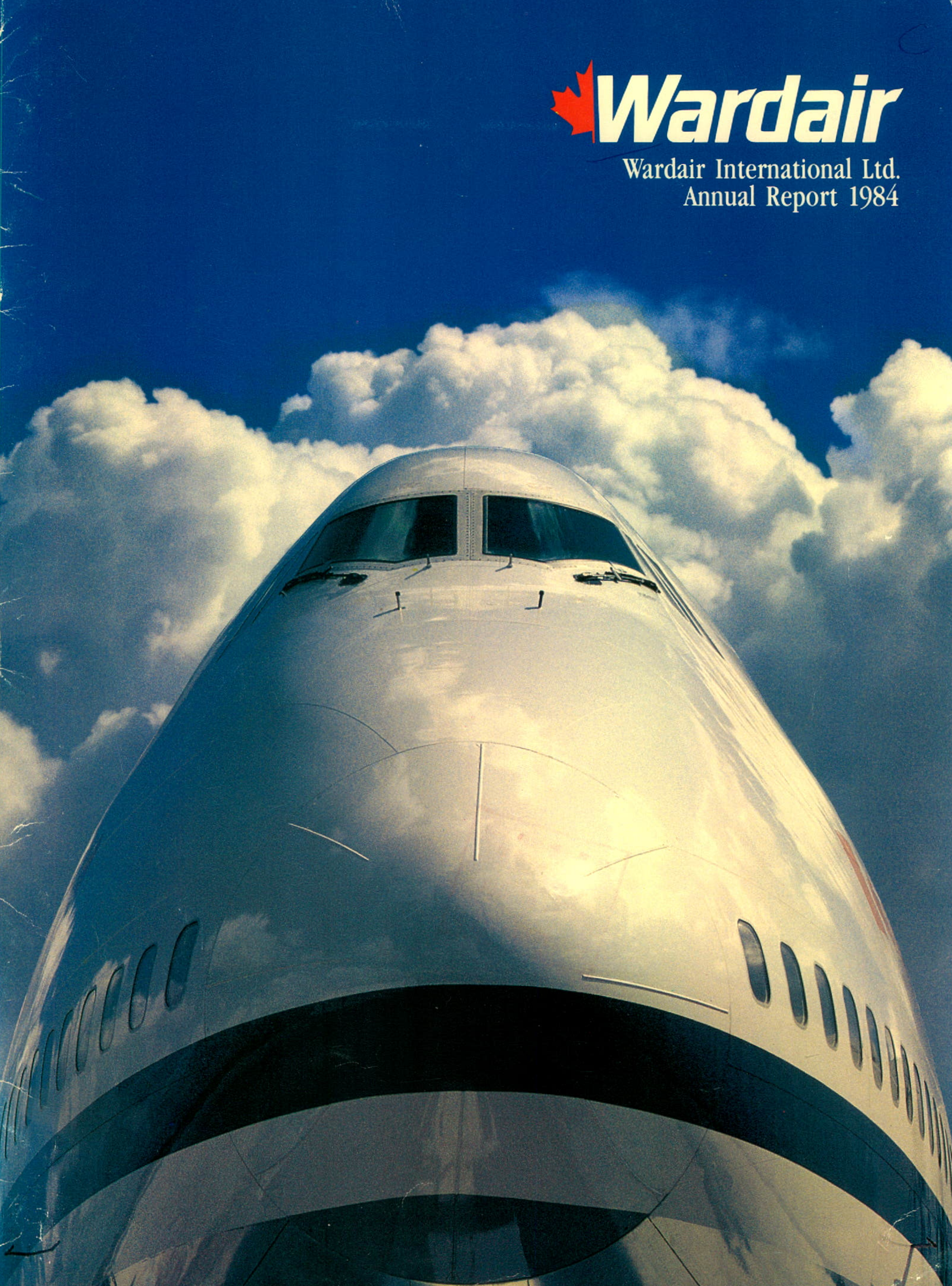
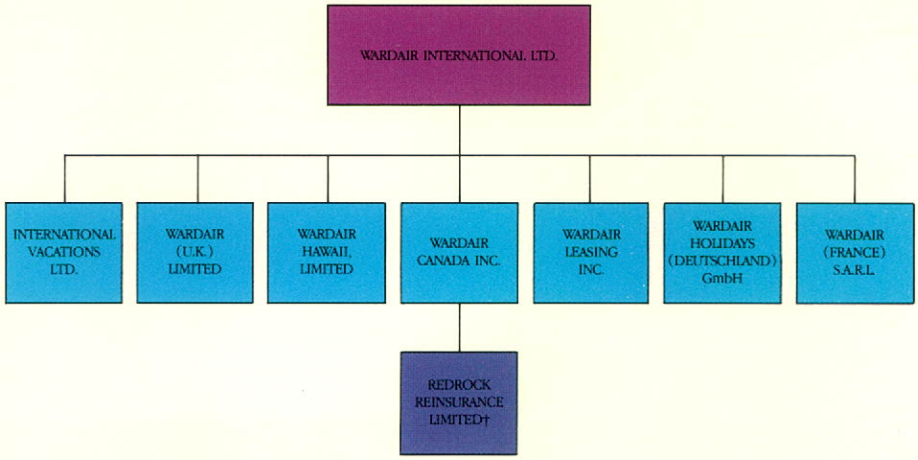
Wardair

