

Annual Report 1983

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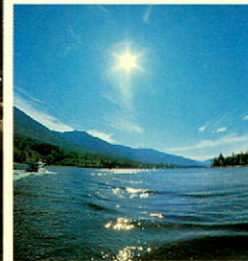
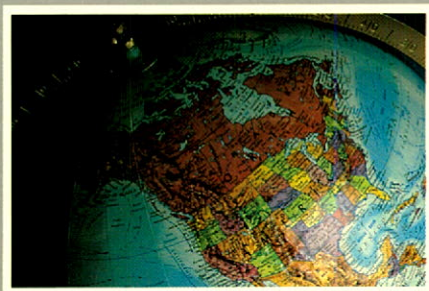


Table of Contents

Financial Highlights	1
President's Report	2
1983 In Review	4
Financial Statements	13
5 Year Summary	23
Board of Directors	24



Corporate Profile

Pacific Western had its origins in 1946 as a supplier of air services to logging and mining camps in northern British Columbia. The Company has expanded through the years and today, Pacific Western serves 49 communities in western Canada with a fleet of 22 jet and turbo-prop aircraft.

Its route system extends from Resolute Bay and Inuvik in the Northwest Territories to Victoria on the west coast of British Columbia, and as far east as Toronto in Ontario. Pacific Western also provides a trans-border scheduled service to Seattle, Washington from Vancouver.

In addition to its scheduled passenger service, Pacific Western operates extensive charter programs out of western Canada and Toronto to international airport destinations in Mexico, Jamaica, the Bahamas, Cuba, and various sun spots in the United States.

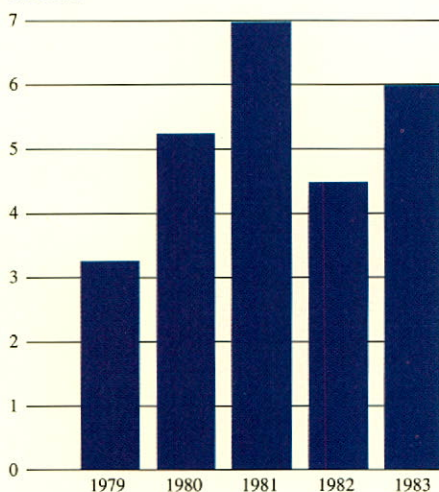
Annual Meeting

The Annual General Meeting of the Shareholders of the Corporation will be held in the Britannia Room of the Westin Hotel, Calgary, Alberta, on April 17, 1984 at 10:00 a.m.

Financial Highlights

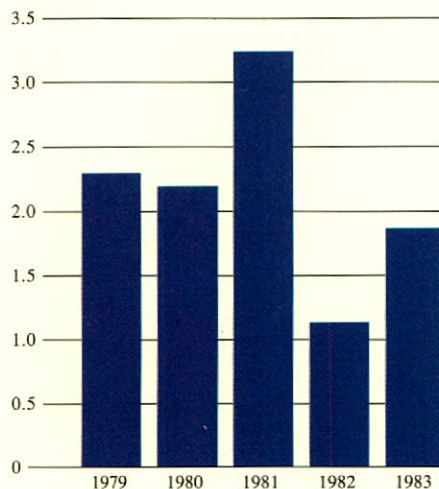
Cash Flow Per Share From Operations

In Dollars



Net Income Per Share

In Dollars

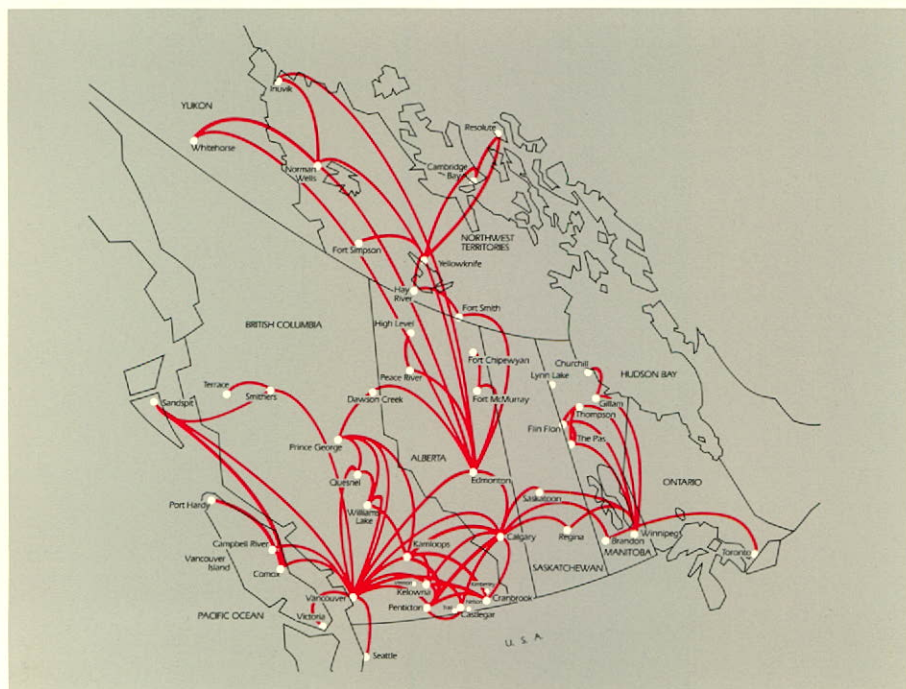


(Dollars in Thousands Except Per Share Figures)

	1983	1982
Operating Revenues	\$ 327,985	\$ 320,048
Operating Expenses	\$ 300,950	\$ 294,798
Operating Income	\$ 27,035	\$ 25,250
Net Income	\$ 10,763	\$ 6,309
Funds Provided by Operations	\$ 34,832	\$ 25,104
Common Shares Issued	12,162,846	5,532,616
Weighted Average Number of Common Shares	5,816,923	5,532,616
Net Income Per Share	\$ 1.85	\$ 1.14
Cash Flow Per Share From Operations	\$ 5.99	\$ 4.54
Total Assets	\$ 546,340	\$ 536,487
Long-Term Debt, Capital Leases and Preferred Shares	\$ 263,125	\$ 242,652
Shareholders' Equity	\$ 195,610	\$ 85,232
Debt/Equity Ratio	57:43	74:26

