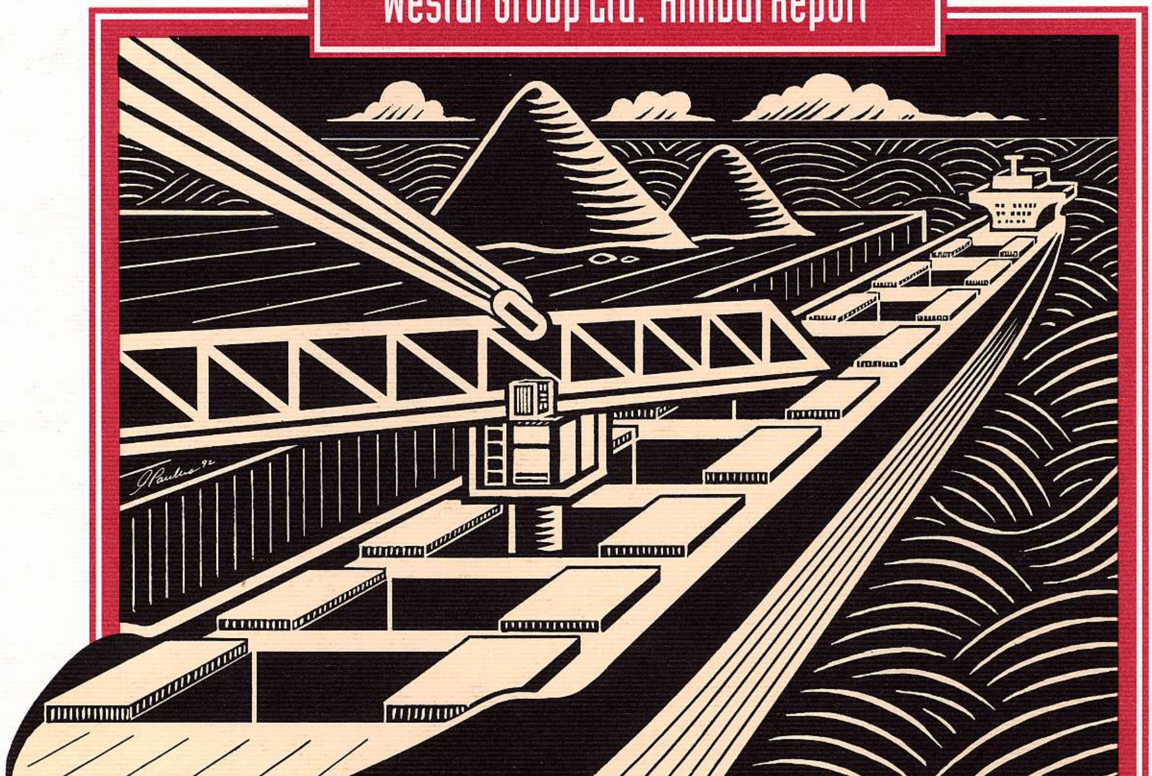
Westar Group Ltd. Annual Report



1991

Contents

The Annual General Meeting of shareholders will be held at 10 a.m. on April 23, 1992 at the Ramada Renaissance Hotel, 1133 West Hastings Street, Vancouver, B.C.

Westar Group

Comparative Financial Highlights

	1991	1990
	(Millions, except per share)	
Revenue from continuing operations	$ 110.7	$ 99.3
Earnings (loss) for the year from continuing operations	$ 4.4	$ (5.5)
Loss for the year	$ (7.8)	$ (19.2)
Loss per Common share	$ (0.04)	$ (0.11)
Cash provided by continuing operations	$ 61.7	$ 64.0
Additions to property, plant and equipment	$ 24.9	$ 11.3
Long-term debt	$ 385.9	$ 380.9
Shareholders' equity (deficit)	$ (118.3)	$ (110.5)

With the Company's strategic decision in 1991 to exit the forest products business and the subsequent shutdown of much of the Company's forest products operations, the terminal operations comprise the bulk of the Company's on-going business. Westshore Terminals is the largest bulk loading terminal on the west coast of the Americas and it is our intention to capitalize on this strength as a base for future growth and profitability.

Report to Shareholders

The cover of this Report is particularly relevant as it reflects the fundamental direction of the Company now and for the foreseeable future—specifically, terminal operations and services.

