Wardair International Ltd.

Annual Report 1979

Wardair International Ltd.

Board of Directors

Maxwell W. Ward, Chairman and President, Wardair International Ltd.
M. D. Ward, Secretary-Treasurer, Wardair International Ltd.
T. L. Spalding, Senior Vice-President, Wardair International Ltd.
W. T. Brown,* Chairman, Odlum Brown and T. B. Read Ltd.
J. N. Hyland,* Consultant
G. D. Curley,* Vice-President, Operations, Wardair International Ltd.

*members of audit committee

Officers and Senior Management

Maxwell W. Ward, Chairman and President
T. L. Spalding, Senior Vice-President
G. D. Curley, Vice-President, Operations
B. Walker, Vice-President, Marketing
M. D. Ward, Secretary-Treasurer
D. W. Rouse, Executive Assistant to the President
B. R. Corbett, Director, Industrial Relations
R. N. Driscoll, Director, Tax Planning and Benefit Plans
E. Lysyk, Director, Corporate Security and Safety
N. J. Parsons, Director, Financial Planning and Forecasting
J. L. Shaffer, Director, Customer Relations and Consumer Affairs
I. C. Wilkie, Director, Legal Services

Corporate Information

Head Office: 2201 Toronto Dominion Tower, Edmonton Centre,
Edmonton, Alberta, T5J 0K4
Shares Listed: Toronto Stock Exchange
Vancouver Stock Exchange
Auditors: Thorne Riddell
Edmonton, Alberta
Trustee: Montreal Trust Company
Registrar and Transfer Agent: Montreal Trust Company
Edmonton, Toronto and Vancouver
Principal Bankers: Canadian Imperial Bank of Commerce
Toronto-Dominion Bank

Annual Report 1979

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Annual Meeting

The Annual Meeting of Shareholders will be held at 1:00 p.m. (M.D.T.) on May 23, 1980 at the head office of Wardair International Ltd., 2201 Toronto Dominion Tower, Edmonton Centre, Edmonton, Alberta, T5J 0K4.

Financial Highlights

	1979	1978
Revenues	**$198,508,000**	$143,059,000
Operating costs, before depreciation and amortization	**169,049,000**	128,334,000
Depreciation and amortization	**17,113,000**	9,293,000
Earnings from operations	**12,346,000**	5,432,000
Interest on long term debt	**21,563,000**	11,456,000
Gain on sale of aircraft and related equipment	**5,432,000**	11,433,000
Gain arising from changes in estimated useful lives of aircraft	**1,368,000**	–
Net earnings (loss) for the year	**(2,417,000)**	5,409,000
Operating margin	**6.2%**	3.8%
Return on average capital employed	**6.9%**	9.5%
Earnings (loss) per common share	**$(1.02)**	$1.45
Dividends per common share	**–**	$ .06

To our Shareholders and Employees

Measured by financial results alone, 1979 was not a good year for Wardair International Ltd. The Company sustained a consolidated net loss of $2,417,000, or a loss of $1.02 per common share, compared to net earnings of $5,409,000 or $1.45 per common share in 1978.

Without a one-time gain of $5,432,000 from the sale of Northern Division aircraft and spare parts, and a gain of $1,368,000 as a result of changes to our depreciation policy relating to estimated useful life of the Company's fleet, the loss would have been greater.

Revenues for Wardair International Ltd. in 1979 were $198,508,000, compared to $143,059,000 in 1978, an increase of 38%. Operating costs in 1979 were $186,162,000, a 35% increase over 1978.

The disappointing results in 1979 are mainly attributed to five factors:

1. On June 6, 1979 our two DC-10 aircraft were grounded for 24 days by order of the Ministry of Transport following a DC-10 crash in Chicago, Illinois. As a result of the grounding, we incurred a loss of approximately $1,800,000.
2. Charter fare yields on the North Atlantic were depressed through competitive measures taken by scheduled carriers selling charter-type transportation (Charter Class Fares) on scheduled flights.
3. The cost of fuel exceeded our estimates for the year because the Iranian crisis abnormally escalated prices. Fuel suppliers were able to apply increased costs faster than we could recover them from our passengers in the form of price increases or fuel surcharges. As a result, fare levels lagged behind actual costs and we were in a constant catch-up position.
4. Sharp increases in the cost of labour, materials, outside services and government user charges continued to reflect the severe inflationary pressures on the economy.
5. Debt service costs increased as interest rates climbed to record levels.

After 26 years of operation in the Northwest Territories we closed our Northern Division in

Yellowknife, N.W.T., in the fall of 1979. The decision was a difficult one to make, but necessary since business activity in the North has declined steadily in recent years and there are no signs of a reversal that would support a large fixed-base operation. Most of the Northern Division's aircraft, spare engines and parts were sold before year end which produced the one-time gain noted earlier. The last aircraft, a DHC-7, and associated parts were sold in January and agreements for the sale of the hangar and remaining assets are anticipated in 1980.

On a more positive note, load factors remained close to forecast in 1979. Wardair continues to rank high among airlines throughout the world in daily utilization of aircraft. We have not sacrificed any of our high standards of customer service and continue to make improvements to our service levels on the ground and in the air. "Wardair Class" is a positive selling point with the public.

Wardair (U.K.) Limited achieved excellent results marketing Canada as a destination from Britain and Europe. Charter programs from the U.K. to Canada continue to show excellent growth and 1979 flights from Germany and Holland to Canada made a solid contribution to revenue.

The value of the Canadian dollar in relation to foreign currencies makes Canada an extremely attractive holiday destination for foreign visitors. We will continue to direct a major part of our marketing effort toward developing this business in even greater volume.

We are also pleased to report encouraging developments occurred in the area of government regulation. In last year's report, we said that recognition of the rightful role of the charter air carrier in the fabric of the nation's air transportation system was a vital key to Wardair's continued growth and success.

In November, 1979, the Air Transport Committee of the Canadian Transport Commission made significant changes to the Air Carrier Regulations governing domestic and international charter flights. Further relaxations to the charter regulations were announced by the Minister of Transport in February, 1980. (A summary of the changes appears on page 8). The changes allow charter carriers, such as Wardair, and charterers such as Intervac, to offer passengers greater flexibility in their travel plans.
As a result we are able to compete more effectively with the scheduled carriers' charter-type operations.