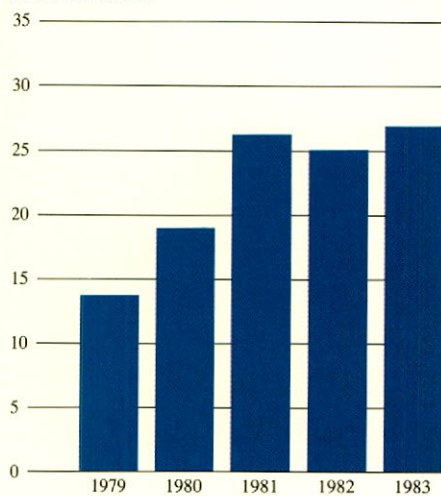
Operating Statistics

Passengers Carried (000's)		
Scheduled Services	2,933	3,136
Charter Services	420	355
Revenue Passenger Miles (000's)		
Scheduled Services	894,863	928,328
Charter Services	552,939	449,968
Cargo Ton Miles (000's)		
Scheduled Services	12,993	13,997
Charter Services	9,120	13,324
Number of Employees at year end	2,999	3,046



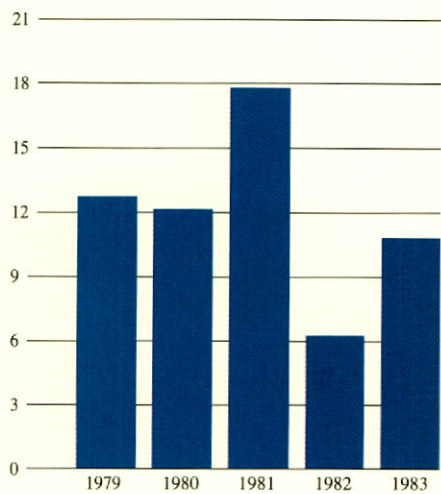
Operating Income

Millions of Dollars



Net Income

Millions of Dollars



*Rhys T. Eyton
President and Chief Executive Officer*

President's Report to Shareholders

This past year has been one of the most significant in the history of Pacific Western Airlines and marks the beginning of a new era for the Company. In the fall of 1982 the Government of Alberta, which at the time retained 99.9% of Pacific Western's ownership, appointed a four man task force to examine whether the Company could be sold to the public, and if so, under what conditions.

The committee recommended, in the spring of 1983, the sale of the Company to the public. On December 15, 1983, the Company issued 6.3 million common shares and the Province of Alberta 3.7 million common shares, reducing the Province of Alberta's ownership to 14.9%. The total public issue of 10 million shares at \$10.75 per share produced gross proceeds of \$107.5 million, of which net proceeds of \$66.7 million were retained by Pacific Western Airlines Corporation. This equity injection has placed the Company in a financial position which will enable it to take full advantage of transportation related opportunities in the future.

Although 1983 was another challenging year for the airline industry in Canada, Pacific Western Airlines recorded net income of \$10.8 million as compared to net income of \$6.3 million in 1982. Based on the weighted average number of common shares (5,816,923) outstanding during the year, net income per common share in 1983 was \$1.85 compared to \$1.14 (5,532,616 shares) in 1982. Net income per common share before net gain or loss on property and equipment after giving effect to applicable income taxes amounted to \$1.46 and \$1.17 for the years ended December 31, 1983 and 1982 respectively. Operating income improved from \$25.2 million in 1982 to \$27.0 million in 1983.

Our financial results reflect economic measures taken over the past two years to effectively control costs and provide service levels to meet demands of a changing marketplace. Staff levels have been trimmed, the size of the aircraft fleet has been adjusted and an intensive fuel efficiency program has been introduced, all of which contributed to an overall improvement in our operating margin. New services and special fares were introduced during the year to meet the varying needs of the travelling public.

While traffic levels on our scheduled services declined in 1983 over 1982, the statistics for the third and fourth quarter offered an encouraging indication that the downward trend in traffic levels that began in 1981, may be at an end. Passengers carried on scheduled services in the fourth quarter of 1983 increased by 3.6% over the same period in 1982.

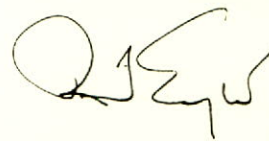
Pacific Western recorded another milestone in 1983, with the introduction of two Boeing 767 aircraft into our scheduled route system and passenger charter operations. Delivery of these Boeing 767's took place on March 4 and April 29, 1983.

In the fall of 1983 Pacific Western entered into an agreement to acquire a 40% equity interest in Time Air (1982) Ltd. at a price of \$4.3 million. Time Air is a third level carrier with headquarters in Lethbridge, Alberta. It operates turbo-prop aircraft over a scheduled route system linking several communities in Alberta and British Columbia.

In late 1983, the Air Transport Committee of the Canadian Transport Commission announced it would be holding a series of public hearings to examine Canadian air fare policies and the regulations governing domestic advance booking and inclusive tour charters. We are optimistic that these hearings will result in increased flexibility and opportunity for the airline.

Although we are confident about the future of Pacific Western, we recognize that the economic vitality of western Canada will play a significant part in determining the degree to which our traffic rebounds. Regardless of what changes occur, Pacific Western has proven that it has the ability to react in a timely way to challenges and opportunities in the airline business and expects to continue doing so in the future.

I would like to take this opportunity to acknowledge the dedicated effort of our employees during 1983 which undoubtedly contributed to the achievements of the Company.

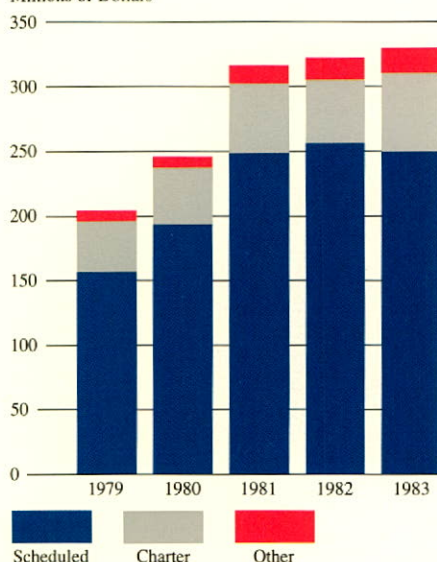


Rhys T. Eyton
President and Chief Executive Officer



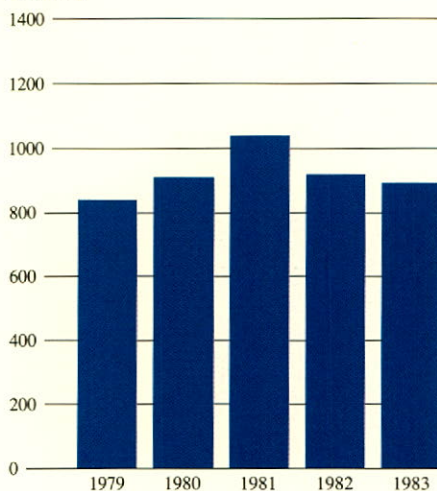
Source of Revenue

Millions of Dollars



Revenue Passenger Miles

Scheduled Services
(Millions)



Scheduled Services

In 1983, total revenues from scheduled services were \$248.7 million, which represents a 1.9% decrease from the 1982 figure of \$253.6 million.