Wardair International Ltd.
Annual Report 1984



Wardair International Ltd. Annual Report 1984



Financial Highlights (in thousands of dollars)

	1984	1983
Revenue	$410,879	$364,543
Operating costs, before depreciation and amortization	340,164	311,807
Depreciation and amortization	21,144	24,268
Earnings from operations	49,571	28,468
Interest expense	25,663	20,705
Amortization of foreign exchange	3,350	3,293
Fuel surtax (recovery)	(3,960)	1,056
Earnings before income taxes and extraordinary items	24,518	3,414
Income taxes	14,830	9,162
Earnings (loss) before extraordinary items	9,688	(5,748)
Extraordinary items	40,784	—
Net earnings (loss) for the year	50,472	(5,748)
Per share amounts		
Earnings (loss) before extraordinary items	$2.70	$ (1.72)
Net earnings (loss) for the year	$14.07	$ (1.72)
Operating margin	12.1%	7.8%

Contents

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:00 p.m. (M.D.T.) on June 20, 1985 at
The Westin Hotel,
Chancellor Room,
10135-100 St.,
Edmonton, Alberta

†Wholly-owned subsidiary of Wardair Canada Inc.


FLAP
STAB
TRIM
CUT
OUT
FLAP
DOWN
PARKING
BRAKE
PULL
IDLE
CUTOFF
UP
MID
APL
NOSE UP
DESCEND
DESCEND

The Chairman's Message

Wardair had a good year in 1984. Before extraordinary items of $40,784,000, consolidated net income was $9,688,000 ($2.70 per share) and, including the extraordinary items, consolidated net income was $50,472,000 ($14.07 per share), compared to a loss of $5,748,000. ($1.72 loss per share) in 1983.

Revenues of $410,879,000 were the highest in the Company's history, increasing 12.7 percent over 1983 revenues of $364,543,000. Operating expenses were $254,646,000, an increase of 9.0 percent over 1983 operating expenses of $233,575,000.

As indicated in our 1983 Annual Report, operating profit (before provision for interest and income taxes) is a key indicator in measuring airline performance. The Company had an operating profit of $49,571,000, compared to 1983's operating profit of $28,468,000, an increase of 74.1 percent. Major factors responsible for this were a positive return on our efforts to achieve high productivity and efficiency, increased load factors, and higher yields (expressed in terms of cents per revenue passenger mile flown). In addition, fuel prices continued to decrease during the year.

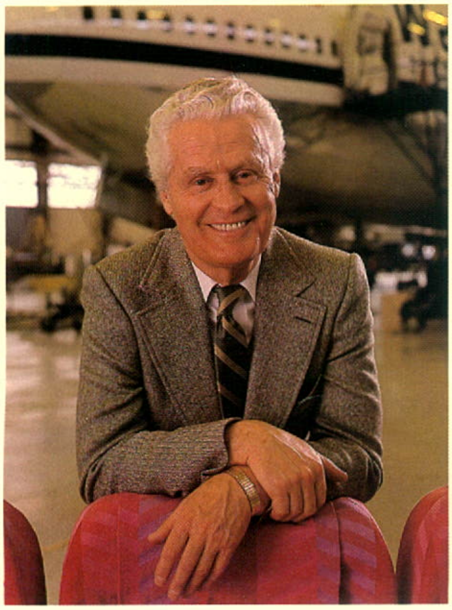
There were significant new developments in Canadian government regulatory matters in 1984 that affected air transportation and the consumer. On May 10, 1984, the Minister of Transport announced major air policy changes. These changes relaxed the operating restrictions for scheduled airlines and, to a lesser degree, charter carriers.

While the Canadian government has not decided to completely deregulate the air industry, it is clear that regulatory reform will continue to take place. Consumers have been conditioned to expect reasonably priced air fares — particularly for discretionary travel — given the ever-increasing availability of special fares in the form of seat sales, winter specials and other promotional offerings. In our view, the air travel market will continue to expand in the coming years, provided the price is right.

Following bilateral air negotiations between representatives of the governments of Canada and the United States in May, 1984, a scheduled route between Canada and Puerto Rico was added to the existing Canada/United States route agreement. Wardair has been operating charter services between Montreal/Toronto and Puerto Rico since 1978 and, over the years, the Company has carried the major portion of traffic between those points. Due to Wardair's record of service in this market and on the basis of our application, the Minister of Transport designated Wardair as the Canadian scheduled carrier to serve Puerto Rico. This is an important award from the Government of Canada. It marks our first route award as an international scheduled carrier.

In 1982, the Company formally applied to the Government of Canada for scheduled operating authority between points in Canada and the United Kingdom. On May 9, 1985, the Government of Canada officially designated Wardair as the second Canadian scheduled carrier to the United Kingdom. The decision marks the first time a Canadian carrier other than Air Canada or C.P. Air has been designated for a Trans-Atlantic or Trans-Pacific scheduled service. While this significant route award will permit Wardair to serve Manchester, Prestwick and London from ten major Canadian cities as a scheduled carrier, the Company will continue to serve other points in the United Kingdom on a charter basis. Scheduled service is expected to begin late in 1985.

Wardair's proposed entry into scheduled services does not mean we



Opposite: On the flight deck of one of Wardair's 747s.

Left: Maxwell W. Ward, Chairman and Chief Executive Officer of Wardair International Ltd.

will alter our policy of offering reasonably priced charter services to the public in favour of higher-priced scheduled services. Quite the contrary. It is our intention to continue to serve the growing discretionary air travel market as well as the "must fly" business market at attractive prices — on scheduled or charter services.