Although these changes are most welcome, it is unfortunate they did not occur in time to benefit our 1979 charter flight programs.

With the easing of regulatory restraints on our operations, a domestic charter program will be launched in 1980. From a modest start, service patterns and frequencies will be expanded throughout the year and by the end of 1980, we should be well established in the domestic market, serving Vancouver, Edmonton, Calgary and Toronto.

Fares will be higher in 1980 to meet the increased costs of doing business. Nevertheless, we are confident with the new regulatory environment affording us an opportunity to make our Company highly productive and efficient, we will be able to spread our cost base over a wider range of product offerings, thereby maintaining relatively low airfares compared to scheduled airline fare levels. The added authority to carry bellyhold cargo domestically and internationally, the latter subject to approval of the foreign governments concerned, should also have a positive effect on operating results in 1980.

The management of the Wardair group of companies is extremely gratified by the pride and loyalty our employees demonstrate in performing their jobs. As a service company, such attitudes are an essential ingredient to success.

We are optimistic about our prospects and we are forecasting a return to profitable operations in 1980.

On behalf of the Board

Maxwell W. Ward

Maxwell W. Ward
Chairman and President
April 28, 1980.

Review of Operations

International Vacations Ltd. (Intervac)

In 1979, Intervac, the marketing subsidiary of Wardair International, concentrated on intense development of its high volume holiday market areas such as Florida, Barbados, Hawaii, the U.K., Holland and Germany. Advance Booking Charter (ABC) seats, as opposed to packages, continued to grow in popularity with the public. Inclusive Tour Charters (ITCs), still produced a sizeable revenue, but the growth trend of ITCs continues to decrease each year. The ITC has lost some of its appeal since ABC airfare with hotel accommodation and car rentals sold as add ons gives passengers a wider choice at reasonable prices.

On the North Atlantic, increased capacity by all carriers on the Toronto/U.K. routes led to a price war which resulted in non-compensatory fare levels. However, Wardair's daily service between Toronto and London was well received by the trade and by the public, and Intervac increased its market share on this important route. Another highlight was the introduction of direct, wide-bodied service to the U.K. from Ottawa, which was extremely popular in that market.

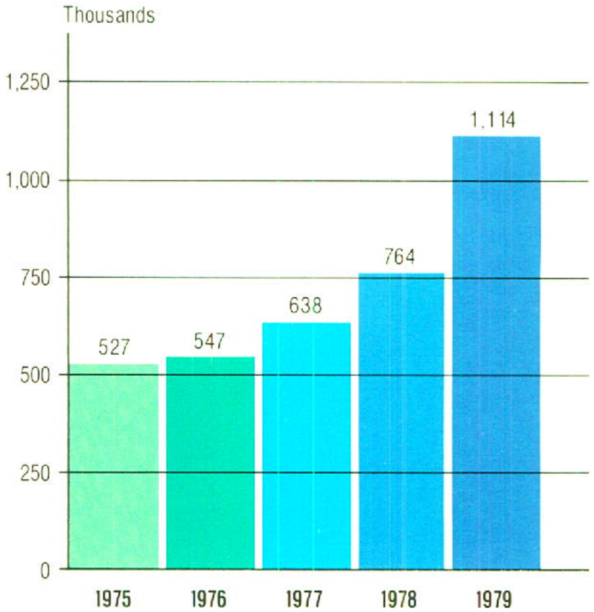
From the rest of Canada to the U.K. and Europe, the company achieved moderate growth and maintained its market share. Load factors from Canada to Europe and the U.K. dropped due to excess capacity. This was partially offset by increased traffic from Europe and the U.K. to Canada.

Traffic to Florida, Barbados and Hawaii continued its strong growth pattern in 1979. Accordingly, in 1979, Intervac developed year-round service from Eastern Canada to Barbados and Florida and from Calgary, Edmonton and Vancouver to Hawaii. Wardair has a strong presence in Hawaii and Intervac will continue a major sales effort to retain its share in this important segment of the holiday market. To date, 1980 sales are on target in the market areas served.

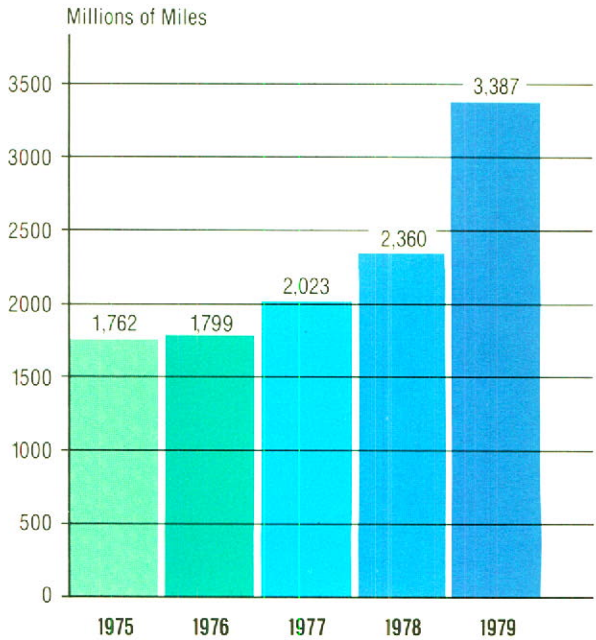
Wardair (U.K.) Limited

In the U.K. market, 1979 was a successful year. Increased sales on U.K. to Canada routes were achieved by offering additional capacity from Manchester, Prestwick and London to Canada. The lower value of the Canadian dollar in relation to foreign currencies also stimulated the flow of holiday traffic from Europe to Canada. In addition, an intense sales campaign, together with the ability to mix Canadian and U.K. or European-originating passengers on the same aircraft, helped to increase sales on these routes.

Passengers Carried



Revenue Passenger Miles



Again, "Wardair Class" service was a major part of the Wardair (U.K.) Limited sales promotion campaign with the travel trade. Despite stiff competition in the U.K. to Canada market by the scheduled carriers, Wardair (U.K.) Limited continued to achieve solid growth in market share. Based upon preliminary sales data, 1980 sales will meet forecasted results.

