NORDAIR

ANNUAL REPORT 1984

■ BOARD OF DIRECTORS

Robert J. Butler
Toronto, Ontario
Chairman
Urban Transport
Development Corporation Ltd.

Jean E. Douville
Ville Mont-Royal, Québec
President and Chief Executive
Officer

Stephen J. Kauser
Ville Mont-Royal, Québec
President
Innocan Inc.

Thomas F. Kilbourn
Dorval, Québec
Pilot
Nordair

Roland G. Lefrançois
Montréal, Québec
Chairman of the Board

Donald C. Lowe
Toronto, Ontario
President and Chief Executive
Officer
Kidd Creek Mines Ltd.

Bernard W. Matte
Westmount, Québec
Vice-President
Innocan Inc.

John W. McGill
Westmount, Québec
President and Chief Executive
Officer
Canadian Liquid Air

Jean-Marie Ouellet
Ste-Foy, Québec
President
La Fédération des caisses
populaires Desjardins du Québec

Gordon M. Rennie
Frobisher Bay, N.W.T.
General Manager
Hudson Bay Company

■ OFFICERS OF THE COMPANY

Roland G. Lefrançois
Chairman of the Board

Jean E. Douville
President and Chief Executive
Officer

Kurt P. Peiffer
Executive Vice-President
and Chief of Operations

André Bérard
Vice-President,
In-Flight Services

Marie Bernier
Vice-President,
Public Affairs

André J. Bourque
Vice-President,
General Counsel and Secretary

Raymond C. Doutre
Vice-President, Personnel
and Industrial Relations

Michel Handfield
Vice-President,
Finance and Planning

Harold J. Londeau
Vice-President and General
Manager,
Maintenance and Engineering

Ronald L. Patmore
Vice-President,
Ontario and Central Region

Paul A. Pelletier
Vice-President,
Québec and Arctic Region

Dominique F. Prinet
Vice-President, Marketing
and Commercial Development

Robert L. Schatel
Vice-President,
Facilities and Special Projects

John L. Smith
Vice-President,
Flight Operations

Frank Dolha
Assistant Vice-President,
Operational Services

James McLarnon
Assistant Vice-President,
Industrial Relations

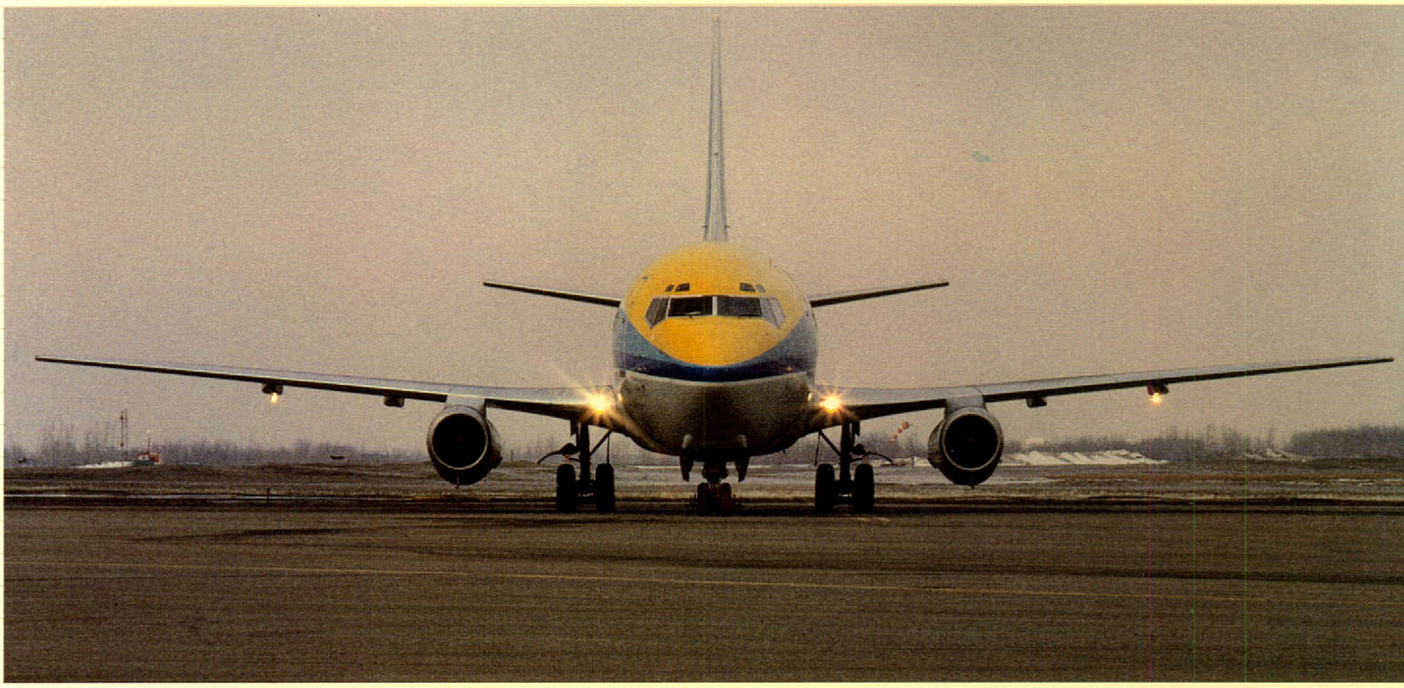
Gordon M. Wallace
Assistant Vice-President
and Treasurer

Pierre St-Laurent
Chief Internal Auditor

Nicole Simard
Assistant Controller

Un exemplaire en français est disponible sur demande.

Affaires publiques
Nordair
1320, boulevard Graham
Ville Mont-Royal, Qué.
H3P 3C8



■ HIGHLIGHTS

(Dollars in thousands except where indicated by *)	1984	1983
Operating revenue	$ 180,447	$ 155,015
Operating income	$ 5,783	$ 4,123
Non-operating expenses (income)	$ 1,073	($ 3,993)
Net income	$ 2,520	$ 5,016
Earnings per share on operations *	$ 1.14	$ 0.50
Earnings per share for the year *	$ 1.15	$ 2.30
Number of shares outstanding *	2,184,161	2,184,161
Book value per share *	$ 14.98	$ 13.82
Working capital deficiency	$ 12,501	$ 12,275
Total assets	$ 110,530	$ 109,827
Long-term debt	$ 16,758	$ 19,652
Number of employees	1,317	1,285

■ FLEET

Boeing 737	9	9
Fairchild FH-227	5	5
Lockheed Electra L-188	2	2

Jean E. Douville
President and Chief Executive Officer
Roland G. Lefrançois
Chairman of the Board

■ *REPORT TO SHAREHOLDERS*

We are pleased to report that in 1984, we reached our financial objectives, even in the face of great changes and difficult times. Our net income from operations reached $2.5 million or $1.15 per share compared to $1.1 million or $0.50 per share in 1983. Inclusion of a gain of $3.9 million on asset disposal in earnings had raised net income to $5 million or $2.30 per share in 1983. Revenues from passenger service, cargo, charters and contracts all increased and it is gratifying to note that our productivity measurements improved while we generated this additional activity. Our revenues increased by 16.4 per cent from $155 million to $180 million. The financial results are presented in detail in the audited statements contained in this report.

"Change"... the word summarizes best what this last year has meant for the entire Canadian airline industry, and for Nordair in particular. In the history of Nordair, page after page has been stamped by the challenge of change, but at every stage the innovative spirit of its owners and its employees was sufficient to recognize the new opportunities that were presented and to capitalize on them to good advantage.