Passenger revenues from scheduled services in 1983 totalled \$223.7 million, a decrease of 1.6% from 1982 revenues of \$227.3 million and is the result of a combination of a decrease in load factors from 52.7% in 1982 to 52.4% in 1983, offset by a 3.7% increase in passenger yields. Revenue passenger miles for 1983 were 894.9 million, representing a 3.6% decrease from 1982. The decreases in passenger traffic levels, experienced by all North American carriers, were the result of a general economic slowdown in both the Canadian and United States markets. A general strengthening was experienced during the last quarter of 1983.

Cargo revenues from scheduled services were \$25.0 million in 1983 compared to \$26.3 million in 1982. Cargo activity decreased from 14.0 million revenue ton miles in 1982 to 13.0 million in 1983, however, the cargo yield increased 3.6% from those experienced in 1982. With the introduction of several new cargo product lines in the latter part of 1983, the Company's future revenue should greatly improve. The new product lines include same day guaranteed service for documents, small packages, bulk and containerized goods.

Several changes were made to scheduled services during 1983. The most exciting of these was the introduction of Boeing 767 service on the Alberta/British Columbia and Prairie routes on May 9, 1983. Boeing 767 scheduled operations carried 230,000 passengers and accounted for 7.8% of total passengers carried on scheduled routes and 8.6% of cargo pounds carried.

Other changes during the year included an increase in service to Prince George and Dawson Creek to accommodate the construction phase of the Tumbler Ridge coal mining project. Flight frequency to Norman Wells was increased from seven to twelve flights weekly to

service the expansion in that community by Esso Resources Canada Ltd. Scheduled service to Whitehorse was doubled to four flights per week during the summer months to handle increased tourist traffic to that area. In July 1983, the Air Transport Committee approved the application of Pacific Western to serve Lynn Lake, Manitoba on only a seasonal basis. For the period June 1st to September 15th, the community was serviced by four flights per week.

Boeing 767 Introduced to Scheduled Services

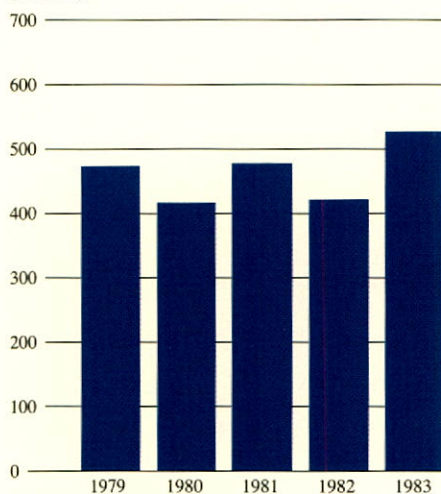
On May 9, 1983, Boeing 767 aircraft were introduced into regular scheduled service within the Company's route network. One aircraft was utilized on the routing Calgary, Vancouver, Edmonton, Saskatoon return while the second aircraft originated in Vancouver each weekday morning and operated Vancouver, Calgary, Regina, Winnipeg return.

Unique marketing techniques were introduced on the Boeing 767. Half of the aircraft was dedicated to a "No Frills" service. Passengers were allowed substantial discounts, providing they met certain conditions. They were charged for other services such as checked baggage, food and beverages. The front half of the aircraft was dedicated to the business traveller. "767 Business Class" provides passengers with the opportunity of purchasing their tickets onboard the aircraft, as well as express check-in service, baggage processing, two pieces of carry on luggage, complimentary food, beverages, headsets, and video features on most flights. The Business Class fare is comparable to the regular economy fare.



Revenue Passenger Miles

Passenger Charter Services
(Millions)



Passenger Charter Services

Passenger charter services during 1983 contributed 14.9% to the Company's overall revenues, as compared to a contribution of 11.9% in 1982. Passenger charter revenue totalled \$48.9 million, as opposed to \$38.1 million in 1982, an increase of 28.3%.

Passengers carried in 1983 on the various charter programs totalled 400,000, while 1982 figures reached were 338,000.

Pacific Western utilizes Boeing 767 and Boeing 737 aircraft for its charter services. The Company is continuing to expand its participation in the passenger charter market by marketing its own charter programs through Pacific Western Holidays Ltd. Pacific Western also charters aircraft to a number of other tour companies in Canada and the United States, and operates seasonal Advance Booking Charters across Canada.

On March 17, 1983, the first commercial flight of the Company's Boeing 767 was a charter from Vancouver to Reno, Nevada.

The two Boeing 767's were used extensively in the Company's charter program in the period March to May, and were the first Boeing 767's to land in Reno, Nevada; Acapulco, Mazatlan, and Puerto Vallarta in Mexico; Long Beach, California; and Phoenix, Arizona. Plaques commemorating the arrival of the first Boeing 767 were presented to each of the airport authorities.

Late in 1983 two Boeing 737's were leased for a six month period from Monarch Airlines in the United Kingdom and are positioned in Toronto to accommodate the 1983/1984 winter charter program out of that city. In conjunction with several tour wholesalers, inclusive tour charters are being operated to destinations including Aruba; Nassau, Freeport, and West End in the Bahamas; Puerto Plata in the Dominican Republic; Cancun and Cozumel in Mexico; and various destinations in Florida and Jamaica.

Three new destinations have been added to the various charter programs during 1983. They are Lareto in northern Mexico and Holguin, Cuba, both originating in Winnipeg; and Manzanillo, Mexico, originating in Edmonton/Calgary.

In July of 1983, following the close of the World Scout Jamboree held west of Calgary, 3,400 Boy Scouts were flown home during a 48 hour period via Pacific Western charters to thirty different destinations in the United States. During the same period approximately 700 more Boy Scouts were accommodated on our regular scheduled flights and transcontinental charters to Toronto.

Cargo and Contract Charter Services

The 1983 revenues from cargo and contract charters, utilizing Boeing 727, Boeing 737 and Hercules aircraft, decreased 9.3% from \$13.3 million in 1982 to \$12.0 million in 1983. The decline from the previous year is attributable to the downturn in northern Canada explorations.

The Company was once again successful in securing an agreement with United States Air Force contractors to provide services to the western Arctic.