Wardair Canada (1975) Ltd.

The completion of the Wardair fleet modernization program in 1979 was well timed. The present fleet is highly fuel efficient and operates well below government noise abatement requirements for aircraft in the 1980s. The mix of 747 and DC-10 equipment provides the flexibility necessary to serve the company's medium to long-range markets.

AIRCRAFT TYPE	NUMBER	SEATS PER AIRCRAFT
747-100		455
747-200		455
DC-10		301

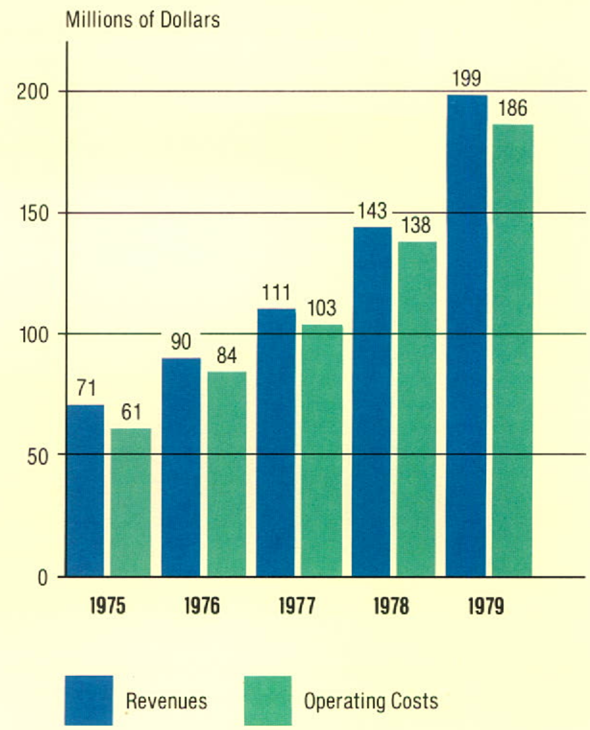
Despite the grounding of the DC-10 in 1979, the United States Federal Aviation Administrator Langhorne Bond has been widely quoted as saying, "the DC-10 is most probably by far the safest commercial airliner today..."

Early in 1979, the Air Transport Committee of the Canadian Transport Commission held two major public hearings on proposed rule changes for charter airlines. The first hearing reviewed domestic ABCs while the second was concerned with proposed major changes to international and domestic ABC regulations.

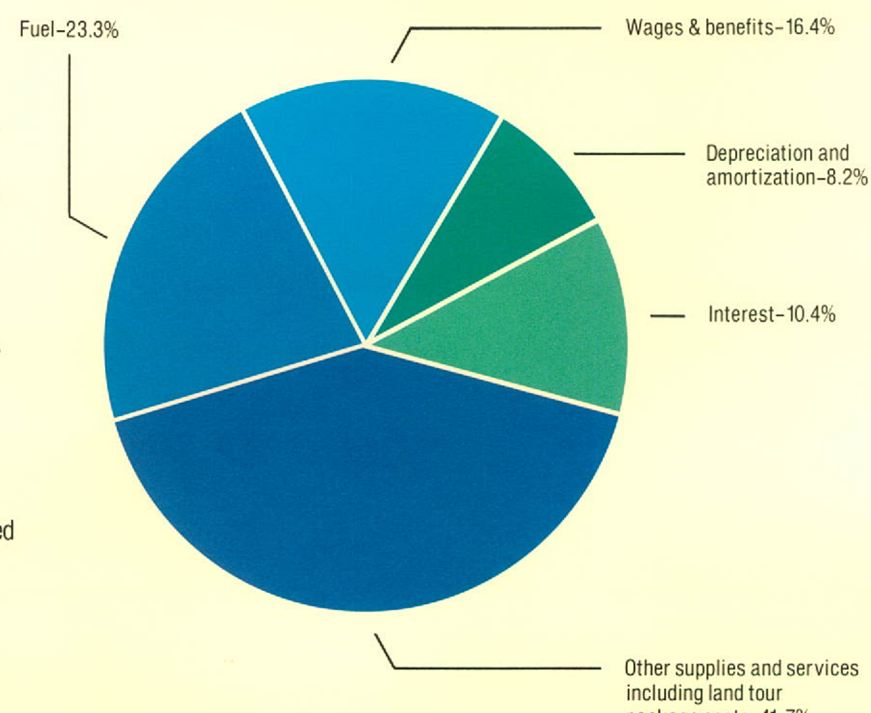
In November, 1979, the Air Transport Committee approved changes to the Air Carrier Regulations which allowed charter carriers and charter operators a greater degree of flexibility in selling charter airline seats to the public. This helped to restore a competitive balance between charter carriers and scheduled carriers marketing charter-type transportation.

In February, 1980, the Minister of Transport announced further changes to the charter regulations giving charter passengers even greater flexibility in their travel planning, particularly for domestic travel. A summary of the changes appears on page 8.

Revenues and Operating Costs



Distribution of 1979 Expenses



All in all, these changes are most welcome and the company is adapting its marketing plans to take full advantage of the opportunity to generate new business and increase overall yields with fare levels dependent on the flexibility desired by the customer.

It is important to note, however, that on international routes, the destination country must also approve regulation changes and Wardair is now in the process of seeking such approvals.

In the fall of 1979, Wardair Canada (1975) Ltd. operated a limited number of refugee flights from Malaysia to Canada. Since then, the company successfully bid on a series of refugee flights operating from January to October, 1980 from various points in the Far East to Canada. These flights, contracted with the Government of Canada, will produce approximately $17 million in revenue.

Employee Relations

The Wardair International group of companies has established a system of periodic formal meetings with employee groups not represented by certified union bargaining units. These meetings are extremely helpful in establishing rates of pay and conditions of employment. In addition, the meetings are an excellent medium for employee-employer communications.

Effective April 1, 1979, Wardair Canada (1975) Ltd. reached agreement for a two-year period with the Canadian Airline Flight Attendants Association (CALFAA) governing wages and conditions of employment.

