C

Pacific Western

ANNUAL REPORT 1979

Board of Directors

R. R. McDANIEL, *Chairman of the Board*
President, McDaniel Consultants (1965) Ltd., Calgary, Alberta

A. H. MITCHELL, *Vice Chairman*
President, Mitchell & Associates Ltd., Edmonton, Alberta

W. J. BORRIE
Honorary Chairman, Pemberton Securities Ltd., Vancouver, B.C.

C. W. BRAZIER, Q.C.
Associate Counsel, Davis & Co., Vancouver, B.C.

A. F. CAMPNEY
Partner, Campney & Murphy, Vancouver, B.C.

R. T. EYTON
President & Chief Executive Officer, Pacific Western Airlines Ltd., Calgary, Alberta

S. KANEE, O.C.,
Chairman of the Board
Soo Line Mills (1969) Ltd., Winnipeg, Manitoba

E. W. KING
President, Canadian Utilities Limited, Edmonton, Alberta

R. B. LOVE, Q.C.
Partner, Macleod Dixon, Calgary, Alberta

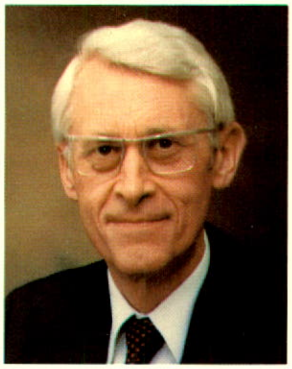
D. H. SEARLE, Q.C.
Senior Partner, Searle, Richard & Kingsmill, Yellowknife, N.W.T.

R. D. SOUTHERN
President & Chief Executive Officer, Atco Industries Ltd., Calgary, Alberta

Pacific Western

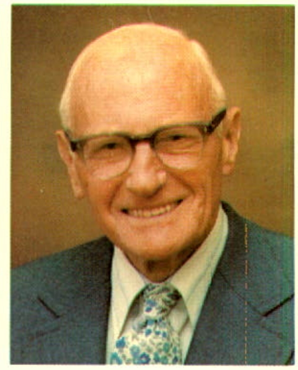
Cover Photo

During 1980, Pacific Western will adopt a fresh new look. This change is displayed on the Boeing 767 Aircraft pictured on the front cover. See page 18 for details.



R. R. McDaniel

A. H. Mitchell



W. J. Borrie

C. W. Brazier, Q.C.

A. F. Campney

R. T. Eyton

S. Kanee, O.C.

E. W. King

R. B. Love, Q.C.

D. H. Searle, Q.C.

R. D. Southern

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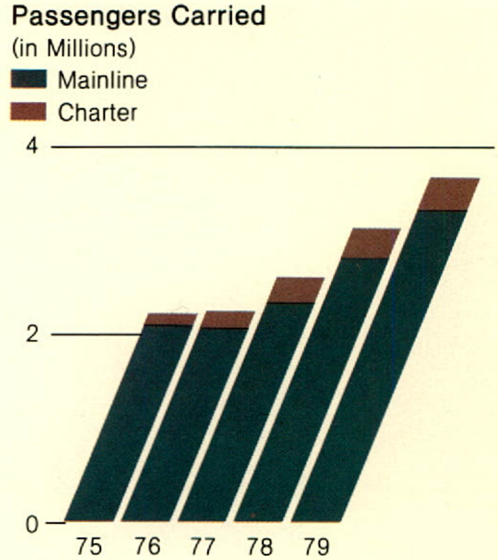
1979 in Brief

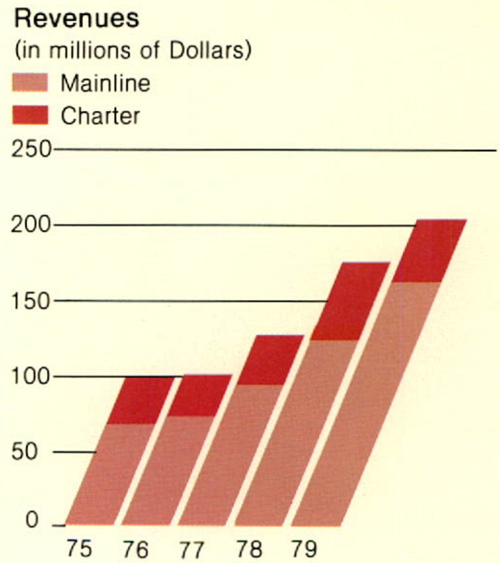
FINANCIAL (in thousands of dollars)

	1979	1978
Operating revenue	**$202,828**	$173,106
Operating expense	**189,104**	160,949
Operating income	**13,724**	12,157
Net earnings for the year	**12,796**	8,447
Funds provided by operations	**18,631**	15,003
Weighted average number of common shares issued	**2,770,356**	2,567,718
Earnings per common share:		
Earnings before extraordinary item	**$3.89**	$3.06
Net earnings	**$4.62**	$3.24

OPERATIONS

	1979	1978
Passengers carried:		
Mainline	**3,299,023**	2,775,352
International charter	**29,770**	102,514
Domestic charter	**312,851**	231,696
Passenger miles flown:		
Mainline	**845,535,560**	728,352,166
International charter	**103,280,325**	366,583,018
Domestic charter	**396,452,373**	279,348,671
Cargo ton miles flown:		
Mainline	**16,625,802**	14,858,873
Domestic charter (excluding Hercules)	**4,794,790**	6,613,717
Hercules	**17,988,807**	15,868,384
Aircraft miles flown:		
Mainline	**15,434,905**	13,604,184
International charter (excluding Hercules)	**649,570**	2,757,993
Domestic charter (excluding Hercules)	**4,938,240**	3,764,159
Hercules	**1,685,815**	1,573,354






WESTERN


BOSS


Resolute
Inuvik
NORTHWEST TERRITORIES
YUKON
Norman Wells
Cambridge Bay
Whitehorse
Fort Simpson
Yellowknife
Hay River
BRITISH COLUMBIA
Fort Smith
High Level
Prince Rupert
Uranium City
Sandspit
Terrace
Smithers
Fort Chipewyan
HUDSON BA
Dawson Creek
Peace River
MANITOBA
Churchill
Fort McMurray
PACIFIC OCEAN
Prince George
Lynn Lake
Quesnel
Gillam
Port Hardy
ALBERTA
Thompson
Vancouver Island
Williams Lake
SASKATCHEWAN
Edmonton
Powell River
Flin Flon
Campbell River
Kamloops
The Pas
Comox
Vernon
Kelowna
Calgary
Vancouver
Saskatoon
Victoria
Nelson
Penticton
Grand Forks
Trail
Kimberley
Castlegar
Cranbrook
Seattle
Regina
Winnipeg
UNITED STATES

Report of the President and Chief Executive Officer

It gives me pleasure to submit herewith the Annual Report for the twelve month period ending December 31, 1979.

Financial

Record net earnings of $12.8 million were achieved in 1979 compared with $8.4 million in 1978. Included in these figures were gains on sale of property and equipment of $3.8 million in 1979 and $2.9 million in 1978.

