

# **KAPS ANNUAL REPORT 1978**

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# KAPS TRANSPORT LTD.

## ANNUAL REPORT

MARCH 31, 1978

### DIRECTORS

P. J. A. Byrne .....	Edmonton, Alberta
G. H. Montague .....	Toronto, Ontario
*E. L. Shapero .....	Edmonton, Alberta
S. L. Vettese .....	Edmonton, Alberta
J. Weatherall .....	Montreal, Quebec

### OFFICERS

Chairman of the Board & Chief Executive Officer .....	S. L. Vettese
President .....	P. J. A. Byrne
*Executive Vice-President .....	E. L. Shapero
†Vice-President .....	G. H. Montague
†Vice-President Finance & Secretary-Treasurer .....	T. G. Wright

\* Resigned June, 1978

† Resigned May, 1978

### REGISTERED OFFICES

9325 - 51st Avenue, Edmonton, Alberta

### EXECUTIVE OFFICES

7210 - 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

Coopers & Lybrand

### ANNUAL MEETING

September 30, 1978 at 9:30 a.m.  
Executive Offices  
7210 - 51st Avenue  
Edmonton, Alberta

# FINANCIAL HIGHLIGHTS

	1978		1977		1976		1975*		1974	
	\$	Per Share	\$	Per Share	\$	Per Share	\$	Per Share	\$	Per Share
Total revenue (note 1) .....	\$21,987,000	\$7.67	\$16,618,000	\$6.48	\$23,532,000	\$9.18	\$30,818,000	\$12.02	\$25,048,000	\$9.78
Income (loss) from continuing operations .....	(942,000)	(.33)	(1,224,000)	(.48)	424,000	.17	(3,065,000)	(1.20)	(3,993,000)	(1.56)
Income (loss) from discontinued operations .....			(748,000)	(.29)	(1,847,000)	(.72)				
Income taxes — reduction .....	154,000	.05	643,000	.25	369,000	.14	551,000	.22	815,000	.32
Loss before extraordinary items .....	(788,000)	(.28)	(1,329,000)	(.52)	(1,054,000)	(.41)	(2,514,000)	(.98)	(3,178,000)	(1.24)
Extraordinary income (loss) .....	308,000	.11	(203,000)	(.08)	(3,160,000)	(1.23)	(1,063,000)	(.42)	700,000	.27
Net loss .....	\$ (480,000)	\$ (.17)	\$ (1,532,000)	\$ (.60)	\$ (4,214,000)	\$ (1.64)	\$ (3,577,000)	\$ (1.40)	\$ (2,478,000)	\$ (.97)
Cash flow from operations .....	\$ (104,000)	\$ (.04)	\$ (293,000)	\$ (.11)	\$ 2,659,000	\$ 1.04	\$ (784,000)	\$ (.31)	\$ (1,559,000)	\$ (.61)
Shareholders' equity .....	\$ 802,000	\$ .28	\$ 711,000	\$ .27	\$ 2,243,000	\$ .88	\$ 6,457,000	\$ 2.52	\$10,034,000	\$3.91
Working capital (deficiency) .....	\$ (1,827,000)		\$ (2,435,000)		\$ (2,060,000)		\$ (4,191,000)		\$ 162,000	
Total assets .....	\$10,088,000		\$11,278,000		\$25,065,000		\$35,927,000		\$36,233,000	
Shares outstanding (note 2) .....	2,866,865		2,563,265		2,563,265		2,563,265		2,563,265	

Note 1 — Restated to exclude revenue from discontinued operations for 1977 and 1976.

Note 2 — Weighted average common shares outstanding for period.

\* Nine Months.

## REPORT TO SHAREHOLDERS

Two major events in the Company's history occurred during the year ended March 31, 1978. These were: the acquisition of the major shareholders' position by Algonquin Mercantile Corporation and the first phase of a long-term refinancing program through a fully subscribed rights offering to shareholders of ten per cent convertible redeemable income debentures (see note 6). Subsequent to the year ended March 31, 1978, the Company has further restructured its financial position (see note 12).