The year 1984 was no exception. Indeed, it was certainly one of the most important periods in Nordair's 38-year history. Control of the Corporation changed hands; a liberalized air transportation policy was introduced; and most importantly, over half of our employees chose to become shareholders in the Corporation.

Change of Control

In December, a transaction was completed resulting in the controlling interest in our Corporation changing hands from Air Canada to Innocan Inc. On December 31, 1984, the Corporation's name ceased to be Nordair Ltée – Nordair Ltd. and became Nordair Inc. This marked, on the one hand, the end of an important era and, on the other, the beginning of what we believe will be an exciting future for our Corporation. Since 1979, our association with Air Canada and our relationship with its several senior officers who served as Directors of Nordair were of great assistance in the pursuit of our objectives.

Air Canada had, for some time, been encouraged by its shareholder to return Nordair to the private sector. When the decision was made to do so, several interested parties submitted proposals to acquire the shares. Innocan's offer was accepted because, among other reasons, it was endorsed by the majority of our employees who, collectively, invested $2 million in support of the purchase. Innocan Inc. is a holding company with a successful record of investment in Canada. Headquartered in Montreal, it is owned by a number of important financial institutions in this country. Innocan is experienced in assisting the management of growing companies and, given the rapidly changing environment in our industry, we welcome its presence.

Employee Shareholders

Participation Nordair Inc. was created to enable some 680 employees to participate in the purchase of Nordair. As a result, those employees now own approximately 10 per cent of Nordair. We believe this to be one of the most significant events in the Corporation's history. Over 50 per cent of the employees have chosen to share in the risks and to participate in the rewards as owners of the business. We thank them for their support. We value their added commitment and we share their enthusiasm. In these challenging times, competence, dedication and a mutuality of interest between all individuals working within an organization are essential elements in the pursuit of success. The formula is now in place at Nordair. We look to the future with optimism.

Regulatory Reform

In May 1984, the federal Minister of Transport issued a new Canadian air transportation policy. This policy has resulted in liberalizing the terms under which the Canadian airline industry was regulated in the past. Under the new regime, carriers can more easily gain access to new routes or change the type or level of service on existing routes. Consequently, in this highly competitive environment, a number of jet and turboprop operators have applied to expand services on routes where we traditionally held a relatively large market share. On the plus side, this new regime will allow us to improve and expand our scheduled network.

The adequacy of air services in the North was the subject of hearings held by a panel of the Air Transport Committee in northern communities across Canada during the summer of 1984.

We participated prominently in the hearings. In line with our recommendations, the panel concluded that the Committee should retain its jurisdiction over the issuance of additional licences in the North, while placing increased emphasis on the benefits of competition.

Refurbishing Assets

While changes were taking place in the boardroom, the general public was witness to a more visible transformation as a major program to refurbish our assets initiated in 1983, was continued during the year. In addition to functionally improving the efficiency of many of our assets, we introduced a new corporate image to the public. By the end of the year, more than half of our fleet sported the new look and the striking symbol derived from the compass rose.

At Dorval airport, we redesigned the departure lounges and the ticket counter and added the new look to our ground equipment and vehicles. A new ticket office in downtown Montréal and upgraded airport facilities in Windsor and Dryden were further evidence that we are effecting change. Two more of our Boeing 737s were reconfigured with wide-body interiors. Working conditions for employees were not overlooked as office premises at Dorval's Hangar 5 were redone.

Directors

The change in the ownership of our Corporation necessitated several changes to our Board of Directors. Messrs Jean-Jacques Cossette; Geno F. Francolini; Denis J. Groom; Pierre Jeanniot; Frank D. Newton; Paul L. Pelletier, Claude I. Taylor; and Richard A. Wedge retired from the Board in 1984. The counsel of these gentlemen was invaluable and on behalf of all of us at Nordair, we extend our appreciation for their outstanding contribution.

The following were appointed to our Board of Directors in 1984: Messrs Robert J. Butler; Stephen J. Kauser; Thomas F. Kilbourn; Donald C. Lowe; Bernard W. Matte; and John W. McGill. Mr. Kilbourn, a Nordair pilot, was selected by the employees who participated in the share purchase plan. We are fortunate indeed to have all these newly appointed Directors. We welcome them and look forward to their counsel.

Outlook

We have tabled a long range plan in which revenues and profits are forcasted to increase in 1985 and the years beyond. Our Corporation is well positioned to benefit from the changes that are rapidly impacting the industry in Canada. We have witnessed deregulation in the United States where, to date, many carriers have suffered but some have prospered. For sure, we will have major hurdles to overcome and we will have to exercise vigilance as we aggressively pursue our objectives.

Our mission is to make Nordair the dominant and most successful regional air carrier in Eastern Canada. We have the will and the resources to do so. We intend to continue seeking and implementing ways to improve. In 1984, our focus was on "QUALITY". In 1985, we are concentrating on "PRODUCTIVITY FOR GROWTH AND PROFITABILITY". The objective is to become more efficient in order that we continue adding value to the services we provide our customers.

On behalf of all shareholders, we wish to take this opportunity to thank all of our employees, without whose dedication and effort the results of the past year would not have been possible.

