

Westar Group Ltd.

First Quarter Report



For the three months ended March 31,

1992



Westar Group
1900-1188 West Georgia Street
Vancouver, B.C. V6E 4B9
(604) 687-2600

Report to Shareholders

To Our Shareholders:

It is gratifying to report net earnings for the Company of \$2.2 million for the first quarter, compared to a loss of \$6.8 million for the first quarter of 1991. The 1991 results include an operating loss of \$7.8 million from discontinued forest products operations. The 1992 results, however, reflect only the results of Westshore Terminals, since the operating loss of \$0.8 million for the quarter from discontinued forest products operations has been deferred pending sale.

In the first quarter Westshore equalled the record throughput volume of 5.2 million tonnes achieved in the first quarter of 1991. This level of throughput may not be sustainable however, as the terminal is faced with a number of uncertainties. Negotiations of new collective agreements for the majority of Westshore's employees have proceeded to the conciliation stage and the union employees have voted in favour of a work stoppage in the event that agreement cannot be reached. Also, Fording Coal Ltd. and Westar Mining's Balmer mine, Westshore's two largest customers each representing approximately 30% of the terminal's annual volume, are experiencing labour difficulties. Fording Coal was served strike notice by its union in late April. Westar Mining proceeded with a legal lockout at the Balmer mine on May 1, after the Balmer Operations mine workers voted against Mining's final offer.

At Westar Mining, higher shipment levels during the quarter resulted in an increase in sales to \$129.2 million from \$115.9 million for the first quarter of 1991 and, combined with lower delivery and mine operating costs, reduced the quarterly net loss to \$6.4 million in 1992 from \$9.9 million in 1991. On April 30, Mining was unable to make a required \$4.7 million repayment of principal under its loan agreements and as a result Mining is in default under these agreements. Discussions aimed at a financial restructuring and a rehabilitation of the Balmer mine are continuing between Mining and its lenders and other stakeholders.

At Westar Timber, the Plateau and Carnaby sawmills operated throughout the quarter, the Eagle River

mill restarted in February and the Castlegar and Kitwanga mills remained shut down. In March, the Company announced that agreements had been reached with two prospective purchasers for the sale of its Carnaby and Kitwanga sawmills in north-western British Columbia and related forest tenures. The agreements and final arrangements are subject to approval by the Ministry of Forests. In mid-April, the Company successfully concluded the sale of the Castlegar sawmill and related woodlands operations for total proceeds of \$22.2 million. The conditions for the previously announced sale of the Eagle River sawmill at Malakwa have not yet been fulfilled.

Substantially reduced financing costs at Westar Petroleum offset lower than expected oil prices resulting in net earnings for the period of \$15,000 compared to a net loss of \$418,000 for the first quarter of 1991. On April 30, Westar Petroleum concluded an agreement with its bank lender on a financial restructuring which will substantially reduce its debt servicing costs and permit some reinvestment of cash flow. In return, the bank lender received an option to acquire a 49% equity interest in Westar Petroleum.

During the quarter Westar Group and its bank lenders reached basic agreement on the terms of a debt restructuring, however certain issues remain unresolved and, as a consequence, \$261.4 million of debt is currently due. The lenders have not demanded payment and the Company is endeavouring to resolve the remaining issues as soon as possible. (Please refer to Note 2 to the accompanying financial statements.)

Westar Group's continuing operation is dependent upon favourable resolution of the matters discussed in this report and accommodation by its lenders. The Company is confident of its ability to successfully deal with the matters over which it has control.