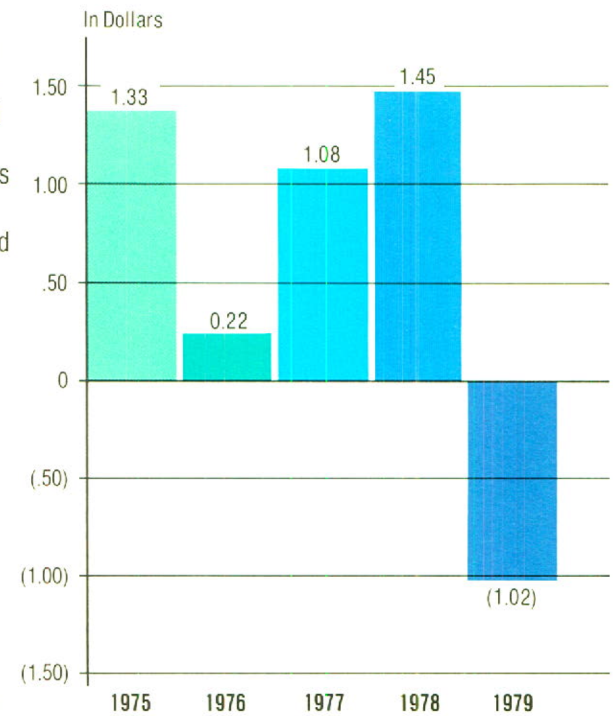
The collective agreement between Wardair Canada (1975) Ltd. and the International Association of Machinists and Aerospace Workers (IAM) representing certain maintenance, engineering and scheduling employees, was renewed for a two-year period effective July 1, 1979.

An agreement between Wardair Canada (1975) Ltd. and the Air Crew Association of Canada (ACAC), covering pilots and flight engineers, comes up for renewal on July 1, 1980 and preliminary negotiations for a new contract are underway.

On September 1, 1980, the agreement between Wardair Canada (1975) Ltd. and the Canadian Association of Passenger Agents (CAPA) is up for renewal.

The airline entered into an 18-month agreement with Canadian Airline Supervisors and Inspection Association (CASIA) on January 1, 1979. This unit represents certain employees in the maintenance and engineering department. Negotiations for renewal of this agreement are scheduled to commence in May, 1980.

Earnings/(Loss) per common share



Redrock Reinsurance Limited (Bermuda)

Redrock Reinsurance Limited is a wholly-owned subsidiary of Wardair Canada (1975) Ltd., managed by Insurance Managers Ltd., of Bermuda. It reinsures certain lines of charter passenger cancellation insurance written by primary underwriters in Canada.

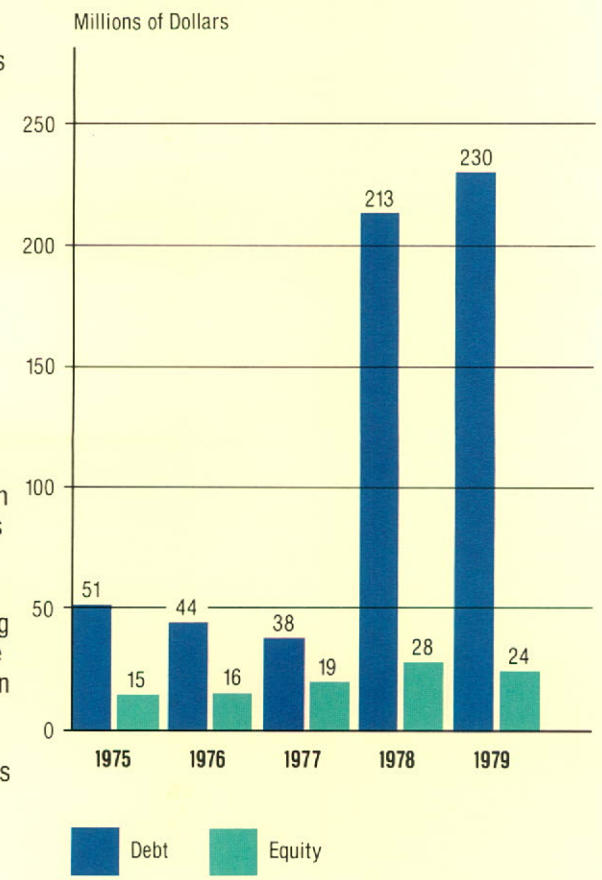
Premium volume has shown steady growth and loss ratios and expenses are at favourable levels. It is expected that this company will continue to achieve sound operating results.

Wardair Hawaii, Limited

Through its operating division, Tropics Property Management, Wardair Hawaii, Limited is engaged in rental pool management of condominium units in Hawaii. Presently the Company manages approximately 200 rental units in the Waikiki Banyan Condominium in Honolulu, Hawaii, including 33 units owned by Wardair Hawaii, Limited.

Condominium management operations commenced in December, 1979. It is too early to forecast operating results for 1980. However, high occupancy levels are anticipated for the units since in addition to Canadian visitors, who are expected to produce the primary source of revenue, Tropics Property Management is actively soliciting business from major tour operators in Australia, Japan and the United States.