### TRANSPORTATION

#### Canadian Land Transport Division

This division operates throughout western and northern Canada. Despite a sluggish first half, it was profitable. Increased exploration for oil and gas has led to record volumes of work for the movement of drilling rigs. This trend continues and future prospects for the division's profitability are good.

#### Alaska Operations

The Alaska subsidiary which operates in and through the State of Alaska was not profitable. The completion of the construction phase of the Alyeska Pipeline project, followed by protracted labour problems, restricted the division's operations.

During the year ended March 31, 1978 the subsidiary was reorganized for the purpose of diversifying and expanding its operational capability. Additional authorities to include the transportation of bulk commodities were acquired and some heavy tractors, surplus to operations, were disposed of for economic factors.

### MANUFACTURING

The manufacturing subsidiary was not profitable during the 1977-78 fiscal year, primarily due to an over-diversification of work performed. The subsidiary has been reorganized and is operating profitably.

### OTHER

Kaps Arctic Services Division operates heavy construction equipment. It serves oil and gas field construction development and maintenance sites for producers in remote areas of western and northern Canada. The division was profitable in the fiscal year in review.

### GENERAL

The Board of Directors regrets the decision of Edward Shapero to resign as a director of the Company and takes this opportunity to express its appreciation to him for the contribution he made to management. At the same time, sincere thanks is extended to all our employees whose diligence and loyalty have served the Company so well during the past year.



# KAPS TRANSPORT LTD.

(Incorporated under the laws of Alberta)  
and subsidiary companies

## CONSOLIDATED STATEMENT OF INCOME YEAR ENDED MARCH 31, 1978

	1978		1977	
	Revenue	Gross Operating Profit	Revenue	Gross Operating Profit
Divisions				
Transport .....	\$18,025,000	\$1,251,000	\$14,055,000	\$1,490,000
Manufacturing .....	3,962,000	272,000	2,563,000	135,000
	<u>\$21,987,000</u>	<u>1,523,000</u>	<u>16,618,000</u>	<u>1,625,000</u>
Administrative expenses .....		2,148,000		2,220,000
Interest on long-term debt .....		633,000		629,000
		<u>2,781,000</u>		<u>2,849,000</u>
		<u>1,258,000</u>		<u>1,224,000</u>
Other income (expense)				
Gain on disposal of fixed assets ....		456,000		—
Foreign currency translation loss (note 2) .....		(140,000)		—
		<u>316,000</u>		<u>—</u>
Loss from continuing operations ....		942,000		1,224,000
Loss from discontinued operations ...		—		<u>748,000</u>
Loss before income taxes and extraordinary items .....		<u>942,000</u>		<u>1,972,000</u>
Income taxes (note 9)				
Current .....		354,000		273,000
Deferred .....		(508,000)		(916,000)
		<u>(154,000)</u>		<u>(643,000)</u>
Loss before extraordinary items .....		788,000		1,329,000
Extraordinary items (note 10) .....		(308,000)		<u>203,000</u>
<b>NET LOSS</b> .....		<u>\$ 480,000</u>		<u>\$1,532,000</u>
Loss per share				
Loss before extraordinary Items .....		\$ .28		\$ .52
Net loss .....		.17		.60

# KAPS TRANSPORT LTD.

and subsidiary companies

## CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1978

ASSETS	1978	1977
<b>CURRENT ASSETS</b>		
Cash .....	\$ 104,000	\$ 264,000
Accounts receivable .....	4,013,000	3,556,000
Inventories (note 3) .....	535,000	946,000
Equipment held for sale .....	117,000	—
Prepaid expenses .....	394,000	455,000
	<u>5,163,000</u>	<u>5,221,000</u>
<b>FIXED ASSETS (note 4)</b>		
Land, buildings and equipment .....	7,762,000	10,424,000
Less accumulated depreciation .....	<u>3,611,000</u>	<u>5,032,000</u>
	<u>4,151,000</u>	<u>5,392,000</u>
<b>OTHER ASSETS</b>		
Excess of cost over book value at dates of acquiring shares of subsidiary companies .....	662,000	662,000
Financing costs, less amortization .....	74,000	—
Other deferred charges .....	<u>38,000</u>	<u>3,000</u>
	<u>774,000</u>	<u>665,000</u>
	<u>\$10,088,000</u>	<u>\$11,278,000</u>

