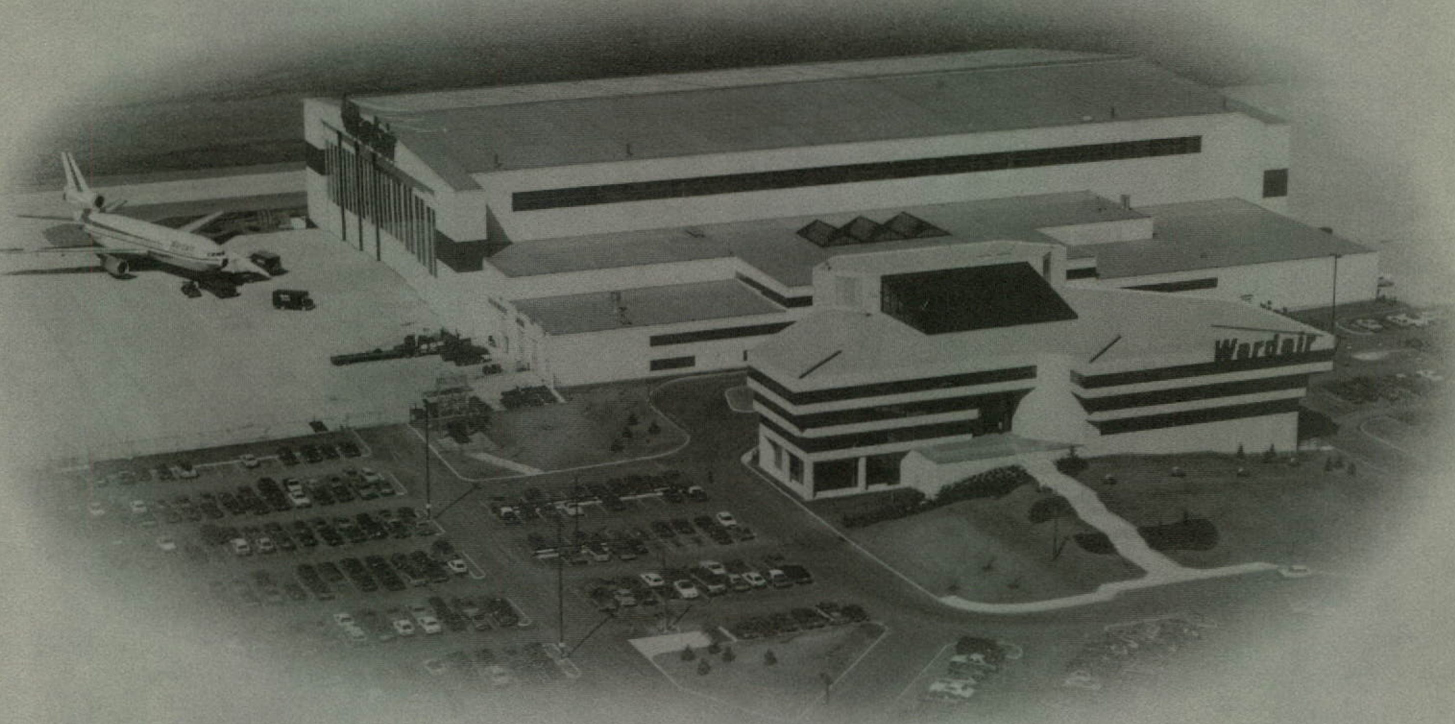
Wardair

Wardair International Ltd. Annual Report 1983



Hangar/Office Complex at Lester B. Pearson International Airport, Mississauga, Canada.

Financial Highlights (in thousands of dollars)

	1983	1982
Revenue	**$364,543**	$346,531
Operating costs, before depreciation and amortization	**313,397**	317,946
Depreciation and amortization	**24,268**	21,347
Earnings from operations	**26,878**	7,238
Interest expense	**20,705**	25,604
Government fuel surtax recovery	**–**	(7,434)
Earnings (loss) before income taxes and extraordinary item	**6,173**	(10,932)
Deferred income taxes	**9,162**	1,970
Extraordinary item	**–**	597
Loss for the year	**2,989**	13,499
Loss per share (in dollars)	**$0.89**	$4.14
Operating margin	**7.4%**	2.1%

Contents

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:00 p.m. (M.D.T.) on May 4, 1984 at the Four Seasons Hotel,
Rowand Room,
10235-101 St.,
Edmonton, Alberta

To Our Shareholders and Employees

In 1983, Wardair International Ltd. had a favourable upturn in its financial performance from the prior year's results.

The Company incurred a loss of $2,989,000 in 1983 ($0.89 per share) compared to a 1982 loss of $13,499,000 ($4.14 per share). Revenues for 1983 were $364,543,000, an increase of 5.2 percent over 1982 revenues of $346,531,000, while operating expenses decreased marginally to $337,665,000 from $339,293,000 a year earlier.