In July, 1984, Wardair completed the first part of a major financial restructuring. With the sale of certain flight equipment and other assets at fair market value to a new subsidiary, (Wardair Leasing Inc.), the Company's liability for deferred income taxes was reduced from $62,586,000 as at December 31, 1983 to $11,614,000 at the end of 1984. The 1983 restated year end deficit of $32,623,000 was eliminated and we recorded positive retained earnings of $17,849,000 at December 31, 1984. Details of the financial restructuring appear in the *Notes to the Financial Statements* elsewhere in this report.

Negotiations are underway with the Company's principal lenders to restructure its long term debt on a basis more compatible with the useful life of our modern aircraft fleet. Such restructuring will enable Wardair to be well-positioned to maintain a steady, profitable growth in the future.

As we move forward into scheduled service, while maintaining our well-established charter services, we continue to analyse the composition of our aircraft fleet. Our analysis includes existing, as well as new technology aircraft to determine the best fleet mix for our growing medium and long-range operations.

It is clear there are major growth opportunities available to the Company if we continue to control our costs and offer a quality product in tune with consumer demands. We are confident this can be done. Our employees continue to demonstrate their ability to work together to produce excellent results. They are clearly aware that attaining a high level of productivity and efficiency in their work is a key factor to a successful future for Wardair in a dynamic, competitive environment. The Directors and management of the Company appreciate their splendid contribution to our 1984 results.

On behalf of the Board of Directors,

Maxwell Ward

Maxwell W. Ward,
Chairman and
Chief Executive Officer.

May 14, 1985.

On February 20, 1985, the Company announced a re-organization of its senior management group. New appointments were as follows:

Maxwell W. Ward, *Chairman and Chief Executive Officer*
George D. Curley, *President and Chief Operating Officer*
Brian Walker, *Senior Vice-President, Sales and Marketing*
Kim M. Ward, *Vice-President, Customer Services*
Ian C. Wilkie, *Vice-President, Corporate and Legal Affairs*
A. Keith Willard, *Vice-President, Human Resources*

***Opposite:** The atrium in Wardair's executive offices at Toronto's Lester B. Pearson International Airport.*

***Left:** Wardair's reservations department — the lifeline of an airline.*


GXRA
mahlift

Sales and Marketing

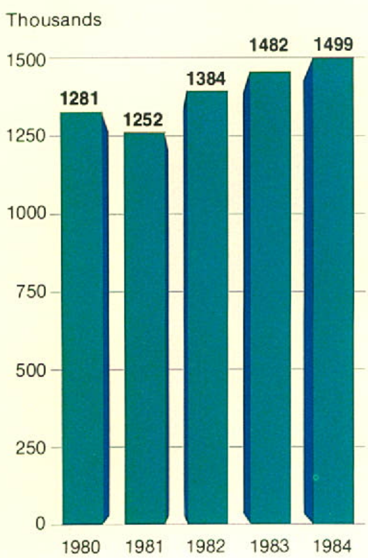
General

An increase in passenger revenue of 8.5 percent was achieved in 1984 yielding revenues of $341,141,000, compared to $314,276,000 in 1983. For the same period, total passengers carried increased to 1,499,057. These passengers generated 4,036 million revenue passenger miles making Wardair the third largest carrier in Canada by a wide margin. For all practical purposes, Wardair is operating at full capacity with aircraft hours averaging 3,850 hours per aircraft and with load factors in excess of 80 percent.

Earnings from other marketing operations improved significantly during the year. Package holiday sales increased by 24 percent over 1983 and the introduction in July of inflight duty-free service ("AIR MART") proved to be successful.

In order to stabilize the Company's position in the volatile winter-package holiday market, an association was formed with two major Canadian tour wholesalers — Paramount Holidays and Thomson Vacations Canada Limited. This allows the consumer greater access to a wide range of packaged holiday products with Wardair. Further, by the sharing of Wardair's computerized reservations system, the retail travel trade will have better access to products offered by all three members of the association.

Passengers Carried



United Kingdom/Europe

Additional services to London-Stansted, Liverpool and Cardiff increased Wardair's capacity on the North Atlantic, bringing the number of cities served in the United Kingdom to eight and further extending the Wardair marketing program of "Planes to People" initiated in 1981.

In addition, Wardair introduced service to Rome from Eastern Canada. The new series proved to be very successful, and our 1985 plan calls for increased volume in this market.

A weakening of the United Kingdom and European currencies against the Canadian dollar exaggerated the directional imbalance of passengers in the early part of the season, as traffic from Canada was particularly strong in March and April. A portion of this disparity was offset by a limited incentive pricing program introduced for United Kingdom-originating traffic, resulting in an overall yield dilution. Wardair also intensified its sales effort in the European community by opening a new sales and reservations office in Amsterdam to complement its offices in Frankfurt and Paris. A further consolidation of the Company's European operation was achieved by the appointment of a regional sales manager based in Frankfurt.

Strong competition in the Eastern Canada/United Kingdom market brought about a series of price decreases; however, they were offset by increases in load factor. The Western Canada/United Kingdom market remained stable throughout the season.

Hawaii

While there was a marked increase in the number of Canadians travelling to Hawaii in 1984, Wardair's passenger volume remained level with the previous year's traffic. The additional volume was absorbed by increased competitive activity from American carriers dedicating narrow-bodied equipment to the Canadian market. Despite these competitive pressures, Wardair's revenues from the Hawaiian market increased by more than 9 percent, reflecting higher yields in this market.