L.I. (Larry) Bell
President and Chief Executive Officer
May 1, 1992

Consolidated Statements of Earnings (Loss)

(Unaudited)	Three Months Ended March 31	
	1992	1991
	(Restated) (Millions)	
Revenue		
Terminal operations	\$ 27.6	\$ 28.1
Costs and expenses		
Operating costs	10.7	9.9
Selling and administrative	1.6	1.0
Depreciation and amortization	2.5	2.2
	14.8	13.1
Operating income	12.8	15.0
Financing costs	(8.3)	(13.0)
Earnings before income taxes and discontinued operations	4.5	2.0
Income taxes	2.3	1.0
Earnings from continuing operations	2.2	1.0
Loss from discontinued forest products operations (Note 1)	—	(7.8)
Net earnings (loss) for the period	\$ 2.2	\$ (6.8)
Number of outstanding Common shares	193.0	193.0
Earnings (loss) per Common share	\$ 0.01	\$ (0.04)

Note 1: On May 24, 1991, the Company announced its intention to dispose of the assets and operations that comprise its forest products operations. The assets, liabilities and operating results of the forest products operations for the current and prior periods have been restated as discontinued operations in accordance with CICA recommendations. Operating losses for the three months ended March 31, 1992 of \$0.8 million, together with \$17.1 million of losses in 1991, from May 24, 1991, have been deferred and will be offset against the expected gain on disposition.

Note 2: These interim financial statements have been prepared on the assumption that the Company will continue as a going concern, which is dependent on the favourable resolution of the following uncertainties. The maturity of a portion of the

Condensed Consolidated Balance Sheets

	March 31	Dec. 31
	1992	1991
	(Unaudited)	(Audited)
	(Millions)	
Assets		
Current	\$ 13.5	\$ 18.7
Current investment in discontinued forest products operations	120.1	114.8
Property, plant and equipment	175.5	177.7
Investments and advances	—	6.0
Deferred income taxes	0.5	2.7
	\$ 309.6	\$ 319.9
Liabilities and Shareholders' Equity		
Current	\$ 11.6	\$ 14.0
Current portion of long-term debt	138.1	127.5
Long-term debt	244.7	258.4
Minority interest (Note 3)	31.3	38.3
Shareholders' equity (deficit)		
Share capital	726.0	726.0
Deficit	(842.1)	(844.3)
	\$ 309.6	\$ 319.9

Company's long-term debt was extended from March 31, 1992 to April 30, 1992 pending completion of a debt restructuring. Although the extension has lapsed, and no further extension has been entered into, discussions are continuing with the lenders but a restructuring will not be completed until certain issues have been resolved. The sale of the Company's forest products assets on a timely basis and for sufficient proceeds is a requirement of the proposed restructuring. The sale of the Castlegar operations was completed on April 15, 1992 and an agreement for the sale of the operations in northwestern B.C. has been announced, but is subject to requisite approvals. Conditions of the sale of the Malakwa operation have not been met but discussions continue with the original party and other interested parties. Also, Westar Mining Ltd. continues to experience severe financial difficulties and is in discussion with its lenders and others regarding a financial recovery plan. Failure to obtain such a plan would jeopardize Westar Mining's ability to continue as a going concern. As yet, no arrangements have been reached and no assurance can be given that a successful plan can be attained. The Company is contingently

Consolidated Statements of Changes in Financial Position

(Unaudited)	Three Months Ended March 31	
	1992	1991
	(Restated) (Millions)	
Operating activities		
Operating income	\$ 12.8	\$ 15.0
Depreciation and amortization	2.5	2.2
Decrease in operating working capital	2.8	4.6
Other	(0.2)	1.5
	17.9	23.3
Investing activities		
Additions to property, plant and equipment	(0.3)	(11.0)
Increase in investment in discontinued forest products operations	(5.3)	(2.3)
	(5.6)	(13.3)
Financing activities		
Financing costs	(8.3)	(13.0)
Long-term debt repayments	—	(1.2)
Change in revolving credit facilities	(3.1)	1.5
Reduction in minority interest	(7.0)	(38.3)
Reduction in advance to Westar Mining Ltd.	6.0	38.3
	(12.4)	(12.7)
Decrease in cash	\$ (0.1)	\$ (2.7)

liable for a portion of Westar Mining's debt and receives a significant portion of its revenues from that company.

Note 3: The minority interest represents the Westar Industries Ltd. Class C Preferred shares which are held by Westar Mining Ltd. Westar Industries Ltd. was prohibited by applicable law from redeeming the remaining shares on March 31, 1992 and is not certain when it will be able to do so.



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c/o Montreal Trust Company
Stock Transfer Department
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Vancouver, B.C.
V6C 3B9

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