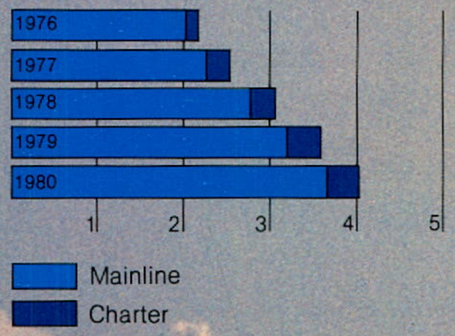
Pacific Western

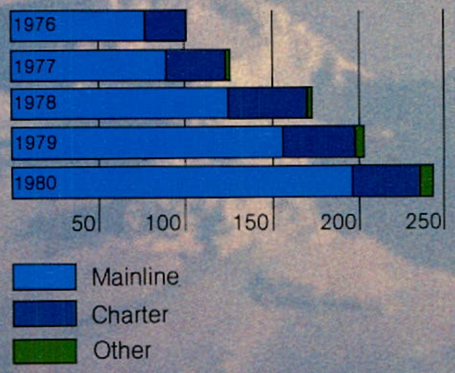
Annual Report 1980

Table of Contents

Passengers Carried in millions



Revenues in millions of dollars



1980 in Brief

FINANCIAL (in thousands of dollars)	**1980**	1979
Operating revenue	**$242,900**	$202,828
Operating expense	**223,524**	189,104
Operating income	**19,376**	13,724
Net earnings for the year	**12,236**	12,796
Funds provided by operations	**29,097**	18,631
Weighted average number of common shares issued	**2,770,356**	2,770,356
Earnings per common share:		
Earnings before extraordinary item	**$4.42**	$3.89
Net earnings	**$4.42**	$4.62
Cash flow per common share	**$10.50**	$6.73

OPERATIONS		
Passengers carried:		
Mainline	**3,658,881**	3,299,023
Charter	**359,832**	342,621
Passenger miles flown:		
Mainline	**926,826,783**	845,535,560
Charter	**442,638,784**	499,732,698
Cargo ton miles flown:		
Mainline	**16,498,874**	16,625,802
Domestic charter (excluding Hercules)	**5,357,071**	4,794,790
Hercules	**12,975,173**	17,988,807
Aircraft miles flown:		
Mainline	**15,863,752**	15,434,905
Charter (excluding Hercules)	**5,228,933**	5,587,810
Hercules	**1,164,035**	1,685,815

Report of the President and Chief Executive Officer

I hereby submit the annual report for the twelve month period ended December 31, 1980.

Financial

Net earnings of $12.2 million were achieved in 1980. This compares with $12.8 million in 1979. The 1980 earnings include a gain on the disposal of property and equipment of $2.7 million, compared with $3.8 million included in 1979. Net income from operations before these gains improved by approximately 35% from $7.0 million in 1979 to $9.5 million this year.

Net earnings per common share amounted to $4.42, compared with $4.62 in 1979. Net earnings from operations represented a 9.1% return on invested capital in 1980 versus 8.5% in 1979. Cash flow from operations increased by 56.0% from $18.6 million to $29.1 million in 1980.

Operating revenues in 1980 totalled $242.9 million, an increase of $40.1 million or 19.8% from the $202.8 million in 1979. The operating expenses rose to $223.5 million in 1980 compared with $189.1 million in 1979, representing an increase of $34.4 million or 18.2%.

Route Development

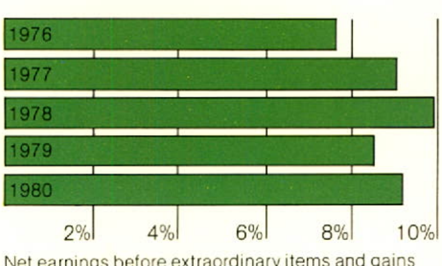
The Company has established objectives to improve scheduled service to communities within its area of operation by offering more nonstop services and by rationalizing its service pattern to best serve the actual communities of interest as they exist. Pacific Western will continue to supplement the operations of the trunk carriers in its geographic area on those east-west trunk routes which are capable of standing competition. On the other hand, we are hopeful of becoming the dominant carrier on north-south routes in Western Canada.

In line with these objectives the Company filed applications in 1980 and received regulatory approval for the following services:

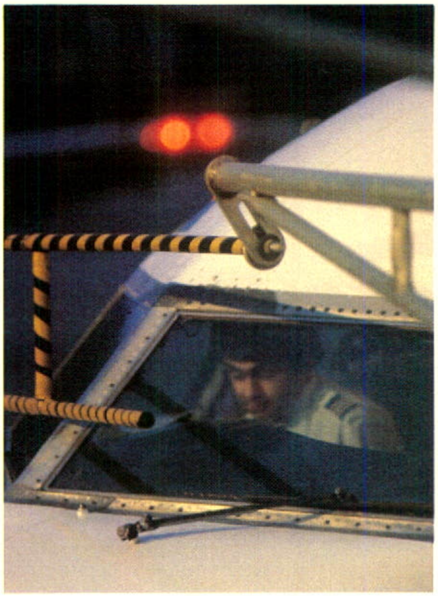
— nonstop service between Kelowna, B.C. and Victoria, B.C. to commence on April 26, 1981
— nonstop service from Calgary, Alberta and Toronto, Ontario to Brandon, Manitoba, to commence June 1, 1981
— nonstop service between Edmonton, Alberta and Whitehorse, Yukon, to commence April 26, 1981.

RHYS T. EYTON,
President & Chief Executive Officer

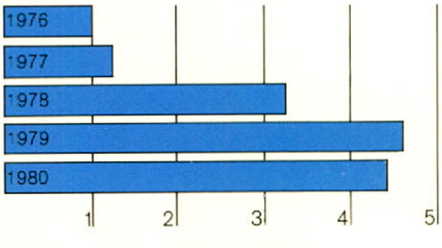
Return On Invested Capital*



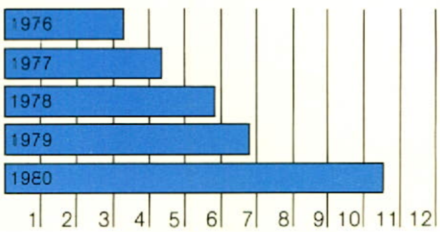
Net earnings before extraordinary items and gains on disposal of property and equipment, plus interest expenses and preferred share dividends expressed as a percentage of average investment. Investment is the sum of total assets less current liabilities excluding current portion of interest bearing debts.