Caribbean & Mexico

In 1984, revenue to the Caribbean increased 24 percent over 1983 — due primarily to the successful introduction of a package holiday fly-cruise program. The Mexican market was very strong during the first quarter of 1984; however, as hotel prices increased, the number of Canadians visiting this holiday location declined gradually.

Opposite: Scrubbing down a 747 in Wardair's hangar.
Left: On-going maintenance of a Wardair engine.


Produit de France
du Cellier
VIN ROUGE
750 m
84230 (FRANCE)
Wardair Canada Inc.
Wardair

Florida

Average fare yields in the Florida market increased approximately 6 percent in 1984, generally compensating for a decline in passenger demand. Steady Advance Booking Charter sales and consistent support from our tour operators catering to the Inclusive Tour Charter market helped Wardair achieve a positive first quarter. Passenger demand to Tampa during the summer was very strong, prompting Wardair to add a second weekly service. During the fourth quarter, increased popularity of package holidays resulted in expansion of the Company's product offerings designed to appeal to a wider segment of vacation travelers. Results were positive.

Canada

Domestic air travel between principal cities in Canada accounted for more than 10 percent of Wardair's total airfare revenue in 1984. Fares increased marginally over 1983 levels, despite substantial price cuts by our competitors. Load factors were strong, indicating that public awareness of Wardair's presence in the Canadian market is improving steadily.

Cargo

In 1984, revenue from cargo operations increased 49.5 percent over the previous year. This significant increase was due to a number of factors: negotiations of agreements with several air carriers, higher yield commodities, the appointment of general sales agents in Pacific Rim countries and a general increase in the demand for domestic cargo services. Cargo growth is expected to continue as international charter restrictions for the carriage of cargo are relaxed.

Contract Services

Wardair continued to offer various contract services in 1984. Passenger and ground handling services were performed in Canada for several international carriers. The Company also provides hangarage and maintenance services at its office/hangar facilities located at Toronto's Lester B. Pearson International Airport to various outside parties, including ongoing line maintenance agreements with international and domestic scheduled carriers.

Redrock Reinsurance Limited (Bermuda)

Redrock Reinsurance Limited, a wholly-owned subsidiary of Wardair Canada Inc., had another profitable year in 1984. Managed by Insurance Managers Ltd. of Hamilton, Bermuda, Redrock reinsures certain lines of travel related insurance issued by primary underwriters, such as passenger cancellation, baggage liability, medical and accident coverages.

Employee Relations

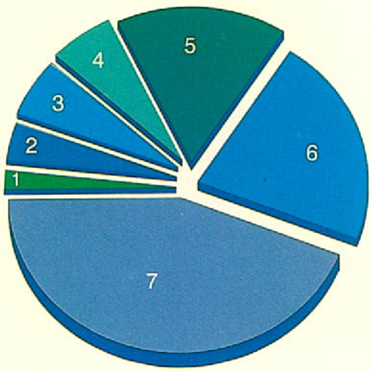
During 1984, the Company continued to place strong emphasis on employee relations throughout the Wardair system. Highlights included: monthly Employee/Management Committee meetings with non-unionized staff, a salary-administration plan for this same group based on employee-performance appraisals, a commitment to improved supervisory/management training, and a dedication by management to improved employee/management communication.

In 1984, collective-bargaining agreements for one year were reached with the Canadian Airline Flight Attendants' Association (CALFAA), the International Association of Machinists and Aerospace Workers (IAM), and the Canadian Association of Passenger Agents (CAPA) for sales and reservations employees. Negotiations for new agreements with these groups will take place in 1985.

In addition, two-year agreements were reached with the Canadian Association of Passenger Agents (CAPA) for passenger services employees and the Air Crew Association Canada (ACAC), representing pilots and flight engineers.

Distribution of 1984 Revenue

(Earnings before extraordinary item)



1. 2.4% Earnings before extraordinary items
2. 3.6% Income taxes
3. 6.3% Interest
4. 6.0% Depreciation and amortization
5. 15.5% Wages and benefits
6. 23.2% Fuel and oil
7. 43.0% Other supplies and services including land tour package expenses

Opposite: A sample of "Wardair Class" service.

Left: Passengers enjoying Wardair's inflight hospitality.

Wardair
Canada

Consolidated Statement of Earnings

Year ended December 31, 1984

(thousands of dollars)	1984	1983
Revenue	**$410,879**	$364,543
Expenses		
Operating	**254,646**	233,575
Marketing and administration	**85,518**	78,232
Depreciation	**20,512**	20,975
Amortization of deferred charges	**632**	3,293
	361,308	336,075
Earnings from operations	**49,571**	28,468
Interest expense (note 7)	**25,663**	20,705
Amortization of foreign exchange	**3,350**	3,293
Fuel surtax (recovery) (note 9)	**(3,960)**	1,056
	25,053	25,054
Earnings before income taxes and extraordinary items	**24,518**	3,414
Income taxes (note 10)		
Current	**3,537**	—
Deferred	**11,293**	9,162
	14,830	9,162
Earnings (loss) before extraordinary items	**9,688**	(5,748)
Extraordinary items (note 3)	**40,784**	—
Net earnings (loss) for the year	**$ 50,472**	$ (5,748)
Earnings (loss) per share		
Earnings (loss) before extraordinary items	**$ 2.70**	$ (1.72)
Net earnings (loss) for the year	**$ 14.07**	$ (1.72)