Not that this is a new function—on the contrary, Westshore Terminals has been an integral component of Westar Group since the acquisition of Westar Mining in 1980. However, with the Company's strategic decision in 1991 to exit the forest products business and the subsequent shutdown of much of the Company's forest products operations, the terminal operations comprise the bulk of the Company's on-going business.

In January, the Company announced that an agreement had been signed for the sale of its sawmill in Castlegar, B.C. and certain related woodlands operations. Subsequently, the Minister of Forests announced that the transfer of these forest tenures would be the subject of public review. As a result, completion of the sale is not expected until late March or early April. The Company's efforts to dispose of its operations in northern British Columbia are also the subject of a Provincial Government review, whose findings are expected at the end of February. Meanwhile, the Company is negotiating agreements for the sale of its northern assets. In February, the Company announced that a letter of intent had been signed for the sale of the sawmill at Malakwa, B.C., including related woodlands operations. This sale is conditional upon the purchaser's ability to arrange financing and upon requisite approvals, including that of the Minister of Forests.

The decision to exit the forest products business was a difficult one. The industry is part of the Company's heritage; the lumber mills at Vanderhoof, Kitwanga and Castlegar are among the original assets acquired from the Provincial Government at the Company's inception in 1978. However, the forest products industry is exceptionally cyclical, and the Company simply does not have the financial resources to weather the ups and downs. The industry is beset by problems, including high fibre costs, adverse exchange rates, environmental issues and significant swings in domestic and international economic cycles which affect both supply and demand.

Furthermore, we do not believe that the forest products industry holds as much promise for the Company as other fields of endeavour—in particular, bulk terminal activities.

Westshore Terminals is the largest bulk loading terminal on the west coast of the Americas and it is our intention to capitalize on this strength as a base for future growth and profitability. Over the past 22 years Westshore has loaded more than 3,500 ships and handled in excess of 250 million tonnes of coal. The future for terminal operations lies not just in maximizing port operations for productivity and operating profit, but also in seeking out new business based on our strengths and experience and, most importantly, working with our customers to assist them to remain competitive in an exceedingly difficult market.

In order to enhance Westshore's future competitive position, a comprehensive strategy has been developed which encompasses improvement in all key operational aspects at the Roberts Bank terminal, dedication to achieving a dominant position in the coal terminal business within its geographical sphere of operations (western Canada and northwestern U.S.A.), and expansion through allocation of expertise to bulk terminal operations domestically and internationally.

As its present operations are totally involved with the shipment of coal, Westshore is particularly sensitive to the problems besetting the coal producers in western Canada, the most significant problems being depressed prices, the general strength of the Canadian dollar and escalating costs. As evidence of its dedication to service its customers and do its part to ensure their long-term competitiveness and viability, Westshore initiated a market responsive pricing strategy in November which includes tariff reductions and volume incentives to alleviate some of the producers' difficulties and encourage shipping volumes.

Westar Mining, which produces both metallurgical and thermal coal, is the largest metallurgical coal producer in Canada and Westshore's largest customer. In addition to general coal industry problems, Westar Mining is faced with severe financial problems and with increasingly difficult geological conditions at its Balmer mine. To ensure its ability to continue as a going concern, the mining company is endeavouring to restructure its financial obligations, which would include provision for a rehabilitation of the Balmer mine.

In contrast, the investment in Westar Petroleum does not fit with the Company's strategic dedication to terminal operations and services. Westar Petroleum has struggled through a number of years of depressed oil and gas prices and heavy debt service costs. Consequently, while it has achieved operating profits over the years, it has reported losses after financing costs. Furthermore, the debt burden has prevented Westar Petroleum from engaging in the exploration and development activities which are necessary to provide for long-term growth and profitability. In a positive vein, Westar Petroleum reached agreement in principle with its lender in December on a financial restructuring. This arrangement will give the lender an equity participation and enable Westar Petroleum to allocate resources to development activities. It is, however, the Company's objective to dispose of the balance of its investment in Westar Petroleum as soon as an opportunity arises.

We have taken the steps necessary to stop the losses and are capitalizing on our strengths in terminal operations.

This is my first Report to Shareholders as President and Chief Executive Officer, and I can quite honestly say that I look forward to the future with optimism. The year 1992 may not be a banner one as we endeavour to complete the sale of our forest products assets and conclude financial restructurings at both Westar Group and Westar Mining. However, we have taken the steps necessary to stop the losses, and we are capitalizing on our unique strengths and advantageous position in terminal operations.