Net Earnings Per Share* in Dollars



Net Cash Flow Per Share* in Dollars



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

In 1979 your Company filed applications to provide nonstop service to Vancouver, B.C. from both Edmonton and Calgary, Alberta. These applications were granted in mid-1980 with a limit on frequencies. By April of 1982 we will be permitted two round trips daily between each of the above points with an initial one frequency per day commencing in 1981.

An application filed on May 30, 1980 to serve Prince Albert, Saskatchewan, from Winnipeg and Calgary was denied by the Air Transport Committee of the Canadian Transport Commission.

On November 17, 1980, the Company filed an application to provide Boeing 737 jet service linking Lethbridge, Alberta, with the British Columbia interior and Vancouver, following a detailed market analysis carried out by the Company at the request of the City of Lethbridge. In March of 1981 this application was amended with a proposal to operate additional services over the routing Vancouver/Lethbridge/Regina/Winnipeg. The key feature of the amended application is the pricing of the east-west service for Lethbridge with off-peak discount fares. The amended application was in response to a strong request from the Lethbridge community to provide east-west jet service.

In 1980 the application to provide jet service to the community of Cold Lake, Alberta, to accommodate traffic associated with the construction of heavy oil plants in the area, was denied. The Company has appealed this decision to the Review Committee of the Canadian Transport Commission.

The new services granted to the Company in 1980 and applications presently before the Air Transport Committee will have the net effect of significantly increasing your Company's opportunities within Western Canada now and in the future.

Capital Programs

During 1980 your Company took delivery of five new Boeing 737 aircraft at a total cost of $66.0 million including spare engines.

Firm orders for five additional Boeing 737's in 1981 and four Boeing 767's in 1983 and 1984, along with hangar and support equipment including a Boeing 767 simulator, will require a further outlay totalling $400 million in the next three years.

The funding for this program will be made up from the following sources:

(1) remaining proceeds of a $220 million preferred share issue completed in 1978
(2) U.S. Export-Import Bank funds supporting the purchase of the Boeing 767 aircraft, and
(3) internal cash generation.

Options are held on five aircraft — three Boeing 737's for delivery in 1983 and 1984 and two Boeing 767's in 1985. Decisions will be reached by September of 1981 on the Boeing 737's and on the Boeing 767's by March of 1982.

A new 50,000 square foot hangar will be completed in Calgary by the time the first Boeing 767 arrives in 1983. With the number of aircraft presently overnighting in Calgary along with the additional aircraft which will originate there in future schedules, the facility will assist future maintenance planning.

The Company's Fleet Planning Committee regularly makes computer-assisted updates of future aircraft requirements. At the present time our fleet mix is considered adequate; however, such issues as fuel availability and price as well as market forces could cause us to alter our fleet composition in the future.

The Boeing 767 engineering mock up.

Last year the Company launched a major computerization expansion program with multiple operational and financial applications. This project was well under way by the end of 1980 and many of the major applications will be on stream in 1981.

Human Resources

We are very much aware that a large degree of our future success will depend upon how well we select and train our people. Accordingly, our training programs were stepped up significantly in 1980 with further strengthening in this area a high corporate priority for 1981 and beyond.

It is now estimated that the Company will require an additional 1500 people, over and above those required to fill vacancies caused by retirement and general attrition, to run the airline by the end of 1984. This will bring the total employment level from the current 3500 to 5000. The major increases will be required in technical services, flight crew and airport services. Plans are under way to ensure that we can successfully meet these staffing requirements.