Consolidated Statement of Retained Earnings (Deficit)

Year ended December 31, 1984

(thousands of dollars)	1984	1983
Deficit at beginning of year		
As previously reported	**$24,212**	$ 21,523
Adjustment for change in accounting for translation of foreign currency (note 2)	**8,411**	5,652
As restated	**32,623**	27,175
Net earnings (loss) for the year	**50,472**	(5,748)
	17,849	(32,923)
Purchase fund for redemption of preferred shares	—	300
Retained earnings (deficit) at end of year	**$17,849**	$(32,623)

Consolidated Balance Sheet

as at December 31, 1984

(thousands of dollars)	1984	1983
Assets		
Current Assets		
Cash and short term investments (note 4)	$ 65,767	$ 50,996
Accounts receivable	4,617	4,345
Inventories	15,750	13,054
Prepaid expenses	2,815	2,843
	88,949	71,238
Property and equipment (note 5)	251,431	266,414
Deferred charges (note 6)	4,300	10,015
	$344,680	$347,667
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	$ 7,412	$ 16,323
Accounts payable and accrued liabilities	41,313	34,733
Passenger prepayments	46,292	38,866
Principal due within one year on long term debt	47,968	37,050
	142,985	126,972
Long term debt (note 7)	170,273	188,773
Deferred income taxes	11,614	62,586
	324,872	378,331
Shareholders' Equity		
Share capital (note 8)	1,959	1,959
Retained earnings (deficit)	17,849	(32,623)
	19,808	(30,664)
	$344,680	$347,667

Approved by the Board

Maxwell Ward

Director

Director

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1984

(thousands of dollars)	1984	1983
Funds provided from		
Operations		
Earnings (loss) before extraordinary items	$ 9,688	$ (5,748)
Items not involving funds		
Depreciation	20,512	20,975
Amortization	3,982	6,586
Deferred income taxes	11,293	9,162
	45,475	30,975
Change in accounts receivable, inventories, prepaid expenses and accounts payable and accrued liabilities	3,640	3,885
Long term borrowing	—	229
Sale of assets	53	13
	49,168	35,102
Funds used for		
Additions to property and equipment	5,582	3,301
Repayment of long term debt	19,291	16,071
Increase in deferred charges	—	373
Payments arising on asset re-organization (note 3)	8,039	—
	32,912	19,745
Increase in funds	16,256	15,357
Funds deficiency at beginning of year	4,193	19,550
Funds (deficiency) at end of year	$ 12,063	$ (4,193)
Comprised of:		
Cash and short term investments	$ 65,767	$50,996
Bank indebtedness	(7,412)	(16,323)
Passenger prepayments	(46,292)	(38,866)
	$ 12,063	$ (4,193)

KMG Thorne Riddell

Auditors' Report

To the Shareholders of Wardair International Ltd.

We have examined the consolidated balance sheet of Wardair International Ltd. as at December 31, 1984 and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company 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, after giving retroactive effect to the change in the method of accounting for foreign exchange as described in note 2, on a basis consistent with that of the preceding year.

Toronto, Canada
February 25, 1985
(May 20, 1985 as to note 7)

Thorne Riddell
Chartered Accountants

Notes to Consolidated Financial Statements

Year ended December 31, 1984

1. **Summary of significant accounting policies**

(a) Consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, other than Wardair Equipment Ltd. from July 1, 1984.

(b) Foreign exchange
The operations of subsidiaries which are accounted for in a foreign currency are considered to be integrated with those of the Company. Accordingly all foreign currency amounts are translated into Canadian dollars on the following basis:

Fixed assets, related depreciation, and other non-monetary items, at the rates of exchange in effect at the dates of acquisition;

Other assets and liabilities, at the rate in effect at the balance sheet date; and

Revenues and expenses, other than charges for depreciation and amortization of non-monetary assets, at average rates of exchange in effect during the period.

Exchange gains and losses are reflected in earnings in the period in which they arise except for gains and losses relating to monetary items with a fixed life extending beyond the end of the following fiscal year. Exchange gains and losses relating to these items are deferred and amortized over the remaining life of the monetary item.

(c) Inventories
Inventories are valued at the lower of cost, replacement cost or estimated realizable value.

(d) Property and equipment and overhaul costs
Property and equipment is stated at cost. Significant expenditures for modifications are capitalized. Upon retirement or disposal of equipment, the related cost and accumulated depreciation are removed from the accounts and the gain or loss is reflected in earnings.

Depreciation is computed by the straight-line method as follows:

Aircraft and related equipment — over sixteen years to 15% residual value; and

Other property and equipment — at various rates over the estimated useful life of the asset.

Scheduled airframe overhaul costs are capitalized in the year incurred and amortized over the period to the next scheduled overhaul. Aircraft engine overhaul costs are expensed in the year incurred.

(e) Deferred charges
Deferred charges, other than deferred foreign exchange, are amortized on the straight line method over various periods up to ten years.

(f) Air fare revenues and direct costs
The Company recognizes air fare revenues and related direct costs at the departure date of each flight.

(g) Earnings of foreign subsidiaries
Since the Company considers the undistributed earnings of foreign subsidiaries to be permanently invested outside Canada, it does not make provision for income taxes which would become payable if such earnings were remitted to Canada.