Approved by the Board  
S. L. Vettese, Director  
P. J. A. Byrne, Director

LIABILITIES	1978	1977
<b>CURRENT LIABILITIES</b>		
Bank advances (note 5) .....	\$ 1,174,000	1,876,000
Accounts payable and accrued liabilities .....	4,350,000	3,794,000
Income taxes .....	33,000	73,000
Principal due within one year on long-term debt .....	1,433,000	1,913,000
	<u>6,990,000</u>	<u>7,656,000</u>
<b>LONG-TERM DEBT (note 6)</b>		
Debentures .....	640,000	1,707,000
Finance contracts .....	810,000	1,382,000
Bank term loans .....	586,000	742,000
Mortgages and notes .....	400,000	531,000
	<u>2,436,000</u>	<u>4,362,000</u>
Less principal included in current liabilities .....	1,433,000	1,913,000
	<u>1,003,000</u>	<u>2,449,000</u>
Convertible income debenture .....	1,293,000	—
	<u>2,296,000</u>	<u>2,449,000</u>
<b>DEFERRED INCOME TAXES</b>	<u>—</u>	<u>462,000</u>
<b>CONTINGENCIES (note 7)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (note 8)</b>		
Authorized		
10,000,000 Common shares without par value		
Issued and fully paid		
3,777,665 Common shares .....	8,503,000	7,896,000
<b>DEFICIT</b> .....	<u>7,701,000</u>	<u>7,185,000</u>
	<u>802,000</u>	<u>711,000</u>
	<u>\$10,088,000</u>	<u>\$11,278,000</u>

# KAPS TRANSPORT LTD.

and Subsidiary Companies

## CONSOLIDATED STATEMENT OF DEFICIT YEAR ENDED MARCH 31, 1978

	<u>1978</u>	<u>1977</u>
<b>DEFICIT AT BEGINNING OF YEAR</b>		
As previously reported .....	\$7,185,000	\$5,653,000
Add adjustment arising from the change in the method of foreign currency translation (note 2). ....	<u>36,000</u>	<u>—</u>
As restated .....	7,221,000	5,653,000
Net Loss .....	<u>480,000</u>	<u>1,532,000</u>
<b>DEFICIT AT END OF YEAR</b> .....	<u>\$7,701,000</u>	<u>\$7,185,000</u>

### 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 March 31, 1978 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the matters described in note 7, these consolidated financial statements present fairly the financial position of the company as at March 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in accounting policy explained in note 2, have been applied on a basis consistent with that of the preceding year.

Edmonton, Alberta  
August 25, 1978,  
except note 12 for  
which the date is  
September 5, 1978