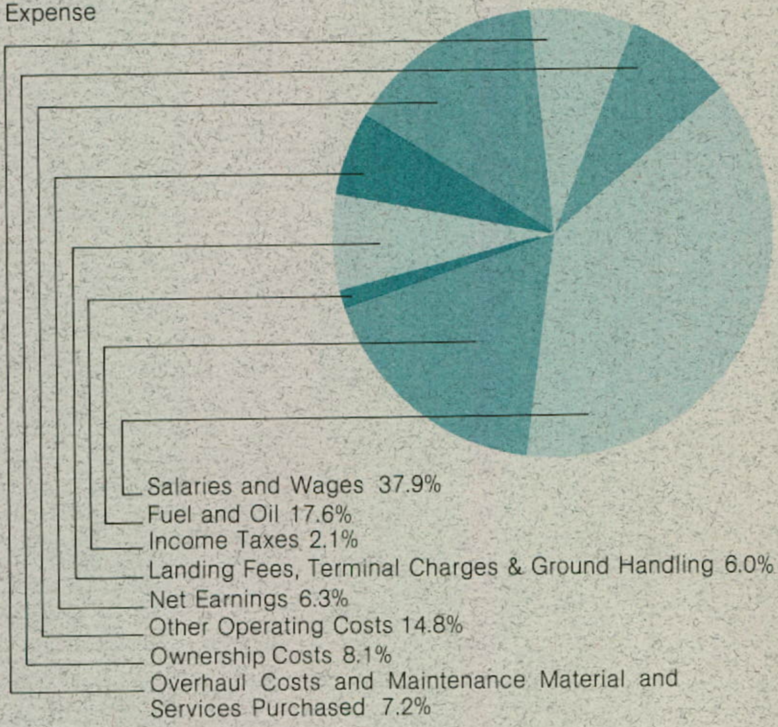
Net earnings per common share amounted to $4.62 compared to $3.24 in 1978. As a percentage of total operating revenue, net earnings represented 6.3% in 1979 and 4.9% in 1978. Operating income represented 8.5% return on invested capital in 1979 and 9.9% in 1978.

Operating revenues climbed 17.2% from $173.1 million in 1978 to $202.8 million in 1979. The results of the Transair Division of Pacific Western were included for the full year while in 1978 they were included for only the last eight months of the year.

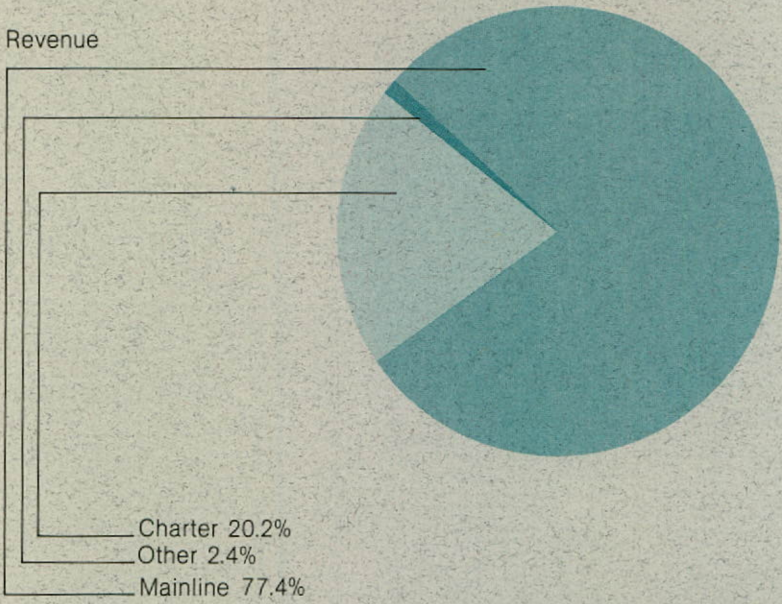
Operating expenses increased by 17.5% to $189.1 million in 1979 compared to $160.9 million in the prior year.

Dollar Distribution 1979

Expense



Revenue



Transair Windup

On August 8, 1979, the Air Transport Committee of the Canadian Transport Commission approved the proposal filed March 19, 1979, to permit corporate steps to be taken to formally merge the two airlines.

A plan of arrangement was approved by Transair common shareholders on October 29, 1979, which was subsequently sanctioned by court order on November 6, 1979, whereby Transair Limited became a wholly-owned subsidiary of Pacific Western (Alberta) Ltd. on November 29, 1979.

Transair's operations and licences were transferred to Pacific Western Airlines Ltd. effective December 1, 1979, with the remaining assets being acquired by Pacific Western (Alberta) Ltd. on December 31, 1979. Transair's three B737 aircraft were leased on that date by the parent airline.

A special Transair shareholders' resolution dated December 28, 1979, authorized the liquidation and dissolution of Transair Limited. A general meeting of creditors was held February 4, 1980, to enable the dissolution of Transair Limited, to be completed by the end of 1980.

A decision was reached during the year to sell the helicopter subsidiary of Transair Limited to its employees. This transaction was approved by the Canadian Transport Commission on January 18, 1980. Approximately 17 employees are now the full owners of what should be a very promising venture for them.

Current Route Applications

With the former Transair operations now being a part of Pacific Western's system, the company now serves 50 points in the four western provinces, the Yukon, and the Northwest Territories in addition to Seattle in the State of Washington. A number of applications were filed during the year with the intent of making our western route network as complete and convenient as possible for our passengers.

Applications to permit non-stop flights between Calgary/ Edmonton and Vancouver were filed in an attempt to accommodate the many passengers who are presently using our mandatory one-stop operations between these points. Applications were filed to serve Whitehorse from Vancouver, Edmonton and Dawson Creek. Whitehorse is one of the last major northern centres not conveniently tied to our western route network. We anticipate that the Air Transport Committee of the Canadian Transport Commission will deal with these applications in the near term.

Our hopes to serve Cold Lake and Lethbridge, Alberta were daunted when the Air Transport Committee denied our applications to serve these points. Service to Lethbridge had been a long standing objective of Pacific Western, since Air Canada relinquished service to this point in 1970. The proposed service to Cold Lake was intended to accommodate the traffic associated with the construction of heavy oil plants in the area. The company is presently considering its future prospects of serving Cold Lake.

An application to serve Prince George from Vancouver by direct flights originally filed in November, 1976, was granted September 24, 1979. Direct service was inaugurated on October 28, 1979.

In January of 1980, an application was filed to serve Brandon, Manitoba, from both Calgary and Toronto. Our assessment of this new market area was positive and with substantial support from the Brandon community and several levels of government, the application was submitted to the Air Transport Committee.

Capital Programs

The company has on firm order nine Boeing 737's and four Boeing 767's while holding options on an additional three B737's and two B767's. These proposed acquisitions will take place from 1980 through 1984, and involve a capital outlay of approximately $450 million. In addition, hangars and equipment required to support the fleet expansion will total approximately $50 million, for a total capital program of $500 million in the next five years.

A portion of this program will be financed from the remaining proceeds of a $220 million preferred share issue which the company completed in 1978. Additional accommodation of $80 million has been arranged at favourable rates with a lending institution. The balance required will be raised from a combination of leases, debt, and cash generated from operations over the five year period.

General

During the year, three senior officers of the company retired.

Mr. R. L. Lake spent 32 years with Pacific Western and subsidiary companies, and made significant contributions to the company's progress in both the maintenance and commercial service areas.

Mr. A. J. Moul joined one of the companies that now make up the present organization in 1946. Many significant projects and operations were pioneered by Mr. Moul during his years with the company, with several of the more significant being the introduction of Hercules aircraft into northern Canada, and the pioneering of all-cargo operations on a world-wide scale for Pacific Western.

Mr. J. M. Robins came to Pacific Western in 1956 when Associated Airways Ltd. of Edmonton was acquired. A good deal of our route expansion success in the sixties can be attributed to Mr. Robins, as well as a share of the credit for the present Calgary/Edmonton Airbus concept.

We wish to acknowledge the contribution of these three individuals to the success and growth of the company.

* * *

A profit sharing plan introduced in January, 1979, for all employees, has resulted in a meaningful dividend for all participants. We believe that the plan encouraged a unified effort by all employees during the year, and assisted in improving the income from operations from $5.5 million in 1978, to $7.0 million in 1979. The plan will be continued in 1980, and we are optimistic that further improvements will result both in our service level and financial results.