(h) Comparative figures
Certain 1983 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1984.

2. **Accounting change**

Effective January 1, 1984 the Company changed its method of accounting for foreign exchange to conform with the new Canadian Institute of Chartered Accountants recommendations. This change in accounting policy was adopted on a retroactive basis and accordingly the December 31, 1983 financial statements have been restated.

As a result of this change net income for 1984 is reduced by $1,850,000 ($.52 per share), the loss in 1983 is increased by $2,759,000 ($.83 per share) and the cumulative effect to January 1, 1983 is reflected as an increase in the deficit at that date.

Year ended December 31, 1984

3. Extraordinary items

Effective July 1, 1984 the Company underwent an internal asset re-organization and also converted previously outstanding income debentures to conventional debt with interest at prevailing market rates.

The asset re-organization involved the sale of certain assets at fair market value from Wardair Equipment Ltd. to Wardair Leasing Inc., both wholly-owned subsidiaries of the Company.

The accounts of Wardair Equipment Ltd. from July 1, 1984 are not included in these financial statements as it has ceased to carry on business and will not be further supported by the Company.

Adjustments relating to the sale, revised financing arrangements and the deconsolidation of Wardair Equipment Ltd. are reflected as extraordinary items comprised of the following:

		(thousands of dollars)
Reduction of deferred income taxes		$61,866
Less:		
Amount payable arising on purchase of assets at fair market value	$ 7,239	
Recognition of foreign exchange losses on refinancing and write-off of previously deferred financing costs	13,443	
Re-organization costs (net of deferred income tax reductions of $400,000)	400	21,082
		$40,784

4. Cash and short term investments

Short term investments includes $48,953,000 set aside as segregated securities to meet passenger prepayment obligations.

5. Property and equipment	1984	1983
	(thousands of dollars)	
Flight equipment	$332,839	$328,737
Land, buildings and ground equipment	54,135	52,836
	386,974	381,573
Less accumulated depreciation	135,543	115,159
	$251,431	$266,414

6. Deferred charges	1984	1983
	(thousands of dollars)	
Reservation system development costs	$ 2,986	$ 3,359
Deferred foreign exchange	788	5,020
Other	526	1,636
	$ 4,300	$ 10,015

7. Long term debt and bank indebtedness

(a) Secured debentures

Under the terms of a Trust Indenture, the Series A, B and C Secured Income Debentures, due November 27, 1987, are repayable in U.S. funds and Series D in Canadian funds. Other than as noted below, the Company is required to redeem specified principal amounts on May 31 and November 30 in each year.

Effective July 1, 1984, an extraordinary resolution was passed, in accordance with the terms of the Trust Indenture, to convert the Secured Income Debentures into secured debentures. Interest became payable at the base interest rate plus 1.5% for the U.S. funds and the prime rate plus 1.5% for Canadian funds. Furthermore, the November 1984 principal payment was deferred until February 1985.

Effective May 20, 1985, principal payments due on the secured debentures aggregating $57,295,000 were deferred from May 1985 to March 1986. In addition principal payments amounting to $19,587,000 previously due in November 1985 will be required to be made in September 1985. These financial statements reflect the terms of this rescheduling of principal payments.

The Company's obligations under the debentures and Trust Indenture are secured by specific mortgages upon certain property and by a floating charge upon all other property and assets of the Company and have been further secured by limited guarantees of manufacturers and government agencies.

7. Long term debt and bank indebtedness (Cont'd)	1984	1983
	(thousands of dollars)	
Series A		
Secured by two McDonnell Douglas DC-10 series 30 aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment	$ 72,344	$ 73,317
Series B		
Secured by two Boeing Model B747 series 211B aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment	81,285	82,353
Series C		
Secured by six General Electric Model CF6-50 series engines and auxiliary equipment	5,802	5,872
Series D		
Secured by ground support, tooling and commissary equipment, one Univac Model 1100/80 computer and auxiliary equipment	4,860	5,230
(b) Other long term debt		
Conditional sales contract with interest at 8.25%, final instalment due November 1988, payable in U.S. funds. Secured by one McDonnell Douglas DC-10 series 30 aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment	$20,440	$24,049
Bank term loans with interest at 1.25% above prime lending rate, final instalment due December 1992. Secured by a mortgage on the Company's hangar and office facility, a chattel mortgage on specific aircraft and engines and by a floating charge upon all other property and assets of the Company	19,350	20,425
Other long term debt, including notes, term loans and purchase agreements due 1984 to 2005, secured by various charges on the assets of the Company with interest at varying fixed and floating rates	14,160	14,577
	218,241	225,823
Less principal due within one year	47,968	37,050
	$170,273	$188,773

(c) Additional information

Bank indebtedness is secured by two Boeing 747-100 series aircraft and certain other assets.

The debt agreements contain restrictions and covenants the most significant of which relate to: the creation of additional debt; liens and guarantees; issue of shares; payment of cash dividends; maintenance of specified debt-equity ratios; and capital expenditures and investments.

Principal due on long term debt after giving effect to the rescheduling set out above in each of the years 1985 to 1989 is $47,968,000, $104,117,000, $36,322,000, $7,710,000 and $3,909,000 respectively.

The current loan agreements require substantial debt payments to be made in each of the next three years. New financing or the restructuring of existing financing is presently being negotiated to enable the Company to meet its debt payments. Revised financing terms for the secured debentures have been agreed to by the Company and its lead banker subject to syndication with a consortium of banks and concurrence of limited guarantors.