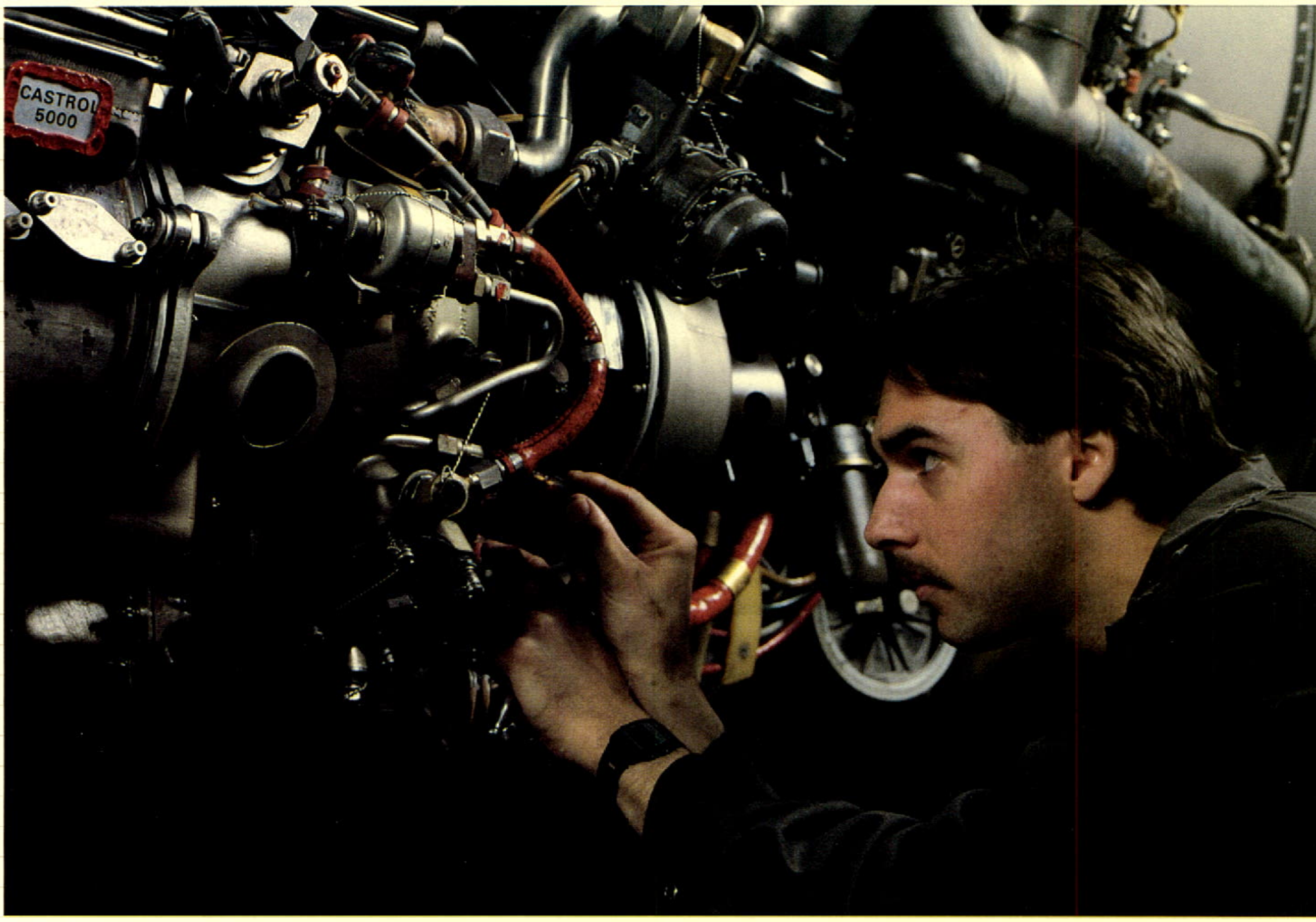
On behalf of the Board of Directors,

Roland G. Lefrançois
Chairman of the Board

Jean E. Douville
President and Chief Executive Officer

Montréal, Canada
March 31, 1985

■ REVIEW OF OPERATIONS



At the end of 1984, our fleet consisted of nine Boeing 737s, five Fairchild FH-227s and two Lockheed Electra L-188s. We also leased two Boeing 737s for a period of seven months ending in April, 1985.

Our B-737 fleet is a versatile one. Six of the nine aircraft are of the passenger/cargo type, equipped for gravel runway landings, while three are conventional passenger aircraft. Five of them have long-range capability and one is equipped for over-water flights. The average age of our B-737 fleet is 9.4 years.

The FH-227 fleet features two passenger/cargo aircraft used exclusively for the DEWline (Distant Early Warning Line) operations. The other three passenger aircraft are used for scheduled services.

The two Lockheed Electras are dedicated to ice reconnaissance operations carried out on behalf of Environment Canada, under contract with Supply and Services Canada.

We were successful in increasing our fleet utilization. The B-737 aircraft produced 33,477 block hours in 1984 or a daily average of 9.5 block hours in comparison with 30,276 block hours or a daily average of 8.7 block hours in the previous year.

best B-737 utilization in the industry...

We expect that the adoption of extensive fuel-saving modifications, the implementation of an engine modification program, as well as the installation of the Omega navigation systems on the remaining three B-737s, will generate significant cost benefits in 1985.

As a result of special maintenance programs to improve the operational performance of the FH-227 and Electra aircraft, Nordair was not only highly commended by the United States Air Force and the Canadian Government, but also obtained approval from Transport Canada to extend the overhaul intervals on the FH-227s and the B-737s. Additional savings will be derived from this development.

!!!

Inspection of landing gear

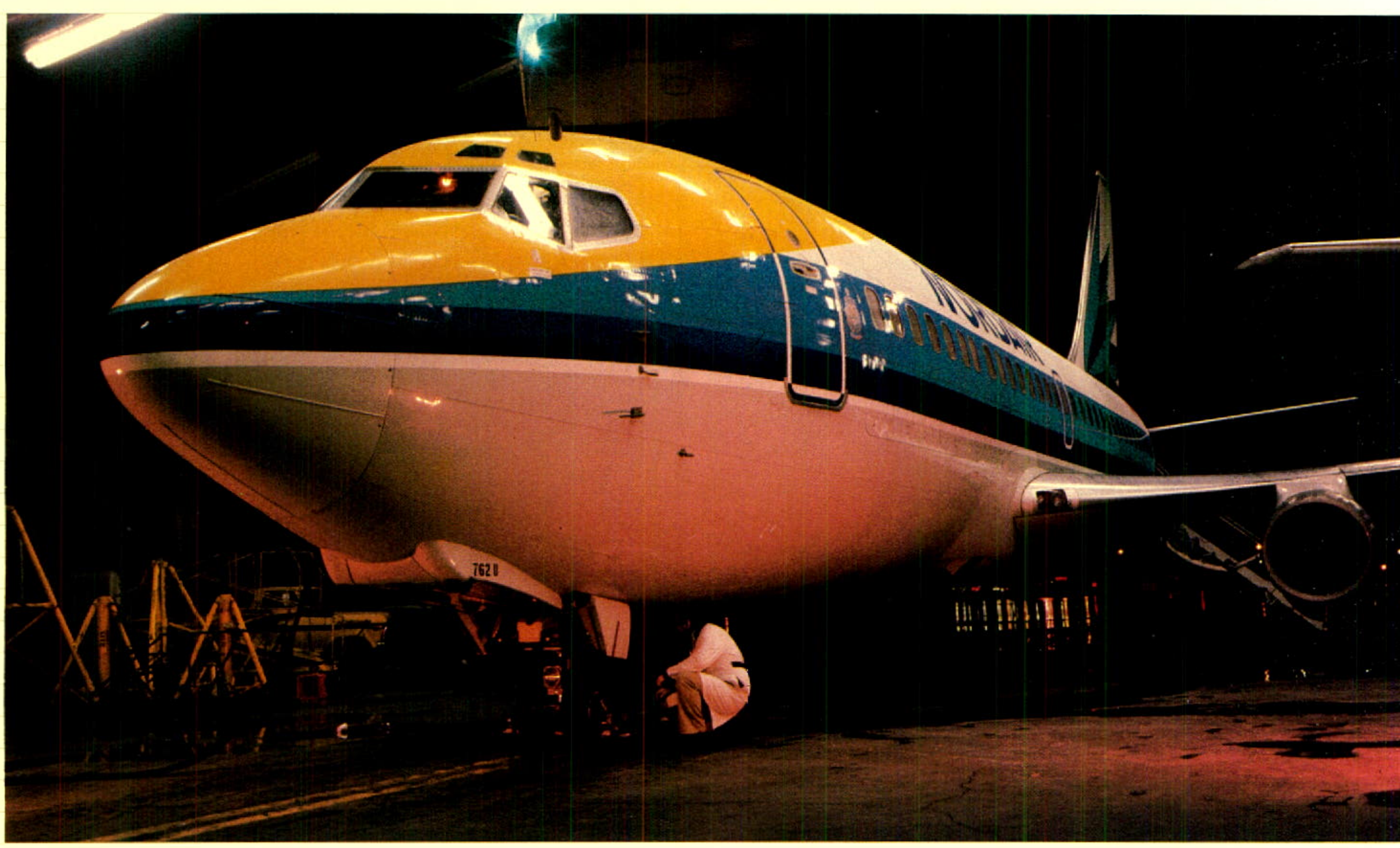
By the end of 1984, eight aircraft had been repainted in Nordair's new livery, and two B-737s had been refitted with wide-body interiors, leaving only two to be refurbished in 1985 and 1986 respectively. As well, two aircraft were completely overhauled during the year.

