of oil and gas.

November 8, 1973
Edmonton, Alberta

H. David Kapchinsky
President and Chief Executive Officer

AUDITORS' REPORT

To the Shareholders of
Kaps Transport Ltd.

We have examined the consolidated balance sheet of Kaps Transport Ltd. and subsidiary companies as at June 30, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
September 24, 1973

Thorne Gunn & Co.
Chartered Accountants

KAPS TRANSPORT LTD.

[Incorporated under the laws of Alberta]
and subsidiary companies

CONSOLIDATED BALANCE SHEET - JUNE 30, 1973 [with comparative figures at June 30, 1972]

ASSETS	1973	1972
CURRENT ASSETS		
Cash	\$ 162,000	\$ 72,000
Accounts receivable	4,961,000	5,684,000
Agreements receivable (note 2)	670,000	270,000
Income taxes recoverable	127,000	
Inventories (note 3)	3,186,000	2,536,000
Prepaid expenses and deposits	698,000	774,000
	<u>9,804,000</u>	<u>9,336,000</u>
INVESTMENTS		
Joint ventures	641,000	689,000
50% Owned company	393,000	
	<u>1,034,000</u>	<u>689,000</u>
FIXED ASSETS (note 4)		
Land, buildings and equipment, at cost	24,682,000	20,593,000
Less accumulated depreciation	<u>5,773,000</u>	<u>4,533,000</u>
	<u>18,909,000</u>	<u>16,060,000</u>
INTANGIBLES AND DEFERRED CHARGES		
Excess of cost over book value at dates of acquiring shares of subsidiary companies	2,298,000	2,298,000
Deferred development costs	292,000	
Other deferred charges, at cost less amortization	<u>94,000</u>	<u>43,000</u>
	<u>2,684,000</u>	<u>2,341,000</u>
	<u>\$32,431,000</u>	<u>\$28,426,000</u>
Approved by the Board R. Kapchinsky, Director H. D. Kapchinsky, Director		

LIABILITIES	1973	1972
CURRENT LIABILITIES		
Bank advances (note 5b)	\$2,761,000	\$1,824,000
Accounts payable and accrued liabilities . . .	3,505,000	3,433,000
Income and other taxes payable		327,000
Deferred revenue	108,000	204,000
Principal due within one year on long-term debt	2,160,000	1,788,000
	<u>8,534,000</u>	<u>7,576,000</u>
LONG-TERM DEBT (note 5)		
Bank debentures	8,096,000	5,700,000
Term bank loan	116,000	172,000
Finance contracts	297,000	712,000
Agreements and mortgages payable	516,000	633,000
	<u>9,025,000</u>	<u>7,217,000</u>
Less principal included in current liabilities	2,160,000	1,788,000
	<u>6,865,000</u>	<u>5,429,000</u>
DEFERRED INCOME TAXES	4,148,000	3,407,000
MINORITY INTEREST	97,000	86,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
Authorized		
4,000,000 Common shares without par value		
Issued		
2,563,265 Common shares (2,535,215 shares in 1972)	7,896,000	7,730,000
RETAINED EARNINGS	4,891,000	4,198,000
	<u>12,787,000</u>	<u>11,928,000</u>
	<u>\$32,431,000</u>	<u>\$28,426,000</u>
LONG-TERM LEASES (note 7)		

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED JUNE 30, 1973

[with comparative figures for 1972]