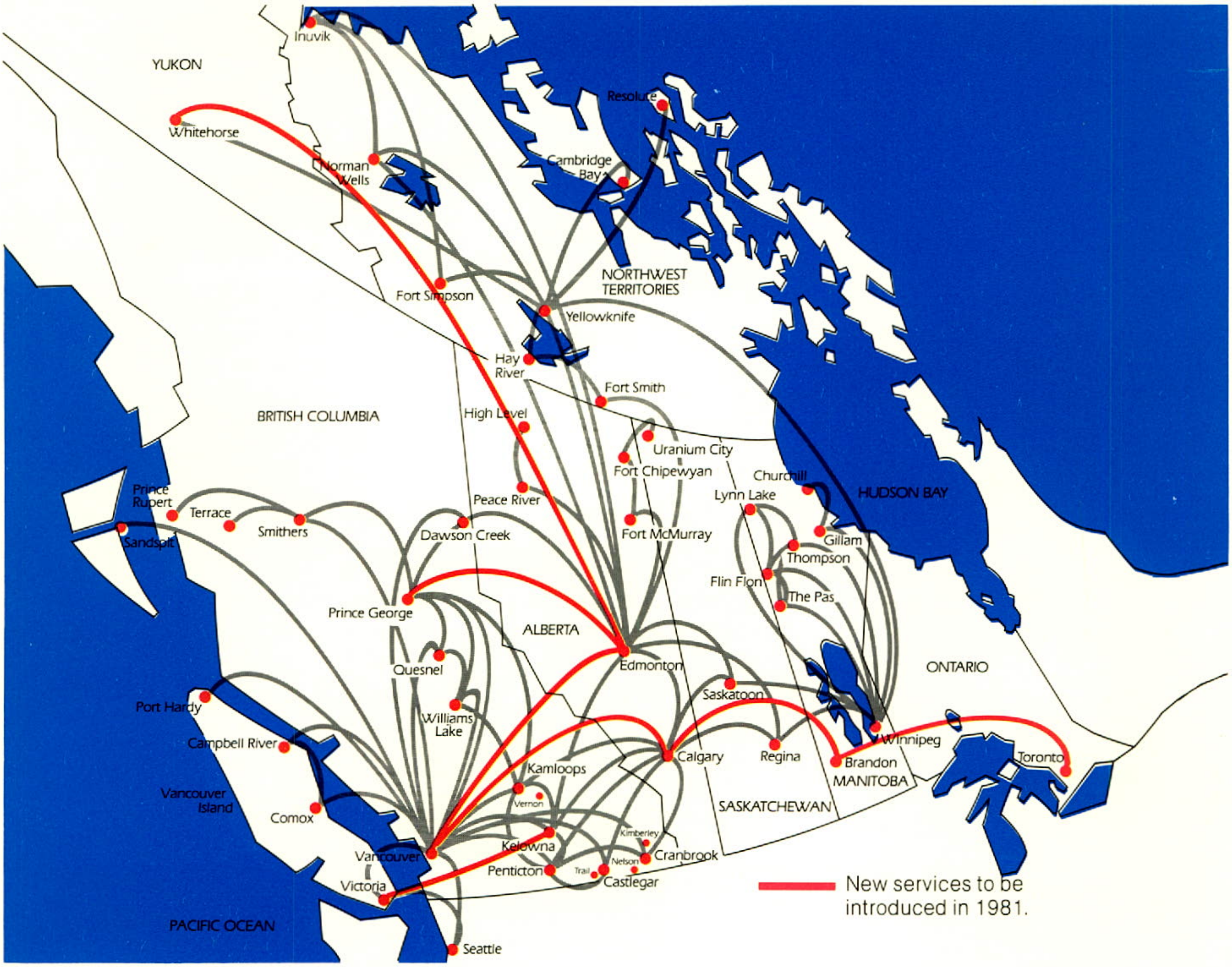
General

The profit sharing plan introduced in January of 1979 for all employees has resulted in dividends for participants again in 1980 and will be continued in 1981. We are optimistic that this plan will continue to benefit both our customers and employees.

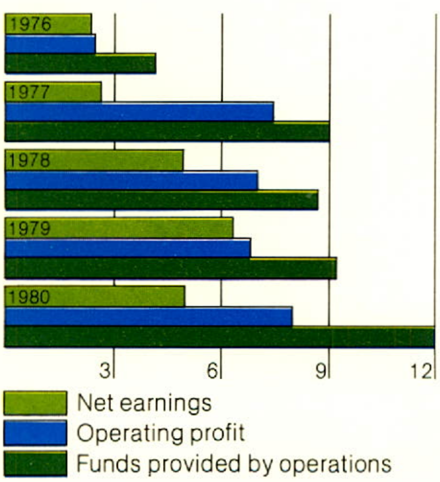
The changeover to the new corporate image is progressing as planned on an attrition basis. The second major milestone, following the paint scheme and new logo approval, was completion of the aircraft interior design. The Boeing 767 interior design is complete and an adaptation of it will be introduced on Boeing 737 aircraft beginning in April of 1981. The entire fleet will feature both the new exterior paint scheme and new interiors by the spring of 1984. New uniforms are being designed and will be introduced at the earliest possible time. The changeover in facilities at the airports and in ground equipment should be completed by the end of 1981.

It is with regret that I report the resignation of Mr. A. Hoadley Mitchell who served as Vice Chairman of the Board of Directors of your Company for 4½ years and as a Director for 5½ years. We wish to acknowledge Mr. Mitchell's

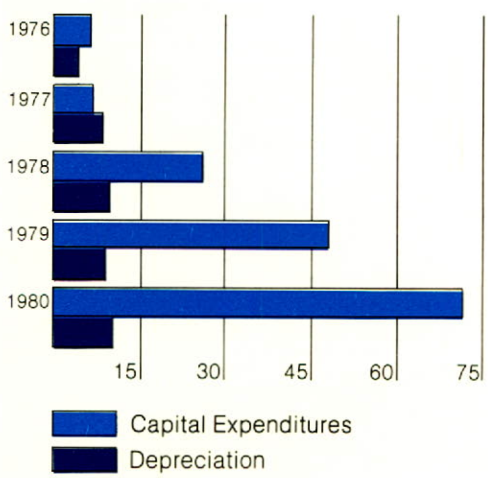
The first Boeing 767 wing assembly.



Net Earnings, Operating Profit and Funds as % of operating revenues



Capital Expenditures and Depreciation in millions of dollars



contribution to the success and growth of the Company.

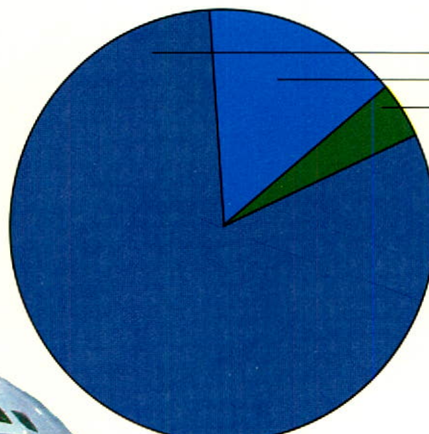
Mr. Arthur V. Mauro Q.C. of Winnipeg and Executive Vice President of the Investors Group, and Mr. Harold D. Cope, Executive Vice President and Chief Operating Officer of your Company, were appointed to the Board of Directors in 1980.

Future

We are optimistic about the future of your airline. Although uncertainty hangs over the industry with respect to fuel prices and availability we believe that your Company will be capable of adjusting when necessary.

On the other hand, we will continue to make a strong case for the importance of aviation to Canadians and the high priority that we believe should be placed on the industry's fuel supplies should restrictions become necessary in the future. It must be recognized that our industry is totally dependent, at this time, on fossil fuels and yet consumes only 4% of total oil consumed and 9% of the total oil consumed by the Transportation Industry. We are not the major consumer that many have been led to believe.

Revenue Distribution
(In thousands of dollars)



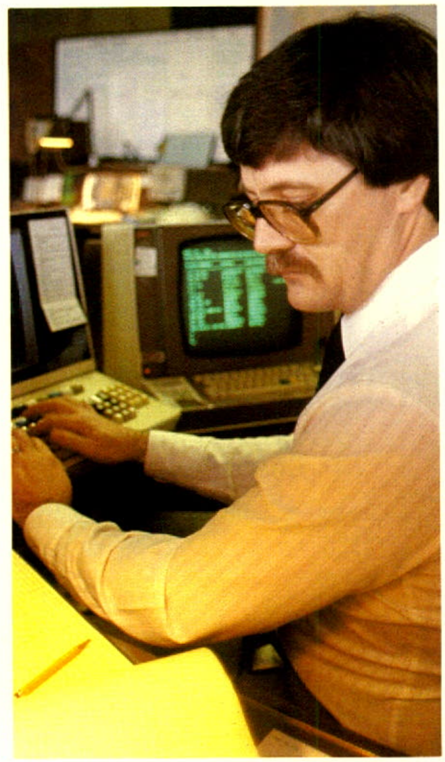
		Percent of Total
Mainline	$195,492	80.5
Charter	39,254	16.2
Other	8,154	3.3
Total	$242,900	100.0

On another issue, we recognize that productivity at all levels within our operation must receive maximum attention. In the more competitive environment we are now in, only those airlines that fully maximize productivity opportunities will remain viable.