Capital Invested



Summary of 1979 – 1980 Air Transport Committee Regulation Changes

CHANGES	INTERNATIONAL & TRANS-BORDER FLIGHTS	DOMESTIC FLIGHTS
1. Advance Booking Requirement	U.S., Caribbean area and Mexico—14 days Other Areas—21 days	14 days except: ⅓ of capacity of aircraft–no advanced booking required, night flights–no advanced booking required.
2. Advance Booking Passengers and Inclusive Tour Passengers on same flight	Mix allowed	Mix allowed
3. Minimum Stay Requirement	Return transportation allowed to commence on first Sunday following day of departure to U.S., Caribbean area and Mexico Other International flights–return allowed on sixth day after date of departure	Return transportation allowed to commence on first Sunday following day of departure
4. Multi-stops	Two pickup and two drop off points allowed	Two pickup and two drop off points allowed
5. "Top-off"	40 seats on 747 or DC-10 can be sold up to 7 days prior to departure.	⅓ of the aircraft capacity can be sold within 14 days of departure for an additional fee
6. Open Jaw	Passenger may fly to one city and return from another	Passenger may fly to one city and return from another
7. Change in Flight dates–departure or return	**OUTBOUND FLIGHTS** An additional fee is charged if passengers change to a later departure date as follows: **Britain and Europe:** within 21 days of departure **Trans-border flights and flights to Honolulu, the Caribbean and Mexico:** within 14 days of departure **RETURN FLIGHTS** For an additional fee passenger may change return date providing minimum stay requirement is met.	For an additional fee, passenger may change departure or return dates.
8. Open returns	Passenger may purchase an open return date by payment of additional fee	Passenger may purchase an open return date by payment of additional fee
9. Sales through an affiliated company (charterer)	Already allowed	Domestic ABCs may be sold through an affiliated charterer (e.g. Wardair/Intervac)
10. Children's Fare	May go as low as any scheduled carrier's child fare.	May go as low as any scheduled carrier's child fare.
11. Carriage of cargo in bellyhold of aircraft	Permitted on ABC, ITC, ABC/ITC mixed flight, or Common Purpose Charter	Permitted on ABC, ITC, ABC/ITC mixed flight, or Common Purpose Charter

Wardair International Ltd.
Consolidated Financial Statements

Auditors' Report

To the Shareholders
Wardair International Ltd.

We have examined the consolidated balance sheet of Wardair International Ltd. as at December 31, 1979 and the consolidated statements of earnings 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, except for the effect of not providing for deferred income taxes as explained in note 8 to the financial statements, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 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.

Edmonton, Alberta
February 29, 1980

Thorne Riddell
Chartered Accountants

Consolidated Balance Sheet

As at December 31, 1979

(In thousands of dollars)	1979	1978
ASSETS		
CURRENT ASSETS		
Cash and short term investments (note 2)	$ 46,273	$ 36,973
Accounts receivable	2,807	4,566
Inventories	6,586	6,070
Deposits and prepaid expenses	3,845	7,000
	59,511	54,609
PROPERTY AND EQUIPMENT, at cost		
Flight equipment	270,926	243,040
Land, buildings and ground equipment	18,413	16,745
	289,339	259,785
Less accumulated depreciation (note 3)	38,041	26,829
	251,298	232,956
DEFERRED CHARGES (note 4)	2,523	2,426
	$313,332	$289,991
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 20,267	$ 22,545
Dividends payable	216	252
Charter prepayments	39,243	26,154
Principal due within one year on long term debt	28,080	17,217
	87,806	66,168
LONG TERM DEBT (note 5)	201,573	196,184
PREFERENCE SHARES OF SUBSIDIARY COMPANY (note 6)	4,670	4,711
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized—300,000 12% cumulative redeemable non-voting convertible preferred shares of $10 each, par value 5,000,000 common shares without par value		
Issued—180,000 12% preferred shares (note 7)	1,800	2,100
3,287,570 common shares	1,059	1,059
PURCHASE FUND FOR REDEMPTION OF PREFERRED SHARES (note 7)	300	300
RETAINED EARNINGS (notes 5, 7 and 8)	16,124	19,469
	19,283	22,928
	$313,332	$289,991

Approved by the Board

Maxwell W. Ward

Director

Director

Consolidated Statement of Earnings

For the year ended December 31, 1979 (In thousands of dollars)	1979	1978
REVENUES	$198,508	$143,059
EXPENSES		
Operating	145,624	109,175
Marketing and administration	23,425	19,159
Depreciation (note 3)	16,653	8,841
Amortization of deferred charges	460	452
	186,162	137,627
EARNINGS FROM OPERATIONS	12,346	5,432
Interest on long term debt (note 5)	21,563	11,456
	(9,217)	(6,024)
Gain on sale of aircraft and related equipment	5,432	11,433
	(3,785)	5,409
Adjustment arising from changes in the estimated useful lives of jet aircraft and related equipment (note 3)	1,368	–
NET EARNINGS (LOSS) (note 8)	$ (2,417)	$ 5,409
EARNINGS (LOSS) PER COMMON SHARE (in dollars) (note 8)		
Calculated after providing for annual dividends on preferred shares	$ (1.02)	$ 1.45

Fully diluted earnings (loss) per common share, assuming conversion of all preferred shares is calculated at $(1.02) in 1979 and $1.26 in 1978.

Consolidated Statement of Retained Earnings

For the year ended December 31, 1979 (In thousands of dollars)	1979	1978
BALANCE AT BEGINNING OF YEAR	$ 19,469	$ 14,892
NET EARNINGS (LOSS)	(2,417)	5,409
	17,052	20,301
DIVIDENDS		
Preference shares of subsidiary company	712	383
12% Preferred shares	216	252
Common shares	–	197
	928	832
BALANCE AT END OF YEAR	$ 16,124	$ 19,469

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1979 (In thousands of dollars)	1979	1978
WORKING CAPITAL DERIVED FROM		
Operations	$ 7,896	$ 3,269
Issue of preference shares of subsidiary company	5,289	4,711
Proceeds from sale of fixed assets	11,106	18,344
Proceeds from long term debt	34,201	182,657
	58,492	208,981
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	39,301	190,940
Reduction of long term debt	28,812	18,524
Deferred charges incurred, net of recoveries	557	1,307
Dividends	928	832
Redemption of 12% preferred shares	300	300
Repurchase of preference shares of subsidiary company	5,330	—
	75,228	211,903
INCREASE IN WORKING CAPITAL DEFICIENCY	16,736	2,922
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	11,559	8,637
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ 28,295	$ 11,559

Notes to Consolidated Financial Statements For the year ended December 31, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Wardair Canada (1975) Ltd. and its wholly-owned subsidiary, Redrock Reinsurance Limited; Wardair Equipment Ltd.; Wardair Northern Equipment Ltd.; International Vacations Ltd.; Wardair (U.K.) Limited; Wardair Jamaica Limited and Wardair Hawaii, Limited.

As of the close of the year, Wardair Canada (1975) Ltd. amalgamated with Wardair Northern Equipment Ltd. The amalgamated company is known as Wardair Canada (1975) Ltd.