Also, I wish to advise that four of the slate of ten Directors being proposed for election by the shareholders at the Annual General Meeting on April 23, 1992 will be new nominees. Included are: Jim Pattison, Chief Executive Officer, Managing Director, and P. Nicholas Geer, Senior Vice President, Jim Pattison Group Inc.; Bryan J. Reynolds, Vice Chairman, Peter Cundill & Associates Ltd.; and David Bookbinder, Senior Vice President, First City Capital Markets (Canada) Ltd. These executives represent major shareholders of the Company. Their counsel will be of great benefit as we realign the Company for the future. We must also advise, regretfully, that Gilbert S. Bennett, Lucille M. Johnstone, William G. Saywell and Samuel Belzberg will not be standing for re-election to the Board. Their contributions have indeed been meaningful and will be missed.

On behalf of the Board,

L.I. (Larry) Bell

President and Chief Executive Officer
February 13, 1992

Westshore Terminals

The terminal facility shipped 20.3 million tonnes of coal during the year, up from 18.9 million tonnes in 1990, and surpassing the previous record of just over 20 million tonnes in 1989. Varieties of coal handled also increased, from 55 different brands and blends the previous year, to 61 in 1991.

Westshore expects to be able to continue its strong operating performance in the future but significant problems that could have a dampening impact on the company's prospects do exist in the coal industry, which currently comprises 100% of the company's business. The international coal market remains in a condition of excess supply, and with prices continuing to decline, Westshore's customers face financial difficulties.

Acknowledging the particularly challenging market conditions faced by the coal producers, Westshore introduced volume incentives applicable to the shipping of metallurgical coal and lowered the price of terminal charges for weaker coking and thermal coals in late 1991. These efforts, aimed at enhancing customer competitiveness and viability, are also expected to improve the terminal's potential for increases in volume.

In the longer term, Westshore intends to dominate the coal terminal business in its market area of western Canada and the northwestern United States. To achieve this, Westshore believes it must be recognized as clearly superior by the coal producers. This requires increases in productivity and efficiency of equipment utilization. The terminal's strategy calls for an increase in average production rates by 5% per year using existing resources; in 1996 the company's average gross shiploading rate is targeted to be 2,300 tonnes per hour per berth, and the average gross train dumping rate, 27.5 cars per hour per dumper, a 25% improvement over 1990 levels. In 1991 these rates were 1,738 tonnes and 21.9 cars, respectively.

In keeping with Westar Group's strategy of placing greater emphasis on the business of port terminal facilities for the handling of bulk commodities, Westshore announced the formation of a joint venture with Bellingham Stevedoring Company and Stevedoring Services of America in May 1991. The venture, Pacific International Terminals, seeks to identify and develop waterfront facilifies on the Pacific coast and has secured 1,000 acres of property at Cherry Point, Washington for the possible development of a multiuser bulk terminal. Environmental and preliminary engineering studies in support of a deep sea dock permit at Cherry Point have commenced. The joint venture has also made a proposal to the Port of Los Angeles to operate a proposed bulk terminal in Los Angeles to handle coal, coke and mineral concentrates. In addition, Westshore is individually exploring other international terminal service opportunities.

Says Westshore Terminals President, Bob Stanlake, "The anticipated growth in trade between the Pacific west coast and the Asia Pacific region provides Pacific International Terminals with an opportunity to expand both import and export capabilities for a variety of products. Westshore's capabilities, complemented by our new partners' knowledge and understanding of the U.S. west coast, leaves us well-positioned to explore new opportunities for terminal development."

Huge stacker/reclaimers stockpile the coal into "coal mountains" after receiving it from the coal car dumpers by high-speed conveyors. Westshore Terminals has the capacity to store 3.2 million tonnes of coal and in 1991 handled 61 different brands and blends for its customers.

Westar Timber

In 1991 Westar Timber substantially reduced its operating activities, primarily in response to adverse market conditions and partially as a consequence of the decision by Westar Group to dispose of its forest products operations.

In January 1992, Westar Group announced that it had reached agreement for the sale of the Castlegar sawmill and certain of the related woodlands operations. Completion of the sale is awaiting the outcome of public meetings being held by the Ministry of Forests to review the transfer of cutting rights. Consequently, the transaction is not expected to be completed until late March or early April.

The sale of the forest products operations in northern British Columbia is also the subject of review by the Ministry of Forests. A Commission was appointed by the Ministry in December to evaluate the issues involved with transfer of the related forest tenures. The findings of the Commission are expected to be reported in late February. In the meantime, negotiations of purchase and sale agreements for the assets are continuing so that the Company will be in a position to complete the transactions as soon as possible after release of the findings.