In accordance with our corporate policy of improving working conditions for employees and as a follow-up to the renovation program undertaken at head office in 1983, a major project was undertaken to upgrade the interior and exterior of our hangar and offices located at the Dorval base. Among other benefits, this program enabled us to install an elevator for the handicapped and to provide a new larger cafeteria with enhanced kitchen facilities. It was a most difficult period for employees since most of the work was done while they were on the premises. They deserve to be heartily commended for the patience and positive attitude they displayed during those trying months of disruption.

On the passenger side, we undertook the complete refurbishing of our departure lounges and ticket counter at Dorval airport. Along with these renovations, we introduced U.S. customs pre-clearance facilities at the check-in counters for our charter passengers' added convenience. passenger plus ! We also moved into a new terminal building in Dryden and opened a ticket office in downtown Montréal.

Much attention was given to enhancing our presence at the Florida destinations we serve. In Orlando, we transferred operations from the Tradeport Terminal to the new Orlando Terminal. Some important steps were taken to improve our facilities in St. Petersburg so as to coincide with the airport's expansion planned for 1985. By the fall of 1985, we expect to move our Fort Lauderdale facilities into the new terminal.

We reached a new milestone in customer service to remote communities with the extension of our computerized reservations system in the Arctic Region. Frobisher Bay was the first of Nordair's eight northern destinations to be fully integrated. It was followed by Resolute Bay, Nanisivik, Hall Beach, Poste-de-la-Baleine and Chibougamau. Fort Chimo and La Grande will become operational in 1985.



■ CONTRACT AND CHARTER OPERATIONS

Contract and charter flights continued to account for a sizeable portion of Nordair's activities. For the second consecutive year, the airline was awarded contracts to supplement the scheduled services of two international carriers.

We entered into the twelfth consecutive year of ice reconnaissance operations, representing the third year of a five-year contract with Supply and Services Canada. Two specially modified Lockheed Electra L-188s are used as ice observation platforms and operate patrols year round. Information pertaining to the concentration, temperature, profile and thickness of ice, and occasionally iceberg location, is electronically transmitted to ships and Canadian Coast Guard ice breakers.

This contract has rigid standards and features bonus and penalty provisions. Under the present contract, we have earned the bonus every month – a substantial tribute to the skill and dedication of our field, maintenance, flight operations and project management personnel.

For the twenty-fifth consecutive year, the DEWline lateral airlift contract for Canada was awarded to Nordair by the United States Air Force. This contract requires provision of two dedicated FH-227s to resupply radar stations located in the Canadian Arctic and Alaska, with occasional trips to Greenland. Despite the hostile and predominantly adverse conditions encountered by our personnel in support of this operation, the client has consistently praised Nordair for its reliable performance. !!!

Historically, charter operations were used to supplement scheduled services and achieve the Corporation's aircraft utilization objectives. We have expanded these activities considerably over the years and they represented 40 per cent of our B-737 utilization in 1984, for a total of $45,000,000 in revenues.

Nordair's major charter client is Treasure Tours, a wholly-owned subsidiary specializing in the organization of packaged tours, which focusses its main activities on the Florida market. In fact, Treasure Tours accounts for 58 per cent of Nordair's charter flying hours. Despite a drop in yields resulting from fierce competition, Treasure Tours surpassed its 1983 revenues. Its round trip charter passengers increased from 102,148 the previous year to 137,108 in 1984. While the Corporation continued to offer Advance Booking and Inclusive Tour Charters, the largest area of growth has been the Fully Independent Tour product.

largest Canadian tour operator on Florida market!

This year, Treasure Tours added Winnipeg to its main gateways at Toronto, Montréal, Ottawa, London and Québec City. The principal Florida destinations are St. Petersburg/Clearwater, Fort Lauderdale, Orlando, Palm Beach, Daytona and Tampa. The introduction of Fort Myers was a remarkable success.

Treasure Tours continued expanding its cruise programs in Mexico and the Caribbean, and motor coach tours in Europe. The success of the latter is attributed to the strength of the Canadian dollar over European currencies.

Nordair had the honour of carrying Her Majesty The Queen Elizabeth II over several sectors in a B-737 during the Royal Tour of Canada in October, 1984. It was the fourth time Nordair was selected to carry members of the Royal Family, a record of which we are very proud.

■ MARKETING AND COMMERCIAL DEVELOPMENT

The year 1984 was one of transition, particularly with respect to the regulatory framework of the domestic Canadian airline industry, which was faced with a whole new set of circumstances as a result of the phasing in of a new air transportation policy.

Nordair responded to this transition by introducing innovative pricing concepts to stimulate off-peak travel and by stressing the "value for money" aspect of its product. Some examples of these strategies are the "Walk On" fare introduced in the Central Region during the summer months and the "Nordair Plus" concept featuring free ground transportation, car rental or hotel accommodation with the regular economy fare throughout the network.

On the licencing side, the new policy allowed Nordair to seek removal of all restrictions on its licences for services to points south of the 50th parallel. The request was granted and as a result, Nordair has seized opportunities to strengthen its existing network as well as to expand into new markets.

Nordair also filed an application to serve Sudbury, North Bay and Timmins, in northeastern Ontario. An approval, which is still outstanding, would complete Nordair's route objectives in Ontario for the near term. In the same province, Nordair resumed services to Windsor on November 4, offering substantial new discounts and a competitive service. However, stiff market reaction from the existing carrier on this route has resulted in slower market penetration than anticipated.

In a move to tailor capacity to demand, an FH-227 service replaced the existing B-737 service on the Toronto-Pittsburgh route. At the same time, we have given particular attention to improving scheduling and facilitating connections in Pittsburgh.

Passenger numbers in the Ontario and Central Region exceeded target. However, the proliferation of promotional fares in the marketplace led to a decline in passenger yields.

In the Québec and Arctic Region, we were able to meet and even surpass our traffic objectives as a result of our numerous promotional activities with travel agencies, corporate accounts, and the general public.

This is all the more remarkable since the anticipated economic recovery in the region was not as spontaneous as financial analysts had predicted, despite the positive signs shown earlier in the year. Continued restraint in corporate and government spending was an important factor faced by Nordair in this region.

The problems facing the forest industry in Abitibi, the decision to close the Asbestos Hill mining site and finally, the drastic reduction in revenues from the carriage of mail, prompted us to channel our efforts towards ensuring that existing market share be at least maintained.

In order to expand our presence, we filed an application to add Rouyn to our northwestern Québec service. The Air Transport Committee held a hearing on our application but no decision in this matter has been rendered yet. Meanwhile, we were granted authority to extend our FH-227 service from Chibougamau to Dolbeau. Services to this new destination were launched on December 3.

continued commitment to the North

In line with our policy of extending discounts and special tariff privileges to Northerners, we introduced deep discount fares for several special events and extended seat sales to the Arctic Region throughout the year. Special reduced fares between northern points and Fort Lauderdale on our new scheduled service were also made available.

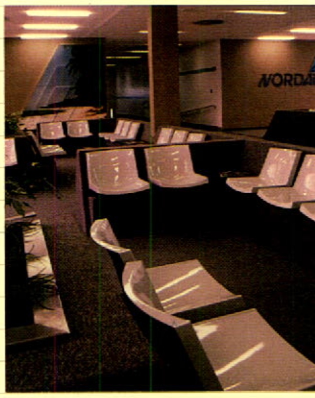
Cargo continued to play an important role in the services and revenues of the Quebec and Arctic Region. To highlight this aspect of our operations, we have reorganized our cargo division to ensure that cargo possibilities be maximized. Deep discounts were again offered to the residents of remote northern communities on certain special commodities such as food.

a first –

Under a new bilateral agreement between Canada and the United Sates, which facilitates licence granting to carriers operating transborder flights out of Mirabel Airport, we launched scheduled services between Mirabel and Fort Lauderdale, Florida, in November 1984. This decision was made partly to protect the Corporation's position in the Florida market. The new service has been exceptionally successful, and the three weekly flights have been averaging 80 per cent load factors.