Coopers & Lybrand  
Chartered Accountants



# KAPS TRANSPORT LTD.

and subsidiary companies

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED MARCH 31, 1978

	1978	1977
<b>SOURCE OF WORKING CAPITAL</b>		
Proceeds from sale of fixed assets, net of additions .....	\$ (22,000)	\$ 6,883,000
Proceeds from issue of convertible income debenture, less financing costs of \$80,000 .....	1,820,000	
Increase in long-term debt .....	669,000	
Decrease in investment in joint ventures .....		508,000
Decrease in investment in 50% owned companies .....		44,000
Extraordinary credit on reduction of income taxes (note 10) .....	308,000	232,000
Reclassification of investments to current assets .....		56,000
Reclassification of equipment held for sale to current assets .....	117,000	
	<u>2,892,000</u>	<u>7,723,000</u>
<b>USE OF WORKING CAPITAL</b>		
Operations .....	104,000	293,000
Reduction of long-term debt .....	2,115,000	7,601,000
Increase in other assets .....	29,000	
Foreign currency translation adjustment (note 2) .....	36,000	
Write-down of current assets and costs of disposal of subsidiary companies and discontinued divisions. ....		204,000
	<u>2,284,000</u>	<u>8,098,000</u>
<b>(DECREASE) INCREASE IN WORKING CAPITAL DEFICIENCY .....</b>	<b>(608,000)</b>	<b>375,000</b>
<b>WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR .....</b>	<b>2,435,000</b>	<b>2,060,000</b>
<b>WORKING CAPITAL DEFICIENCY AT END OF YEAR .....</b>	<b>\$ 1,827,000</b>	<b>\$ 2,435,000</b>
<b>Operations</b>		
Loss before extraordinary items .....	(788,000)	(1,329,000)
Items not affecting working capital		
Depreciation and amortization .....	1,602,000	1,931,000
Deferred income taxes .....	(462,000)	(916,000)
Loss (gain) on disposal of fixed assets .....	(456,000)	21,000
<b>WORKING CAPITAL USED IN OPERATIONS .....</b>	<b>\$ (104,000)</b>	<b>\$ (293,000)</b>

# KAPS TRANSPORT LTD.

and subsidiary companies

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1978

### 1. ACCOUNTING POLICIES

#### (a) Basis of consolidation

These consolidated financial statements include the accounts of Kaps Transport Ltd. and its subsidiary companies, all of which are wholly-owned. The method of translating the financial statements of the United States subsidiaries into Canadian dollars was changed during the year, as explained in note 2. The method presently followed is known as the temporal method, which translates cash, accounts receivables, current liabilities, long-term receivables and payables into Canadian dollars at exchange rates prevailing at the balance sheet date. Other assets and depreciation are translated at the rate of exchange in effect at the time of acquisition. Income and expense accounts, except depreciation, are translated at the average exchange rates in effect during the year. All foreign exchange gains or losses are included in income except those unrealized losses relating to long-term debt which have been deferred and amortized over the remaining term of the debt.

#### (b) Basis of recording revenue

Revenue is recorded principally as services are rendered or goods sold. Profits on manufacturing contracts are recorded on the basis of the estimated stage of completion of individual contracts.

#### (c) Inventories

Inventories are valued at the lower of cost and net realizable value.

#### (d) Fixed assets

All fixed assets are stated at cost. Depreciation is recorded in the accounts from the date of acquisition of the assets at rates and on the basis (set out in note 4) calculated to amortize the cost of the assets less residual value over their estimated useful life.

#### (e) Financing costs

Costs related to the convertible income debenture financing are amortized on a straight line basis over the term of the issue after adjusting for conversions. The current year's amortization amounted to \$6,000.

#### (f) Comparative figures

The prior year's comparative figures have been reclassified where necessary to conform with the financial statement presentation of the current year. The prior year's figures were reported on by other auditors.

## 2. ACCOUNTING POLICY CHANGE

In prior years the Company has translated the accounts of its United States subsidiaries on the basis of U.S. \$1=Can. \$1. In order to reflect the falling value of the Canadian dollar, the Company changed to the temporal method of foreign currency translation. This method is described in note 1(a). The effect of this change on the operations of the current year has been to recognize an unrealized foreign exchange loss of \$140,000. This loss has been included in the determination of the net loss for the year.

If this change had not been made, the loss for the current year would have been reduced by \$140,000.

This change has not been applied retroactively and the comparative figures have not been restated. Had the temporal method been applied in the prior year, the net loss would have been increased by \$36,000 to \$1,568,000. The portion of the unrealized foreign exchange loss relating to prior years has been reflected as an addition to the deficit as at March 31, 1977.