	1973		1972	
	Revenue	Gross operating profit	Revenue	Gross operating profit
Divisions				
Transportation	\$15,522,000	\$2,586,000	\$14,786,000	\$3,293,000
Manufacturing	4,665,000	505,000	3,628,000	707,000
Other	5,873,000	966,000	5,085,000	812,000
	<u>26,060,000</u>	<u>4,057,000</u>	<u>23,499,000</u>	<u>4,812,000</u>
Elimination of inter-division transactions	<u>4,196,000</u>	<u>305,000</u>	<u>1,572,000</u>	
	<u>\$21,864,000</u>	<u>3,752,000</u>	<u>\$21,927,000</u>	<u>4,812,000</u>
Administrative expenses		1,765,000		2,070,000
Interest on long-term debt		564,000		426,000
Minority interest in net income of subsidiary company		11,000		20,000
		<u>2,340,000</u>		<u>2,516,000</u>
Income before income taxes and extraordinary item		<u>1,412,000</u>		<u>2,296,000</u>
Income taxes				
Current		(34,000)		390,000
Deferred		<u>741,000</u>		<u>727,000</u>
		<u>707,000</u>		<u>1,117,000</u>
Income before extraordinary item		705,000		1,179,000
Extraordinary item				
Sale of goodwill by subsidiary company less current income taxes of \$46,000 (\$24,000 in 1972) related thereto		<u>372,000</u>		<u>226,000</u>
NET INCOME FOR THE YEAR		<u><u>\$1,077,000</u></u>		<u><u>\$1,405,000</u></u>
Earnings per common share, on a weighted average basis				
Income before extraordinary item ...		27.6¢		47.9¢
Net income for the year		42.1¢		57.1¢
On a fully diluted basis earnings per common share are materially the same as those calculated on a weighted average basis.				
Depreciation deducted in arriving at gross operating profit		<u>\$2,003,000</u>		<u>\$1,624,000</u>
Cash flow from operations		<u>\$3,482,000</u>		<u>\$3,575,000</u>
Cash flow per common share		<u>\$1.36</u>		<u>\$1.45</u>

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED JUNE 30, 1973

[with comparative figures for 1972]

	<u>1973</u>	<u>1972</u>
Balance at beginning of year		
As previously reported	\$4,039,000	\$3,035,000
Adjustment of prior year's income (note 8)	176,000	54,000
Adjustment of prior years' deferred income taxes	<u>(17,000)</u>	<u>(48,000)</u>
As restated	4,198,000	3,041,000
Net income for the year	<u>1,077,000</u>	<u>1,405,000</u>
	5,275,000	4,446,000
Dividends paid	<u>384,000</u>	<u>248,000</u>
BALANCE AT END OF YEAR	<u>\$4,891,000</u>	<u>\$4,198,000</u>

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED JUNE 30, 1973

[with comparative figures for 1972]

	1973	1972
SOURCE OF FUNDS		
Income before extraordinary item	\$ 705,000	\$1,179,000
Items not involving current funds		
Depreciation and amortization	2,012,000	1,649,000
Deferred income taxes	741,000	727,000
Minority interest in net income of subsidiary company	11,000	20,000
Other	13,000	
	3,482,000	3,575,000
Sale of goodwill by subsidiary company less income taxes related thereto	372,000	226,000
Increase in long-term debt	1,436,000	1,899,000
Issue of common shares	166,000	649,000
Decrease in investment in joint ventures ..	48,000	281,000
	5,504,000	6,630,000
APPLICATION OF FUNDS		
Additions to fixed assets, net	4,852,000	5,532,000
Investment in 50% owned company	406,000	
Deferred development costs	292,000	
Other deferred charges	60,000	2,000
Dividends paid	384,000	248,000
Acquisition of subsidiary companies		336,000
Working capital deficiency of subsidiary companies at acquisition		122,000
	5,994,000	6,240,000
INCREASE [DECREASE] IN WORKING CAPITAL	(490,000)	390,000
WORKING CAPITAL AT BEGINNING OF YEAR		
As previously reported	1,584,000	1,316,000
Adjustment of prior year's income (note 8)	176,000	54,000
As restated	1,760,000	1,370,000
WORKING CAPITAL AT END OF YEAR	\$1,270,000	\$1,760,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING PRINCIPLES

(a) Basis of consolidation

The consolidated financial statements include the accounts of Kaps Transport Ltd. and its subsidiary companies, all of which are wholly-owned with the exception of one company, Kordyban Transport Ltd., which is 51% owned.