Refurbished departure lounge at Dorval
Hangar following renovations program

■ FINANCE AND PLANNING



Net income from operations reached $2.5 million, more than double the $1.1 million achieved in 1983. Gains on sale of assets of $3.9 million included in the 1983 results raised net income to $5 million compared to this year's $2.5 million.

Operating revenue for the year totalled $180.4 million, an increase of 16.4% over the $155 million recorded in 1983. The composition of this total continues to reflect the diversified nature of the Corporation's operations. Scheduled passenger revenue accounted for 44% of the total, cargo 7.2%, mail 3.6%, charter and contracts 31.2% and tour operations 12.6%. Passenger revenue increased 19.3% from $66 million to $79 million, through an increase of 20% in the number of passengers carried and a decrease of 1% in passenger yield. Cargo revenue increased 6.2% to $13 million with kilograms carried increasing 6% and yield per kilogram unchanged. Mail revenue decreased 22% by the combination of a 20% rise in kilograms carried and a 32% decrease in yield per kilogram. Charter and contract revenue increased 8.2%, with yields approximately equal to 1983, while the volume of flying on these operations increased by 8.9%.

Operating expenses increased in line with the increased revenues. Total operating expenses for 1984 were $174.6 million, or 15.8% over 1983's $150.9 million. Wages and benefits paid to employees and fuel continue to account for the largest percentage of operating expenses. Wages and benefits increased 13.7% from $47.6 million in 1983 to $54.2 million in 1984 and represented 31% of operating expenses versus 31.5% in 1983. Fuel expenses increased 11.9% from $36.2 million in 1983 to $40.5 million in 1984 and represented 23.2% of this year's operating costs compared to 24% in 1983.

highest operating revenues in Nordair history...

Non-operating expenses totalled $1.1 million in 1984 compared to non-operating income of $4 million the previous year. A pre-tax gain of $5,996,000 resulting from the disposal of aircraft was reflected in the 1983 non-operating income. Interest on long term debt declined $635,000 to $1.7 million through a reduction of the principal amount of debt outstanding by $3 million. In accordance with recommendation of the Canadian Institute of Chartered Accountants, unrealized exchange losses on conversion of U.S. denominated debt have been deferred and are being amortized over the remaining life of the debt. In prior years, such conversion gains or losses were charged to non-operating expenses in the year. Had this prior method been followed in 1984, the unrealized loss before tax would have been increased by $555,000 for the year.

record non-aircraft related spending -

Capital expenditures for the year totalled $7 million. The majority of these expenditures were for projects related to the Corporation's quality improvement program. They included a new passenger loading bridge, renovated gates and counter facilities at Dorval, interior refitting of two aircraft, continuation of an engine noise abatement program and major renovations to offices and hangar facilities at Dorval. All such expenditures were internally financed.

Renovated cafeteria

New open-space concept for offices

■ PERSONNEL AND INDUSTRIAL RELATIONS

The Corporation's work force totalled 1,317 employees at the end of 1984 compared with 1,285 for the previous year. During the year, a total of 86 employees accumulated 20 years of service while 94 reached 15 years and 349, the 10-year milestone.

Employees responded overwhelmingly to the opportunity to become shareholders in their Corporation. Some 680 subscribed for shares through Participation Nordair Inc., thereby enabling the employee group to take up approximately 10 per cent of stock allotted for staff.

welcomed shareholders

The collective agreement with the International Association of Machinists and Aerospace Workers representing mechanics, agents, and ground support employees expired on May 31, 1984. Negotiations for renewal of the agreement were in conciliation at the end of the year under review.

Agreements with both the Canadian Airline Flight Attendants Association and the Canadian Airline Dispatchers Association expired on December 31, 1984. Negotiations for renewal are in progress. The current agreement with the Canadian Airline Pilots Association will expire on October 31, 1985.

The Canada Labour Relations Board ordered a representation vote to determine whether the bargaining unit representing the clerical employees would be the independant office association or the International Association of Machinists. This decision has resulted in two votes being taken with each association having won one vote. We are now awaiting results of appeals made to the Board to determine the outcome of this representation issue.

Employment opportunities and career advancement were improved during 1984 with special training programs for mechanics, avionics, sales and customer service personnel. A total of 35,358 classroom man-hours were used for training purposes. These programs, in line with our corporate policy, resulted in increased productivity, profit levels and employee morale.

Training programs for supervisory and management personnel will be introduced in 1985. As in the past, the Corporation offers assistance to employees enrolled in educational programs aimed at upgrading their working skills, and many of them have taken advantage of this opportunity.

accent on training

Despite our struggle to reach profit levels, we were fortunate to avert drastic measures such as staff reductions, work-sharing programs or salary cuts. Non-union staff assisted Nordair in adapting to the competitive conditions of 1984 through a three-month deferment of their annual salary adjustment which would normally have been effective in October.

A substantial increase in flying as well as the retirement of two pilots in 1984 and four in January, 1985, resulted in the continuation of a flight and cabin crew recruitment program begun in 1983. With the addition of 20 pilots, their total number, including management, rose to 179. The hiring of 17 flight attendants brought the number of the In-flight service group to 246.

Vehicles sport new corporate image

New architectural concept for airport counters

■ PUBLIC AFFAIRS

In a highly competitive industry such as air transportation, it is not only important to be innovative in marketing strategies but equally important to meet the psychological needs of customers. With this in mind, we decided last year to adopt a new corporate image in order "to look as good as we are". In fact, this motto became the theme of an institutional advertising campaign launched in January, 1984.

Public affairs activities focussed on the gradual implementation of Nordair's corporate image program. Greater exposure of the Corporation's new look was achieved through the repainting of more than half of its commercial fleet and a significant number of its vehicles and ground equipment; the introduction of the Corporation's new architectural concept for city ticket offices and airport counters; as well as exterior signage. Stationery and forms were also redesigned. Preliminary steps were taken to replace existing uniforms, another important element in our overall personality.

Our efforts were not unnoticed. They were praised in influential publications such as Air Transport World, L'Actualité and Commerce. Although it is difficult to measure accurately the full impact of our airline facelift, the extensive media coverage it has received and the positive passenger reaction lead us to believe it has been instrumental in positioning Nordair as a dynamic element of the Canadian airline industry.

greater Company profile...

Nordair continued supporting community activities in the areas of health, welfare, social development, education, culture and the arts as well as amateur sports through its corporate donations and sponsorship program. These activities included Toonik Tyme, an annual winter festival held in Frobisher Bay; the Midnight Sun Marathon in Nanisivik; the Moose Festival in Val d'Or; and Winterlude in Ottawa.

Nordair was also designated the official carrier of Ontario's bicentennial, in recognition of its role in the province's celebrations.