In February, the Company announced that a letter of intent had been signed for the sale of the sawmill at Malakwa, B.C., including related woodlands operations. The sale is conditional upon the purchaser's ability to arrange financing and upon requisite approvals, including the Ministry of Forests.

The sale of the forestry assets to diverse purchasers in different areas of the province is in the best interests of Westar Group and the communities in which the operations are located.

Operationally, the strength of the Canadian dollar and wide-spread economic recession continued to have a significant impact on lumber revenues throughout the year. In addition to plummeting sales to North American buyers, the Japanese market was particularly slow and unusually competitive. This was due in part to the flooding of supply from producers who traditionally sold their green lumber to the United Kingdom, which is moving to accept only kiln dried products.

For these reasons, and to minimize losses, inventories were materially reduced and woodlands operations were gradually shut down, ultimately resulting in sawmill closures during the late summer and fall. Currently the Southern Wood Products mill at Castlegar, Eagle River mill at Malakwa and Kitwanga mill are not operating, and the Carnaby mill near Hazelton is running on a single shift. Only Plateau Operations at Vanderhoof has maintained full production, and continues to achieve production levels consistent with previous years.

During 1991, Westar Timber reforested 10,937 hectares of land, planting 13.1 million seedlings to regenerate the areas logged. Sensitivity to the environmental impact of all activities remained a priority throughout the operations.

Says Westar Timber President, Peter Berry, "The sale of the forestry assets to diverse purchasers in different areas of the province is in the best interests of the shareholders of Westar Group and the communities in which the operations are located. We expect that the potential purchasers will bring financial stability and geographical synergy to the local operations."

Westar Petroleum

While Westar Group's strategic plan is to redirect its energies towards terminal operations and related activities, Westar Petroleum's management has been given the mandate of rebuilding the equity value of this subsidiary. This process will include the dilution of Westar Group's equity interest and could ultimately result in its disposition.

Although revenue and production figures declined from previous years, Westar Petroleum realized a number of successes in 1991, contributing to somewhat improved future prospects. Significant accomplishments for the year included the disposition of idle assets, reduction of head office and field operating costs, increased drilling activity and reaching agreement in principle on a plan that will restructure the company's long-term debt.

The increase in world oil prices prompted by the Persian Gulf crisis in 1990 dissipated with the onset of war early in 1991. This reduction in prices, combined with the continued escalation of the Canadian dollar, resulted in average oil prices received by the company declining from $25.46 per barrel in 1990 to $20.83 per barrel in 1991.

Due in great part to Westar Petroleum's financial inability to adequately invest in reserve replacement during this and previous years, oil and natural gas liquid production dropped from 628,000 barrels in 1990 to 597,000 barrels in 1991, and gas volumes declined from 3.3 billion cubic feet to 2.1 billion cubic feet. These production declines, combined with the reduction in oil prices, resulted in a corresponding decrease in net production revenue, from $19.4 million in 1990 to $14.2 million in 1991. This decrease was partially offset by the benefits of declining interest rates which saved the company approximately $1.2 million in interest payments.

While we have a long way to go before we can rectify our over-leveraged situation, we are now optimistic about the opportunities available to us in 1992 and beyond.

Falling prices for natural gas and heavy crude oil have renewed industry interest in light oil plays (which comprise 80% of Westar Petroleum's holdings). The company responded with increased drilling activity in the fourth quarter and in 1991 participated in the drilling of 22 wells, completing one gas well and 20 oil wells.

In late December, the company negotiated an agreement in principle to restructure its debt, which will give the lender a 49% equity participation in its affairs. This new arrangement will significantly reduce debt service costs in the future and allow some latitude for capital reinvestment. The company is endeavouring to finalize and implement the restructuring during the first quarter of 1992.

Says Westar Petroleum Chief Financial Officer, Tom Pointer, "1991 was a landmark year for Westar Petroleum on several fronts. Improvements in operating efficiencies achieved over the past few years combined with the growth strategy embodied in the restructuring arrangement, have put us in a much better position to capitalize on our production expertise by expanding upon our operations base. While we have a long way to go before we can rectify our over-leveraged situation, we are now optimistic about the opportunities available to us in 1992 and beyond."

Westar Mining

In 1991 Westar Mining experienced an operating loss of $17.6 million, 25% worse than the $14.1 million loss reported in 1990. These results reflect the cumulative effects of adverse prices and exchange rates and difficulties encountered with the Balmer mine's geology. Cost and productivity improvements implemented during the year prevented further erosion of operating results.