(b) Basis of recording revenue

Revenue is recorded principally as services are rendered or goods sold. In some cases certain companies in the group perform services for other companies. The resulting inter-company revenues and any gross profit therefrom have been eliminated in these consolidated financial statements.

(c) Valuation of inventories

Inventories are valued as follows

Parts and supplies - at the lower of cost and replacement cost

Automotive and heavy equipment - at the lower of cost and net realizable value

(d) Joint ventures and 50% owned company

The investments in joint ventures and 50% owned company are carried at cost of investment, including advances, plus equity in unremitted earnings since acquisition, which is not in excess of equity in underlying net assets.

The company's equity in net income of joint ventures and 50% owned company included in revenue on the consolidated statement of income is as follows

	1973	1972
Joint ventures	\$70,000	\$101,000
50% owned company	(13,000)	

(e) Depreciation of fixed assets

Depreciation is recorded in the accounts from the date of acquisition of the assets at rates and on bases (set out in note 4) calculated to amortize the cost of the assets, less residual value, if any, over the estimated useful life of the assets.

(f) Amortization of deferred charges

Deferred charges are amortized by charges against earnings over the periods of benefit to the companies. In 1973 amortization charged against earnings amounted to \$9,000 (\$25,000 in 1972).

(g) Income taxes

The companies reflect in earnings income taxes currently payable or recoverable and income taxes deferred by claiming certain expenses, principally depreciation of fixed assets, for income tax purposes in amounts which differ from those recorded in the accounts. The accumulated total of such income tax deferments is reflected in the accompanying balance sheet as "Deferred income taxes".

2. AGREEMENTS RECEIVABLE

Included in agreements receivable is a balance of \$170,000 arising from the sale in 1969 of all of the shares of Keir Air Transport Ltd. The purchasers are in default under this agreement as a payment due August 15, 1970 was not received. Collection action has been commenced and it appears at this time that the balance receivable will be realized in full.

3. INVENTORIES

Inventories consist of the following

	1973	1972
Parts and supplies	\$1,275,000	\$ 884,000
Automotive and heavy equipment ...	1,911,000	1,652,000
	<u>\$3,186,000</u>	<u>\$2,536,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. FIXED ASSETS

	1973		1972	
	Cost	Accumulated depreciation	Net	Net
Land	\$ 276,000		\$ 276,000	\$ 169,000
Buildings	1,269,000	\$ 92,000	1,177,000	390,000
Automotive equipment	9,526,000	3,190,000	6,336,000	6,961,000
Portable field equipment	2,684,000	746,000	1,938,000	1,150,000
Aircraft	1,264,000	227,000	1,037,000	997,000
Marine equipment	7,255,000	967,000	6,288,000	4,680,000
Leasehold improvements	75,000	38,000	37,000	35,000
Office and shop equipment	493,000	132,000	361,000	97,000
Aggregate equipment	1,242,000	342,000	900,000	1,025,000
Gravel pits	401,000	29,000	372,000	444,000
Roadways	197,000	10,000	187,000	112,000
	<u>\$24,682,000</u>	<u>\$5,773,000</u>	<u>\$18,909,000</u>	<u>\$16,060,000</u>

Depreciation bases and rates used by the companies are

On a diminishing balance basis

Buildings

Concrete block 5%

Frame 10%

Office and shop equipment 20%

Roadways 4%

On a straight line basis

Automotive and portable field equipment 10% - 30%

Aircraft 12½ %

Marine equipment 6¾ %

Aggregate equipment 10% - 20%

Leasehold improvements equal annual amounts over the life of the lease

On a production basis

Gravel pits annual production over estimated reserves

5. LONG-TERM DEBT

(a) Bank debentures

	1973	1972
Parent company and certain subsidiary companies	\$7,360,000	\$5,700,000
Payable \$445,000 quarterly; interest payable monthly at various rates related to the bank's prime lending rate; secured by first fixed specific mortgage on certain equipment and first floating charge on all assets		
Subsidiary company	736,000	
Payable in monthly instalments of \$3,500 to \$10,000 with final payment of \$232,000 at the end of the seventh year; interest payable monthly at various rates related to the bank's prime lending rate; secured by first fixed specific mortgage on certain buildings and equipment and first floating charge on all assets		
	<u>\$8,096,000</u>	<u>\$5,700,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