## 3. INVENTORIES

Inventories consist of the following

	1978	1977
Parts and supplies .....	\$ 525,000	\$ 707,000
Work in process.....	10,000	239,000
	<u>\$ 535,000</u>	<u>\$ 946,000</u>

## 4. FIXED ASSETS

	1978		1977	
	Cost	Accumulated depreciation	Net	Net
Land.....	\$ 248,000	\$ —	\$ 248,000	\$ 249,000
Buildings .....	830,000	247,000	583,000	624,000
Automotive equipment .....	5,049,000	2,416,000	2,633,000	3,684,000
Portable field equipment .....	230,000	124,000	106,000	124,000
Office and shop equipment....	983,000	587,000	396,000	478,000
Roadways, docks and parking lot .....	233,000	121,000	112,000	95,000
Leasehold improvements.....	189,000	116,000	73,000	138,000
	<u>\$7,762,000</u>	<u>\$3,611,000</u>	<u>\$4,151,000</u>	<u>\$5,392,000</u>

Depreciation is provided on a straight-line basis at the following rates.

	Percent
Buildings, steel .....	5
Automotive and portable field equipment .....	10 - 33
Office equipment .....	10 - 13
Shop equipment.....	5 - 10
Roadways, docks and parking lot .....	5
Leasehold improvements .....	equal annual amounts over the life of the lease

## 5. BANK ADVANCES

Bank advances are secured by a general assignment of book debts, a fixed specific mortgage on certain equipment and floating charge debentures of the Company and certain subsidiary companies.

## 6. LONG-TERM DEBT

	1978	1977
(a) Debentures		
12¼% Debenture maturing December 31, 1979 .....	\$ 205,000	\$ 1,185,000
Principal and interest are secured by		
(1) a first specific mortgage on fixed assets not otherwise pledged as security		
(2) a second specific charge on certain assets otherwise pledged		
(3) floating charges on all other assets and undertakings of the companies		
Bank debenture - subsidiary company .....	435,000	522,000
Payable in monthly instalments of \$7,000 to \$10,000 with a final payment of \$232,000 on February 1, 1980, interest payable monthly at various rates related to the bank's prime lending rate, secured by a general assignment of accounts receivable, a first fixed specific mortgage on land, buildings and certain equipment and by a first floating charge on all assets.		
	<u>\$ 640,000</u>	<u>\$ 1,707,000</u>
(b) Finance Contracts		
Principal is secured by a specific charge on automotive equipment and matures on various dates in 1978, 1979 and 1980. Repayments are \$67,130 monthly including interest. ....	\$ 810,000	\$ 1,382,000
(c) Bank Term Loans		
Special term loan .....	\$ 330,000	\$ 450,000
Loan is secured by a general assignment of book debts and is repayable at \$25,000 monthly including interest, maturing in 1979.		
Demand term loan .....	256,000	—
Loan is secured by a general assignment of book debts and is repayable at \$7,500 monthly including interest, maturing in 1981.		
Term loan — subsidiary companies .....	—	292,000
	<u>\$ 586,000</u>	<u>\$ 742,000</u>



(d) Mortgages

Payable \$282 monthly including principal and interest .....	\$ 20,000	\$ 75,000
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(e) Notes

Payable in monthly instalments of \$10,000 to \$26,000 until September, 1979; interest payable monthly at 12% per annum .....	\$ 380,000	\$ 456,000
	<u>\$ 400,000</u>	<u>\$ 531,000</u>

(f) 10% Convertible income debentures

\$ 1,293,000	—
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Principal is secured by a specific second charge against the land and buildings of Kaps Manufacturing Ltd. The debentures are convertible into common shares of the Company at the price of 50¢ during the first two years and 75¢ during the last three years of their term. The debentures mature November 1, 1982.

The Company intends to repay the debts listed as (a) through (e) above from the proceeds of new financing as described in note 12.

## 7. CONTINGENCIES

The income tax returns filed by the Company's United States subsidiaries are under examination by the Internal Revenue Service. This examination has not been completed and no assessments have been received to date. The Company is of the opinion that no additional taxes are payable and intends to contest any tax deficiencies which may be proposed by the Service.

Certain claims have been asserted against the Company. The Company is currently attempting to have the amounts of these claims reduced.

There are unasserted claims which, if asserted and not contested, could have a material effect on these financial statements.