A key indicator in measuring airline financial results is operating profit (before interest and taxes). In 1982, the Company had an operating profit of $7,238,000. In 1983, the operating profit grew to $26,878,000. This significant gain was achieved largely through a combination of measures taken by the Company to increase sales and improve load factors, increase productivity and reduce overhead costs. These actions, together with a continuation of favourable international fuel prices for the year and stabilization of other non-controllable costs such as government charges, produced results that enabled us to stay within our operating plan for 1983.

In the fall of 1982, as a part of our business plan for 1983, we forecast a modest improvement in revenue and in volume of passengers to be carried. However, it was apparent that our yields, in the face of intense competition from domestic and international scheduled carriers, would not improve over those achieved in 1982.

Accordingly, we reduced our planned capacity for 1983 by cutting back on aircraft hours to be flown and thereby reduced available seat miles. We established a rigid discipline in controlling our scheduling of routes and frequencies. The results speak for themselves. In 1983, we carried 98,300 more passengers than in 1982, flying approximately the same revenue passenger miles as in 1982. This passenger volume, coupled with the reduction of available seat miles, increased our system load factor from 72.6 percent in 1982 to 80.1 percent in 1983.

Revenue from the Company's domestic advance booking program increased significantly as a result of the 62 percent growth in passengers carried from 158,700 in 1982 to 256,800 in 1983. In addition to the 1982 routes between Toronto and Edmonton/Calgary/Vancouver and between Montreal and Calgary/Vancouver, new routes were added between Toronto and Halifax and between Toronto and Saskatoon/Regina. In comparison, revenue was down from 1982 on the North Atlantic and the growth in revenues was modest in all other markets.

It is becoming very apparent domestic and international leisure air travel will be the growth market of the 1980's. Because of our concentration in that market over the years, the Company is in a solid position to reap the benefits of such growth.

In that connection, in late 1983, the Canadian Transport Commission scheduled a hearing to commence in February, 1984 on the subject of domestic and transborder fares, rates and regulations, and requested recommendations for changes with respect to national transportation policy.

Concurrently, the Minister of Transport announced he wanted a review of domestic air transportation policies and practices with a view towards achievement of low domestic rates generally and liberalization of regulations relating to access to the Canadian domestic market by carriers in order to produce more effective competition.

On February 22, 1984, Company representatives, including your Chairman, appeared before the Air Transport Committee in Ottawa and submitted recommendations with respect to air policy and regulations.

Highlights from your Chairman's presentation to the Air Transport Committee wherein the Company proposed deregulation of the Canadian air transport system were as follows:

"The reason I am recommending this fundamental change in policy is that two airlines, one government owned and the other, a part of Canada's largest conglomerate, dominate Canadian mainline domestic and international scheduled air routes. In addition, of the four regional carriers, only one – E.P.A. – is not government owned in whole or in part."

"Where parallel airline services are offered by two or more of these airlines, there is little, if any difference between scheduled economy airfares and under regulation there will never be much difference in economy airfares."

"The six scheduled airlines, through their scheduled and charter services, are forced to compete domestically and internationally against any service Wardair operates. This is the force that has produced low airfares – on city pairs operated by Wardair. This is the force that has expanded the availability of domestic discount seats many times over since 1980."

"The foundation of the Canadian scheduled airline industry has been the economy airfare – the "must ride" passenger. The source of airline revenue is changing because the consumer profile has changed. Scheduled airlines now carry more discount passengers than economy passengers. The scheduled airlines can no longer look to economy seat revenue to solve their financial problems."

"Under deregulation in the United States, the percentage growth in the discount portion of the total market has far outpaced the growth in the domestic discount portion of the Canadian market. In 1983, slightly over 50 percent of the Canadian air travel market flew at discount or deep discount fares on scheduled carriers. But, in the same year, over 75 percent of the U.S. air travel market travelled at discount and deep discount U.S. fares."

"In my opinion, deregulation will impose an incentive on each Canadian airline to operate its service more efficiently, force productivity up and get costs down. That incentive can only come from airline deregulation – that incentive can only come from the realization of both management and company personnel that they must compete to protect their jobs. Deregulation will allow airlines the freedom to innovate and to probe the market to find the best compromise between aircraft types, flight frequencies and airfares."

"One result that deregulation has accomplished in the United States is that major trunk airlines have been forced to price by product line rather than by cross-subsidization. In my opinion, the greatest success of deregulation has been to provide the consumer greatly increased availability of low cost airline seats. Competition, not government regulation, shapes the fences and the price levels."

"Mr. Chairman, Wardair has provided the Canadian public with good sound air transportation for thirty-one years. We are doing what you have expected of us, maybe a little more. Why have we been denied access to the whole market? Why should any Canadian carrier be denied access to the whole of the air transportation market after they have proven themselves? How could more airline services be detrimental to the public interest or detrimental to the national transportation system?"