In December, Australian and Canadian producers accepted a U.S. $0.50 per tonne reduction in the price of metallurgical coal, effective April 1, 1992, and Westar Mining had little choice but to follow. This was especially difficult in light of the U.S. $1.00 reduction that came into effect in April of 1991.

At the same time, the continuing strength of the Canadian dollar was problematic. Westar Mining experiences a $5 million drop in gross annual sales revenue for every one-cent increase in the Canadian currency. The weakness in the dollar since year-end is encouraging but there is as yet no certainty that this is a long term trend.

Westar Mining is faced with severe technical and financial difficulties. Worsening mining conditions at the Balmer mine, resulting from increased geological complexity, have resulted in reduced raw coal availability and increased rock stripping requirements. Balmer's coal production decreased to 5.4 million tonnes compared to 5.6 million tonnes in 1990, reflecting the difficult mining conditions. The resultant higher unit costs per tonne of coal produced, combined with lower prices and adverse exchange rates, produced significant operating losses for the year at the Balmer mine. This situation must be remedied and a substantial rehabilitation of the Balmer mine is required if the mine is to continue operating.

A rehabilitation of the Balmer mine will require cooperation and financial assistance from all of Westar Mining's stakeholders. The company has held extensive discussions with its key stakeholders with the objective of a restructuring of its financial obligations this year, which would take into consideration the requirement to rehabilitate the Balmer mine, the high level of bank debt, and the adverse price and exchange rate environment. While these discussions are continuing, it is not possible to predict the outcome; however, failure to achieve a financial restructuring would jeopardize Westar Mining's ability to continue as a going concern.

At both mines management initiated a number of programs aimed at cost and productivity enhancement, the most significant of which was a fleet modernization program. By entering into operating leases for new loading and hauling equipment at both the Balmer and Greenhills mines, Westar Mining is expecting to substantially improve unit costs in the long term.

During the year the Greenhills mine achieved record productivity, cash flow and production. Coal produced totalled 3.4 million tonnes for the year compared to 3.0 million tonnes in 1990. Also, the mine's environmental program was recognized with a Provincial Reclamation Award in 1991. A long term mine plan has been developed for Greenhills which supports a 20-year extension of the life of the operation under current economic conditions.

Westar Mining is the largest metallurgical coal producer and exporter in Canada and is Westshore Terminals' largest customer. Says Westar Mining President, Peter Dolezal, "Westar Mining's continued viability is important not only to Westshore Terminals, but also to Mining's customers, lenders and many other suppliers. The management and employees have done the best they can to combat severe technical obstacles. Now it is necessary for all stakeholders to join in the fight to preserve this very important asset."

Coal is transported approximately 1,100 kilometres from southeastern B.C.

to Westshore Terminals at Roberts Bank, 32 kilometres south of Vancouver.

Each 112-car unit train carries approximately 10,000 tonnes of coal.

Financial Report

For the Year Ended December 31, 1991

Contents

Westar Group

Results of Operations

The consolidated results of operations of the Company are primarily composed of the results of the coal terminal operation of Westshore Terminals Ltd. ("Westshore") and the forest products operations of Westar Timber Ltd. ("Timber"). However, since May 24, 1991, the date of the Company's decision to sell its forest products operations, the consolidated financial statements of the Company have been restated to comply with the Canadian Institute of Chartered Accountants ("CICA") recommendations for discontinued operations. Accordingly, the results of Timber to May 24, 1991 are included in the consolidated results of operations, while losses subsequent to that date have been deferred and will be offset against the expected gain on the disposition of the forest products assets. Additionally, the results of Westar Petroleum Ltd. ("Petroleum") and Westar Mining Ltd. ("Mining") continue to be excluded from the consolidated results of the Company as Petroleum and Mining were deconsolidated in 1986 and 1987, respectively. The reasons for the deconsolidations are explained in note 1 to the consolidated financial statements. Recent changes to the CICA recommendations on consolidation of subsidiaries will not affect the deconsolidations.

Comparison of 1991 and 1990 Results

In 1991, the Company's loss decreased to $7.8 million as compared to the 1990 loss of $19.2 million. The largest factor contributing to the overall reduction in loss was the deferral of $17.1 million of Timber losses after May 24, 1991.

Earnings, in 1991, from continuing operations are $4.4 million compared to a loss of $5.5 million in 1990. This is due to an increase in operating income and a reduction in financing costs.