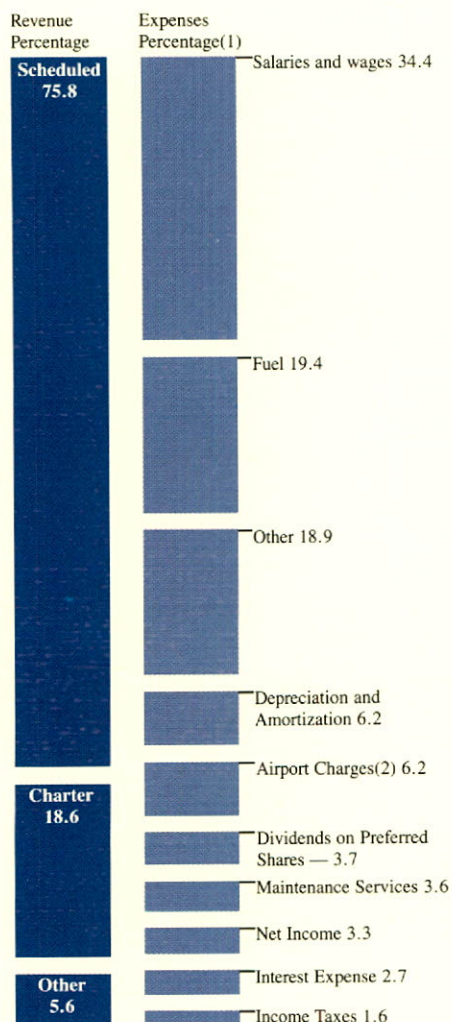
Outside Sales and Other Income

As a result of the Company's continuing strategy to further diversify its revenue base, the sale of services and technology, particularly in the areas of aircraft maintenance, ground handling of other airlines, and computer services contributed to increasing outside sales revenue to \$18.4 million from the 1982 total of \$15.1 million.

The Company was closely associated with the start-up of America West Airlines of Phoenix, Arizona. This company is presently operating five Boeing 737's leased from Pacific Western over a five year term. This provided Pacific Western with an ideal opportunity to release excess capacity from its fleet at a time of declining passenger traffic.



Dollar Distribution



(1) Expressed as a percentage of revenue.

(2) Landing fees, terminal charges, security and ground handling.

In addition to the aircraft leased to others, Pacific Western has entered into a five year agreement to provide major maintenance to America West. This contract will provide for higher utilization of our skilled staff and maintenance facilities in both British Columbia and Alberta. Contracts covering pilot training on the Boeing 737 simulator, customer and technical service training, and flight planning through our Airline Information and Dispatch System were also signed.

During the year, pilots from many other airlines underwent training programs on the Boeing 737 and Boeing 767 Rediffusion flight simulators located in Vancouver and Edmonton, respectively.

Operating Expenses

Operating expenses for 1983 totalled \$300.9 million, an increase of \$6.2 million or 2.1% over 1982.

Wages and related employee benefits decreased from \$114.5 million in 1982 to \$112.8 million in 1983 and represented 37.5% of total operating expenses for the year compared to 38.9% in 1982. The reduction was primarily attributable to a combination of natural attrition and replacement restraint.

Although the average price of fuel increased by 6.5% in 1983, the overall cost of fuel decreased 2.1% from \$65.2 million in 1982 to \$63.8 million in 1983. Fuel costs represented 21.2% of total operating expenses in 1983 compared to 22.1% in 1982. The overall cost of fuel decreased as a result of reduced flying, engine modifications and changed operating methods. Significant reductions in fuel consumption were achieved by installation of fuel efficiency kits on all Boeing 737 engines and through the implementation of improved flight management procedures.

Depreciation and amortization expenses increased 28.0% from \$15.9 million in 1982 to \$20.4 million in 1983 due to the acquisition of new aircraft and facilities.

Capitalization and Financing

As part of the overall plan to make Pacific Western a publicly traded company, 6.6 million common shares were issued in December 1983 for \$66.7 million after issue costs and underwriters' fees. In addition, \$170.0 million of bank financing was arranged and utilized to repurchase the Company's \$187.0 million of preferred shares. As a result of this refinancing, long term debt and capital leases at December 31, 1983 totalled \$263.1 million and shareholders' equity totalled \$195.6 million. The ratio of shareholders' equity to total capital increased from 26.0% at December 31, 1982 to 42.6% at December 31, 1983 and working capital increased from \$34.2 million to \$41.6 million for the same period.

Building For The Future

Pacific Western owns twenty six jet and two turbo-prop aircraft, and will take delivery of two new Boeing 767 aircraft in late 1986 and early 1987. Sixteen aircraft have been acquired since January 1, 1979, including the two Boeing 767's. The average age of the operating fleet is approximately five years.

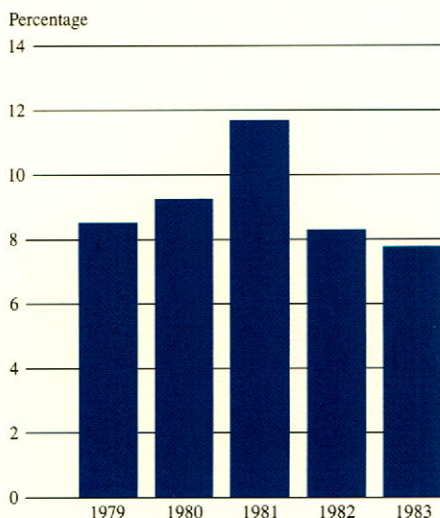
At December 31, 1983, Pacific Western operated eighteen Boeing 737's, two Boeing 767's, one Boeing 727 and one Lockheed Hercules. Five Boeing 737's were leased out during 1983 and are being operated by America West Airlines. Upon termination of the five year leases, Pacific Western will have the opportunity to return the aircraft to its operating fleet. In addition, one Lockheed Hercules was leased out for a one year period in October 1983, and two Boeing 737 C model aircraft will be leased out for a five month period during the summer of 1984.

In 1983, a 31,000 square foot office building and 2.7 acres of adjacent land in Calgary were acquired at a cost of \$3.3 million. Initially, this building will house the System Operation Control Centre, Contract and Charter department, Payload Control and the Calgary based administrative staff.





Return on Invested Capital*



* Net income before extraordinary items and gains on disposal of property and equipment, plus interest expenses and preferred share dividends expressed as a percentage of average invested capital. Invested capital is the sum of long-term debt, capital leases, preferred shares and shareholders' equity all including both current and long-term portions.



A new on-line customer accounts receivable system was installed during the year. This system provides better service to our customers in addition to providing improved handling and processing capabilities. Also during 1983, the aircraft maintenance system known as SCEPTRE was fully implemented. This fully automated, on-line computer information system was designed and developed to record, analyze and report all pertinent maintenance activities on aircraft and support equipment. The Airline Information and Dispatch System computers were replaced with larger more powerful equipment, enabling the Company to extend flight planning services for the Boeing 767 aircraft.

Upon completion of the new hangar facility in Calgary, and consistent with the Company's overall operations requirements, a program was undertaken to centralize some maintenance activities within the Central and Eastern regions. These moves enabled the Company to have the necessary expertise in Calgary to support the operating fleet. Line station support is still provided at Edmonton and Winnipeg.