Efforts to improve all channels of staff communications were intensified throughout the year. The internal communications program was expanded with the launch of an employee publication. For the second consecutive year, informal meetings with the President and employees were carried out throughout the network, and the 1983 annual report was distributed to all employees.

internal communications: a priority

■ *CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1984*
ASSETS

		1984	1983
Current Assets			
Cash and short term deposits	8%	**$ 9,206,000**	$ 10,317,000
Accounts receivable	11%	**13,291,000**	14,727,000
Income taxes recoverable		**16,000**	61,000
Inventory	4%	**5,114,000**	4,211,000
Prepaid expenses	3%	**3,426,000**	1,920,000
	28%	**31,053,000**	31,236,000
Property and Equipment (note 3)	70%	**77,773,000**	77,917,000
Deferred Charges (note 4)		**1,704,000**	674,000
		$110,530,000	$109,827,000

including $614,000 for the opening of Windsor and Fort Lauderdale

Approved by the Board,

Director

Director

LIABILITIES

		1984	1983
Current Liabilities			
Bank indebtedness			$ 4,069,000
Accounts payable and accrued charges	24.4%	**$ 27,074,000**	26,443,000
Dividends payable			546,000
Contract deposits and advance ticket sales	11.1%	**12,323,000**	9,163,000
Current portion of long term debt	2%	**3,000,000**	2,650,000
Current portion of obligations under capital leases (note 10)		**1,157,000**	640,000
	39.36%	**43,554,000**	43,511,000
Long Term Debt (note 5)	11.4%	**12,601,000**	15,246,000
Long Term Obligations Under Capital Leases			1,116,000
Deferred Gain on Sales and Leasebacks		**268,000**	557,000
Deferred Income Taxes	19.4%	**21,399,000**	19,209,000
	70.4%	**77,822,000**	79,639,000

leased obligation due in Oct. '85 included in current liabilities

SHAREHOLDERS' EQUITY

		1984	1983
Capital Stock (note 6)			
2,184,161 Class A and Class B common shares		**5,616,000**	5,616,000
Retained Earnings (note 5)		**27,092,000**	24,572,000
	29.6%	**32,708,000**	30,188,000
		$110,530,000	$109,827,000

Commitments (note 10)
Amalgamation (note 11)

■ *AUDITORS' REPORT*

To the Shareholders of Nordair Ltd.

We have examined the consolidated balance sheet of Nordair Ltd. as at December 31, 1984 and the consolidated statements of income and 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 Corporation as at December 31, 1984 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, except for the change in the method of accounting for foreign currency translation as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Montréal, Canada
February 1, 1985

Thorne Riddell
Chartered Accountants

■ *CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS*

Year Ended December 31, 1984

	1984	1983	
OPERATING REVENUE	**$180,447,000**	$155,015,000	
OPERATING EXPENSES			
Flying operations and maintenance	**84,887,000**	76,099,000	
Aircraft and traffic servicing	**39,016,000**	35,538,000	
Cost of tour operations	**23,515,000**	14,838,000	
Other	**19,612,000**	17,785,000	attributable
Depreciation of property and equipment	**7,059,000**	5,698,000	to increase
Amortization of equipment under capital leases	**400,000**	794,000	
Amortization of deferred operating charges	**175,000**	140,000	in B-737
	174,664,000	150,892,000	flying hours
OPERATING INCOME	**5,783,000**	4,123,000	
NON-OPERATING INCOME (EXPENSE)			
Interest on long term debt	**(1,707,000)**	(2,342,000)	
Interest on obligations under capital leases	**(138,000)**	(254,000)	
Other interest income – net	**581,000**	190,000	
Amortization of gain on sales and leasebacks	**289,000**	288,000	
Amortization of deferred loss on foreign exchange (note 2)	**(150,000)**		
Unrealized loss on foreign exchange		(143,000)	
Gain on disposal of fixed assets	**52,000**	5,996,000	
Other		258,000	
	(1,073,000)	3,993,000	
INCOME BEFORE INCOME TAXES	**4,710,000**	8,116,000	
INCOME TAXES – DEFERRED	**2,190,000**	3,100,000	
Net Income 1.4%	**2,520,000**	5,016,000	
Retained Earnings at Beginning of Year	**24,572,000**	20,102,000	
	27,092,000	25,118,000	
DIVIDENDS		546,000	including gain
Retained Earnings at End of Year	**$ 27,092,000**	$ 24,572,000	from disposal
Earnings per Share	**$ 1.15**	$ 2.30	of fixed assets

■ CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1984

	1984	1983	
Working Capital Derived from			
Operations			
Net income	**$ 2,520,000**	$ 5,016,000	
Items not affecting working capital			
Depreciation and amortization expense	**7,784,000**	6,632,000	
Deferred income taxes	**2,190,000**	3,090,000	
Amortization of gain on sales and leasebacks	**(289,000)**	(288,000)	
Gain on disposal of property and equipment	**(52,000)**	(5,996,000)	
Unrealized loss on foreign exchange		143,000	
	12,153,000	8,597,000	
Proceeds from disposal of property and equipment	**102,000**	10,088,000	including
	12,255,000	18,685,000	$9,581,000
			from sale
Working Capital Applied to			of B-737
Deferred pre-operating costs	**650,000**		
Reduction of long term debt	**3,350,000**	7,150,000	
Purchase of property and equipment	**7,365,000**	2,817,000	
Reduction of long term obligations under capital leases	**1,116,000**	587,000	
Dividends		546,000	
	12,481,000	11,100,000	
Increase (Decrease) in Working Capital Deficiency	**226,000**	(7,585,000)	
Working Capital Deficiency at Beginning of Year	**12,275,000**	19,860,000	
Working Capital Deficiency at End of Year	**$12,501,000**	$12,275,000	

■ *NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

Year Ended December 31, 1984

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Corporation and all its subsidiary Corporations.

(b) Inventory

Inventory comprises spare parts and fuel and is valued at the lower of cost and replacement cost.

(c) Property and equipment

Jet and turbo prop flight equipment including those under capital lease, are depreciated to a 15% residual value, based on hours flown, over approximately a 14-year period for jet equipment and 8-12-year periods for turbo prop equipment. Ground equipment and facilities are depreciated by the diminishing balance method at the following rates: building – 10%; equipment – 20% – 25%; automotive – 30%.

Engine and airframe overhaul costs and other maintenance and repairs are charged to expense for the year. When property and equipment are sold or otherwise disposed of, the difference between the net carrying value in the accounts and the net proceeds is included in income.

(d) Foreign exchange

Foreign currency transactions entered into by the Corporation are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities in foreign currencies are translated at year-end exchange rates with any unrealized gain or loss included in income of the year, except for that relating to long term debt, which is deferred and amortized over the remaining life of the debt. Other assets and liabilities and items affecting income are converted at rates of exchange in effect at the date of the transactions. (See note 2).

(e) Leases

Leases meeting certain criteria are considered capital leases and the related asset and lease obligations are recorded at their present value in the financial statements. Other leases not meeting such criteria are operating leases and the related rentals are charged to expense as incurred.

Gains or losses resulting from sale-leaseback transactions are deferred and amortized in proportion to the amortization of the leased assets.

(f) Revenues

Revenues are derived from vertically integrated operations in the air transportation industry. Airline and tour revenues are taken into earned income when the related service is provided. Amounts receivable from customers for future transportation and tours are included in accounts receivable. The unearned revenues for such services are included in current liabilities.

(g) Income taxes

Deferred income taxes are provided in recognition of differences between amounts claimed for income tax purposes and amounts recorded in the accounts.

(h) Pension plans

Current service pension costs are accrued and funded in the current year. Unfunded liabilities for prior service resulting from pension plan amendments are determined by actuarial valuation, funded by periodic payments and charged to operations over periods recommended by the Actuaries.