The increase in operating income of $6.7 million is attributable solely to the coal terminal operation, which experienced a 7% increase in coal throughput volume and a 4% increase in average loading charges.

The $10.4 million decline in financing costs over 1990 is primarily due to the reduction in interest rates which averaged approximately 3.75 percentage points less than in 1990. Also, the average debt level for 1990 was higher than for 1991, since the debt was not reduced from the application of proceeds from the rights offering of Common shares until March 1990. No financing costs have been allocated to the results of discontinued forest products operations.

Financing costs in 1992 will not only depend on current trends in interest rates, but will be significantly impacted by the reduction of debt which will depend on the amounts and timing of the proceeds received on forest products asset dispositions. Additionally, the Company's proposed debt restructuring arrangements, described under Capital Resources and Liquidity, will result in up to $269 million of outstanding bank debt being converted to special preferred shares, bearing dividends at 61% of prime rate plus 1¼%. This will include the conversion of $57.8 million of debt on which the interest rate has been fixed at 12% through interest rate swap agreements which expire in early 1992. Dividends on these preferred shares, although not deductible for tax purposes by the Company, will reduce overall financing costs. At current interest rates and if no repayments were made, the restructuring would reduce the Company's 1992 cash cost of debt service by approximately $5.4 million over the amount otherwise payable under the terms of the existing credit facility.

Total demand for coal is not expected to change significantly in 1992 and, therefore, coal shipments through Westshore are expected to be at, or slightly below, the level experienced in 1991. Uncertainties do, however, exist. Coal shipments in 1991 from Mining's two mines were 8.7 million tonnes and represented 43% of total 1991 throughput volumes at Westshore. Of this amount, 5.2 million tonnes were shipped from the Balmer mine. As a result of price reductions, the strength of the Canadian dollar and increased complexity in mining at the Balmer operations, Mining is experiencing severe financial difficulties. The continued operation of the Balmer mine is dependent on its rehabilitation. Mining is in discussions with its lenders and others regarding a further financial restructuring, which includes a plan to rehabilitate the Balmer mine over the next five years. Westshore would be negatively impacted if the Balmer mine ceased to operate, although Westshore expects that the decline in shipments would be partially offset, over time, by increased shipments from other coal producers.

Westshore continues to actively seek out marketing opportunities for products originating in the United States. In 1991, Westshore shipped approximately 600,000 tonnes of thermal coal and petroleum coke originating from the United States compared to 400,000 tonnes in 1990. While most of the thermal coal sales are still at the trial shipment stage and the petroleum coke contracts tend to be short-term, a long-term contract expiring in 2002 was signed in 1991 with Pacific Coast Coal Company to ship approximately 1.3 million tonnes of coal through Westshore during the eleven year life of the contract. The Pacific Coast mine is located just south of Seattle, Washington. It also produces coal that is blended with other coals from other Westshore customers.

In 1991, Westshore joined with Bellingham Stevedoring Company and Stevedoring Services of America to form a joint venture, known as Pacific International Terminals, to identify and develop waterfront facilities on the Pacific coast. The joint venture, in which Westshore is a 50% participant, will combine Westshore's experience in bulk product handling, Bellingham Stevedoring's industrial ship loading and cargo movement background, and Stevedoring Services of America's position in west coast stevedoring and terminal operations. Pacific International Terminals is currently pursuing opportunities at the proposed new coal terminal in Los Angeles and is examining the feasibility of constructing a new multi-user shipping terminal at Cherry Point in Washington. These projects represent opportunities for Westshore to expand and apply its expertise in other areas. However, even if Westshore proceeds with these projects, their financial impact is not expected until the latter half of this decade.

Forest Products

The profitability of Timber is principally affected by lumber prices, net cost of fibre and the efficiency of lumber production operations. Prices are a function of demand in the lumber markets, particularly in the United States, Japan and the United Kingdom, and the relative value of the Canadian dollar to currencies in which lumber products are sold. Demand for lumber is significantly affected by housing and other construction and renovation activities in the United States, Japan and Europe, which in turn are influenced by general economic conditions and interest rates.

The Company's decision to sell its forest products assets has resulted in some significant changes in financial reporting.

Timber produces and exports softwood lumber worldwide from four sawmills located in different areas of British Columbia. Wood chips, which are sold to pulp mills, are a by-product of lumber production and are an important source of revenue to reduce net fibre costs.