Future Outlook

The future will place some very difficult but interesting challenges before airline management. Many operating costs, such as government charges, are no longer able to be effectively controlled by management. Control of fuel and associated costs has quickly slipped from the grip of the airlines, except to the extent that fuel efficiency programs can be implemented. Labour costs continue their inexorable march upward as inflation continues to erode purchasing power.

The end result of these cost pressures has to be increased fare levels. It remains uncertain as to the point at which fare levels will begin to significantly outstrip wage and price adjustments and begin affecting traffic levels. However, negative growth is not anticipated in the future, but some levelling off of the present growth curves will certainly be a reality.

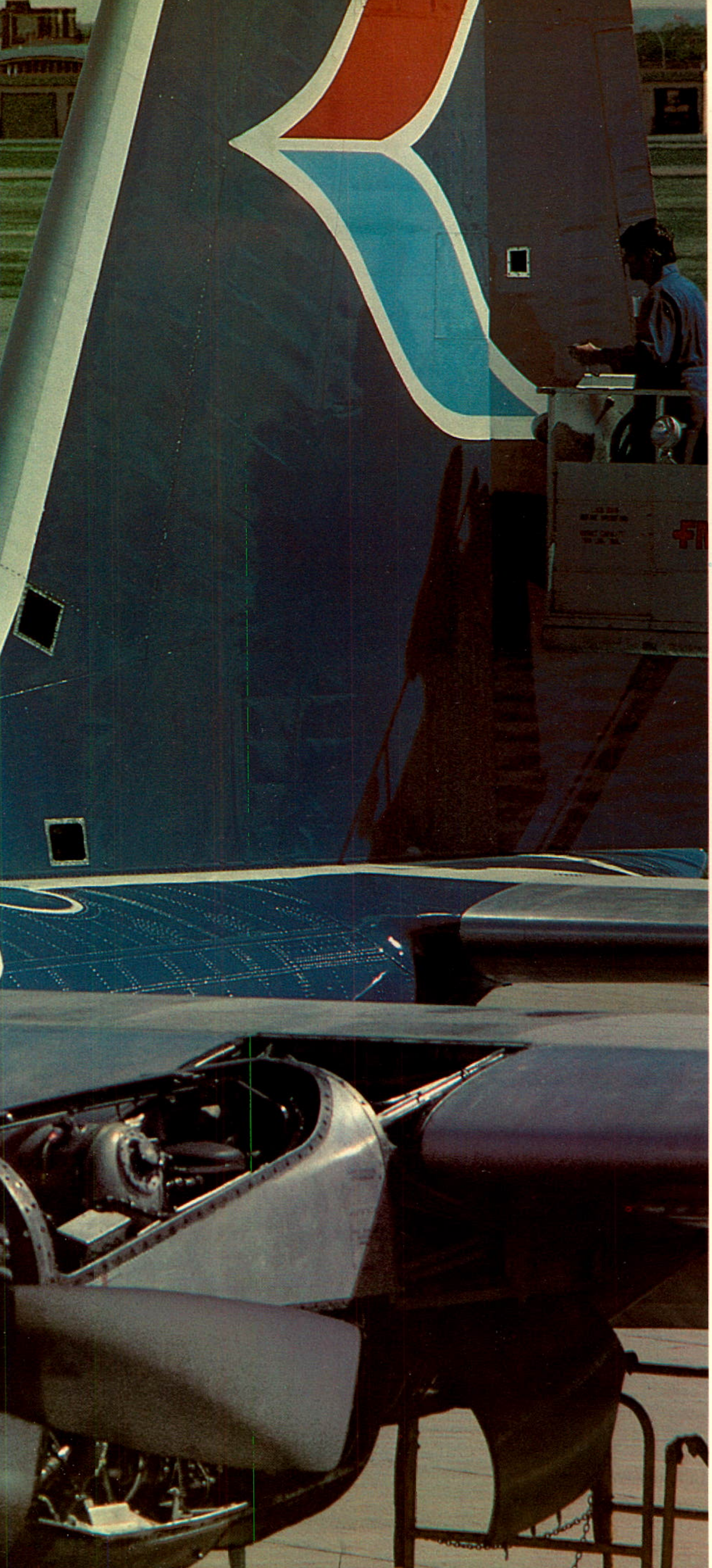
Fuel shortages could become another factor to contend with in the decade of the eighties, which would have an adverse impact on plans of all airlines. We believe that air transport will continue to be viewed as an integral and essential part of our way of life; and, should fuel allocation become necessary, that the role of air transportation will receive proper recognition.

We at Pacific Western are generally optimistic about our future prospects. The obstacles ahead should not substantially alter our profitability or growth plans — only the nature of our problems will change.

In conclusion, a special thanks to all employees for their efforts this past year.

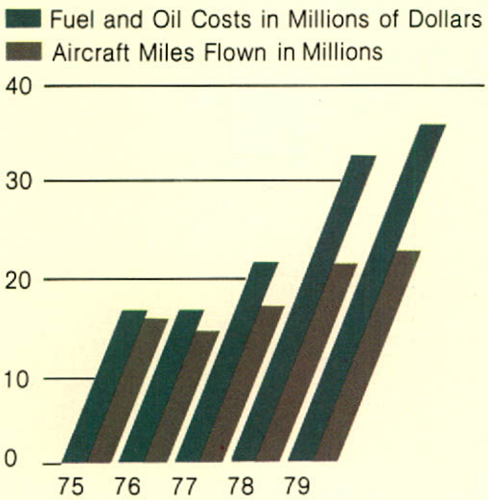
We look to further improvements in our services in 1980 and a continuation of profitability.

Rhys T. Eyton

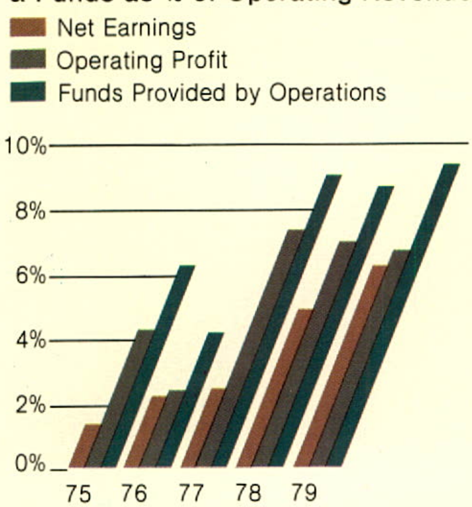


Rhys T. Eyton, President and Chief Executive Officer.

Fuel Costs vs. Aircraft Miles Flown



Net Earnings, Operating Profit & Funds as % of Operating Revenues



Report of the Executive Vice President and Chief Operating Officer

Mainline Operations

Mainline passenger revenues for 1979 were $138.9 million, an increase of $28.8 million, or 26.2% over 1978 revenues of $110.1 million.

Passengers carried on our mainline system during 1979 totalled 3.3 million, an increase of 18.9%, compared to 2.8 million passengers carried in 1978.

On February 4th of 1979, the former Transair Division of your Company ceased mainline operations east of Winnipeg, and initiated a new Prairie Service, connecting Winnipeg, Calgary and Edmonton via Regina and Saskatoon. While passengers carried on this new service fell slightly short of forecast, we remain optimistic about the future of these routes.

Northern Manitoba routes failed to meet our expectations in 1979, however, several future industrial projects including a planned hydro development at Gillam and other ventures should strengthen our revenues in the region. The Calgary-Edmonton Airbus and the B.C. Interior routes showed steady growth and exceeded forecast. A change in the service pattern on the West Coast, which resulted in additional flights to communities in the area, achieved growth beyond our projections.

During the year, a labour dispute with an air carrier operating in the Calgary-Las Vegas market, provided your Company with the opportunity of serving this transborder route, on a temporary basis. The daily non-stop flights were operated over a two week period, and allowed Pacific Western to gain valuable marketing exposure in this area.