Regulatory

An application was filed with the Air Transport Committee of the Canadian Transport Commission for permanent authority to operate between the points Calgary-Brandon-Toronto. In June of 1983, the Air Transport Committee granted this permanent authority.

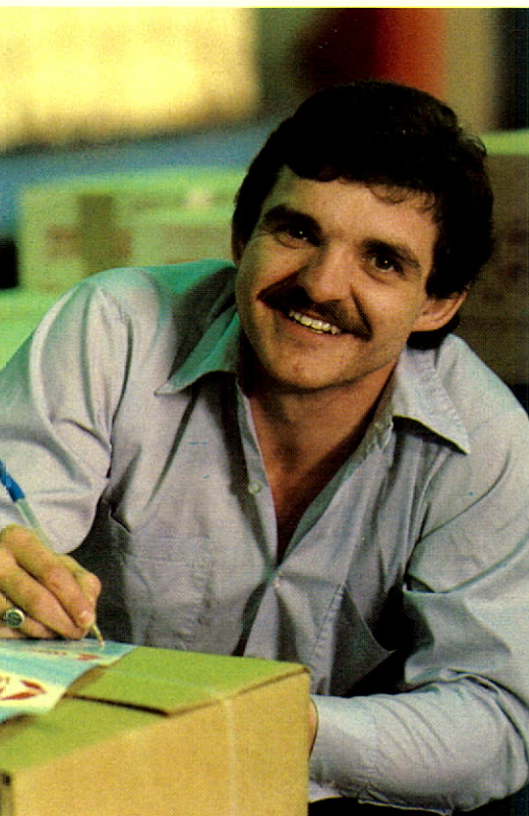
In September 1983, Pacific Western applied to the Air Transport Committee for a licence amendment permitting it to operate a continuation of existing flights between Regina and Saskatoon with no local traffic rights between the two points. A decision has not yet been reached by the Committee. Approval of this application would allow more flexible scheduling of services.

The application by Pacific Western for removal of limited frequency restrictions between Calgary/Edmonton and Vancouver was denied by the Air Transport Committee in October 1983.

An appeal was filed with the Minister of Transport in November 1983.

An Application for Review of a decision of the Air Transport Committee denying Pacific Western's application to operate non-stop service between Calgary/Edmonton and Winnipeg was granted by the Review Committee of the Commission. The application was referred back to the Air Transport Committee for further consideration.





The Employees of Pacific Western

At December 31, 1983, the Company employed 2,999 people, compared to 3,046 employees at December 31, 1982.

During the year, agreements were reached with the Canadian Airline Employees' Association, the Canadian Airline Flight Attendants' Association, and the Canadian Airline Pilots' Association, representing 747, 427 and 312 members, respectively. Negotiations are currently underway with the Pacific Western Airlines Employees' Association, representing clerical employees throughout the system. All other union agreements are current; however contract negotiations will take place during 1984 with the International Association of Machinists and Aerospace Workers, the Canadian Airline Dispatchers' Association and the Association of Aviation Instructors and Simulator Technicians.

Training of personnel receives a high priority at Pacific Western. Through the expertise of the training instructors, the Maintenance department mechanics have received training necessary to keep abreast of the latest aircraft technology. Customer Service agents at our reservations offices and at our bases have received additional training. The flight attendants also received additional training, together with on-board ticketing courses for the Boeing 767's. Management personnel were offered seminars designed to broaden their skills. All employees are encouraged to continually upgrade their knowledge through educational programs.

At the time the Company went public late in 1983, employees were given the opportunity to participate in ownership through the Employee Share Purchase Plan. A large number of the employees responded by participating in this program. In addition, employees who belong to the Profit Sharing Program will once again benefit as the result of the profitability in 1983.

The airline also recognizes the contributions made by employees, through payroll deductions, to many worthwhile charitable organizations. This was complemented by additional funds and other forms of assistance from Pacific Western's Corporate Donations program in the areas of health, welfare, education, culture, amateur sports, science and education. Pacific Western employees are to be commended for their voluntary involvement in the many community organizations to which they belong.

The Company recognizes that the loyalty and professionalism of the employees played a major role in the achievements of the airline in 1983. Through the continued dedication of the employees our reputation as one of Canada's leading airlines will continue through the 1980's.



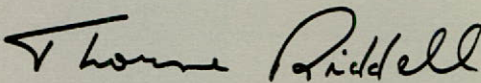
Auditors' Report

To the Shareholders of Pacific Western Airlines Corporation

We have examined the consolidated balance sheet of Pacific Western Airlines Corporation as at December 31, 1983 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1983 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.

Calgary, Canada
February 17, 1984


Chartered Accountants

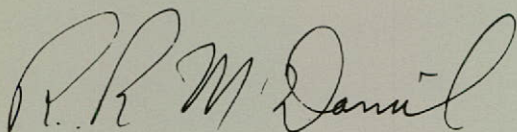
Consolidated Balance Sheet

December 31, 1983

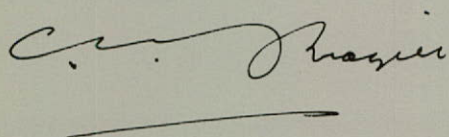
(in thousands)

ASSETS	1983	1982
CURRENT ASSETS		
Cash and short-term investments	\$ 78,676	\$164,515
Accounts receivable	30,203	28,618
Materials and supplies, at average cost less allowance for obsolescence	9,297	8,699
Flight equipment held for sale	—	11,873
Other current assets	10,372	1,670
	<u>128,548</u>	<u>215,375</u>
AGREEMENTS AND LEASES RECEIVABLE	7,083	2,409
PROPERTY AND EQUIPMENT, at cost less write-downs		
Flight equipment, including deposits on new equipment	398,649	304,196
Land, buildings and ground facilities	60,183	73,415
	<u>458,832</u>	<u>377,611</u>
Less accumulated depreciation	76,681	63,072
	<u>382,151</u>	<u>314,539</u>
OTHER ASSETS		
Property and equipment held for sale	21,911	—
Deferred charges	2,596	2,642
Other	4,051	1,522
	<u>28,558</u>	<u>4,164</u>
	<u><u>\$546,340</u></u>	<u><u>\$536,487</u></u>

Approved by the board



Director



Director

LIABILITIES	1983	1982
CURRENT LIABILITIES		
Bank indebtedness	\$ —	\$ 91,811
Accounts payable and accrued liabilities	50,142	55,680
Current portion of long-term debt	24,228	4,861
Current portion of capital leases	3,535	4,716
Advance ticket sales	9,025	7,624
Sinking fund for preferred shares of a subsidiary	—	16,500
	86,930	181,192
LONG-TERM DEBT (note 4)	213,925	14,128
CAPITAL LEASES (note 5)	49,200	41,524
SECURITY DEPOSITS ON LEASE AIRCRAFT	675	3,366
DEFERRED INCOME TAXES (note 3)	—	24,045
PREFERRED SHARES OF A SUBSIDIARY	—	187,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
Issued 12,162,846 (1982 — 5,532,616) Common shares	77,479	8,590
RETAINED EARNINGS	118,131	76,642
	195,610	85,232
COMMITMENTS (note 7)		
	\$546,340	\$536,487