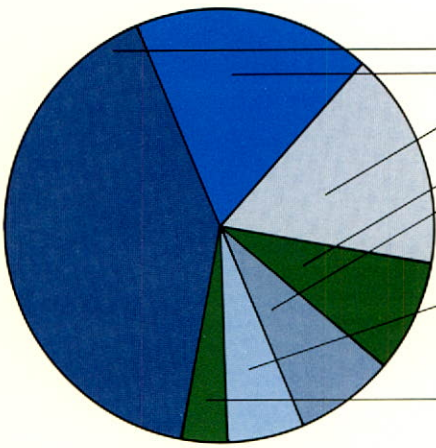
With regard to bilateral aspirations, Pacific Western hopes to be actively involved in the current round of negotiations in seeking a more significant role in the short and medium penetration services to U.S. points from Western Canada. In the meantime, our charter program is maximizing our current transborder opportunities.

In concluding, I would like to recognize our workforce as one of the finest in the industry. The Company should continue to prosper with its continued support.

Rhys T. Eyton



Expense Distribution
(In thousands of dollars)



		Percent of Total
Salaries and wages	$93,460	40.6
Fuel	42,039	18.2
Other operating costs	37,291	16.2
Ownership costs	18,250	7.9
Overhaul costs and maintenance materials and services purchased	17,872	7.7
Landing fees, terminal charges, and ground handling	13,137	5.7
Income taxes	8,615	3.7
Total	$230,664	100.0

Report of the Executive Vice President and Chief Operating Officer

Mainline Operations

Mainline passenger revenues showed a strengthening trend in 1980 over 1979 increasing $36.0 million to $174.9 million or 25.9% from the $138.9 million recorded in 1979. Revenue passenger miles increased 9.6% and passengers carried during 1980 totalled 3.7 million, an increase of 360,000 or 10.9% compared to 1979 when 3.3 million passengers were carried.

Cargo revenues continued to increase this year. Cargo miles decreased by 129,000 or .8% over 1979, cargo revenues of $20.6 million were recorded, an increase of $2.6 million or 14.3% over the 1979 figure of $18.0 million.

Revenues derived from scheduled services in the Western Region increased 30% over 1979, while passenger volumes increased 13.4%. The volume of cargo carried decreased 7.2%, due primarily to a reduction in the truck-air operation between Seattle and Vancouver.

During the year, your Company introduced Boeing 737 service to Terrace from Vancouver via Smithers. After operating non-stop between Vancouver and Prince George for one year, your Company achieved an approximate 22% share of this competitive market, and intends to increase the non-stop frequency over the route to two flights per day in 1981.

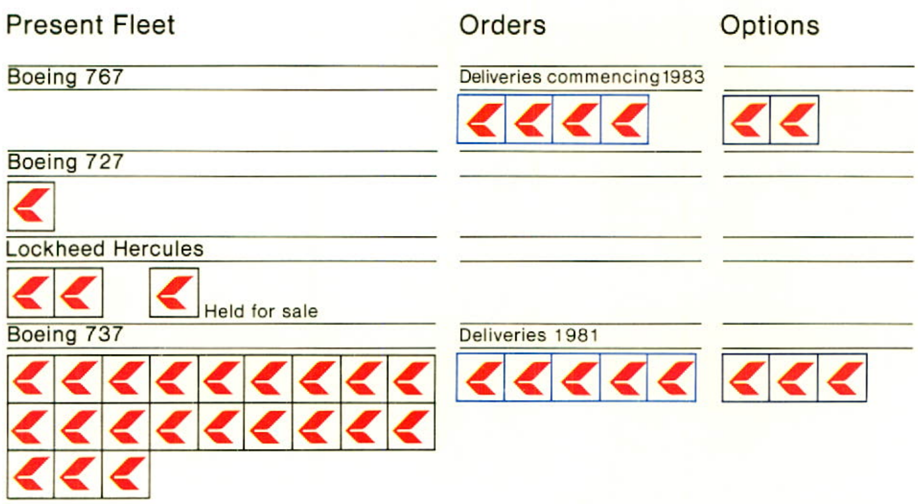
Nighthawk services between Dawson Creek/Vancouver; Vancouver/Kelowna; Edmonton/Kelowna and Vancouver/Calgary were also successful.

In the Central Region, your Company experienced a 24% revenue growth over 1979. The Calgary/Edmonton Airbus experienced a growth of 9.7% in passengers carried during 1980, while passenger traffic to Peace River increased 18.2%. There was no growth on the Edmonton/Fort McMurray route.

The Eastern Region experienced a moderate growth in passengers carried during 1980, of 8.4% over a comparable period of operation in 1979. In September of 1980, a second flight was added between Calgary/Regina and Calgary/Saskatoon.

Steady improvement to the Prairie schedule during 1980 is expected to provide an excellent base from which to work in 1981.

*HAROLD D. COPE,
Executive Vice President & Chief Operating Officer*



Passenger Charter Operations

Utilizing Boeing 737 mainline equipment, charter programs achieved a growth of 26.9% in operating revenues over 1979. Your Company derived $29.2 million from these programs in 1980, as compared to $23.0 million in 1979, including domestic, transborder and incidental charters.

During 1980 your Company carried 360,000 passengers on these various charter programs out of Western Canada and Toronto. This compares with 313,000 passengers carried on charters in 1979, an increase of 15.0%.

During 1980, your Company acquired Fifth Freedom charter rights which allow it to originate charter flights within the United States to destinations outside of Canada. As a result, we operated charters between Milwaukee and Cozumel, Mexico; Milwaukee and Montego Bay, Jamaica; and out of Chicago to Cozumel and Cancun, Mexico; Freeport in the Bahamas; and Montego Bay in Jamaica.

Included in the inclusive tour charter program out of Western Canada were destinations such as Mazatlan, Puerto Vallarta and Acapulco in Mexico; Montego Bay, Jamaica; Freeport, Bahamas; Havana, Cuba; Reno and Las Vegas in Nevada; Los Angeles and San Diego in California; Nashville, Tennessee; and Miami and Orlando in Florida.

Destinations from Toronto and Windsor included Cozumel, Cancun, Acapulco and Mexico City in Mexico; West End and Nassau in the Bahamas; Montego Bay, Jamaica; St. Croix and St. Thomas in the Virgin Islands; St. Petersburg, Fort Lauderdale and Orlando in Florida; Myrtle Beach, South Carolina; Brownsville, Texas; and Las Vegas, Nevada.