Our Company would welcome the increased competition that would occur with deregulation. With the removal of present regulatory shackles, our already attained high levels of productivity and efficiency would be put to good use to ensure a continuance of reasonable fare levels to all passengers, but principally to the ever growing domestic leisure travel market. In a deregulated environment, we believe our future as one of Canada's largest air carriers would be enhanced.

We hope the government will take prompt action in removing regulatory restraints on capacity and price in the domestic and transborder air travel markets. By doing so, public interest will be better served.

As noted above, 1983 was a year of recovery for the Company. To a large degree, our employees pitched in and helped to produce the positive improvement in results. Expectations were tempered by the realities of the marketplace. For that we are grateful. It is a tribute to our personnel that they recognize despite making some short-term sacrifices in the long run they will be better off and more secure by being associated with a Company that continues to be a leader in productivity and efficiency.

With a forecasted continued moderate upturn in the economy, we are planning a return to profitability in 1984.

On Behalf of the Board of Directors,

Maxwell W. Ward

Maxwell W. Ward
Chairman and President

April 4, 1984

Review of Operations

Sales and Marketing

General

While total revenues for 1983 increased 5.2 percent, passenger air fare revenues remained essentially the same as in 1982, despite a growth of 7.1 percent in passengers carried to 1,482,200. This outcome was due to the intensive price competition experienced in all markets and to the significant shift of traffic from North Atlantic routes to shorter flight sectors on our domestic, Caribbean/Mexico and U.S.A. transborder routes.

Significant improvements were achieved in other revenue earning activities during the year. Package holiday sales more than doubled from the year previous as did our volume of air cargo business.

North Atlantic

The healthy growth trend in our European originating business received a setback during the year due, in part, to the high cost of travel to Canada caused by the strength of the Canadian dollar in terms of European currencies. Although we were able to replace some of these European passengers by offering early booking incentives to our Canadian customers, it was clear market demand would be down. Accordingly, our 1983 capacity was cut by 23 percent from a year earlier. Although we were unable to obtain the much needed fare increases because of heavy discounting triggered by operators using narrow-bodied aircraft, we did improve load factors by more than ten percentage points from the previous year.

Hawaii

Competition between scheduled and charter operators was particularly fierce during the first quarter of 1983 as the number of Canadians travelling to this destination continued to decline. The Hawaii Visitors' Bureau reported that Canadian visitors to that State during the first quarter dropped 30 percent from the previous year. In the same period, our traffic declined 7 percent, demonstrating our continued strong presence in the Hawaiian market. A return of consumer confidence during the balance of the year was quickly matched by additional scheduled airline capacity. While a small decline in traffic occurred, by successfully tailoring capacity to demand we were able to improve load factors by almost five percentage points.

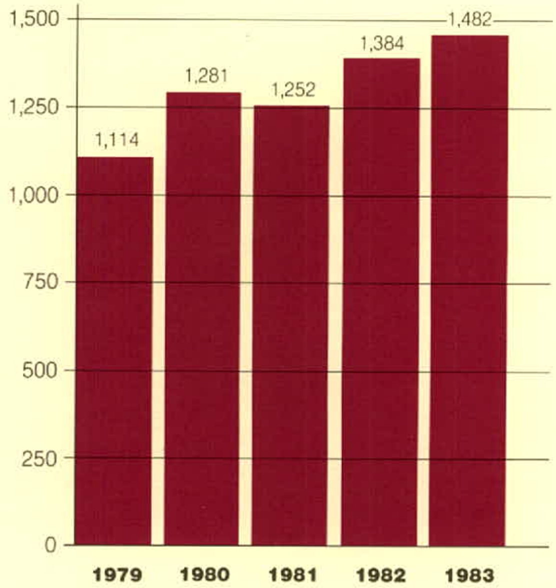
Florida and California

We continued to concentrate our Florida marketing activities on advance booking sales while working closely with major tour operators using Wardair flights in their inclusive tour packages to that State. During the 1983/84 winter season our Florida schedule was expanded to include Fort Myers.

In April 1983, Wardair announced the introduction of a Toronto

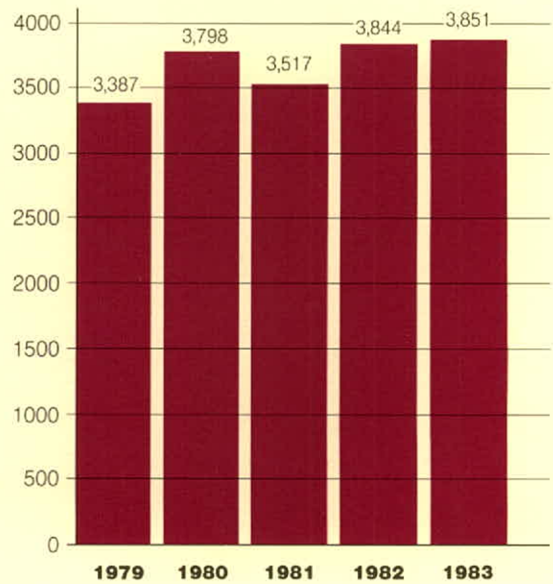
Passengers Carried

Thousands



Revenue Passenger Miles

Millions of Miles



to Los Angeles program for the summer commencing June 11. The attractive fare structure offered by Wardair was immediately matched by the scheduled airlines on that route. Nonetheless, the final load factors achieved were encouragingly high.