Mainline cargo revenue in 1979 exceeded our forecast by $3.1 million over the 1978 figure of $14.9 million. This increase to $18.0 million in 1979 amounts to a growth of 20.8% for the year.

Passenger Charter Operations

Charter programs utilizing Boeing 737 mainline equipment achieved a growth of 52.3% in operating revenues over 1978. In 1979, your company derived $23.0 million from these programs, as compared to $15.1 million in 1978, including domestic,transborder and incidental charters. Included in the ITC charter program out of Western Canada were destinations such as Mazatlan, Puerto Vallarta, Acapulco and Cozumel in Mexico; Montego Bay, Jamaica; Freeport, Bahamas; Havana, Cuba; Reno and Las Vegas in Nevada; Los Angeles, California; Nashville, Tennessee; and Orlando and St. Petersburg in Florida.

Late in 1979, your Company leased an additional Boeing 737 from another carrier for six months, allowing the continuation of the extensive charter program out of Toronto. Destinations from Toronto included Cozumel, Cancun, Acapulco, and Mexico City in Mexico; Grand Cayman and West End in the Bahamas; Aruba, Antilles; and St. Petersburg, Fort Lauderdale and Orlando in Florida.

Domestic ABC programs out of Western Canada were also successful, with charter programs from Vancouver, Calgary, Edmonton and Winnipeg to Eastern Canada.

In May of 1979, your Company ceased its Boeing 707 International passenger charter operation, which contributed $4.2 million in revenue during the year, compared to $15.1 million in 1978.

Hercules and Northern Canada Resupply

Revenue from Hercules operations, excluding sub-contracted aircraft, increased by $1.0 million or 9.8% in 1979, to $11.2 million.

In late 1978, a stretched model 30 Hercules was acquired to replace an older model Dash 20 which is being held for sale, maintaining the Hercules fleet at three aircraft. During the year, this new aircraft was utilized on a three year contract with an Edmonton based company, to transport Canadian military aircraft from Germany for overhaul.

Revenues from Northern Canada resupply operations, utilizing your Company's Boeing 727, and other mixed configuration aircraft, decreased. This operation contributed $2.3 million in 1979, compared with $2.9 million in 1978.

Outside Sales and Other Income

Revenue derived from outside sales and other income for the year increased to $4.8 million, from $2.8 million in 1978.

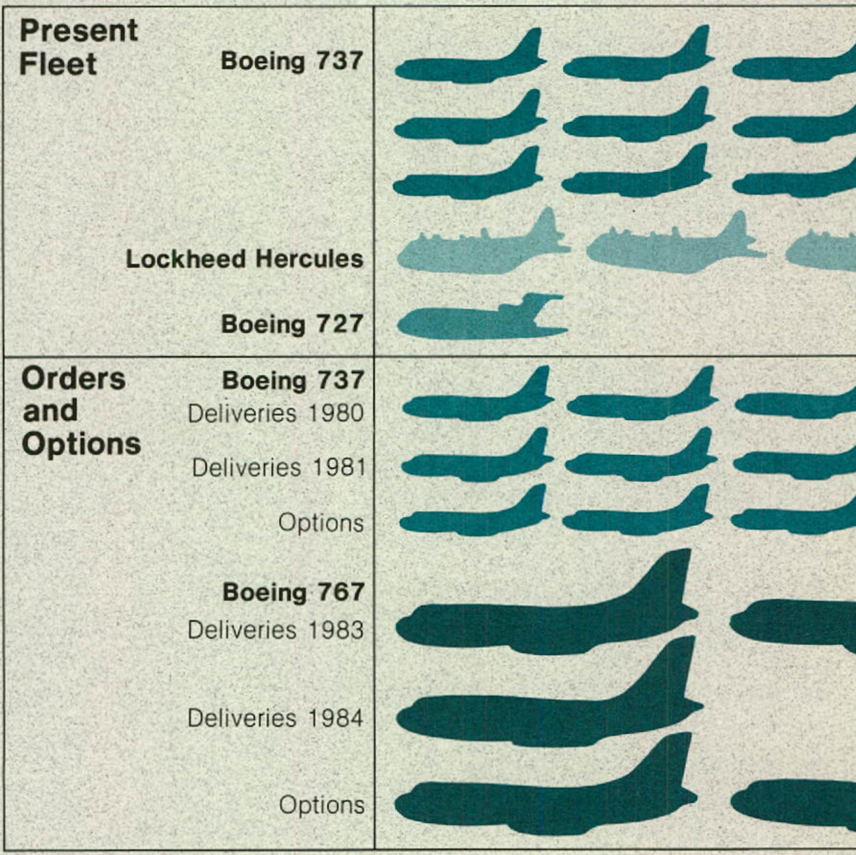
Sources of additional revenue included the flight kitchens in Edmonton and Vancouver; ground handling services provided to other carriers in Vancouver and Winnipeg; and miscellaneous maintenance and repair services. During the year, additional contracts were acquired for the training of Boeing 737 pilots. As a result, our Simulator operation in Vancouver now trains pilots for a number of airlines worldwide, providing additional revenues from outside sales.

Operating Expenses

Total operating expenses during the year increased $28.2 million to $189.1 million in 1979, compared with $160.9 million in 1978.

In 1979 wages and benefits paid to your Company's staff totalled $76.8 million or 40.6% of operating expenses, as compared to $62.7 million or 40.0% in 1978. The average number of employees in 1979 increased to 3,359 from 3,169 in 1978.

Fuel and oil expenses in 1979 amounted to $35.6 million or 18.8% of operating costs as compared to $32.1 million of 19.9% of costs in 1978. Approximately $0.9 million of the $3.5 million increase in fuel expense was due to higher



consumption, while the remaining $2.6 million was a result of increased costs. This area continued to be a vital concern to your Company, particularly in view of the escalating fuel costs expected in the future. A number of fuel conservation programs have been initiated including the purchase of fuel efficiency modification kits for delivery in 1983, for the Boeing 737 fleet. Other methods of conserving fuel are being investigated in an effort to reduce the effect of the upward price spiral.

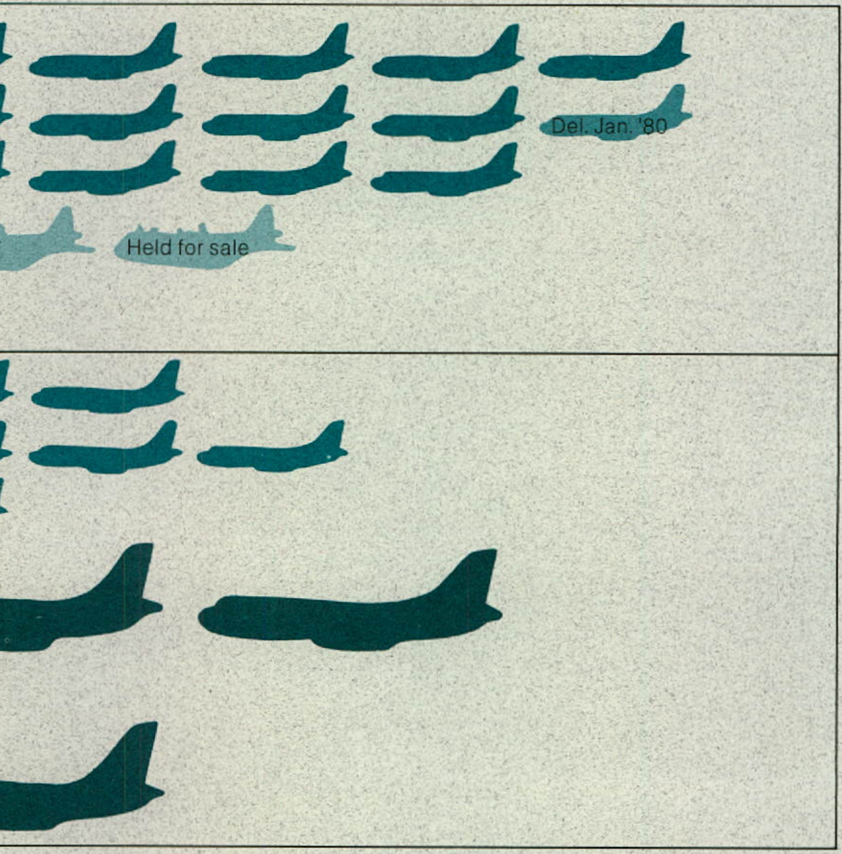
Fleet Planning

During 1979, your Company took further measures under the fleet rationalization plan adopted in the previous year.