Your Company intends to retain its leading position in the Nevada market, expanding days of operation and broadening its market base.

Hercules and Northern Canada Resupply

Revenues derived from the Hercules operations decreased 30.4% from $11.5 million in 1979 to $8.0 million in 1980. During the year, two Lockheed Hercules aircraft were withdrawn from service due to a severe softening in demand for this type of specialized equipment. One of these aircraft was sold and the second is being held for sale.

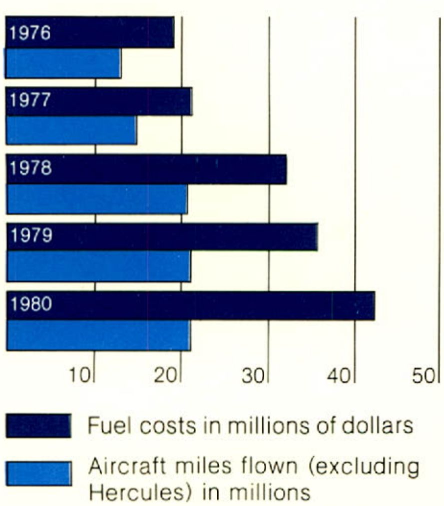
While your Company continues to operate the remaining two Hercules freighters, this operation is of concern to management and will be reviewed on an annual basis.

The various Northern Canada Boeing 727 resupply operations contributed $2.0 million to your Company's revenues in 1980, compared to $2.3 million in 1979.

Outside Sales and Other Income

Revenues derived from other income during the year amounted to $8.2 million compared with $4.8 million in 1979. This increase is attributable to two leased Boeing 737 aircraft, as well as various other sources, including ground handling services provided to other carriers in Winnipeg and Vancouver; training of Boeing 737 pilots on our simulator operation in Vancouver, and from our flight kitchens in Edmonton and Vancouver. A decision was reached to sell the catering facilities, based on a review of industry practices as

Fuel Costs vs. Aircraft Miles Flown



New aircraft interiors as selected during 1980.

well as significant expenditures required to upgrade and operate the facilities in the long term.

The catering sale will be completed in 1981 and ninety employees located in Edmonton and Vancouver have been offered employment by the purchaser.

Operating Expenses

Operating expenses continue their upward trend. In 1980, the airline's operating expenses rose to $223.5 million compared with $189.1 million in 1979, representing an increase of $34.4 million or 18.2%. Wages and benefits paid to employees amounted to $93.5 million in 1980, an increase of 21.7% from $76.8 million in 1979. During the year staff levels increased 8.4% from an average of 3,359 employees in 1979 to an average of 3,641 employees in 1980.

An area of continuing concern to your Company is that of escalating fuel costs. In 1980, fuel and oil expenditures climbed to $42.0 million, compared with $35.6 million in 1979, representing an increase of 17.9%. This increase is directly related to the increased fuel costs, as fuel consumption actually decreased slightly in 1980.

Fuel conservation programs have been entered into by your Company. Fuel efficiency modification kits for the Boeing 737 aircraft, which were originally to be installed during 1983, will now be initiated in 1981 to reduce the effect of the upward fuel price trend. Meanwhile, alternative methods of fuel conservation are being investigated.

Fleet Planning

Your Company has now consolidated its mainline equipment on the Boeing 737 aircraft. During 1980, five additional Boeing 737 aircraft were acquired, bringing the operating mainline fleet to 21 Boeing 737's at year end. An additional five Boeing 737 aircraft will be acquired during 1981 and options continue to be held on three Boeing 737's.

During the year, two Boeing 737's were placed on long-term leases. Two turboprop YS-11 aircraft which had been acquired through the Company's purchase of Transair Limited were sold.

Your Company looks forward to the delivery of the Boeing 767 aircraft. It will acquire the first Boeing 767 in March of 1983 with two other deliveries in that same year and a fourth delivery in 1984. Two Boeing 767 aircraft are held on option for delivery beyond 1984.

With the expected growth in the route structure and passengers carried, your Company continues to monitor its fleet requirements during the 1980's and beyond.

Labour Relations

During 1980 a three-year agreement was signed with the Canadian Airline Employees' Association representing approximately 1,100 employees; a twenty month agreement with the International Association of Machinists representing approximately 700 employees; and a two year agreement with the Pacific Western Airlines Employees' Association, representing approximately 300 employees. In addition, contracts were agreed upon with the Canadian Airline Dispatchers' Association; the Association of Aviation Instructors and Simulator Technicians; and the Association of Simulator Instructors. Collective agreements with the Canadian Airline Flight Attendants' Association and the Canadian Airline Pilots' Association expire during 1981. Approximately 80% of Company employees are represented by labour organizations.

General

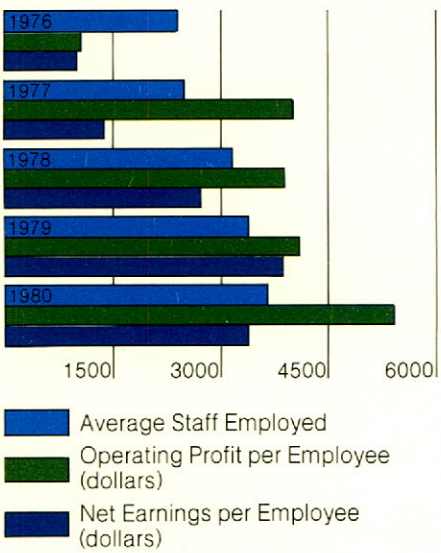
I am pleased to report that the daily utilization of aircraft continues to be high and the system stage lengths continue to increase. Very good progress is being made in our efforts to computerize operations, including the implementation of the Sceptre program which will provide your Company with a sophisticated inventory control system for its maintenance and technical services areas. Maintenance online information with respect to reliability, performance, maintenance records and production control throughout the system will be phased into this program in 1982.

Early in 1981, your Board of Directors approved the acquisition of a Redifon Boeing 767 simulator, for delivery in 1983. This equipment incorporates the latest technical advances and will place your Company among the leaders in acquiring and utilizing this type of training device. Your Company also looks forward to combining this simulator with its present Boeing 737 simulator to establish a profitable training centre. This centre will not only serve your Company's own training requirements, but will also offer increased training capabilities to the airlines of the world at one convenient location.