Caribbean and Mexico

The expansion of our package tour activity had its greatest impact in this zone because of the public's strong identification of Wardair with reasonable price and high quality. The attraction of Mexico as a winter vacation choice by Canadians continued to have appeal despite significant increases in hotel costs.

Domestic

The success of the 1982 program combined with the weakened demand on North Atlantic routes prompted the Company to add passenger capacity in 1983 on domestic routes. Capacity for the year increased by 69 percent over 1982 and full year sales in this market accounted for 12 percent of our total revenue. Our schedule was expanded to include flights between Toronto and Halifax, and between Toronto and Regina and Saskatoon. Competition was predictably strong and produced a substantial degree of fare cutting by the trunk carriers. However, we continued to experience some of our highest load factors on these routes.

Hadj

For the fourth year in a row, Wardair participated in the Hadj, the annual Moslem pilgrimage to Mecca. The 1983 program of flights between Cairo, Egypt and Jeddah, Saudi Arabia provided an important source of income to augment our revenue from traditional markets.

Cargo

In 1983, revenue from cargo operations more than doubled from the previous year. Although cargo revenue is still only one percent of total revenue, its contribution to the Company's financial position is becoming increasingly important.

The recent growth in cargo sales is principally attributable to the greater liberalization of regulations governing shipments between Canada and the United Kingdom, the increase in interline agreements between the Company and other air carriers serving Pacific Rim countries and the general increase in demand for Wardair cargo service in Canada. The growth potential for cargo operations has been enhanced with the recent approval on a trial basis of the carriage of cargo on passenger charter flights between Holland and Canada.

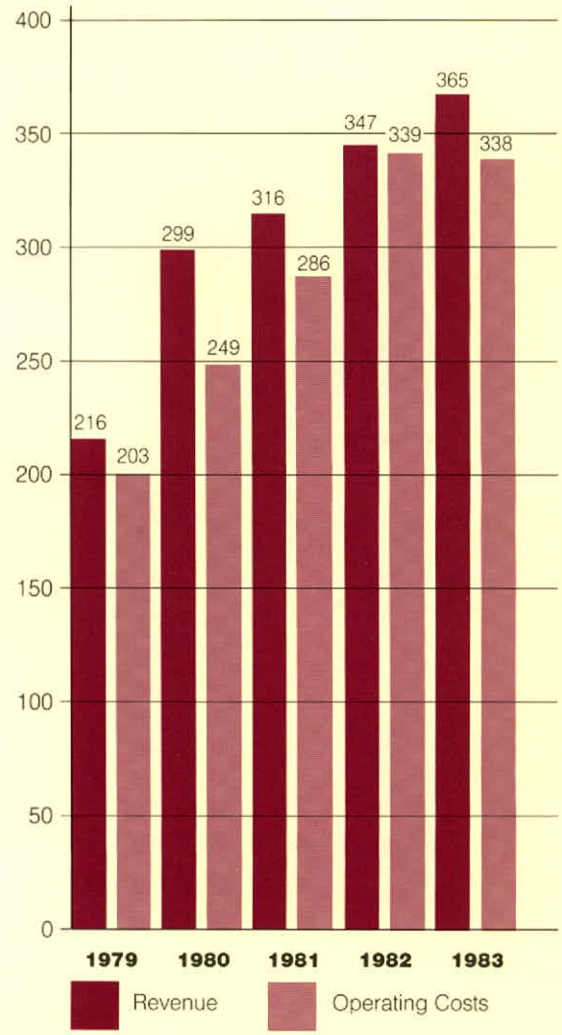
Other Operations

Wardair Hawaii, Limited

Wardair Hawaii, Limited generates its revenue from the rental of thirty-three apartments in the Waikiki Banyan and fees for the

Revenue and Operating Costs

Millions of Dollars



management of approximately 200 other units in the complex. While a loss was incurred again in 1983, management continues to believe the long term prospects for this operation are favourable in view of the recent visible increase in demand for accommodations in Honolulu.

Redrock Reinsurance Limited (Bermuda)

Redrock Reinsurance Limited, a wholly owned subsidiary of Wardair Canada Inc., had another profitable year in 1983. Managed by Insurance Managers Ltd. of Hamilton, Bermuda, Redrock reinsures certain lines of travel related insurance issued by primary underwriters, such as passenger cancellation, baggage liability, medical and accident coverages.