Translation of Foreign Currencies

Amounts in foreign currencies are translated to Canadian dollars on the following bases:

(i) current assets and current liabilities at exchange rates in effect at the balance sheet date except principal due within one year on long term debt

(ii) fixed assets at exchange rates in effect at the dates of acquisition

(iii) long term debt at exchange rates in effect at the dates incurred

(iv) revenues and expenses at the average annual rate of exchange.

Gains and losses resulting from foreign exchange transactions are reflected in earnings for the year.

Inventories

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

Property and Equipment

Depreciation is computed by the straight-line method:

(i) jet aircraft and related equipment–over sixteen years to 10% residual value

(ii) turbo aircraft and related equipment–over twelve years to 15% residual value

(iii) other equipment and property–at various rates over the estimated useful life of the asset.

Engine and airframe overhaul costs are charged to earnings in the year incurred. 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, if any, is reflected in earnings.

Deferred Charges

Deferred charges are amortized on the straight-line method:

(i) financing costs over the term of the debt

(ii) training expenses over ten years

(iii) inclusive tour development over four years to 1980

(iv) telephone system costs over ten years to 1989

(v) condominium development costs over three years to 1982.

2. CASH AND SHORT TERM INVESTMENTS

Short term investments includes $37,682,312 set aside as segregated securities, to meet charter prepayment obligations as provided for under the Trust Indenture referred to in note 5(a), and in part as security for a bond required by certain regulatory authorities.

3. ADJUSTMENT ARISING FROM CHANGES IN THE ESTIMATED USEFUL LIVES OF JET AIRCRAFT AND RELATED EQUIPMENT

During the year the company changed the rates of depreciation on jet aircraft and related equipment as a result of changes in their estimated useful lives. Depreciation based on the revised useful lives has been recalculated retroactively to the date of acquisition and the related adjustment of $1,367,762 has been reflected in the statement of income.

Deferred income taxes reflected in note 8 includes an amount of $643,000 related to the above adjustment. The depreciation charged against income of the current year has been based on the revised estimated useful lives of the related fixed assets. Had the changes in depreciation rates not been made, the current year's provision for depreciation would have been increased by $1,107,801.

4. DEFERRED CHARGES

	1979	1978
Financing costs	$1,780,243	$1,875,022
Training expenses	332,789	375,823
Inclusive tour development	87,353	174,707
Telephone system costs	184,868	–
Condominium development costs	137,538	–
	$2,522,791	$2,425,552

5. LONG TERM DEBT

(a) On June 9, 1978, the Company issued, under the terms of a Trust Indenture between the Company and National Trust Company, Limited as trustee, Series A, B, C and D Secured Income Debentures, due November 30, 1987. Series A, B and C are repayable in U.S. funds and Series D in Canadian funds. The debentures may be converted into secured debentures at the option of the Company or the holders, upon the occurrence of certain prescribed events. The Company is required to redeem specified amounts of the debentures on May 31 and November 30 in each year. These redemptions commenced November 30, 1979. Interest is payable at 52% of the lending institution's base interest rate plus 1.5% for U.S. funds and 52% of the bank prime rate plus 1.5% for Canadian funds. The Company's obligations under the income debentures and Trust Indenture are secured by a specific mortgage upon certain property and by a floating charge upon all other property and assets of the companies, and have been further secured by limited guarantees of manufacturers and government agencies.

	1979	1978
(i) Series A Secured by two McDonnell Douglas DC-10 series 30 aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment	**$ 94,140,748**	$ 99,124,263
(ii) Series B Secured by two Boeing Model B747 series 211B aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment	**101,449,862**	108,727,114
(iii) Series C Secured by six General Electric Model CF6-50 series engines and auxiliary equipment	**7,158,965**	7,536,702
(iv) Series D Secured by ground support, tooling and commissary equipment, one Univac Model 1100/80 computer and auxiliary equipment, and three steel buildings as acquired	**7,080,000**	7,450,000
	209,829,575	222,838,079
Less undrawn amounts held by Trustee	**3,979,053**	40,180,686
	205,850,522	182,657,393

	1979	1978
(b) 10% Conditional Purchase Agreements, due April, 1983; $8,295,000 is payable in U.S. funds. Secured by one Boeing 747 and auxiliary equipment	**$ 12,813,770**	$ 15,851,876
(c) Secured Note Purchase Agreement, due November, 1983, with interest at 2.25% above prime lending rate. Secured by one Boeing 747 and auxiliary equipment	**2,915,450**	5,300,822
(d) 8% Term loan, due November, 1982, payable in U.S. funds to Export-Import Bank of the United States. This loan is guaranteed by a commercial bank for a fee of 2.25% of a portion of the loan and 1.5% of the remainder	**7,492,622**	7,492,622
(e) Bank term loans, at rates varying between bank prime rate plus 1.5% and 2%, final instalment due November, 1983. Secured by a chattel mortgage on specific aircraft and engines and general assignment of accounts receivable	**566,495**	2,066,246
(f) 10% Debenture, due February, 1979. Secured by a first fixed charge on DHC-6 aircraft	**–**	12,854
(g) Miscellaneous mortgages	**13,995**	18,981
	229,652,854	213,400,794
Less principal due within one year	**28,079,761**	17,216,931
	$201,573,093	$196,183,863

The debt agreements contain certain restrictions as to the creation of additional debt, the creation of additional liens and guarantees, the payment of cash dividends and the amounts of loans to officers and employees. In addition, certain debt agreements include covenants by the Company with respect to maintenance of working capital, debt-equity ratios, capital expenditures, investments, sale of assets and issue of shares.

Principal due on existing long term debt in each of the years 1981 to 1984 is $28,386,841, $28,701,199, $26,502,183 and $28,089,893 respectively, expressed in Canadian funds at historical rates.

Long term debt outstanding and repayable in U.S. dollars translated at current rates at December 31, 1979 would be $224,536,000 which is $5,999,000 more than the amount at which it is recorded in the financial statements.

Interest on long term debt includes interest on secured income debentures in the amount of $18,279,000 which is not deductible for income tax purposes.