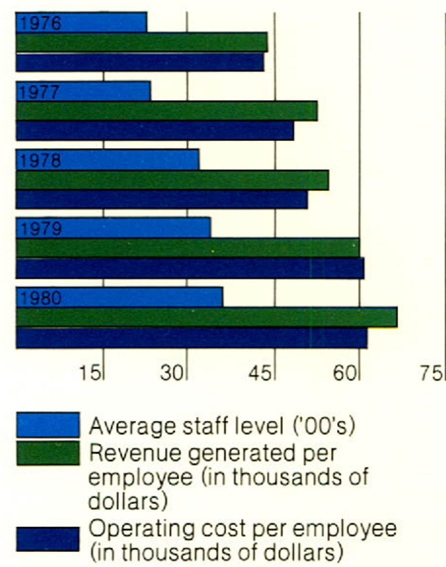
I am confident that your Company will meet the challenges of the 1980's through further technical advances in the field of computers, the expansion of staff training programs and the maximization of productivity by personnel and equipment.

Harold D. Cope

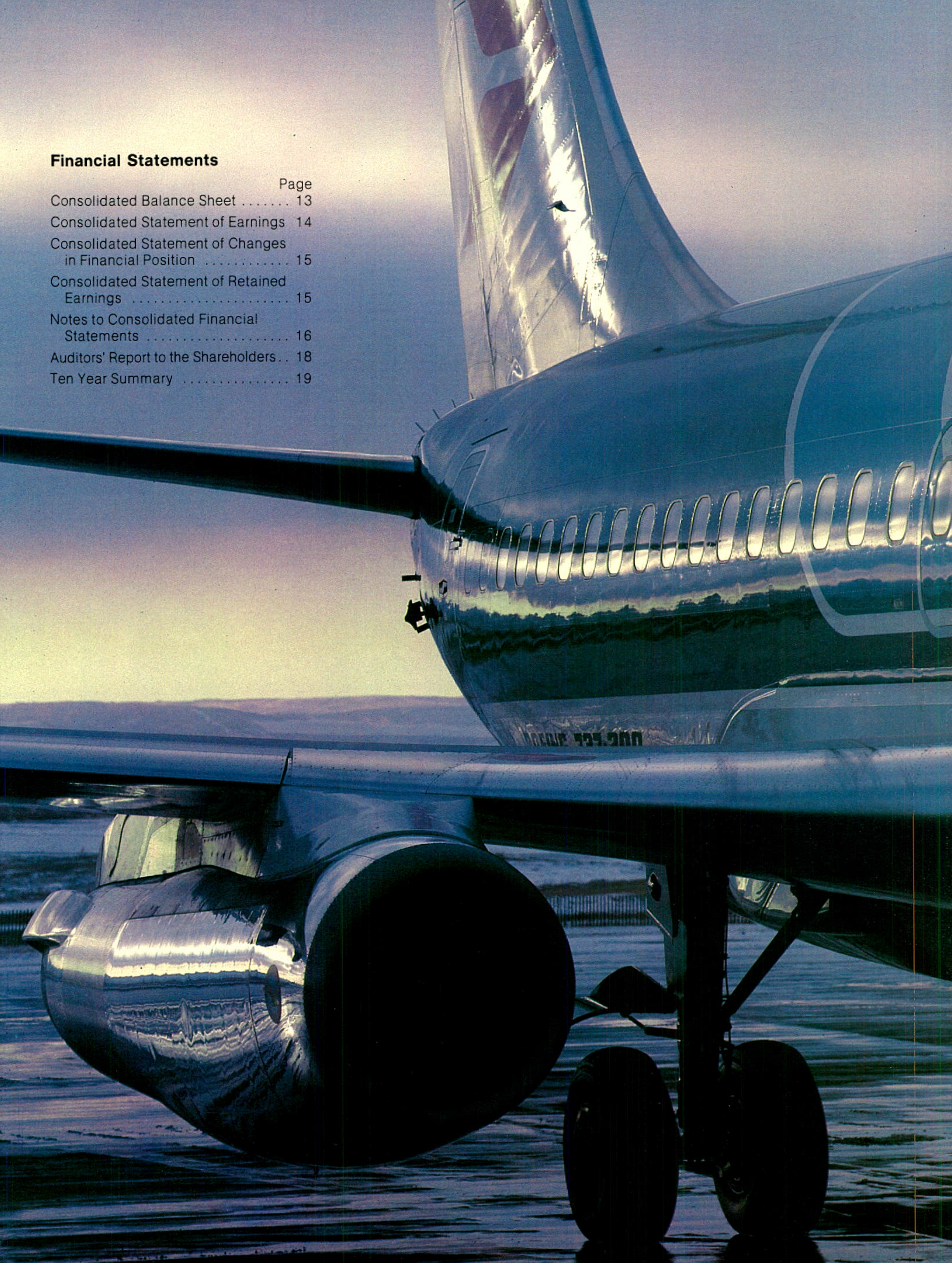
Operating Profit vs.
Net Earnings Per Employee



Employee Productivity



Financial Statements



Consolidated Balance Sheet

December 31, 1980 (With comparative figures for 1979)

ASSETS

	1980	1979
	$000's	$000's
Current assets:		
Cash and short-term deposits	$ 64,902	46,860
Accounts receivable	27,134	24,262
Inventory of parts, materials and supplies at the lower of cost or net realizable value	8,019	5,772
Prepaid expenses and other current assets	4,046	3,450
Total current assets	104,101	80,344
Investments (Note 2)	75,547	113,254
Mortgages and leases receivable, net of current portion	2,292	2,679
Property and equipment, at cost:		
Flight equipment	213,105	161,641
Land, building and ground facilities	30,016	23,649
	243,121	185,290
Less accumulated depreciation	45,202	42,314
	197,919	142,976
Deposits on new flight equipment	26,340	24,027
Property and equipment, net	224,259	167,003
Deferred charges, at cost less amortization	609	449
Goodwill, at cost less amortization	1,620	1,670
	$408,428	365,399

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980	1979
	$000's	$000's
Current liabilities:		
Accounts payable and accrued expenses	$ 37,503	38,034
Current portion of long-term debt	4,957	4,324
Current portion of capital leases	5,600	6,362
Unearned transportation revenue	6,019	3,646
Total current liabilities	54,079	52,366
Long-term debt (Note 3)	10,005	14,660
Capital leases (Note 4)	51,234	29,451
Security deposits on leased aircraft	3,207	—
Deferred income taxes	8,906	161
Preferred shares issued by a subsidiary company (Note 5)	220,000	220,000
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	52,407	40,171
Total shareholders' equity	60,997	48,761
Commitments and options (Note 7).		
	$408,428	365,399

See accompanying notes to consolidated financial statements.