Contract Services

At Wardair's office and hangar complex at Lester B. Pearson International Airport, Mississauga, the Company is able to offer hangarage and maintenance services to outside parties in addition to meeting its own needs. Presently, space is being rented to L.T.A. Systems Inc., for the assembly of dirigibles in the hangar, and both hangarage and maintenance services are being provided to several air carriers.

Employee Relations

During 1983, the Company entered into collective agreements with the following employee groups:

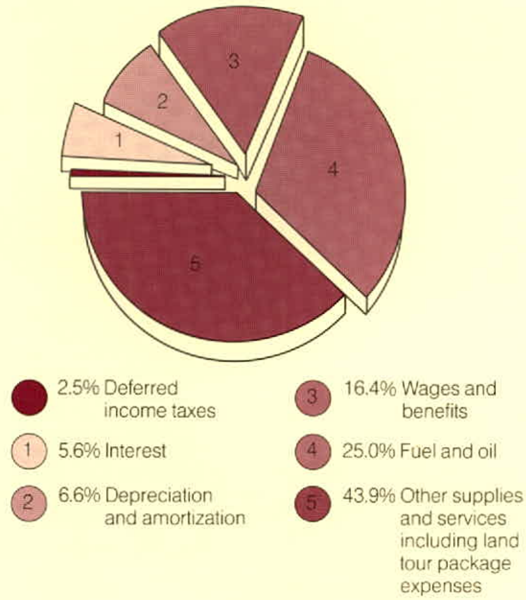
One-year agreements expiring June 30, 1984 were reached with both the Canadian Airline Supervisory and Inspection Association representing supervisory and inspection staff and the International Association of Machinists and Aerospace Workers representing maintenance, crew scheduling, commissary and flight operations employees.

An agreement expiring August 24, 1984 was reached with The Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees representing reservations, sales and clerical employees in Vancouver.

Agreements expiring in August, 1984 were also reached with the Canadian Association of Passenger Agents covering reservations employees in Toronto, Edmonton and Calgary, and our passenger services employees at Canadian airports.

On March 29th, 1984, the Company reached a tentative settlement for a twelve month contract, expiring in April, 1985, with the Canadian Air Line Flight Attendants' Association (CALFAA) which represents flight attendants. The tentative agreement will be subject to ratification by the flight attendants.

Distribution of 1983 Expenses



Consolidated Statement of Earnings

Year ended December 31, 1983

(thousands of dollars)	**1983**	1982
Revenue	**$364,543**	$346,531
Expenses		
Operating	**234,996**	245,111
Marketing and administration	**78,401**	72,835
Depreciation	**20,975**	20,418
Amortization of deferred charges	**3,293**	929
	337,665	339,293
Earnings from operations	**26,878**	7,238
Interest expense (note 5)	**20,705**	25,604
Government fuel surtax recovery (note 7)	**–**	(7,434)
	20,705	18,170
Earnings (loss) before income taxes and extraordinary item	**6,173**	(10,932)
Deferred income taxes	**9,162**	1,970
Loss before extraordinary item	**2,989**	12,902
Costs associated with previous flight equipment commitments, net of deferred income taxes of $596,000	**–**	597
Loss for the year	**$ 2,989**	$ 13,499
Loss per share (note 6)		
Loss before extraordinary item	**$0.89**	$3.96
Loss for the year	**$0.89**	$4.14

Consolidated Statement of Deficit

Year ended December 31, 1983

(thousands of dollars)	**1983**	1982
Deficit at beginning of year	**$ 21,523**	$ 8,024
Loss for the year	**2,989**	13,499
	24,512	21,523
Purchase fund for redemption of preferred shares	**300**	–
Deficit at end of year	**$ 24,212**	$ 21,523

Consolidated Balance Sheet

as at December 31, 1983

(thousands of dollars)

Assets	**1983**	1982
Current assets		
Cash and short term investments (note 2)	**$ 50,996**	$ 36,385
Accounts receivable	**4,345**	5,478
Inventories	**13,054**	13,223
Prepaid expenses	**2,843**	2,177
	71,238	57,263
Property and equipment (note 3)	**266,414**	284,101
Deferred charges (note 4)	**4,995**	7,915
	$342,647	$349,279
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	**$ 16,323**	$ 21,146
Accounts payable and accrued liabilities	**34,733**	31,484
Passenger prepayments	**38,866**	34,789
Principal due within one year on long term debt	**34,631**	15,527
	124,553	102,946
Long term debt (note 5)		
Secured income debentures	**126,541**	154,641
Other	**51,220**	57,532
Deferred income taxes	**62,586**	53,424
	364,900	368,543
Capital Stock and Deficit (note 6)		
Capital stock	**1,959**	1,959
Purchase fund for redemption of preferred shares	**–**	300
Deficit	**(24,212)**	(21,523)
	(22,253)	(19,264)
	$342,647	$349,279