The remaining Boeing 707 was retired, completing the Company's withdrawal from the overseas passenger charter market.

Two F-28 twin jet aircraft, and two YS-11 turbo-prop aircraft were withdrawn from service, allowing your Company to standardize its mainline fleet on the Boeing 737. Three of these aircraft were disposed of in 1979, and two in 1980.

Routes formerly serviced by these aircraft under Transair Limited are now being served by Boeing 737 equipment with the exception of those airports where this type of aircraft cannot be operated. Service to the latter destinations located in the Central Arctic is now being provided by another carrier.



In 1979, your Company took delivery of two new Boeing 737s, bringing the total Boeing 737 fleet up to 19 aircraft, including three acquired with the purchase of Transair Limited. As referred to earlier in this report, the Company entered into a six month lease for an additional Boeing 737. This lease expires at the end of April, 1980.

Your Company received its 20th Boeing 737 in January of 1980. Fleet planning for the future includes delivery of a further four aircraft in 1980, and five in 1981. Options to purchase are held on three Boeing 737s, for deliveries subsequent to 1981. Consideration is being given to the retirement of some of the Company's earlier model Boeing 737 aircraft.

As reported last year, firm orders have been placed for the delivery of four Boeing 767 aircraft in 1983 and 1984, with options held on an additional two. During 1979 your Company selected the Pratt & Whitney JT9D-7R4D engines to power the new generation Boeing 767 equipment.

Labour Relations

Approximately 80% of the Company's employees are represented by labour unions. During the 12 month period, collective agreements were finalized with the Canadian Airline Dispatch Association; the Canadian Airline Pilots Association; and the Canadian Air Line Flight Attendants Association. These organized groups now represent employees of both Pacific Western and the former Transair Limited as single bargaining units. This is considered a major step in the continuing process of merging the two companies.

Contracts were also signed with the Canadian Airline Employees Association; Pacific Western Airlines Employees' Association; the Association of Aviation Instructors and Simulator Technicians; and the Canadian Airline Employee Association Catering group.

Marketing

Over the past year, Pacific Western continued to offer the leisure traveller discounted fares, under the Company's Economizer Plan. This plan is predicated on a seat management program which allows the Company to offer discounted fares, while assuring the availability of seats for the business passenger.

The Economizer program will continue through 1980, allowing passengers to travel for 35% off regular tariffs, providing they meet certain conditions. Pacific Western was the first carrier to develop a fare plan which allowed passengers this opportunity on flights of shorter duration.

Strong efforts were made during 1979 by your Marketing Department to promote Western Canada as a holiday destination in other parts of the country through the cooperation of various Federal and Provincial agencies. Programs included winter ski holidays, and system-wide outdoor vacations in the summer months.

The marketing of Western Canadian destinations was extended to Japan in 1979, and in 1980 similar marketing efforts will be expanded to Europe. Canada is proving to be a popular vacation area due to its excellent holiday facilities and because of its economic climate.

General

The formal approval granted Pacific Western Airlines to merge the operations of Transair Limited with its own, will provide numerous operating efficiencies in the future. The restructured route network now allows aircraft and flight personnel to be utilized throughout the total system from Victoria to Winnipeg through three different time zones. Further economies are being achieved through use of common facilities for support services and maintenance. A five year contract was negotiated with Air Canada to provide reservations services for Pacific Western under a single agreement.

The decision made in 1979 to purchase the IBM-4341 computer, which will be located in Vancouver, incorporates the latest in technology and will be on stream in early 1980. The increased capacity this equipment offers will meet the Company's computer hardware requirements for the next five years. Systems to be incorporated on the IBM-4341 include a new passenger revenue accounting system, and most of the existing programs which will be transferred to the new equipment.

Corporate Image

In 1980, Pacific Western will embark upon a program to update the physical image of the airline, integrating this image throughout the system.

This will include a fresh new look in not only aircraft, airport counters, signage, and all ground equipment, but also in all visible applications.

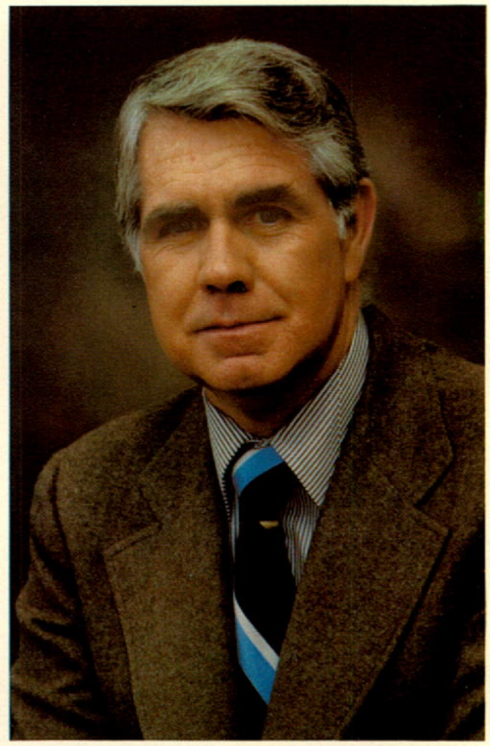
As you will note on the front cover of this report, a new color scheme has been adopted, and will be introduced on company aircraft in the near future. All aircraft deliveries in 1980 and beyond will be in the new color scheme. Existing fleet aircraft will undergo the necessary modifications in 1980 and 1981.

A cohesive image is to be maintained as the airline enters the most exciting period in its history and its visibility increases.

The Company sees the decade of the 80's as offering many opportunities and challenges. With our fleet planning through 1985 in place, the Company's management team now consolidated, and with the cooperation of the Company's dedicated and loyal employees, the opportunities and challenges will be met in a most professional and businesslike manner.

Harold D. Cope

Harold D. Cope



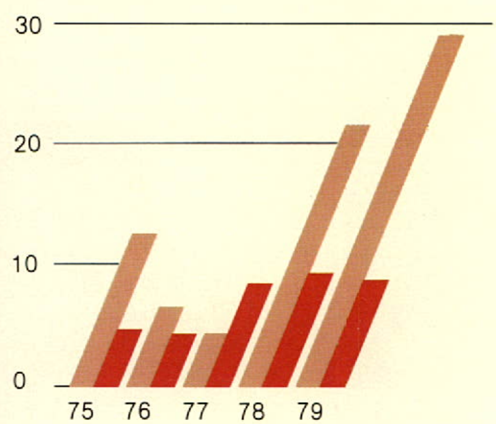
Harold D. Cope, Executive Vice President and Chief Operating Officer.