Consolidated Statement of Income

Year Ended December 31, 1983

(in thousands)

	<u>1983</u>	<u>1982</u>
OPERATING REVENUES		
Scheduled services		
Passenger	\$223,689	\$227,279
Cargo	25,029	26,348
	<u>248,718</u>	<u>253,627</u>
Charter services	60,912	51,368
Outside sales and other income	18,355	15,053
	<u>327,985</u>	<u>320,048</u>
OPERATING EXPENSES		
Flying operations	45,018	46,900
Fuel	63,791	65,182
Maintenance	35,178	35,122
Depreciation and amortization	20,357	15,907
Commercial services	98,202	92,321
Other operating expenses	38,404	39,366
	<u>300,950</u>	<u>294,798</u>
OPERATING INCOME	<u>27,035</u>	<u>25,250</u>
OTHER INCOME (EXPENSES)		
Interest, net (notes 4 and 5)	(1,193)	9,373
Net gain (loss) on property and equipment, less applicable income taxes (note 9)	2,295	(186)
Dividends on preferred shares of subsidiary	(12,048)	(17,753)
Income taxes (note 3)	(5,326)	(10,375)
	<u>(16,272)</u>	<u>(18,941)</u>
NET INCOME	<u>\$ 10,763</u>	<u>\$ 6,309</u>
NET INCOME PER COMMON SHARE (note 6)	<u>\$ 1.85</u>	<u>\$ 1.14</u>

Consolidated Statement of Retained Earnings

Year Ended December 31, 1983

(in thousands)

	1983	1982
BALANCE AT BEGINNING OF YEAR	\$ 76,642	\$ 70,333
Net income	10,763	6,309
Transfer of deferred income taxes (note 3)	30,726	—
BALANCE AT END OF YEAR	<u>\$118,131</u>	<u>\$ 76,642</u>

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1983

(in thousands)

	1983	1982
FUNDS PROVIDED BY		
Operations		
Net income	\$ 10,763	\$ 6,309
Add items not requiring funds	24,069	18,795
	<u>34,832</u>	<u>25,104</u>
Investments	—	6,327
Disposal of property and equipment	17,755	42,102
Long-term debt	206,571	9,924
Capital leases	11,105	—
Issue of common shares (note 6)	66,680	—
	<u>336,943</u>	<u>83,457</u>
FUNDS APPLIED TO		
Agreements and leases receivable, net	4,674	—
Property and equipment	117,651	71,547
Long-term debt	6,774	3,335
Capital leases	3,429	4,716
Purchase of preferred shares of subsidiary	187,000	16,500
Other, net	9,980	703
	<u>329,508</u>	<u>96,801</u>
INCREASE (DECREASE) IN WORKING CAPITAL	7,435	(13,344)
Working capital at beginning of year	34,183	47,527
WORKING CAPITAL AT END OF YEAR	<u>\$ 41,618</u>	<u>\$ 34,183</u>

Notes to Consolidated Financial Statements

Year Ended December 31, 1983

(tabular amounts in thousands)

1. REORGANIZATION OF CORPORATE STRUCTURE AND BASIS OF PRESENTATION

Pacific Western Airlines Corporation (the "Company") was incorporated under the laws of the Province of Alberta on February 22, 1956 and continued under the Alberta Business Corporations Act on January 27, 1983. On December 2, 1983, the Company issued 5,532,616 common shares of its capital stock in exchange for 99.9% of the common shares of Pacific Western Airlines Ltd. ("Pacific Western").

Prior to the acquisition of the Pacific Western common shares, the previous business of the Company, which was immaterial and unrelated to its ongoing operations, was discontinued and all its previously held assets were sold. Accordingly, these financial statements present the accounts of the Company from December 2, 1983 only, and the accounts of Pacific Western and its subsidiaries on a historical basis. The former assets, liabilities and operations of the Company have not been included.

2. ACCOUNTING POLICIES

(a) Basis of Consolidation

As described in note 1, these consolidated financial statements include the accounts of the Company from December 2, 1983 and the accounts of Pacific Western and its active subsidiaries, Pacific Western (Alberta) Ltd. and Pacific Western Holidays Ltd., on a historical basis. The 1982 comparative accounts are those of Pacific Western and its subsidiaries, certain figures of which have been reclassified from those previously reported in the 1982 consolidated financial statements of Pacific Western to conform with the financial statement presentation adopted for 1983.

(b) Translation of Foreign Currencies

All monetary assets and liabilities denominated in foreign currency have been translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets and revenue and expense items are translated at the rates prevailing when they were acquired or incurred. Exchange gains and losses (1983 loss — \$481,000) arising on translation of long term receivables and liabilities are deferred and amortized over the remaining life of the related receivable or liability. Other exchange gains and losses are included in income for the year.

(c) Property and Equipment

Costs of repairs, renewals and replacements, including major flight equipment overhauls, are charged to income except for those expenditures which improve or extend the useful life of assets or which relate to pre-acquisition hours. Upon retirement or disposal of equipment, the cost and related depreciation are removed from the accounts and the gain or loss, if any, is reflected in income for the year. Depreciation is provided at the following straight-line rates:

	Useful Life	Residual Value
Flight equipment	14-20 years	15%
Hangars	20-40 years	—
Other buildings	10-20 years	—
Ground equipment	5-10 years	—

Property and equipment includes the capitalized value of leased aircraft in the amounts of \$65,672,000 and \$60,676,000 and related accumulated depreciation of \$15,747,000 and \$14,611,000 at December 31, 1983 and December 31, 1982, respectively.

Property and equipment held for sale are carried in the accounts at the lower of cost and estimated net realizable value.

(d) Deferred Charges

Deferred charges include costs incurred (1983 — \$188,000; 1982 — \$1,141,000) in computer systems development and development of new routes. These costs are amortized on a straight-line basis over a period up to five years from the date of implementation of the computer system or commencement of service on the new route. Amortization expense amounted to \$715,000 and \$508,000 for the years ended December 31, 1983 and 1982, respectively.

(e) Capitalization of Interest and Dividend Charges

The company capitalizes interest and dividend charges (1983 — \$827,000; 1982 — \$4,693,000) on funds used to finance the acquisition of new flight equipment and the construction of major ground facilities. Such charges are amortized on the same basis as the related asset cost.