Approved by the Board

Maxwell W. Ward

Director

Director

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1983

(thousands of dollars)	**1983**	1982
Funds provided from		
Operations	**$ 30,454**	$ 3,246
Change in accounts receivable, inventories, prepaid expenses and accounts payable and accrued liabilities	**3,885**	(290)
Long term borrowing	**229**	6,221
Reduction of predelivery payments on flight equipment less promissory notes applicable thereto	**—**	5,323
	34,568	14,500
Funds used for		
Additions to property and equipment	**3,301**	11,188
Repayment of long term debt	**15,537**	23,179
Increase in deferred charges	**373**	2,808
Redemption of preferred shares	**—**	300
	19,211	37,475
Increase (decrease) in funds	**15,357**	(22,975)
Funds (deficiency) at beginning of year	**(19,550)**	3,425
Funds deficiency at end of year	**$ 4,193**	$ 19,550
Comprised of:		
Cash and short term investments	**$ 50,996**	$ 36,385
Bank indebtedness	**(16,323)**	(21,146)
Passenger prepayments	**(38,866)**	(34,789)
	$ (4,193)	$(19,550)

Auditors' Report

To the Shareholders of Wardair International Ltd.

We have examined the consolidated balance sheet of Wardair International Ltd. as at December 31, 1983 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1983 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.

Thorne Riddell

Chartered Accountants

Toronto, Canada
February 17, 1984

Notes to Consolidated Financial Statements

Year ended December 31, 1983

1. Summary of significant accounting policies

(a) Consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly owned.

(b) Foreign currencies
Amounts in foreign currencies are translated to Canadian dollars on the following basis:

(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) property and equipment at exchange rates in effect at the dates of acquisition;

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

(iv) revenues and expenses (excluding depreciation and amortization which are translated at historical exchange rates) are translated at the rates in effect during the month in which the transaction occurred.

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

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

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

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

(i) aircraft and related equipment – over sixteen years to 15% residual value; and

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

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

(e) Deferred charges
Deferred charges are amortized on the straight-line method over various periods up to ten years.

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

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

(h) Comparative figures
Certain 1982 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1983. In addition, the Company has changed its definition of funds from working capital to cash and short term investments less bank indebtedness and passenger prepayments.

2. Cash and short term investments

Short term investments includes $41,657,000 set aside as segregated securities to meet passenger prepayment obligations.

3. Property and equipment

	1983	1982
	(thousands of dollars)	
Flight equipment	**$328,737**	$326,018
Land, buildings and ground equipment	**52,836**	52,320
	381,573	378,338
Less accumulated depreciation	**115,159**	94,237
	$266,414	$284,101

4. Deferred charges

	1983	1982
	(thousands of dollars)	
Reservation system development costs	**$ 3,359**	$ 3,732
Financing costs	**972**	1,466
Other	**664**	2,717
	$ 4,995	$ 7,915

5. Long term debt and bank indebtedness

(a) Secured income debentures

Under the terms of a Trust Indenture, the Series A, B, C and D Secured Income Debentures, due November 27, 1987, may be converted into secured debentures at the option of the Company or the holders, upon the occurrence of certain prescribed events. Series A, B and C are repayable in U.S. funds and Series D in Canadian funds. The Company is required to redeem specified amounts of the debentures on May 31 and November 30 in each year. Interest is payable at 52% of the lending institution's base interest rate, plus 1.5% for the 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 specific mortgages upon certain property and by a floating charge upon all other property and assets of the Company and have been further secured by limited guarantees of manufacturers and government agencies.

	1983	1982
	(thousands of dollars)	
(i) Series A Secured by two McDonnell Douglas DC-10 series 30 aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment	**$ 69,212**	$ 69,212
(ii) Series B Secured by two Boeing Model B747 series 211B aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment	**74,886**	74,886
(iii) Series C Secured by six General Electric Model CF6-50 series engines and auxiliary equipment	**5,313**	5,313
(iv) Series D Secured by ground support, tooling and commissary equipment, one Univac Model 1100/80 computer and auxiliary equipment	**5,230**	5,230
	154,641	154,641
Less principal due within one year	**28,100**	—
	$126,541	$154,641

	1983	1982
	(thousands of dollars)	
(b) Other long term debt		
(i) Conditional sales contract with interest at 8.25%, final instalment due November, 1988, payable in U.S. funds. Secured by one McDonnell Douglas DC-10 series 30 aircraft, installed General Electric Model CF6-50 series engines and auxiliary equipment	**$ 23,198**	$ 27,837
(ii) Bank term loans with interest at 1.25% above prime lending rate, final instalment due December, 1992. Secured by a mortgage on the Company's hangar and office facility, a chattel mortgage on specific aircraft and engines and by a floating charge upon all other property and assets of the Company	**20,425**	21,500
(iii) Other long term debt, including notes, term loans and purchase agreements due 1984 to 2005, secured by various charges on the assets of the Company with interest at varying fixed and floating rates	**14,128**	23,722
	57,751	73,059
Less principal due within one year	**6,531**	15,527
	$ 51,220	$ 57,532

(c) Additional information

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

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

Principal due on long term debt, in each of the years 1984 to 1988 is $34,631,000, $75,322,000, $41,309,000, $32,193,000 and $7,137,000, 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, 1983 would be $13,431,000 more than the amount at which it is recorded in the financial statements.