In 1991, the profitability of the forest products industry continued to erode as pulp prices weakened, the Canadian dollar strengthened and demand for softwood lumber declined. The year opened with lumber prices at the exceptionally low levels of the last quarter of 1990. Prices then escalated sharply in June 1991 and subsequently declined to levels comparable with the first three quarters of 1990. As a result, average lumber prices for the year were only marginally higher than the average for 1990. Overall demand for lumber was depressed during the year, reflecting significant slowdowns in residential housing construction in the United States, Japan and the United Kingdom. Furthermore, wood chip prices declined in conjunction with depressed pulp markets.

The effect of these market conditions on Timber's operations was significant. It was necessary to shut down certain of the sawmills from time to time since the revenues from lumber and wood chips were insufficient to cover variable operating costs. The need to conserve cash also resulted in curtailment of logging and termination of Timber's wholesale lumber marketing program. Of the Company's sawmills, the Plateau mill was the only mill which ran continuously throughout the year and the only mill to record an operating profit.

Higher unit costs resulting from the mill shutdowns and higher logging costs combined with lower chip prices increased operating losses to $29.3 million for 1991, compared to $13.7 million for 1990. Revenues decreased by $81.9 million to $161.6 million for the year, compared to $243.5 million for 1990. Revenues from the wholesale program which amounted to $81.8 million in 1990, amounted to only $22.9 million in 1991. Similarly, wood chip revenues, which reduce net fibre costs, declined to $28.8 million in 1991 from $43.6 million in 1990, as a result of both price and volume reductions.

Cash consumed by Timber in 1991 was $6.6 million compared to $5.8 million in 1990, despite the significantly poorer operating results. In 1991, working capital requirements were reduced by $18.3 million, due to elimination of the wholesale program and mill shutdowns. As operations shut, the need for capital expenditures and construction of logging roads also declined.

The Company's decision to sell its forest products assets has resulted in some significant changes in financial reporting. In accordance with the CICA recommendations for discontinued operations, operating losses of $17.1 million have been deferred and form part of the Company's investment in discontinued operations of $114.8 million on the consolidated balance sheet. Losses in 1991, prior to May 24, of $12.2 million and $13.7 million for the whole of 1990 are included in the consolidated statements of loss. The continued deferral of operating losses is only permitted where there is reasonable assurance that the expected proceeds on disposition will exceed the carrying value of the operation, including all deferred losses to the date of disposal.

On January 18, 1992, the Company announced that an agreement had been signed for the sale of the sawmill at Castlegar, British Columbia and related woodlands operations south of the Trans-Canada Highway for an aggregate price of $22 million and the assumption by the buyer of the on-going reforestation liability estimated at $3.5 million. The sale of this mill, which has been shut since November 1991, will significantly reduce on-going cash requirements. In 1991, the Castlegar mill recorded an operating loss of $11.5 million, including depreciation and amortization of $4.1 million. The sale is subject to the approval of the British Columbia Ministry of Forests. On January 28, 1992 the Minister of Forests announced that public meetings would be held during February to discuss the transfer of cutting rights as proposed under the sale agreement and that written submissions will also be accepted until March 6, 1992. Completion of the sale will not take place until after all required consents have been received, which is expected to be late March or early April.

In February, the Company announced that a letter of intent had been signed for the sale of the sawmill at Malakwa, B.C. and transfer of the related woodlands operations for a price of $10 million. The buyer will assume the on-going reforestation liability, estimated at $2.0 million, and pay for the value of the log and lumber inventories at the closing date. The sale is conditional upon the purchaser's ability to arrange financing and upon requisite approvals, including the Ministry of Forests.

Discussions are continuing with potential buyers of the Company's remaining forest products operations in northern British Columbia. In connection with the proposed divestiture of the Company's sawmills and forest tenures in northwestern British Columbia, the Ministry of Forests established a Commission of Inquiry to advise the Ministry on issues related to the transfer of the Company's forest tenures in that part of the province. The Commission will address the concerns and interests of the general public, aboriginal peoples and the communities involved and the relationship between the long-term timber supply and mill demand. The Commission is expected to report by the end of February 1992.

The continuing impact of the forest products operations on the Company's consolidated results of operations will only include the expected net gain on disposition when all divisions are sold. Quarterly results, however, may include losses or gains as the five operations could be sold at different times throughout 1992. In addition, if the continued deferral of operating losses were to increase the Company's carrying value of the forest products operations beyond the proceeds that are expected from their sale, then any excess would be recognized as a loss in the consolidated results of operations.