On behalf of the Board:

R.R. McDaniel
Director

Director

Consolidated Statement of Earnings

Year ended December 31, 1980 (With comparative figures for 1979)

	1980	1979
	$000's	$000's
Operating revenues:		
Mainline:		
Passenger	$174,907	138,901
Cargo	20,585	18,014
Total mainline	195,492	156,915
Charter	39,254	41,078
Outside sales and other income	8,154	4,835
	242,900	202,828
Operating expenses:		
Flying operations	35,856	33,058
Fuel	42,039	35,634
Maintenance	33,778	28,884
Depreciation and amortization	10,655	9,359
Commercial services	74,494	61,709
Other operating expenses	26,702	20,460
Total operating expenses	223,524	189,104
Operating income	19,376	13,724
Gain on disposal of property and equipment	2,707	3,799
Interest income, net (Notes 3 and 4)	15,890	15,492
Earnings before income taxes	37,973	33,015
Income taxes	8,615	6,360
Earnings before dividends on preferred shares of a subsidiary	29,358	26,655
Dividends on preferred shares paid by a subsidiary	17,122	15,876
Earnings before extraordinary item	12,236	10,779
Reduction in income taxes	—	2,017
Net earnings	$ 12,236	12,796
Earnings per common share:		
Earnings before extraordinary item	$4.42	3.89
Net earnings	$4.42	4.62

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1980 (With comparative figures for 1979)

	1980	1979
	$000's	$000's
Funds provided by:		
Operations:		
Earnings before extraordinary item	**$ 12,236**	10,779
Add charges not requiring working capital	**16,861**	7,852
Funds provided by operations	**29,097**	18,631
Investments	**37,707**	38,725
Capital leases	**30,119**	—
Disposal of equipment	**7,982**	20,043
Security deposits on leased aircraft	**3,207**	—
Other	**89**	—
Total funds provided	**108,201**	77,399
Funds applied to:		
Property and equipment	**73,166**	48,023
Long-term debt	**4,655**	8,480
Capital leases	**8,336**	6,391
Other, net	**—**	557
Total funds applied	**86,157**	63,451
Increase in working capital	**22,044**	13,948
Working capital at beginning of year	**27,978**	14,030
Working capital at end of year	**$ 50,022**	27,978

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

Year ended December 31, 1980 (With comparative figures for 1979)

	1980	1979
	$000's	$000's
Balance at beginning of year	**$40,171**	27,375
Net earnings	**12,236**	12,796
Balance at end of year	**$52,407**	40,171

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1980

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 Airlines Leasing Ltd.
Pacific Western (Alberta) Ltd.
Transair Limited (inactive)
Transair (Western) Limited (inactive)

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

(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 and items of income and expense are at rates prevailing during the year. 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	—

Flight equipment includes the capitalized value of leased aircraft (see also Note 4) which have a net book value at December 31, 1980 of $62,500,000 (1979 — $41,700,000).

(d) Deferred charges:
Costs incurred in corporate reorganizations and computer systems development have been deferred and are being amortized over a period of five years.

(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(1)(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.

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:

	1980 $000's	1979 $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. $13,564,000; 1979 — $16,738,000)	**$14,483**	17,531
Other agreements and notes payable, bearing interest up to prime plus 1% and payable at various dates to 1981, including U.S. $16,000 (1979 — $455,000), secured by certain aircraft and equipment	**479**	1,453
	14,962	18,984
Less current portion	**4,957**	4,324
	$10,005	14,660

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 $1,750,000 (1979 — $2,000,000).

Interest on long-term debt for the year amounted to $1,200,000 (1979 — $1,300,000) and has been netted with interest income.

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

	1980 $000's	1979 $000's
1980	**$ —**	4,324
1981	**4,957**	4,302
1982	**3,612**	3,612
1983	**3,170**	3,170
1984	**2,650**	2,650
1985	**573**	—
	$14,962	18,058

4. Lease obligations:

Minimum lease payments due under capital leases are as follows:

	$000's
1981	$10,786
1982	9,680
1983	8,967
1984	7,163
1985	7,786
1986 - 1993	48,565
Total minimum lease payments	92,947
Less amount representing interest	36,114
Balance of obligation	56,833
Less amount due within one year	5,600
	$51,233

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 amounted to $3,400,000 (1979 — $3,300,000) 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 $1,850,000 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 from 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 British Columbia Company Act, amounts to $1,453,000 for the year.

7. **Commitments and options:**

(a) The company has estimated the following commitments relating to Boeing 737 and 767 aircraft and spare engine purchases:

Delivery Date	In thousands of U.S. Dollars
1981	$ 60,000
1983	129,000
1984	52,000

In addition the company has options to acquire additional flight equipment as follows:

1983	$ 14,000
1984	32,000
1985	110,000

(b) The company has made a commitment for new hangar construction at an estimated cost of $12,700,000.

(c) With respect to the employee pension plans, the company has an estimated unfunded commitment at December 31, 1980, of $3,800,000.

Payments in 1980 to fund this commitment amounted to $820,000 and were charged to earnings for the year.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Pacific Western Airlines Ltd. as at December 31, 1980 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, 1980 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.

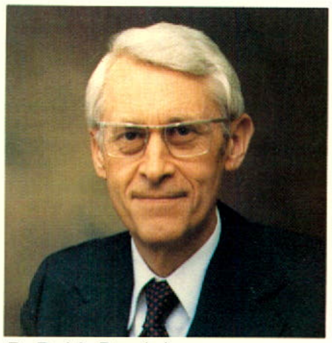
Vancouver, British Columbia, Canada
February 13, 1981