(b) Term bank loan

	1973	1972
11% loan, payable \$58,000 annually	\$ 116,000	\$ 172,000

This term bank loan and the bank advances included in current liabilities are secured by general assignment of book debts and chattel mortgages on certain fixed assets

(c) Finance contracts

	1973	1972
Payments due in 1973		\$ 414,000
Payments due in 1974	\$ 216,000	233,000
Payments due in 1975	81,000	65,000
	<u>\$ 297,000</u>	<u>\$ 712,000</u>

(d) Agreements and mortgages payable

	1973	1972
4% Agreement payable on purchase of the shares of Al Renk & Sons, Inc.		\$ 54,000
3% Agreement payable on purchase of the shares of Dales Holdings Ltd. payable \$25,000 July 20, 1973 and \$265,000 July 20, 1974	\$ 290,000	315,000
6% Mortgage, payable \$38,000 annually	204,000	241,000
9½% Mortgage, payable \$250 monthly including principal and interest...	22,000	23,000
	<u>\$ 516,000</u>	<u>\$ 633,000</u>

6. CAPITAL STOCK

(a) Issue of common shares

Common shares were issued as follows

	1973		1972	
	Shares	Amount	Shares	Amount
For cash	28,050	\$166,308	79,700	\$468,183
For common shares of subsidiary company..			15,000	180,000
	<u>28,050</u>	<u>\$166,308</u>	<u>94,700</u>	<u>\$648,183</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. CAPITAL STOCK (continued)

(b) Share options and warrants

At June 30, 1973, 69,000 common shares were reserved for issue under outstanding share options and warrants (117,800 common shares at June 30, 1972).

Share options - granted for a five year period; exercisable on completion of previous year's employment to a maximum of 20% on a cumulative basis in each year at \$6.30 per share

Options outstanding at beginning of year		55,500
Less		
Options exercised	5,750	
Options cancelled	20,750	26,500
Share options outstanding at end of year		29,000
Warrants - exercisable at any time to March 1, 1975 at \$12.00 per share..		40,000
		<u>69,000</u>

During the year warrants to purchase 22,300 common shares at \$5.83 per share were exercised.

(c) Escrow agreement

At June 30, 1973 all shares had been released from escrow.

7. LONG-TERM LEASES

The company rents two buildings from two of its directors under long-term "net net" leases which expire August 31, 1977. The annual rentals under these leases total \$28,500. There are options to extend these leases for a further five years at the same annual rentals.

The company rents its office premises from two of its directors under a long-term "net net" lease which expires October 31, 1980. The annual rental under this lease is \$36,000. There are two five-year renewal options to extend this lease at annual rentals to be negotiated.

A subsidiary company leases an aircraft under a rental purchase contract with an annual rental of \$142,000. The contract extends to 1980 with annual options to purchase at various amounts during the term of the contract.

8. ADJUSTMENT OF PRIOR YEAR'S INCOME

In 1973 the company received a refund of its 1966 contributions to an executive pension plan and was reassessed income taxes and interest related thereto.

Provision had been made in 1972 for the reassessment. The 1972 comparative figures in the accompanying financial statements have been restated to also give effect at June 30, 1971 to the refund received.

No contributions have been made to the plan subsequent to June 30, 1966.