3. INCOME TAXES

Prior to December 2, 1983, Pacific Western and certain of its subsidiaries were exempt from taxation under paragraph 149(1)(d) of the Income Tax Act. Other subsidiaries of Pacific Western, however, were not tax exempt and these companies followed the tax allocation method of accounting under which income tax provisions were recorded based on accounting income.

As a consequence of the reorganization described in note 1, Pacific Western and its subsidiaries have become taxable under the Income Tax Act and are deemed, for tax purposes, to have acquired all their assets for an amount equal to the fair market value of the assets. This has had the effect, for tax purposes, of increasing the undepreciated capital cost of the companies' depreciable assets. The existing difference between the book values and the tax values of the assets has been eliminated and, accordingly, the accumulated deferred tax credits of \$30,726,000 at December 2, 1983 have been transferred to retained earnings. The excess (approximately \$160,000,000) of the tax values over the book values of the assets is available for deduction from future taxable income and will have no counterpart in computing accounting income when such amounts are claimed for tax purposes. To the extent that such amounts are applied to eliminate taxable income, no provision for deferred income taxes will be required to be made in the accounts of the Company.

4. LONG-TERM DEBT

	1983	1982
Bank loan (see (a) below)	\$120,000	\$ —
Bank loans, unsecured, payable on July 2, 1985, bearing interest at bank's prime lending rate with option of utilizing LIBOR based loans or bankers' acceptances	30,000	—
Bank loan, unsecured, payable on July 2, 1985, bearing interest at bank's cost of funds plus ½% with option of utilizing bankers' acceptances	20,000	—
9¼% U.S. dollar bank loan, payable in ten equal semi-annual instalments commencing October 1988, secured by two Boeing 767 aircraft and related equipment (\$36,105,000 U.S.)	44,915	—
8½% U.S. dollar bank loan, payable in semi-annual instalments to February 1988, guaranteed by a Canadian bank, secured by a flight training simulator (1983 — \$8,521,000 U.S.; 1982 — \$8,970,000 U.S.)	10,575	11,026
Bank loan, bearing interest at 9.67%, payment terms to be determined no later than April 1989 with final payment to be made no later than April 1994	5,400	—
U.S. dollar bank loan, bearing interest at 10.65%, payable in three equal annual instalments commencing June 1984 (\$4,052,000 U.S.)	5,036	—
6% U.S. dollar bank loans	—	6,748
Other	2,227	1,215
	<u>238,153</u>	<u>18,989</u>
Less current portion	<u>24,228</u>	<u>4,861</u>
	<u>\$213,925</u>	<u>\$14,128</u>

- (a) The \$120 million loan is secured by a fixed charge on certain assets and a floating charge over all other assets of the Company and its subsidiaries. \$20 million of the loan is to be paid in March 1984 with the remaining balance to be paid in 21 equal semi-annual instalments ending on January 2, 1996. Interest is payable at the bank's prime lending rate until July 2, 1985, at prime plus $\frac{1}{4}\%$ thereafter until January 1, 1987, at prime plus $\frac{1}{2}\%$ thereafter until January 1, 1990, at prime plus $\frac{3}{4}\%$ thereafter until January 1, 1993 and at prime plus 1% thereafter, with the option of utilizing a LIBOR based loan or bankers' acceptances. The loan may be prepaid in whole or in part without penalty until July 2, 1985.
- (b) In addition to the above indebtedness, a subsidiary has an outstanding bank demand loan in the amount of \$39,605,000 as of December 31, 1983. The loan is non-interest bearing and is payable in nine equal semi-annual instalments. The loan is secured by a non-interest bearing bank demand deposit of an equal amount which has been offset against the debt for financial reporting purposes. An administration fee of $\frac{1}{8}$ of 1% per annum on the amount of the loan outstanding is payable quarterly.
- (c) Interest on long-term debt for the current year amounted to \$4,295,000 (1982 — \$811,000) and has been reflected in these financial statements net of interest income.
- (d) Long-term debt maturities for the four years subsequent to 1984 are as follows: 1985 — \$54,007,000; 1986 — \$13,533,000; 1987 — \$11,868,000; 1988 — \$14,955,000.

5. LEASE OBLIGATIONS

Minimum lease payments due as at December 31, 1983 under capital leases are as follows:

1984	\$ 8,044
1985	8,667
1986	12,786
1987	7,417
1988	9,583
1989-1995	<u>33,419</u>
Total minimum lease payments	79,916
Less amount representing interest	<u>27,181</u>
Balance of obligations	52,735
Less current portion	<u>3,535</u>
	<u>\$49,200</u>

The amount of minimum lease payments representing interest is determined as the amount necessary to reduce future minimum lease payments to their present value, discounted at the rates (8.1% to 11.5%) implied by the terms of the lease. Interest on these agreements for the current year amounted to \$4,447,000 (1982 — \$4,685,000) and has been reflected in these financial statements net of interest income.

The majority of significant operating leases are renewable on an annual basis and estimated future lease payments over the five years subsequent to December 31, 1983 amount to an average of \$4,300,000 per annum.

6. CAPITAL STOCK

(a) Authorized Capital

The authorized share capital of the Company, following the reorganization of the Company's corporate structure in December 1983, consists of an unlimited number of common shares without par value and an unlimited number of First and Second Preferred Shares without par value.

(b) Shares Issued

The Company has issued common shares as follows:

	<u>Number of Shares</u>	<u>Amount</u>
In exchange for common shares of Pacific Western (see note 1)	5,532,616	\$ 8,590
For cash on public offering, net of underwriting commissions of \$3,555,000 and share issue expenses and reorganization costs totalling \$1,040,000, less applicable income tax benefits of \$2,209,000	6,300,000	65,339
For cash and notes receivable under Employee Share Purchase Plan	330,230	3,550
	<u>12,162,846</u>	<u>\$77,479</u>

(c) Employee Share Purchase Plan

In December 1983, the Company received subscriptions from employees for the purchase of 330,230 common shares at \$10.75 per share for a total consideration of \$3,550,000, of which \$1,120,000 was paid as of December 31, 1983, \$970,000 is due in 1984 and \$1,460,000 is due in 1985 and 1986.

(d) Share Option Plan

The Company has established an Executive Incentive Share Option Plan under which options to purchase 500,000 common shares at \$10.75 per share have been granted to senior employees, exercisable in five equal annual instalments commencing on December 2, 1984.

(e) The Pacific Western Airlines Act (Alberta)

The Pacific Western Airlines Act (Alberta) prohibits any person or group of associated persons, other than the Province of Alberta, from holding as shareholders or beneficial owners, more than 4% of the issued and outstanding voting shares of the Company.