Because the ultimate outcome of these matters is not determinable at this time, no provision has been made in these financial statements for any additional liabilities which may result.

## 8. CAPITAL STOCK

(a) Authorized

By special resolution of the Company's shareholders on September 30, 1977, the authorized capital stock was increased by the creation of 6,000,000 common shares to a total of 10,000,000 common shares without nominal or par value.

(b) Issued and fully paid

During the year the Company issued 1,214,000 common shares for the conversion of \$607,000 of the convertible income debenture bringing the total of issued and fully paid common shares to 3,777,665.

(c) Common shares reserved

3,800,000 of the authorized common shares are reserved for conversion of the convertible income debenture.

100,000 common shares are reserved under a stock option granted to the 12¼% debenture holder. The option is exercisable at \$7.50 per share and expires April 25, 1980.

On December 8, 1977 an option to purchase 100,000 shares at a subscription price of \$1 per share was issued to a company controlled by the Chairman of the Board.



## 9. INCOME TAXES

The tax effect of loss carry forwards is recognized only to the extent of eliminating cumulative income tax deferments in each company.

Tax loss carry forwards available for application against future years' taxable incomes total \$3,713,000 at March 31, 1978 (\$5,444,000 at March 31, 1977). These loss carry forwards expire as follows:

1979	\$ 1,159,000
1980	915,000
1981	670,000
1982	336,000
1983	593,000
	<u>\$ 3,673,000</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 10. EXTRAORDINARY ITEMS

	1978	1977
Reduction of income taxes by application of prior years' losses .....	\$ (308,000)	(831,000)
Write-off of excess of investments in 50% owned companies over proceeds upon liquidation during the year .....		11,000
Write-off of the balance of the carrying value of 1,000,000 6% \$1 par value preferred shares received in 1974 from a purchaser as partial consideration for the sale of a subsidiary, the purchaser now being in receivership .....		500,000
Loss on sale of assets and business of Marine Division less deferred income tax reduction of \$213,000 related thereto .....		61,000
Writedown of assets to estimated realizable value on discontinuance of the earthmoving division and portions of the arctic services division, less deferred income tax reduction of \$116,000 related thereto (1976 - \$112,000) .....		126,000
Writedown of investment in subsidiary companies to realizable value .....		336,000
	<u>\$ (308,000)</u>	<u>\$ 203,000</u>

### 11. OTHER FINANCIAL INFORMATION

#### (a) Depreciation

Depreciation deducted in arriving at gross operating profit amounted to \$1,602,000 (1977 — \$1,863,000).

#### (b) Remuneration of directors and officers

Aggregate direct remuneration paid or payable by the companies to directors and officers amounted to \$186,000 (1977 — \$210,000).

## 12. SUBSEQUENT EVENT

Subsequent to the year end, the Company arranged for refinancing on the following basis:

\$2,500,000 debenture loan at 12¾% with a 5 year term, \$1,500,000 is to be amortized over 25 years and \$1,000,000 over 5 years.

\$1,500,000 revolving line of purchase credits at prevailing interest rates at time of purchase.

The debenture is to be secured by a first floating charge against all Canadian assets of the Company, except accounts receivable where the charge will be second to chartered bank demand loans, and a specific first fixed charge against land, buildings, equipment and rolling stock.

The purchase credit line shall be secured as required by conditional sales contracts or chattel mortgages. The Company must continue to maintain a suitable operating line of credit with a chartered bank.

It is the Company's intention to repay all long-term debt, except for the 10% convertible income debenture, from the proceeds of this refinancing. The Company must covenant not to redeem the 10% convertible income debenture during the term of the loans.

Had this refinancing been in effect on March 31, 1978, the Company's working capital deficiency would have been reduced to approximately \$250,000.

# **KAPS TRANSPORT LTD.**

**and active subsidiary companies**

Kaps Transport Ltd.

Kaps Transport Inc.

Kaps Transport (Alaska) Inc.

Kaps Manufacturing Limited

Inland Empire Leasing Corporation