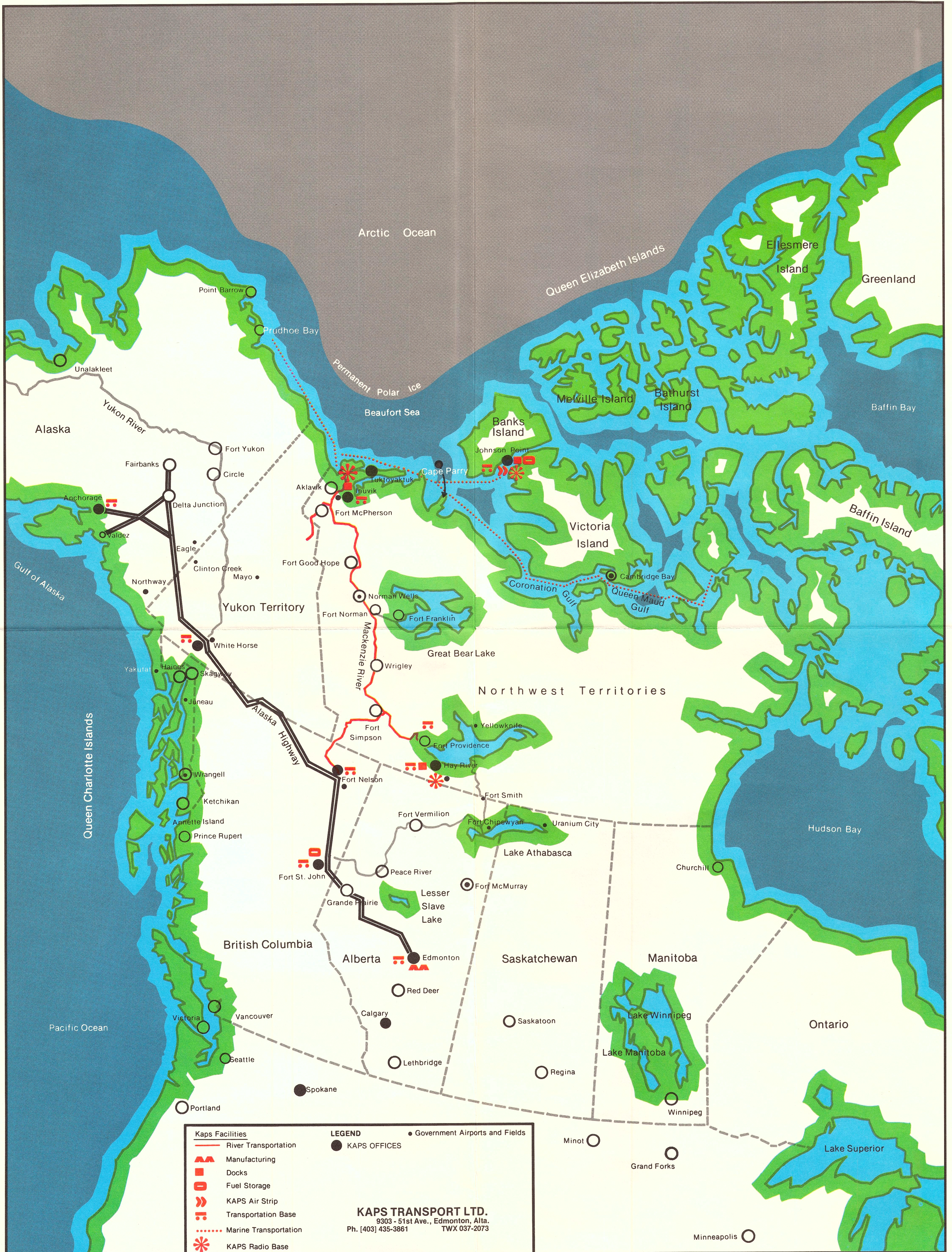
9. REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate direct remuneration paid or payable by the companies to directors and officers amounted to \$185,000 (\$174,000 in 1972).

10. COMPARATIVE FIGURES

Certain 1972 comparative figures in the accompanying financial statements have been reclassified to conform to 1973 presentation.

KAPS COUNTRY



for the long haul

KAPS