Interest expense on long term debt amounts to $25,128,000 (1983, $19,180,000) and includes interest on secured income debentures prior to their conversion in the amount of $6,695,000 (1983, $12,288,000) which is not deductible for income tax purposes.

8. Share capital and continuance

On June 22, 1984, the Company re-organized its share capital by combining the authorized 40,000,000 Class A non-voting shares, of which 1,793,660 were issued, and the authorized 40,000,000 Class B voting shares, of which 1,793,910 were issued, into voting common shares, having an authorized capital of 80,000,000 common shares.

On August 10, 1984, the Company was continued under the Canada Business Corporations Act.

Details of the authorized and issued share capital are as follows:

	(thousands of dollars)
Authorized capital	
80,000,000 Common shares without nominal or par value	
Issued capital	
3,587,570 Common shares	$1,959

9. Fuel surtax recovery

In December, 1984, the National Energy Board exempted a specified type of fuel from certain government imposed charges. The Company is of the view that similar charges imposed on it are not valid and accordingly $3,960,000 accrued in 1983 and 1982 in respect of this contingency has been reversed in 1984.

10. Income taxes

Total income tax expense varies from the amounts that would be computed by applying the Canadian federal and provincial tax rates to income before income taxes for the following reasons:

	1984	1983
	(thousands of dollars)	
Canadian federal and provincial tax rates	48.2%	51.2%
Tax based upon earnings before income taxes	$11,818	$1,748
Increase (decrease) results from:		
Non-deductible interest, amortization and foreign exchange losses	4,722	7,564
Investment tax credits	$(1,108)	—
Non-taxable income	(348)	(403)
Other	(254)	253
	$14,830	$9,162

11. Commitments

The Company has obligations under long term operating leases for computer equipment, offices and airport facilities. The aggregate minimum rentals under these leases in each of the years 1985 to 1989 are $5,162,000, $4,239,000, $3,986,000, $3,035,000 and $1,574,000 respectively and in aggregate $6,197,000 thereafter to the year 2000.

12. Contingent liabilities

The Company is engaged in various legal proceedings. Management does not anticipate the amounts, if any, which may be required to be paid by the Company will be material.

13. Segmented information

The Company considers its international travel and airline operations to be the dominant segment of its business.

Revenue from sales originating in foreign countries approximated $53,600,000 in 1984 (1983, $55,000,000).

Five Year Summary

(thousands of dollars)	1984	1983	1982	1981	1980
Financial					
Revenue	$410,879	$364,543	$346,531	$315,656	$298,776
Operating costs	361,308	336,075	334,560	284,876	247,871
Earnings from operations	49,571	28,468	11,971	30,780	50,905
Interest expense	25,663	20,705	25,604	24,264	22,237
Amortization of foreign exchange	3,350	3,293	4,308	1,716	2,411
Fuel surtax (recovery)	(3,960)	1,056	(4,530)	7,434	—
(Gain) loss on sale of aircraft and related equipment	—	—	—	(1,219)	(2,230)
Earnings (loss) before the undernoted	24,518	3,414	(13,411)	(1,415)	28,487
Provision for income taxes					
Current	3,537	—	—	—	—
Deferred	11,293	9,162	1,970	9,640	22,191
	14,830	9,162	1,970	9,640	22,191
Earnings (loss) before extraordinary items	9,688	(5,748)	(15,381)	(11,055)	6,296
Extraordinary gain (loss)	40,784	—	(597)	—	—
Net earnings (loss)	$ 50,472	$(5,748)	$(15,978)	$(11,055)	$ 6,296
Dividends					
Preference shares of subsidiary company	—	—	—	—	$ 3
12% preferred	—	—	—	$ 180	180
Common	—	—	—	394	—
Total dividends	—	—	—	$ 574	$ 183
Long term debt	$218,241	$225,823	$239,212	$262,209	$213,005
Deferred income taxes	11,614	62,586	53,424	52,050	42,410
Shareholders' equity (deficiency)	19,808	(30,664)	(24,916)	(8,638)	3,291
Capital employed	$249,663	$257,745	$267,720	$305,621	$258,706
Depreciation and amortization	$ 24,494	$ 27,561	$ 25,655	$ 21,562	$ 20,792
Funds provided by operations	$ 45,475	$ 30,975	$ 12,509	$ 18,928	$ 47,049
Additions to property and equipment	$ 5,582	$ 3,301	$ 11,188	$ 84,170	$ 20,619
Repayment of long term debt	$ 19,291	$ 16,071	$ 25,008	$ 33,406	$ 29,073
Operating margin	12.1%	7.8%	3.5%	9.7%	17.0%
Per share data (in dollars)					
Earnings (loss) before extraordinary items	$ 2.70	$ (1.72)	$ (4.68)	$ (3.36)	$ 1.92
Net earnings (loss)	$ 14.07	$ (1.72)	$ (4.86)	$ (3.36)	$ 1.92
Dividends	—	—	—	$ 0.12	—
Operating					
Passengers carried	1,499,057	1,482,200	1,383,900	1,251,800	1,280,948
Revenue passenger miles (000's)	4,035,952	3,851,200	3,843,500	3,517,200	3,797,932
Aircraft miles (000's)	12,823	12,365	13,682	12,317	12,254
Aircraft hours	26,949	26,198	29,183	26,224	25,820
Personnel					
Average number of employees	2,081	1,992	2,234	2,264	2,202
Employee wage and benefits (000's)	$ 63,551	$ 60,206	$ 60,620	$ 55,524	$ 42,764
Share Information (excludes preferred shares)					
Common shares issued	3,587,570	3,587,570	3,287,570	3,287,570	3,287,570
Shares held by Canadian residents	99.43%	99.55%	99.53%	99.48%	99.59%
Total number of shareholders	1,662	1,538	1,552	1,524	1,376

Board of Directors

Maxwell W. Ward
Chairman and Chief Executive Officer, Wardair International Ltd.