(i) Pre-operating expenses

Training and other costs for the introduction of new services and/or new types of aircraft are amortized on a straight line basis over a period of three years commencing with the date of introduction into revenue service.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1984, the Corporation has adopted new recommendations of the Canadian Institute of Chartered Accountants for foreign currency translation as described in note 1. The financial statements relating to periods prior to 1984 have not been restated due to the impracticality of so doing. Had the translation method used prior to 1984 been followed, net income for 1984 would have been reduced by approximately $425,000 ($0.19 per share).

3. PROPERTY AND EQUIPMENT

	1984			1983
	Cost	**Accumulated depreciation**	**Net**	Net
Flight equipment	**$109,757,000**	**$ 39,501,000**	**$70,256,000**	$71,990,000
Ground equipment and facilities	**13,409,000**	**7,192,000**	**6,217,000**	4,227,000
	123,166,000	**46,693,000**	**76,473,000**	76,217,000
Flight equipment under capital leases	**5,000,000**	**3,700,000**	**1,300,000**	1,700,000
	$128,166,000	**$ 50,393,000**	**$77,773,000**	$77,917,000

4. DEFERRED CHARGES

	1984	1983
Pension funding (note 8)	**$ 535,000**	$674,000
Deferred foreign exchange	**555,000**	
Pre-operating expenses	**614,000**	
	$1,704,000	$674,000

5. LONG TERM DEBT

	1984	1983
Term bank loans at rates varying between bankers' acceptance rate plus 3/4% and prime plus 1/4%, payable in semi-annual instalments with final instalment due June 17, 1986	**$ 3,500,000**	$ 6,500,000
Note payable (U.S. $9,158,000) 8 3/8%, payable in semi-annual instalments commencing June 15, 1986, with final instalment due December 15, 1989	**12,101,000**	11,396,000
	15,601,000	17,896,000
Current portion included in current liabilities	**3,000,000**	2,650,000
	$12,601,000	$15,246,000

The Corporation has issued and pledged demand bonds of a total principal amount of $32,000,000 securing individual bank loans by a fixed charge on specific aircraft. Under the terms of certain trust deeds securing the Corporation's bonds, the Corporation has covenanted that it will not, without the prior consent of the lender (i) pay any dividends in any fiscal year in excess of 25% of its after tax earnings for such fiscal year; (ii) redeem or reduce any class of capital stock; (iii) incur further indebtedness except in the ordinary course of business; (iv) incur liability as guarantor or endorser; (v) encumber the property of the Corporation or of any subsidiary.

The commercial bank in whose favour the demand bonds are issued is guarantor of the 8 3/8% notes.

Repayment requirements over the next five years are as follows:

1985	$3,000,000	1988	3,429,000
1986	2,315,000	1989	3,429,000
1987	3,429,000		

(See note 11).

6. CAPITAL STOCK

Class A and Class B common shares are inter-convertible at any time and rank equally in all respects. At December 31, 1984, 1,060,195 Class A and 1,123,966 Class B common shares were issued and outstanding. (See note 11).

7. RELATED PARTY TRANSACTIONS

Prior to December 18, 1984 the Corporation was directly controlled by Air Canada which is wholly-owned by the Government of Canada. In the ordinary course of business, the Corporation entered into transactions with these two related parties. Revenue is derived from such related parties for bulk transportation and certain contract flying. Expenses with these parties include maintenance, computer service and ground service charges.

Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

8. PENSION PLAN

Amounts paid to fund liabilities created by improving employee pension benefits are included in the balance sheet as deferred charges and are being charged to income over a ten-year period ending in 1988. The latest actuarial valuation as at December 31, 1983 revealed that pension fund assets exceeded the accrued pension liabilities of the plans.

9. INCOME TAX RATE

The ratio of applicable taxes to income before income taxes differs from the statutory Federal and Provincial income tax rates. The reasons for such difference, and their effect on the tax ratio, are as follows:

	1984	1983
Combined basic Canadian Federal and Provincial tax rate	**47.0%**	47.0%
Increase (decrease) in the income tax rate resulting from:		
Lower effective income tax rate on capital gains		(8.7)
Other	**(0.5)**	(0.1)
Effective income tax rate	**46.5%**	38.2%

10. COMMITMENTS

(a) Capital lease

Obligations of the Corporation with respect to a capital lease will expire in 1985. Accordingly, $1,157,000 being the present value of the net minimum lease payments is recorded as a current liability as at December 31, 1984.

(b) Operating leases

The Corporation occupies office and industrial space at various locations under non-cancellable operating leases expiring over terms varying from one to ten years. The estimated minimum cost of such leases is $4,007,000 in the aggregate. Minimum lease payments over the next five years amount to an average of approximately $817,000 per annum.

(c) Flight equipment

The Corporation has entered into agreements whereby it has the option to acquire or may be required to purchase a B-737 aircraft for $7,200,000 U.S. on either November 14, 1985 or January 1, 1986.

(d) Other purchase commitments

Other commitments for the purchase of aircraft equipment and betterments amount to approximately $1,677,000.

11. AMALGAMATION

The Corporation's financial statements have been prepared immediately prior to a statutory amalgamation on December 31, 1984 of Nordair Ltd. with 132894 Canada Inc. (the predecessor corporations) under the provisions of Section 175 of the Canada Business Corporations Act. Prior to amalgamation, 132894 Canada Inc. held 86.4% (1,888,413 shares) of the issued share capital of Nordair Ltd. and had no active business operations.

Under the terms of the Amalgamation Agreement, each of the predecessor corporations contributed all of their net assets to the amalgamated corporation which then continued the operations of Nordair Ltd. under the name of Nordair Inc. The effect of the amalgamation on the issued and outstanding shares of the predecessor corporations is as follows:

(a) the 1,888,413 shares of Nordair Ltd. held by 132894 Canada Inc. will be cancelled;

(b) the 295,748 shares of Nordair Ltd. owned by shareholders other than 132894 Canada Inc. will be converted into 558,635 shares of Nordair Inc.;

(c) the 1,888,413 shares of 132894 Canada Inc. will be converted into 1,888,413 shares of Nordair Inc.

Accordingly, immediately subsequent to amalgamation, 2,447,048 common shares of Nordair Inc. will be issued and outstanding with a dollar value equal to the estimated fair value of the net assets contributed by the predecessor corporations.

In addition to the above, the major differences between the financial position of Nordair Ltd. prior to amalgamation and Nordair Inc. immediately subsequent to amalgamation will be as follows:

(a) the difference of $6,279,000 between the estimated fair value of net assets in Nordair Inc. and the corresponding book values in the predecessor corporations is recorded as an increase in property and equipment;

(b) long term debt is increased by $16,964,000 comprising a bank demand loan bearing interest at prime rate.

It is Nordair Inc.'s intention to convert the bank demand loan to a three-year revolving term loan, bearing interest at prime or bankers' acceptance rates plus acceptance fees with no repayments of capital and secured by a fixed charge on two B-737 aircraft. On the third anniversary of such loan, the balance will be converted to a term loan repayable in ten equal semi-annual instalments commencing six months after the date of conversion.

The following pro-forma consolidated balance sheet gives effect to the transactions outlined above and upon completion of such transactions will be the opening balance sheet of Nordair Inc.