The Company and its subsidiaries are required to make substantial payments on long term debt in each of the next four years. New financing or the restructuring of existing financing will be required as the cash flow from operations is not expected to be adequate to meet existing scheduled debt repayments in May, 1985.

Interest expense on long term debt amounts to $19,180,000 (1982, $24,959,000) and includes interest on secured income debentures in the amount of $12,288,000 (1982, $16,323,000) which is not deductible for income tax purposes.

6. Capital stock and continuance

On October 27, 1983, the remaining 90,000 preferred shares outstanding which were held by an officer of the Company, were converted into 300,000 common shares without par value. The purchase fund for redemption of preferred shares has been credited to the deficit account.

The 1983 loss per share would amount to $0.83 had the conversion of the 12% convertible preferred shares occurred on January 1, 1983.

On December 21, 1983 the Company amended its charter and was continued under the Alberta Business Corporation Act. Thereafter the authorized capital of the Company consists of:

(i) 40,000,000 Class A non-voting shares without nominal or par value; and

(ii) 40,000,000 Class B voting shares without nominal or par value.

The previously authorized preferred shares with a par value of $10.00 each have been cancelled.

The previously authorized but unissued common shares without par value were cancelled and the previously issued and outstanding common shares without par value were reclassified into Class A non-voting shares and Class B voting shares on the basis of one Class A non-voting share and one Class B voting share for each two common shares.

After giving effect to the above transactions the issued and stated capital stock of the Company is as follows:

	(thousands of dollars)
1,793,660 Class A non-voting shares	$ 979
1,793,910 Class B voting shares	980
	$1,959

7. Transportation fuel compensation recovery charge

The application of a Transportation Fuel Compensation Recovery Charge introduced by the Federal Government in 1981 was subsequently rescinded. As a result, the 1981 accrual relating to this charge was reversed in 1982.

8. Commitments

The Company has obligations under long term operating leases for computer equipment, offices and airport facilities. The aggregate minimum rentals under these leases in each of the years 1984 to 1988 are $3,987,000, $3,828,000, $3,174,000, $2,670,000 and $1,791,000 respectively and $3,325,000 thereafter to the year 2000.

9. Segmented information

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

Revenue from sales originating in foreign countries approximated $55,000,000 in 1983 (1982, $68,000,000).

Five Year Summary

(thousands of dollars)	1983	1982	1981	1980	1979
FINANCIAL					
Revenue	**$364,543**	$346,531	$315,656	$298,776	$215,678
Operating costs	**337,665**	339,293	286,298	248,989	203,332
Earnings from operations	**26,878**	7,238	29,358	49,787	12,346
Interest expense	**20,705**	25,604	24,264	22,237	21,563
Government fuel surtax (recovery)	**–**	(7,434)	7,434	–	–
(Gain) loss on sale of aircraft and related equipment	**–**	–	(1,219)	(2,230)	(5,432)
Earnings (loss) before the undernoted	**6,173**	(10,932)	(1,121)	29,780	(3,785)
Provision for deferred income taxes	**9,162**	1,970	9,640	22,191	6,134
Extraordinary item	**–**	597	–	–	–
Net earnings (loss)	**$ (2,989)**	$ (13,499)	$ (10,761)	$ 7,589	$ (9,919)
Dividends					
Preference shares of subsidiary company	**–**	–	–	$ 3	$ 712
12% preferred	**–**	–	$ 180	180	216
Common	**–**	–	394	–	–
Total dividends	**–**	–	$ 574	$ 183	$ 928
Long term debt	**$212,392**	$227,700	$256,760	$204,714	$229,653
Preference shares of subsidiary company	**–**	–	–	–	4,670
Deferred income taxes	**62,586**	53,424	52,050	42,410	20,219
Shareholders' equity (deficiency)	**(22,253)**	(19,264)	(5,465)	6,170	(936)
Capital employed	**$252,725**	$261,860	$303,345	$253,294	$253,606
Depreciation and amortization	**$ 24,268**	$ 21,347	$ 19,846	$ 18,381	$ 17,113
Funds provided by operations	**$ 30,454**	$ 3,246	$ 24,940	$ 45,931	$ 7,896
Additions to property and equipment	**$ 3,301**	$ 11,188	$ 84,170	$ 20,619	$ 39,301
Repayment of long term debt	**$ 15,537**	$ 23,179	$ 31,984	$ 27,955	$ 17,949
Operating margin	**7.4%**	2.1%	9.3%	16.7%	5.7%
Per share data (in dollars)					
Net earnings (loss)	**$(0.89)**	$(4.14)	$(3.32)	$2.25	$(3.30)
Dividends	**–**	–	0.12	–	–
OPERATING					
Passengers carried	**1,482,200**	1,383,900	1,251,800	1,280,948	1,114,173
Revenue passenger miles (000's)	**3,851,200**	3,843,500	3,517,200	3,797,932	3,386,818
Aircraft miles (000's)	**12,365**	13,682	12,317	12,254	11,249
Aircraft hours	**26,198**	29,183	26,224	25,820	23,706
PERSONNEL					
Average number of employees	**1,992**	2,234	2,264	2,202	2,021
Employee wage and benefits (000's)	**$ 60,206**	$ 60,620	$ 55,524	$ 42,764	$ 34,052
SHARE INFORMATION (excludes preferred shares)					
Class A shares issued	**1,793,660**	–	–	–	–
Class B shares issued	**1,793,910**	–	–	–	–
Common shares issued	**–**	3,287,570	3,287,570	3,287,570	3,287,570
Total shares issued	**3,587,570**	3,287,570	3,287,570	3,287,570	3,287,570
Total shares held by Canadian residents	**99.55%**	99.53%	99.48%	99.59%	99.59%
Total number of shareholders	**1,538**	1,552	1,524	1,376	1,565