Peat, Marwick, Mitchell & Co.
Chartered Accountants

10-Year Summary

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Financial Statistics *(all figures in thousands)*										
Total operating revenue	**242,900**	202,828	173,106	125,967	100,432	99,368	85,009	68,568	53,229	45,354
Mainline Revenue	**195,492**	156,915	125,060	88,814	76,289	70,135	59,249	47,144	36,256	30,185
Mainline passenger revenue	**174,907**	138,901	110,136	77,721	65,667	60,665	51,300	40,468	30,235	25,529
Charter revenue	**39,254**	41,078	45,223	35,788	24,143	29,233	25,760	21,424	16,973	15,169
Hercules operation revenue	**8,067**	11,522	12,061	12,439	9,091	13,872	13,144	9,678	7,974	7,742
Total operating expenses	**223,524**	189,104	160,949	116,600	98,068	95,174	81,094	63,052	48,697	40,840
Depreciation and amortization	**10,655**	9,359	9,503	8,477	4,337	4,593	5,304	3,692	3,163	2,630
Operating profit	**19,376**	13,724	12,157	9,367	2,364	4,194	3,915	5,516	4,532	4,51 4
Gain (loss) on disposal of equipment (after provision for future years income taxes)	**2,707**	3,799	2,963	378	2,178	(20)	40	36	64	(31)
Income taxes										
Current	**—**	4,121	723	—	—	—	—	—	—	—
Deferred, net	**8,615**	222	132	—	—	—	622	2,368	1,956	1,415
Dividends on preferred shares paid by a subsidiary and minority interest	**17,122**	15,876	2,893	—	—	—	—	—	—	—
Earnings (loss) from discontinued operation	**—**	—	—	—	—	(25)	22	(326)	24	(58)
Net earnings (loss)	**12,236**	12,796	8,447	3,246	2,292	1,360	1,301	1,992	2,120	1,438
Funds provided by operations	**29,097**	18,631	15,003	11,291	4,076	6,189	5,519	8,278	6,788	5,460
Equipment purchased	**73,166**	48,023	21,526	4,281	6,361	12,725	11,839	14,368	11,605	2,784
Reduction of long-term debt	**12,991**	14,871	27,939	12,268	9,295	13,925	10,422	6,834	5,748	6,690
Long-term debt	**61,239**	44,111	58,952	67,087	30,141	35,544	35,796	27,201	20,225	16,814
Total assets	**408,428**	365,399	361,960	125,422	79,183	81,777	80,040	64,694	51,565	37,746
Working capital	**50,022**	27,978	14,030	(9,203)	(2,485)	1,217	479	461	1,336	1,006
Shareholders' equity	**60,997**	48,761	35,965	27,814	26,560	24,390	23,152	15,388	14,342	10,002
Operating Statistics										
Mainline										
Passengers carried (000's)	**3,659**	3,299	2,775	2,308	2,038	2,047	1,858	1,625	1,195	1,037
Revenue passenger miles (000's)	**926,827**	845,536	728,352	543,318	486,320	480,651	447,076	400,417	305,086	256,452
Average passenger trip (miles)	**253**	256	262	235	239	235	241	246	255	247
Available seat miles (000's)	**1,732,928**	1,600,110	1,322,118	1,012,801	972,741	961,183	863,963	693,647	569,304	549,747
Passenger load factor	**53%**	53%	55%	54%	50%	50%	51%	54%	51%	46%
Cargo carried (lbs.) (000's)	**64,984**	69,249	59,703	49,532	49,258	48,890	38,174	35,395	31,375	21,595
Cargo ton miles (000's)	**16,499**	16,625	14,859	14,413	14,468	14,832	13,365	11,983	9,779	6,326
Aircraft miles (000's)	**15,864**	15,435	13,604	10,007	9,482	10,210	10,101	9,272	7,858	6,922
Charter:										
Hercules — Cargo carried (lbs.) (000's)	**70,518**	97,925	125,944	115,176	82,272	119,912	114,626	137,153	140,442	94,137
Cargo ton miles (000's)	**12,975**	17,989	15,868	20,050	18,168	21,818	21,134	19,409	23,013	20,413
Aircraft miles (000's)	**1,164**	1,686	1,573	1,913	1,708	2,207	2,269	2,042	2,521	2,050
Other — Passengers carried (000's)	**360**	343	334	232	154	101	98	87	67	77
Revenue passenger miles (000's)	**442,639**	499,733	645,932	533,438	318,109	215,279	223,183	220,563	186,918	204,692
Average passenger trip (miles)	**1,230**	1,457	1,934	2,299	2,066	2,131	2,277	2,535	2,790	2,658
Cargo carried (lbs.) (000's)	**6,784**	6,528	9,533	7,161	7,538	17,143	16,243	20,557	9,834	3,816
Cargo ton miles (000's)	**5,357**	4,795	6,614	5,528	7,171	29,387	28,974	24,919	9,008	2,918
Aircraft miles (000's)	**5,229**	5,588	6,522	5,083	3,559	3,458	3,208	3,612	2,812	2,470
Weighted average B737 Daily Block Hour Utilization	**8.7**	9.3	8.1	7.5	7.1	7.2	7.6	8.2	8.0	8.1
Personnel at year end	**3,722**	3,517	3,201	2,426	2,282	2,141	2,298	1,862	1,697	1,354

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 1971 - 1976.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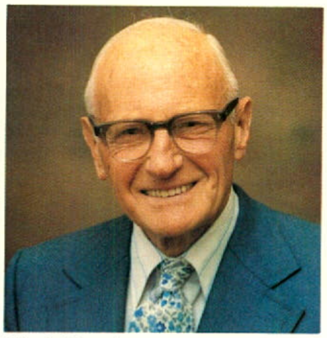
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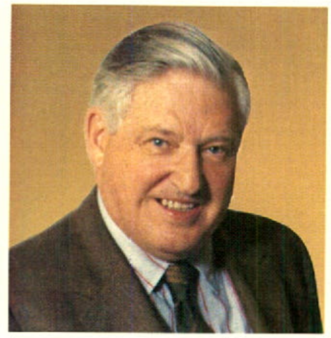
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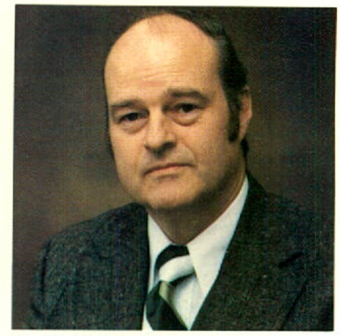
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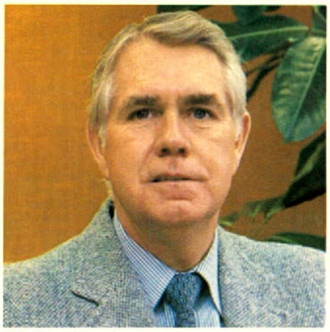
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Vancouver, B.C.

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Midwest Airlines Ltd.
B.C. Airlines Limited
Transair Limited
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