Pro-forma Consolidated Balance Sheet Nordair Inc.
as at December 31, 1984

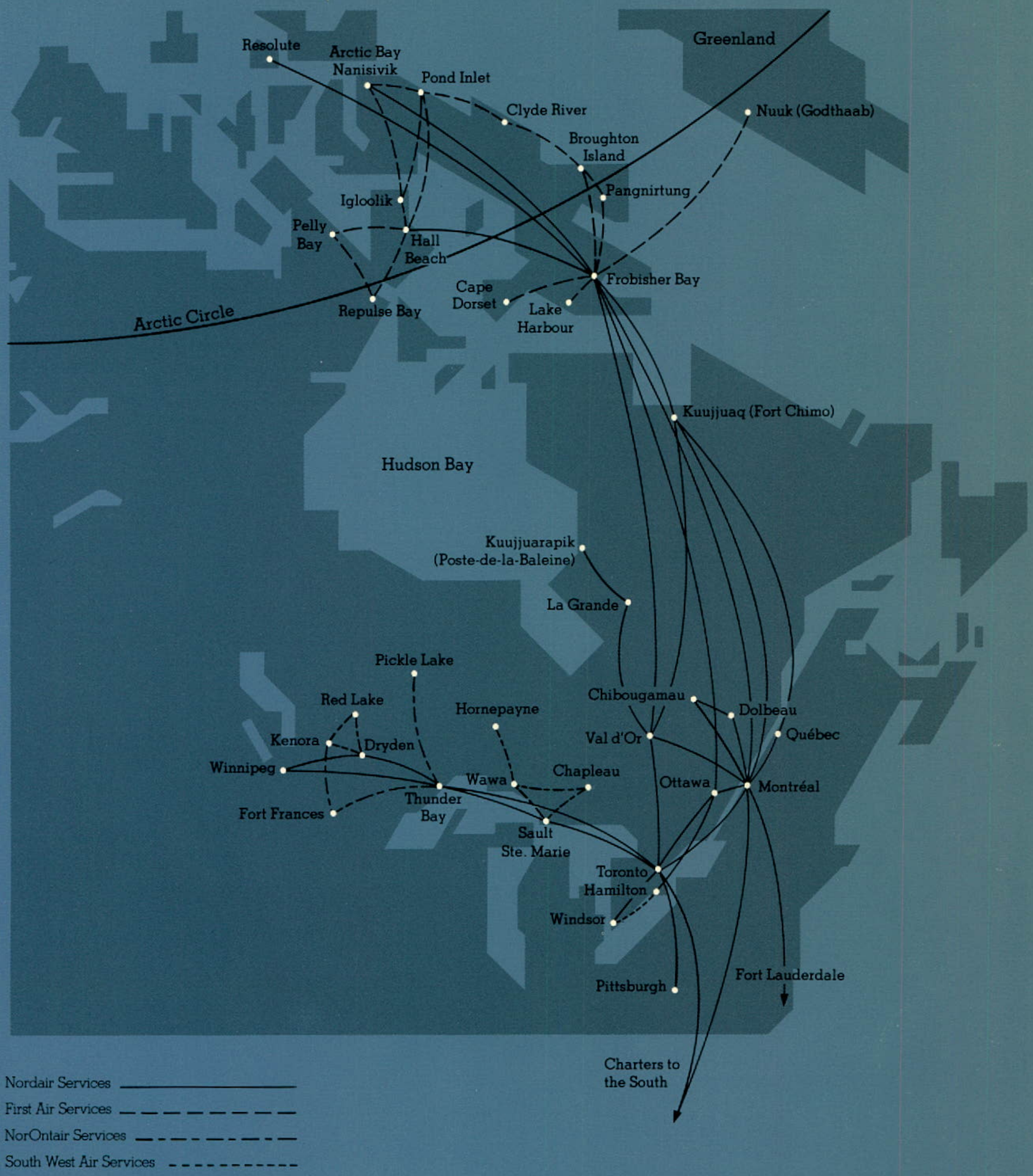
Assets		**Liabilities**	
Current assets	**$ 31,037,000**	Current liabilities	**$ 43,612,000**
Fixed assets	**84,052,000**	Long term debt	**29,565,000**
		Deferred income tax	**21,399,000**
Other	**1,704,000**	Other	**268,000**
			94,844,000
		Shareholders' Equity	
		2,447,048 common shares	**21,949,000**
	$116,793,000		**$116,793,000**

■ FIVE YEARS IN REVIEW

(Dollars in thousands except where indicated by * *)	**1984**	1983	1982	1981	1980
EARNINGS					
Earnings (loss) on operations	**$ 2,480**	$ 1,087	$ (1,925)	$ 2,648	$ 2,770
Gain (loss) on sale of fixed assets	**40**	3,929	(12)	3,505	(28)
Anticipated gain (loss) on sale of fixed assets			(500)	(3,635)	
Earnings (loss) for the year	**$ 2,520**	$ 5,016	$ (2,437)	$ 2,518	$ 2,742
Per share (based on weighted average number of shares outstanding during the year)					
Earnings (loss) on operations*	**$ 1.14**	$ 0.50	$ (0.88)	$ 1.21	$ 1.27
Earnings for the year*	**$ 1.15**	$ 2.30	$ 1.12	$ 1.15	$ 1.26
Cash generated from operations*	**$ 5.56**	$ 3.94	$ 0.76	$ 4.05	$ 6.17
REVENUE					
Passengers and excess bagage	**$ 78,977**	$ 66,185	$ 49,402	$ 73,360	$ 64,708
Freight	**13,154**	12,379	13,238	13,918	11,612
Mail	**6,584**	8,060	7,395	4,653	2,715
Charter and contract	**56,333**	52,041	40,617	39,753	35,915
Tour operations	**22,680**	14,342	12,564	7,507	8,429
Other	**2,719**	2,008	2,170	2,383	1,709
TOTAL REVENUE	**$ 180,447**	$155,015	$125,386	$ 141,574	$ 125,088
Depreciation and Amortization	**$ 7,345**	$ 6,344	$ 5,223	$ 6,204	$ 7,118
Interest – Net	**$ 1,264**	$ 2,406	$ 2,859	$ 3,242	$ 1,919
FINANCIAL POSITION					
Working capital deficiency	**$ 12,501**	$ 12,275	$ 19,860	$ 2,648	$ 8,272
Fixed assets - at cost	**$ 128,166**	$121,408	$125,280	$ 107,463	$ 113,975
Accumulated depreciation	**50,393**	43,491	39,596	34,495	33,174
Fixed assets - book value	**$ 77,773**	$ 77,917	$ 85,684	$ 72,968	$ 80,801
Long-term debt (including obligations under capital leases)	**$ 16,758**	$ 19,652	$ 29,206	$ 27,904	$ 32,072
Deferred income taxes	**$ 21,399**	$ 19,209	$ 16,119	$ 18,452	$ 19,779
Shareholders' equity					
Per share (based on outstanding shares as at December 31)*	**$ 14.98**	$ 13.82	$ 11.77	$ 12.89	$ 11.74
(Figures in units as indicated)					
OTHER					
Number of Employees (as at December 31)	**1,317**	1,285	1,265	1,289	1,305
Number of Passengers	**1,139,001**	960,677	767,722	1,173,778	1,233,488
Number of Pounds of Cargo (000)	**35,748**	33,585	31,587	36,720	37,697
Passenger Miles flown (000)	**887,631**	781,619	636,294	819,832	857,869
Cargo Ton Miles flown (000)	**14,802**	13,748	15,917	16,710	16,622
Aircraft Miles flown (000's)	**15,028**	13,560	11,512	14,076	13,941

1985

■ NORDAIR NETWORK



Graphic Design: Graphisme Lavalin

Printed in Canada