Capital Expenditure & Depreciation

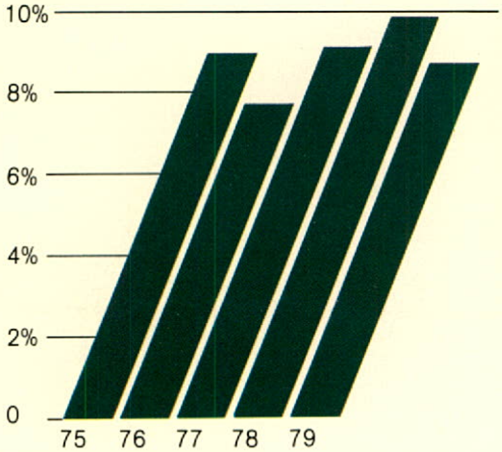
(in millions of Dollars)

Capital Expenditure

Depreciation



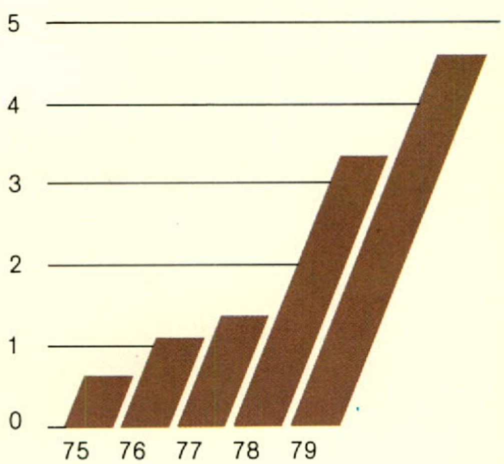
Return on Invested Capital*



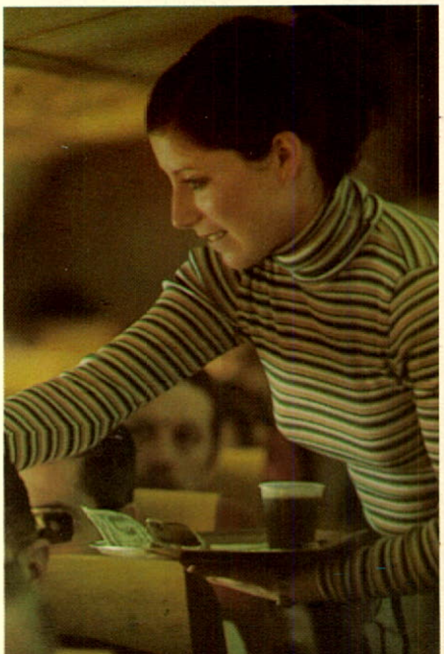
Net earnings before extraordinary items and gains on disposal of property and equipment, plus interest expenses and preferred share dividends expressed as a percentage of average investment. Investment is the sum of total assets less current liabilities excluding current portion of interest bearing debts.

Net Earnings Per Share*

Dollars



*The figures used in these graphs reflect the change in accounting policy with regard to the capitalization of aircraft leases.



Pacific Western Airlines Ltd.

Consolidated Balance Sheet

December 31, 1979 (With comparative figures for 1978)

ASSETS

	1979	1978
	$000's	$000's
Current assets:		
Cash and short-term investments	$ 46,860	35,217
Accounts receivable	24,262	18,619
Inventory of parts, materials and supplies at the lower of cost or net realizable value	5,772	5,770
Prepaid expenses and other current assets	3,450	1,158
Total current assets	80,344	60,764
Investments (Note 2)	113,254	151,979
Mortgages and leases receivable, net of current portion	2,679	1,574
Property and equipment, at cost:		
Flight equipment	161,641	155,051
Land, building and ground facilities	23,649	20,914
	185,290	175,965
Less accumulated depreciation	42,314	35,641
	142,976	140,324
Deposits on new flight equipment	24,027	4,927
Property and equipment, net	167,003	145,251
Deferred charges, at cost less amortization	449	612
Deferred income taxes	—	61
Goodwill, at cost less amortization	1,670	1,719
	$365,399	361,960

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
	$000's	$000's
Current liabilities:		
Accounts payable and accrued expenses	$ 36,982	29,682
Current portion of capital leases	6,362	5,020
Current portion of long-term debt	4,324	4,213
Unearned transportation revenue	3,646	3,551
Dividends payable	—	3,081
Deposits on equipment for sale	1,052	1,187
Total current liabilities	52,366	46,734
Long-term debt (Note 3)	14,660	23,118
Capital leases (Note 4)	29,451	35,834
Deferred income taxes	161	—
Preferred shares issued by a subsidiary company (Note 5)	220,000	220,000
Minority interests	—	309
Shareholders' equity:		
Capital stock:		
Common shares without nominal or par value. Authorized 5,000,000 shares; issued 2,770,356 shares	8,590	8,590
Retained earnings, per accompanying statement	40,171	27,375
Total shareholders' equity	48,761	35,965
Commitments (Note 7).		
	$365,399	361,960

On behalf of the Board:

R. R. McDaniel

R. R. McDANIEL, Chairman of the Board

C. W. Brazier

C. W. BRAZIER, Q. C., Director

See accompanying notes to consolidated financial statements.

Pacific Western Airlines Ltd.

Consolidated Statement of Earnings

Year ended December 31, 1979
(With comparative figures for 1978)

	1979	1978
	$000's	$000's
Operating revenues:		
Mainline:		
Passenger	$138,901	110,136
Cargo	18,014	14,924
Total mainline	156,915	125,060
Charter	41,078	45,223
Outside sales and other income	4,835	2,823
	202,828	173,106
Operating expenses:		
Flying operations	33,058	27,735
Fuel	35,634	32,067
Maintenance	28,884	26,368
Depreciation and amortization	9,359	9,503
Commercial services	61,709	50,183
Other operating expenses	20,460	15,093
Total operating expenses	189,104	160,949
Operating income	13,724	12,157
Gain on disposal of property and equipment	3,799	2,963
Interest income (expense), net (Notes 3 and 4)	15,492	(2,925)
Earnings before income taxes	33,015	12,195
Income taxes	6,360	1,320
Earnings before dividends on preferred shares of a subsidiary and minority interest	26,655	10,875
Dividends on preferred shares paid by a subsidiary and minority interest	15,876	2,893
Earnings before extraordinary item	10,779	7,982
Reduction in income taxes (Note 1(f))	2,017	465
Net earnings	$ 12,796	8,447
Earnings per common share:		
Earnings before extraordinary item	$3.89	3.06
Net earnings	$4.62	3.24

See accompanying notes to consolidated financial statements.

Pacific Western Airlines Ltd.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1979
(With comparative figures for 1978)

	1979	1978
	$000's	$000's
Funds provided by:		
Operations:		
Earnings before extraordinary item	$10,779	7,982
Add charges not requiring working capital	7,852	7,021
Funds provided by operations	18,631	15,003
Investments (1978 issue of preferred shares by a subsidiary, net of amount invested)	38,725	68,021
Disposal of equipment	20,043	8,431
Long-term debt	—	3,200
Total funds provided	77,399	94,655
Funds applied to:		
Property and equipment	28,923	21,526
Deposits on flight equipment	19,100	3,785
Long-term debt	8,480	20,910
Capital leases	6,391	7,029
Purchase of Transair Limited shares	332	5,490
Dividends	—	122
Working capital deficiency of Transair Limited at date of acquisition	—	11,986
Other, net	225	574
Total funds applied	63,451	71,422
Increase in working capital	13,948	23,233
Working capital (deficiency) at beginning of year	14,030	(9,203)
Working capital at end of year	$27,978	14,030

Pacific Western Airlines Ltd.

Consolidated Statement of Retained Earnings

December 31, 1979
(With comparative figures for 1978)

	1979	1978
	$000's	$000's
Balance at beginning of year	$27,375	19,223
Net earnings	12,796	8,447
	40,171	27,670
Cost of issuing shares in subsidiary, net of income taxes	—	173
Dividends	—	122
	—	295
Balance at end of year	$40,171	27,375

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1979

1. Accounting policies:

(a) Basis of consolidation:
The consolidated financial statements include the accounts of the company and the following subsidiaries:

Aircraft Services (Western) Limited (inactive)
Arctic Wings Limited (inactive)
B.C. Air Lines Limited (inactive)
Glenlivet Investments Limited (inactive)
Midwest Airlines Ltd.
Pacific Western (Alberta) Ltd.