Wardair International Ltd.

Board of Directors

Maxwell W. Ward
Chairman and President, Wardair International Ltd.

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

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

G. D. Curley*
Vice-President, Operations, Wardair International Ltd.

J. N. Hyland*
Corporate Director

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

**member of audit committee*

Officers and Senior Management

Maxwell W. Ward, *Chairman and President*

T. L. Spalding, *Senior Vice-President and Chief Financial Officer*

G. D. Curley, *Vice-President, Operations*

B. Walker, *Vice-President, Sales and Marketing*

T. S. Currie, *Vice-President, Finance*

M. D. Ward, *Vice-President*

I. C. Wilkie, *Secretary-Treasurer and Director, Legal Services*

D. W. Rouse, *Executive Assistant to the President*

B. R. Corbett, *Director, Industrial Relations*

R. N. Driscoll, *Director, Tax Planning and Benefit Plans*

P. D. Ingham, *Director, Purchasing*

E. Lysyk, *Director, Corporate Security and Safety*

J. E. Murray, *Director, Internal Audit*

J. W. Ormiston, *Director, Financial Operations*

N. J. Parsons, *Director, Financial Planning and Forecasting*

J. L. Shaffer, *Director, Customer Relations and Consumer Affairs*

A. K. Willard, *Director of Personnel*

Corporate Information

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

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

Shares Listed: *Toronto Stock Exchange*
Vancouver Stock Exchange

Auditors: *Thorne Riddell*
Toronto, Ontario

Trustee: *Montreal Trust Company*

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

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

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, Sales and Marketing

T. S. Currie
Vice-President, Finance

M. D. Ward
Vice-President

I. C. Wilkie
Secretary-Treasurer

R. A. Hunter
Director of Sales, North America

P. W. Jenkins
Director, Marketing

D. B. MacKay
Director, Data Processing and Systems

S. A. Taggart
Director, Passenger Sales

Wardair (U.K.) Limited

Maxwell W. Ward
Chairman

A. I. Mayer
Managing Director

M. J. Wilson
Secretary

Wardair Hawaii, Limited

Maxwell W. Ward
President

T. L. Spalding
Vice-President, General Manager

M. D. Ward
Vice-President

I. C. Wilkie
Secretary-Treasurer

Wardair Canada Inc.

Maxwell W. Ward
President

T. L. Spalding
Executive Vice-President

G. D. Curley
Vice-President, General Manager

B. Walker
Vice-President, Sales and Marketing

A. B. Freeman
Vice-President, Flight Operations

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

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

T. S. Currie
Vice-President, Finance

M. D. Ward
Vice-President

I. C. Wilkie
Secretary-Treasurer

P. W. Bolton
Director, Cabin Services

J. V. Gordon
Director, Passenger Services

A. W. Jackman
Director, Crew Scheduling

M. J. Kozak
Director, Catering Services

Redrock Reinsurance Limited† (Bermuda)

Sir A. D. Spurling
Chairman

S. W. Kempe
Director

T. L. Spalding
Director

R. D. Spurling
Director

Wardair Equipment Ltd.

Maxwell W. Ward
President

M. D. Ward
Vice-President

R. N. Driscoll
General Manager

Wardair Holidays (Deutschland) GmbH

K. Uhlmann
Managing Director

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

B. Ubertalli
Managing Director

†Wholly-owned subsidiary of Wardair Canada Inc.