(f) Net Income Per Share

Net income per common share has been calculated after giving retroactive effect to the issue on December 2, 1983 of 5,532,616 common shares of the Company in exchange for the common shares of Pacific Western as described in note 1. The 1983 per share computation also includes the weighted effect of the issue of common shares to the public on December 15, 1983 and under the Employee Share Purchase Plan in December 1983.

7. COMMITMENTS

- (a) As at December 31, 1983, the Company was committed to the following estimated payments relating to two Boeing 767 aircraft and spare engine purchases scheduled for delivery in 1986 and 1987:

	<u>U.S. dollars</u>
1984	\$ 9,794
1985	12,351
1986	40,831
1987	35,685

- (b) The Company has entered into an agreement to acquire from treasury an approximate 40% equity interest in Time Air (1982) Ltd., an Alberta based air carrier, for \$4,300,000.

8. PENSION PLANS

Employees of the Company are covered under contributory pension plans. It is the Company's practice to obtain periodic actuarial valuations of the pension plans for purposes of determining annual pension cost and funding requirements. Current service costs are provided for and funded when incurred.

An actuarial valuation as of December 31, 1983 indicated that there was no unfunded commitment as at that date.

9. NET GAIN (LOSS) ON PROPERTY AND EQUIPMENT

	<u>1983</u>	<u>1982</u>
Gain on sale of flight equipment, less income taxes of \$441,000 (1982 — \$1,600,000)	\$8,628	\$15,139
Provision for loss on equipment held for sale	(6,463)	—
Provision for write-down of Boeing 767 flight equipment, less income tax reduction of \$7,320,000	—	(15,325)
Gain on sale of other property	130	—
	<u>\$2,295</u>	<u>\$ (186)</u>

5 Year Summary

(Dollars in Thousands Except Per Share Figures)

Years Ended December 31	1983	1982	1981	1980	1979
Operating Revenues					
Scheduled services — passenger	\$223,689	\$227,279	\$225,415	\$174,907	\$138,901
— cargo	25,029	26,348	24,167	20,585	18,014
	<u>248,718</u>	<u>253,627</u>	<u>249,582</u>	<u>195,492</u>	<u>156,915</u>
Passenger charter services	48,881	38,098	37,489	27,831	25,897
Cargo and contract charter services	12,031	13,270	14,432	11,423	15,181
Outside sales and other income	18,355	15,053	11,845	8,154	4,835
Total Operating Revenues	<u>\$327,985</u>	<u>\$320,048</u>	<u>\$313,348</u>	<u>\$242,900</u>	<u>\$202,828</u>
Operating Expenses					
Salaries and wages	\$112,848	\$114,522	\$108,911	\$ 93,460	\$ 76,780
Fuel	63,791	65,182	66,634	42,039	35,634
Depreciation and amortization	20,357	15,907	13,872	10,655	9,359
Other	103,954	99,187	97,489	77,370	67,331
Total Operating Expenses	<u>\$300,950</u>	<u>\$294,798</u>	<u>\$286,906</u>	<u>\$223,524</u>	<u>\$189,104</u>
Operating income	<u>\$ 27,035</u>	<u>\$ 25,250</u>	<u>\$ 26,442</u>	<u>\$ 19,376</u>	<u>\$ 13,724</u>
Other Income (Expenses)					
Interest income, net of interest expense	\$ (1,193)	\$ 9,373	\$ 20,424	\$ 15,890	\$ 15,492
Net gain (loss) on property and equipment	2,295	(186)	4,174	2,497	3,739
Dividends on preferred shares of subsidiary	(12,048)	(17,753)	(21,916)	(17,122)	(15,876)
Income taxes	(5,326)	(10,375)	(11,198)	(8,405)	(4,283)
Net Income	<u>\$ 10,763</u>	<u>\$ 6,309</u>	<u>\$ 17,926</u>	<u>\$ 12,236</u>	<u>\$ 12,796</u>
Other Financial Data					
Total assets	\$546,340	\$536,487	\$552,923	\$408,428	\$365,399
Long-term debt, capital leases and preferred shares	\$263,125	\$242,652	\$257,279	\$281,239	\$264,111
Shareholders' equity	\$195,610	\$ 85,232	\$ 78,923	\$ 60,997	\$ 48,761
Net income per share	\$ 1.85	\$ 1.14	\$ 3.24	\$ 2.21	\$ 2.31
Cash flow per share from operations	\$ 5.99	\$ 4.54	\$ 7.00	\$ 5.25	\$ 3.36
Working capital	\$ 41,618	\$ 34,183	\$ 47,527	\$ 50,022	\$ 27,978
Debt/Equity ratio	57:43	74:26	76:24	82:18	84:16
Operating margin	8.2%	7.9%	8.4%	8.0%	6.8%
Statistics — Scheduled Services					
Revenue passengers carried (000's)	2,933	3,136	3,785	3,659	3,299
Revenue passenger miles (000's)	894,863	928,328	1,047,350	926,827	845,536
Average passenger journey (miles)	305	296	277	253	256
Available seat miles (000's)	1,707,082	1,760,852	1,921,262	1,732,928	1,600,110
Passenger load factor	52.4%	52.7%	54.5%	53.5%	52.8%
Cargo carried (lbs.) (000's)	51,325	51,183	57,440	64,984	69,249
Cargo ton miles (000's)	12,993	13,997	16,056	16,499	16,625
Statistics — Passenger Charter Services					
Revenue passengers carried (000's)	400	338	371	345	326
Revenue passenger miles (000's)	524,719	423,155	476,775	419,455	473,408
Average passenger journey (miles)	1,312	1,252	1,285	1,216	1,452
Statistics — Cargo and Contract Charter Services					
Revenue passengers carried (000's)	20	17	17	15	17
Revenue passenger miles (000's)	28,220	26,813	26,497	23,184	26,325
Cargo carried (lbs.) (000's)	48,823	68,812	82,215	77,214	104,453
Cargo ton miles (000's)	9,085	13,271	18,852	18,286	22,784
Number of Employees at year end	2,999	3,046	3,644	3,722	3,517

Board of Directors



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Partner, Bennett Jones
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Calgary, Alberta

(1) member, Audit Committee
(2) member, Executive Committee



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Calgary, Alberta

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Registrar and Transfer Agents

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Calgary, Montreal, Regina,
Toronto, Vancouver, Winnipeg

Securities Listed

Toronto Stock Exchange
Alberta Stock Exchange
Vancouver Stock Exchange

Shareholders' Auditors

Thorne Riddell
Calgary, Alberta

Subsidiary Companies

(wholly-owned)

Pacific Western Airlines Ltd.
Pacific Western (Alberta) Ltd.
Pacific Western Holidays Ltd.
B.C. Air Lines Limited
Transair Limited

Banks

Canadian Imperial Bank of Commerce
Royal Bank of Canada
National Westminster Bank of Canada



 **Pacific
Western**