All significant inter-company transactions have been eliminated on consolidation.

During the year the company and its subsidiaries purchased the remaining minority interest of Transair Limited. Subsequent to this purchase the operations of Transair Limited were sold to the company and its remaining assets were distributed to Pacific Western (Alberta) Ltd. on the winding up of Transair Limited.

(b) Conversion of foreign currencies:
Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Long-term debt payable in foreign currencies is carried at rates prevailing at dates of issue or forward exchange contract rates. Gains and losses resulting from foreign exchange conversions are reflected in the earnings for the year.

(c) Property and equipment:
Costs of repairs, renewals and replacements, including major flight equipment overhauls, are charged to earnings except for those expenditures which improve or extend the useful life of assets or which relate to pre-acquisition hours. Upon retirement or disposal of equipment, the cost and related depreciation are removed from the accounts and gain or loss, if any, is reflected in the earnings for the year.

Depreciation is provided at the following straight-line rates:

	Useful Life	Residual Value
Flight equipment:		
Jet aircraft	14 - 20 years	15%
Turbo Prop aircraft	15 - 20 years	15%
Buildings	10 - 20 years	—
Ground equipment	5 — 10 years	—

The useful life of each aircraft is subject to periodic review. In January, 1979 the company revised the estimated remaining useful life of certain aircraft and the related rotable spare parts. The effect of these changes is to increase net earnings for the year by $1,057,000.

Flight equipment includes the capitalized value of leased aircraft (see also Note 4) which have a net book value at December 31, 1979 of $41,700,000 (1978 — $44,100,000).

(d) Deferred charges:
Costs incurred in corporate re-organizations have been deferred. These costs are being amortized over five years from the date incurred.

(e) Goodwill:
While management is of the opinion that none of the recorded goodwill, which arose in prior years on acquisition of subsidiaries and routes, has diminished in value, in accordance with the recommendation of the Canadian Institute of Chartered Accountants, goodwill is being amortized over a period of forty years commencing January 1, 1974.

(f) Income taxes:
The company and its wholly-owned subsidiaries are exempt from taxation under Section 149 (l) (d) of the Income Tax Act.

Certain subsidiaries, however, are not tax exempt and accordingly these companies follow income tax allocation principles of recording income taxes based on their accounting income.

When Transair Limited was wound up on December 31, 1979, the company recognized the previously unrecorded tax benefits related to tax losses and other timing differences of this subsidiary as an extraordinary item.

2. Investments:

These funds are short-term investments intended to be used to purchase additional flight equipment and accordingly have not been included in current assets.

3. Long-term debt:

	1979	1978
	$000's	$000's
6% term loans from Export-Import Bank of United States payable in U.S. funds by semi-annual instalments to June 1985, guaranteed by certain Canadian banks who hold chattel mortgages on various aircraft. (U.S. $16,738,000; 1978 — $17,900,000)	**$17,531**	18,424
Other agreements and notes payable, bearing interest up to prime plus 1% and payable at various dates to 1981, including U.S. $455,000 (1978 — $5,864,000), secured by certain aircraft and equipment	**1,453**	8,907
	18,984	27,331
Less current portion	**4,324**	4,213
	$14,660	23,118

The effect of translating the non-current portion of U.S. debt at the current rate of exchange would be to increase the liability by $2,000,000 (1978 — $3,100,000).

Interest on long-term debt for the year ended December 31, 1979, amounted to $1,300,000 (1978 — $2,800,000).

Maturities of long-term debt for the next five years are as follows:

	1979	1978
	$000's	$000's
1979 - F-28	**$ —**	4,646
- Other	**—**	4,213
1980	**4,324**	4,172
1981	**4,302**	4,297
1982	**3,612**	3,609
1983	**3,170**	3,166
1984	**2,658**	—
	$18,066	24,103

4. Lease obligations:

Minimum lease payments due under capital leases are as follows:

	$000's
1980	$ 9,236
1981	7,474
1982	6,368
1983	5,997
1984	3,150
1985-1991	17,010
Total minimum lease payments	49,235
Less amount representing interest	13,422
Balance of obligation	35,813
Less amount due within one year	6,362
	$29,451

The amount of minimum lease payments representing interest is determined as the amount necessary to reduce future minimum lease payments to their present value discounted at the rate implied by the terms of the lease. Interest on these agreements for the year ended December 31, 1979 amounted to $3,300,000 (1978 — $3,700,000) and has been netted with interest income.

The majority of significant operating leases are renewable on an annual basis and the estimated cost over the next five years amounts to an average of $1,600,000 per annum.

5. Preferred shares issued by subsidiary:

The preferred shares issued by a subsidiary company have preferred rights on liquidation and carry a cumulative dividend variable with current bank lending rates, payable semi-annually. These shares have an annual mandatory sinking fund redemption of $16,500,000 from June 30, 1982 to June 30, 1989, inclusive and the remaining $88,000,000 are to be redeemed on June 30, 1990.

The shareholder is entitled to require redemption or the purchase by the company in certain circumstances of default or winding up of the company.

These shares are redeemable at the option of the subsidiary company on June 30, 1981, at a premium of 3%, such premium reducing annually by 1% until 1983.

6. Remuneration of directors and senior officers:

Aggregate remuneration of directors, senior officers and certain operating personnel of the company, as defined by the B.C. Companies Act, amounts to $1,069,000 for the year.

7. Commitments:

(a) The company has the following commitments relating to aircraft and spare engine purchases:

Delivery Date	Number	Aircraft Type	Estimated Cost in thousands of U.S. Dollars
1980	5	B737	$ 49,000
1981	5	B737	56,000
1983 and 1984	4	B767	162,000

In addition the company has options to purchase the following aircraft:

1982	3	B737	$ 33,000
1985	2	B767	95,000

(b) With respect to the employee pension plans, the company has an estimated unfunded commitment at December 31, 1979 of $2,900,000.

Payments in 1979 to fund this commitment amounted to $460,000 and were charged to earnings for the year.

(c) A subsidiary has executed an agreement to sell its two YS11 aircraft and related equipment and parts. This agreement will be completed and delivery will take place in February, 1980. The company also intends to sell a surplus Hercules aircraft during 1980.

(d) A subsidiary has executed an agreement effective July 1, 1979, subject to the approval of the Air Transport Committee (ATC) of the Canadian Transport Commission, to sell two helicopters, to transfer certain helicopter operating licenses and to lease eight helicopters, miscellaneous equipment and property. As the approval of the ATC was obtained in January 1980, the operations from July 1, 1979 have been excluded from the consolidated statement of earnings and the net earnings less lease payments have been included in accounts payable pending closing which is expected to take place in February 1980.