6. PREFERENCE SHARES OF SUBSIDIARY COMPANY

	1979		1978	
	Shares	Amount	Shares	Amount
Class A	220	$2,200,000	470	$4,700,000
Class B	217	2,170,000	465	4,650,000
Class C	30	300,000	65	650,000
	467	4,670,000	1,000	10,000,000
Proceeds not utilized				5,289,393
		$4,670,000		$4,710,607

These shares are non-voting, redeemable, have a par value of $10,000 each and are entitled to cumulative dividends at variable rates equal to 52% of the average bank prime rate for the dividend period plus 1.5%, payable quarterly. Proceeds from these shares were used to purchase two deHavilland DHC-7 aircraft and related equipment.

During the year the Company repurchased 400 shares at par using part of the proceeds from the sale of one DHC-7 aircraft. On December 14, 1979, in accordance with the share issuing agreement, a further 133 shares were repurchased at par with funds that had not been expended on equipment purchases.

On January 4, 1980 the Company repurchased the remaining 467 shares at par using part of the proceeds from the sale, on that date, of the second DHC-7 aircraft and related equipment.

7. 12% PREFERRED SHARES

Each preferred share is convertible, at the option of the holder, into 3⅓ fully paid common shares and is redeemable at par value or under certain prescribed conditions at $11 per share.

In accordance with these provisions, the Company redeemed 30,000 preferred shares during the year under review and another 30,000 preferred shares subsequent to the year end.

Annually, prior to December 31, the Company is required to appropriate $300,000 of its retained earnings as a Purchase Fund for Redemption of Preferred Shares, which appropriation is returned to retained earnings subsequent to the redemption of a related number of preferred shares. At December 31, 1979, the Purchase Fund totalled $300,000.

In addition, on the redemption of each 30,000 preferred shares the Company is required to designate $300,000 of its retained earnings as a Capital Redemption Reserve Fund as defined in the Alberta Companies Act. At December 31, 1979, a total of $1,200,000 of retained earnings is so designated and is not available for dividends.

8. INCOME TAXES

The Company and its subsidiaries claim capital cost allowances and other deductions allowed for income tax purposes in excess of the related amounts reflected in the accounts and provide in their accounts only for the taxes payable for the year. This accounting treatment differs from the tax allocation basis which requires that the income tax provision be based on earnings reported in the accounts.

If the tax allocation basis had been followed in current and prior years, the loss for 1979 would have increased by $6,818,000 and earnings for 1978 decreased by $5,654,000. Reported loss per common share would have been $3.09 for 1979 and $0.27 for 1978. The cumulative effect on retained earnings to December 31, 1979 would have been a reduction of $20,219,000.

The Canadian Institute of Chartered Accountants recommends the tax allocation basis for all but certain regulated corporations. Management does not concur that this principle is appropriate for the Company. The capital cost allowance on flight equipment is substantially in excess of the depreciation recorded in the accounts. Consequently, the deferred tax liability which results from the tax allocation basis is expected to be indefinitely postponed. Accordingly, there should be no necessity to provide an amount for which the payment date is indeterminable.

9. CONTINGENT LIABILITIES

There are miscellaneous claims and actions pending against the Company and its subsidiaries, some of which are adequately covered by insurance. The outcome of these matters should have no adverse effect on the Company's financial position.

10. PENSION PLAN

A valuation of the Company's pension plan in January, 1979 has resulted in a reduction of the unfunded liability to approximately $211,000. This unfunded liability is being amortized by annual payments of approximately $24,000 to 1992.

11. COMMITMENTS AND SUBSEQUENT EVENT

Leases

The Company is obligated under long term lease agreements for aggregate basic annual rentals of approximately $3,130,000, $2,627,000, $2,365,000, $2,210,000 and $2,170,000 in each of the years 1980 to 1984 respectively.

Forward Exchange contracts

The Company has contracted to acquire $18,803,000 U.S. between June and October 1980 with pounds sterling, equivalent to $22,554,000 Canadian. The value of these contracts at the prevailing exchange rates on December 31, 1979 was $22,000,000 Canadian.

Condominium purchase

On January 16, 1980 the Company purchased 33 condominium units in Hawaii for a purchase price of approximately $1,884,000 U.S. Financing of $1,510,000 U.S. has been arranged with interest at 11%, repayable over 25 years.

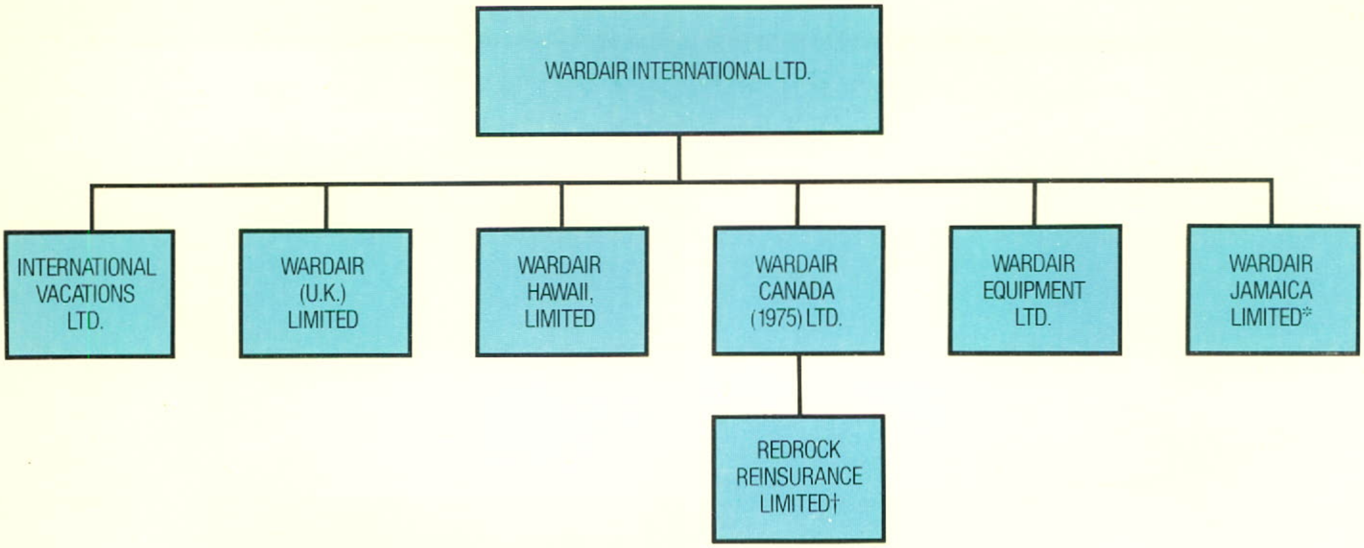
12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of the directors and senior officers, as defined in the Alberta Companies Act, of the Company and its subsidiaries amounted to $859,000.