G.D. Curley*
President and Chief Operating Officer, Wardair International Ltd.

T.L. Spalding
Senior Vice-President and Chief Financial Officer, Wardair International Ltd.

M.D. Ward
Vice-President, Wardair International Ltd.

K.M. Ward**
Vice-President, Customer Services, Wardair International Ltd.

J.N. Hyland*
Corporate Director

L.R. Duncan*
Partner — Fenerty, Robertson, Fraser & Hatch

M.J. Brown**
President, Ventures West Management Inc.

*member of audit committee

**Appointed Directors by the Board effective March 14, 1985

Officers and Senior Management

Maxwell W. Ward, *Chairman and Chief Executive Officer*
G.D. Curley, *President and Chief Operating Officer*
T.L. Spalding, *Senior Vice-President and Chief Financial Officer*
B. Walker, *Senior Vice-President, Sales and Marketing*
M.D. Ward, *Vice-President*
T.S. Currie, *Vice-President, Finance*
K.M. Ward, *Vice-President, Customer Services*
I.C. Wilkie, *Vice-President, Corporate and Legal Affairs, and Secretary-Treasurer*
A.K. Willard, *Vice-President, Human Resources*
D.W. Rouse, *Executive Assistant to the Chairman*
B.R. Corbett, *Director, Industrial Relations*
R.N. Driscoll, *Director, Tax Planning and Benefit Plans*
E.R. Lysyk, *Director, Corporate Security and Safety*
L.B. Menzies, *Director, Strategic Planning*
J.E. Murray, *Director, Internal Audit*
J.W. Ormiston, *Director, Financial Operations*
J.L. Shaffer, *Director, Customer Relations and Consumer Affairs*
G.L. Tibbles, *Director, Corporate Administration and Insurance*

Corporate Information

Head Office: *2201 Toronto Dominion Tower, Edmonton Centre, Edmonton, Alberta, T5J 0K4*

Principal Operating Offices: *Lester B. Pearson International Airport, 3111 Convair Drive, Mississauga, Ontario, L5P 1C2*

Shares Listed: *The Toronto Stock Exchange*

Auditors: *Thorne Riddell*
Toronto, Ontario

Registrar and Transfer Agent: *Montreal Trust Company*
Edmonton, Toronto, Vancouver, Calgary and Montreal

Principal Bankers: *Toronto-Dominion Bank,*
Canadian Imperial Bank of Commerce

Officers and Senior Management

Wardair Canada Inc.

Maxwell W. Ward
Chief Executive Officer

G.D. Curley
President and Chief Operating Officer

T.L. Spalding
Executive Vice-President

B. Walker
Senior Vice-President, Sales and Marketing

M.D. Ward
Vice-President

T.S. Currie
Vice-President, Finance

A.B. Freeman
Vice-President, Flight Operations

C.D. McNiven
Vice-President, Maintenance & Engineering

W. R. O'Hara
Vice-President, Cargo Sales

K.W. Ward
Vice-President, Customer Services

I.C. Wilkie
Vice-President, Corporate & Legal Affairs, and Secretary-Treasurer

P.W. Bolton
Director, Cabin Services

J.V. Gordon
Director, Passenger Services

A.W. Jackman
Director, Crew Scheduling

M.J. Kozak
Director, Catering Services

†Wholly-owned subsidiary of Wardair Canada Inc.

International Vacations Ltd.

Maxwell W. Ward
Chief Executive Officer

G.D. Curley
President and Chief Operating Officer

T.L. Spalding
Executive Vice-President

B. Walker
Senior Vice-President, Sales and Marketing

M.D. Ward
Vice-President

T.S. Currie
Vice-President, Finance

I.C. Wilkie
Vice-President Corporate & Legal Affairs and Secretary-Treasurer

R.A. Hunter
Director, Sales

P.W. Jenkins
Director, Marketing

D.B. MacKay
Director, Data Processing and Systems

S.A. Taggart
Director, Product Development

Wardair (U.K.) Limited

Maxwell W. Ward
Chairman

A.I. Mayer
Managing Director

S.G. Hoad
Joint Secretary

I.C. Wilkie
Joint Secretary

Wardair Hawaii, Limited

Maxwell W. Ward
President

T.L. Spalding
Vice-President

I.C. Wilkie
Secretary-Treasurer

P.B. Gard
General Manager

Wardair Holidays (Deutschland) GmbH

K. Uhlmann
Managing Director

Wardair (france) S.A.R.L.

K. Uhlmann
Managing Director

Redrock Reinsurance Limited † (Bermuda)

R.D. Spurling
Director and President

S.W. Kempe
Director

T.L. Spalding
Director

F.C. White
Director

Wardair Leasing Inc.

Maxwell W. Ward
President

R.N. Driscoll
Vice-President and General Manager