8. Prior year's comparative figures:

The 1978 figures shown for comparative purposes have been restated to conform with 1979 presentation.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Pacific Western Airlines Ltd. as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

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

Vancouver, British Columbia, Canada
February 12, 1980

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

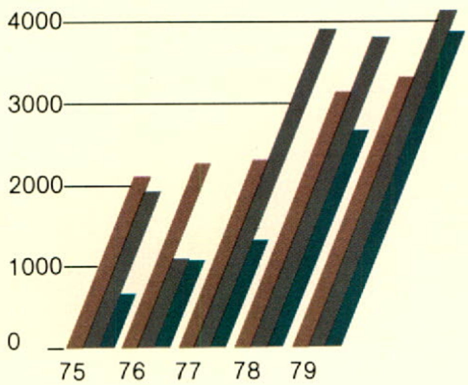
10-Year Summary

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
Financial Statistics *(all figures in thousands)*										
Total operating revenue	**202,828**	173,106	125,967	100,432	99,368	85,009	68,568	53,229	45,354	40,542
Mainline revenue	**156,915**	125,060	88,814	76,289	70,135	59,249	47,144	36,256	30,185	23,496
Mainline passenger revenue	**138,901**	110,136	77,721	65,667	60,665	51,300	40,468	30,235	25,529	19,663
Charter revenue	**41,078**	45,223	35,788	24,143	29,233	25,760	21,424	16,973	15,169	17,046
Hercules operation revenue	**11,522**	12,061	12,439	9,091	13,872	13,144	9,678	7,974	7,742	7,019
Total operating expenses	**189,104**	160,949	116,600	98,068	95,174	81,094	63,052	48,697	40,840	39,576
Depreciation and amortization	**9,359**	9,503	8,477	4,337	4,593	5,304	3,692	3,163	2,630	2,899
Operating profit	**13,724**	12,157	9,367	2,364	4,194	3,915	5,516	4,532	4,514	966
Gain (loss) on disposal of equipment (after provision for future years' income taxes)	**3,799**	2,963	378	2,178	(20)	40	36	64	(31)	(77)
Income taxes										
Current	**4,121**	723	—	—	—	—	—	—	—	—
Deferred, net	**222**	132	—	—	—	622	2,368	1,956	1,415	(132)
Dividends on preferred shares paid by a subsidiary and minority interest	**15,876**	2,893	—	—	—	—	—	—	—	—
Earnings (loss) from discontinued operation	**—**	—	—	—	(25)	22	(326)	24	(58)	(38)
Net earnings (loss)	**12,796**	8,447	3,246	2,292	1,360	1,301	1,992	2,120	1,438	(232)
Funds provided by operations	**18,631**	15,003	11,291	4,076	6,189	5,519	8,278	6,788	5,460	3,453
Equipment purchased	**28,923**	21,526	4,281	6,361	12,725	11,839	14,368	11,605	2,784	2,762
Reduction of long-term debt	**14,871**	27,939	12,268	9,295	13,925	10,422	6,834	5,748	6,690	2,736
Long-term debt	**44,111**	58,952	67,087	30,141	35,544	35,796	27,201	20,225	16,814	18,932
Total assets	**365,399**	361,960	125,422	79,183	81,777	80,040	64,694	51,565	37,746	35,748
Working capital	**27,978**	14,030	(9,203)	(2,485)	1,217	479	461	1,336	1,006	(1,225)
Shareholders' equity	**48,761**	35,965	27,814	26,560	24,390	23,152	15,388	14,342	10,002	6,637
Operating Statistics										
Mainline										
Passengers carried (000's)	**3,299**	2,775	2,308	2,038	2,047	1,858	1,625	1,195	1,037	789
Revenue passenger miles (000's)	**845,536**	728,352	543,318	486,320	480,651	447,076	400,417	305,086	256,452	209,007
Average passenger trip (miles)	**256**	262	235	239	235	241	246	255	247	265
Available seat miles (000's)	**1,600,110**	1,322,118	1,012,801	972,741	961,183	863,963	693,647	569,304	549,747	364,848
Passenger load factor	**53%**	55%	54%	50%	50%	51%	54%	51%	46%	56%
Cargo carried (lbs.) (000's)	**69,249**	59,703	49,532	49,258	48,890	38,174	35,395	31,375	21,595	18,732
Cargo ton miles (000's)	**16,628**	14,859	14,413	14,468	14,832	13,365	11,983	9,779	6,326	5,554
Aircraft miles (000's)	**15,435**	13,604	10,007	9,482	10,210	10,101	9,272	7,858	6,922	6,065
Charter										
Hercules — Cargo carried (lbs.) (000's)	**97,925**	125,944	115,176	82,272	119,912	114,626	137,153	140,442	94,137	76,918
Cargo ton miles (000's)	**17,989**	15,868	20,050	18,168	21,818	21,134	19,409	23,013	20,413	18,924
Aircraft miles (000's)	**1,686**	1,573	1,913	1,708	2,207	2,269	2,042	2,521	2,050	1,992
Other — Passengers carried (000's)	**343**	334	232	154	101	98	87	67	77	98
Revenue passenger miles (000's)	**499,733**	645,932	533,438	318,109	215,279	223,183	220,563	186,918	204,692	321,518
Average passenger trip (miles)	**1,457**	1,934	2,299	2,066	2,131	2,277	2,535	2,790	2,658	3,281
Cargo carried (lbs.) (000's)	**6,528**	9,533	7,161	7,538	17,143	16,243	20,557	9,834	3,816	4,112
Cargo ton miles (000's)	**4,795**	6,614	5,528	7,171	29,387	28,974	24,919	9,008	2,918	2,117
Aircraft miles (000's)	**5,588**	6,522	5,083	3,559	3,458	3,208	3,612	2,812	2,470	3,454
Weighted average B737 daily block hour utilization	**9.3**	8.1	7.5	7.1	7.2	7.6	8.2	8.0	8.1	7.7
Personnel at year end	**3,517**	3,201	2,426	2,282	2,141	2,298	1,862	1,697	1,354	1,341

Note:
Where practical, all figures have been restated to conform to current accounting policies and presentation. It was not practical to restate the effect of the capitalization of aircraft leases for the years 1970 - 1976.

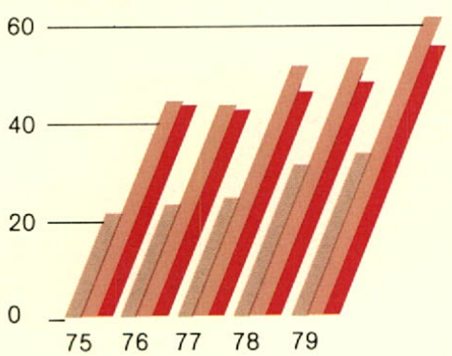
Operating Profit vs. Net Earnings Per Employee

Average Staff Employed
Operating Profit per Employee (dollars)
Net Earnings per Employee (dollars)



Employee Productivity

Average Staff Level (00's)
Revenue Generated Per Employee (000's of Dollars)
Operating Cost per Employee (000's of Dollars)



Pacific Western Airlines Ltd.

Officers

R. R. McDANIEL, *Chairman of the Board*
R. T. EYTON, *President & Chief Executive Officer*
H. D. COPE, *Executive Vice President & Chief Operating Officer*
D. F. GRANGER, *Senior Vice President Finance & Secretary*
A. C. CAMPBELL, *Vice President, In-Flight Services & Catering*
G. J. COOKE, *Vice President, Western Region*
A. W. CORBETT, *Vice President, Administration*
W. DOBIN, *Vice President, Technical Services*
K. FRANSBERGEN, *Vice President, Flight Operations*
K. E. GRAY, *Vice President, Central Region*
D. R. JACOX, *Vice President, Public & Industry Affairs*
E. E. PEZZOT, *Vice President, Eastern Region*
M. SIGLER, *Vice President, Legal & Regulatory Affairs and Assistant Secretary*
J. V. R. WARK, *Controller*
R. W. BENALLICK, *Treasurer*

Registered Office

Vancouver International Airport Central
Vancouver, B.C.

Head Office and Executive Offices

Suite 700
700 - 2nd Street S.W.
Calgary, Alberta

Registrar and Transfer Agent

Montreal Trust Company
Vancouver, B.C.; Edmonton, Alberta

Bankers

Canadian Imperial Bank of Commerce
The Mercantile Bank of Canada

Shareholders' Auditors

Peat, Marwick, Mitchell & Co.
Vancouver, B.C.

Subsidiary Companies (Wholly-owned or controlled)

Pacific Western (Alberta) Ltd.
Transair Limited
Midwest Airlines Ltd.
B. C. Airlines Limited
Arctic Wings Limited
Aircraft Services (Western) Limited
Glenlivet Investments Limited

Pacific
Western

ALCRAFT CALGARY
LITHOGRAPHED IN CANADA