Five Year Summary

	1979	1978*	1977*	1976*	1975*
FINANCIAL (dollar amounts in thousands)					
Revenues	**$198,508**	$143,059	$110,665	$ 89,685	$ 70,923
Operating costs	**186,162**	137,627	102,907	83,889	61,130
Earnings from operations	**12,346**	5,432	7,758	5,796	9,793
Interest on long term debt	**21,563**	11,456	3,924	4,759	5,133
(Gain) on sale of aircraft and related equipment	**(5,432)**	(11,433)	–	–	–
(Gain) arising from changes in estimated useful lives of aircraft	**(1,368)**	–	–	–	–
Net earnings (loss)	**(2,417)**	5,409	3,834	1,037	4,660
Dividends					
Preference shares of subsidiary company	**712**	383	–	–	–
12% preferred	**216**	252	288	324	379
Common	**–**	197	197	197	–
	928	832	485	521	379
Increase (decrease) in retained earnings	**$ (3,345)**	$ 4,577	$ 3,349	$ 516	$ 4,281
Long term debt	**$229,653**	$213,401	$ 38,251	$ 44,434	$ 50,616
Preferred shares of subsidiary company	**4,670**	4,711	–	–	–
Shareholders' equity	**19,283**	22,928	18,651	15,602	15,342
Invested capital	**$253,606**	$241,040	$ 56,902	$ 60,036	$ 65,958
Depreciation and amortization	**$ 17,113**	$ 9,293	$ 5,820	$ 5,279	$ 4,998
Cash flow provided by operations	**$ 7,896**	$ 3,269	$ 9,654	$ 6,316	$ 9,658
Additions to fixed assets	**$ 39,301**	$190,940	$ 5,320	$ 3,662	$ 6,375
Reduction of long term debt	**$ 28,812**	$ 18,524	$ 6,327	$ 6,129	$ 12,695
Operating margin	**6.2%**	3.8%	7.0%	6.5%	13.8%
Return on average capital employed	**6.9%**	9.5%	12.8%	9.0%	15.1%
Debt-equity ratio	**9.6**	7.7	2.1	2.8	3.3
Price-earnings ratio	**(loss)**	3.2	3.0	10.4	1.6
Per common share data (in dollars)					
Earnings (loss)	**$(1.02)**	$1.45	$1.08	$ .22	$1.33
Dividends	**–**	.06	.06	.06	–
Book value	**5.32**	6.34	4.94	3.92	3.72
OPERATING (international service)					
Passengers carried	**1,114,173**	764,307	637,674	547,149	527,070
Revenue passenger miles (000's)	**3,386,818**	2,359,672	2,022,889	1,798,700	1,762,459
Aircraft miles (000's)	**11,249**	9,602	8,265	7,991	7,610
Aircraft hours	**23,706**	19,860	16,959	16,165	15,488
PERSONNEL					
Average number of employees	**2,021**	1,652	1,410	1,384	1,263
Employee wage and benefits (000's)	**$ 34,052**	$ 25,307	$ 20,630	$ 17,810	$ 12,981
COMMON SHARE INFORMATION					
Shares issued	**3,287,570**	3,287,570	3,287,570	3,287,570	3,237,566
Shares held by Canadian residents	**99.59%**	99.45%	99.53%	99.47%	99.37%
Total number of shareholders	**1,565**	1,620	1,476	1,462	1,559
Shareholders resident in Canada	**97.89%**	97.96%	98.10%	98.29%	98.40%

*Does not reflect adjustment made in 1979 arising from changes in estimated useful lives of aircraft.



Wholly-owned Subsidiaries, Officers and Senior Management

International Vacations Ltd.

Maxwell W. Ward
President

T. L. Spalding
Executive Vice-President

G. D. Curley
Vice-President, General Manager

B. Walker
Vice-President, Marketing

M. D. Ward
Secretary-Treasurer

J. A. Craig
Controller

P. W. Bolton
Director of Passenger Sales

R. J. Dawick
Director of Commercial Sales

P. W. Jenkins
Director of Marketing

Wardair (U.K.) Limited

Maxwell W. Ward
Chairman

J. L. Standley
Managing Director

M. J. Wilson
Secretary

Wardair Hawaii, Limited

Maxwell W. Ward
President

T. L. Spalding
Vice-President and General Manager

M. D. Ward
Secretary-Treasurer

Wardair Canada (1975) Ltd.

Maxwell W. Ward
President

T. L. Spalding
Executive Vice-President

G. D. Curley
Vice-President, General Manager

M. D. Ward
Secretary-Treasurer

B. Walker
Vice-President, Marketing

A. B. Freeman
Vice-President, Flight Operations

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

G. N. R. Bell
Staff Vice-President

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

J. V. Gordon
Director, Passenger Services

A. W. Jackman
Director, Cabin Services

M. J. Kozak
Director, Catering Services

M. K. Borrowman
Controller

J. E. Kirk
Manager, Crew Scheduling

Redrock Reinsurance Limited†

D. F. Babensee
Director

T. L. Spalding
Executive Vice-President

Sir A. D. Spurling
Director

R. D. Spurling
Director

Wardair Equipment Ltd.

Maxwell W. Ward
President

T. L. Spalding
Executive Vice-President

G. D. Curley
Vice-President

M. D. Ward
Secretary-Treasurer

*Inactive at present
†Wholly-owned subsidiary of Wardair Canada (1975) Ltd.