The Company expects that, overall, operating cash flow from the forest products operations will be marginally positive. The on-going fixed costs of the shut mills, which include the Southern Wood Products mill at Castlegar, the Eagle River mill at Malakwa and the Kitwanga mill are expected to be funded by positive cash flow from the Plateau mill at Vanderhoof, which is expected to be in full operation throughout 1992, and the Carnaby mill near Hazelton, which is currently running on a single shift. Changes in working capital levels and capital expenditures of the mills which operate in 1992 will not be significant. Operating cash flow for the forest products operations in 1992, and capital expenditures, will ultimately depend on the timing of disposition of the operations.

Capital Resources and Liquidity

Capital Resources

The 1987 Debt Restructuring Agreement ("DRA") between the Company and its lenders provides for $60 million to be designated as a revolving operating facility for general liquidity purposes. The term portion of the facility is $219.1 million at December 31, 1991.

The DRA is scheduled to mature on March 31, 1992. While the facility provides for automatic one year extensions for each $50 million of principal prepaid in any 12 month period in excess of scheduled repayments and prepayments from asset sale proceeds, cash generated from operations will be insufficient to prepay the $50 million required to extend the facility into 1993. The application of proceeds from the sale of the Company's forest products assets to debt reduction will not qualify as a prepayment which would enable a further extension. Accordingly, the Company was required to renegotiate the facility and by the end of January 1992 made significant progress with its lenders on a restructuring of the facility. The restructuring is to be effective March 31, 1992 subject to requisite approvals and to completion of required documentation.

Cash generated from operating activities in 1992 is expected to approximate the levels of 1991 and 1990, which reflect the stability and profitability of the Company's terminal operations.

Under the restructuring, $10 million will be designated as a revolving facility. The remaining DRA debt will be exchanged by the bank lenders for preferred shares, whose mandatory redemption will be March 31, 1997. Scheduled quarterly redemptions of the lenders' preferred shares, commencing June 30, 1992, are $2.0 million each to December 31, 1993, $3.0 million each during 1994, $3.5 million each during 1995 and $4.0 million each during 1996. The restructuring also requires that all excess cash, being operating cash flow less permitted capital expenditures and other specified payments, be applied as a mandatory redemption of the lenders' preferred shares on a quarterly basis. The calculation of excess cash makes no provision for the redemption of the Westar Industries Ltd. Class C Preferred shares held by Mining. In aggregate, the Company is required to reduce the lenders' preferred shares by $30 million by June 30, 1992 and an additional $70 million, by December 31, 1992 out of the proceeds of disposition of Timber's assets and quarterly redemptions.

Further details on the debt restructuring are outlined in note 5 to the consolidated financial statements.

In December 1991, the Westshore secured term credit facility was increased by $9.4 million to $114.4 million. The $9.4 million was loaned by Westshore to the Company which then repaid the borrowings to the same lender under the DRA. The lender under the Westshore facility agreed to defer the semi-annual repayments of $6.7 million due December 31, 1991 and June 30, 1992 to the maturity date of June 30, 1997 and to revise the repayment schedule to quarterly repayments of $3.3 million each commencing September 30, 1992, with the balance to be repaid at maturity.

Cash Flow and Liquidity

Cash from operating activities in 1991 declined to $61.7 million from $64.0 million in 1990. The level of operating cash flow in 1991 reflects the increased operating income at Westshore offset by an increase in working capital of $1.9 million, compared to a lower level of operating income in 1990 that was enhanced by a reduction of working capital of $6.9 million. Cash generated from operating activities in 1992 is expected to approximate the levels of 1991 and 1990, which reflect the stability and profitability of the Company's terminal operations.

In 1990, operating cash flow was insufficient to fully fund capital expenditures, cash consumed by the forest products operations, financing costs, debt repayments and preferred share redemptions. The cash deficiency was financed from the proceeds received on the issue of shares pursuant to the Company's rights offering in March 1990. The balance of proceeds from the share issue was applied to reduce the revolving facility by $10.9 million.

In 1991, operating cash flow was again insufficient to fund capital expenditures, cash consumed by the forest products operations, financing costs and debt repayments. The cash shortfall was financed by drawing an additional $7.8 million under the revolving facility. Also, the December 31, 1991 scheduled DRA repayment of $1.25 million was deferred and, as previously mentioned, the repayments due under the Westshore facility were rescheduled.

As at December 31, 1991, the Company had $7.6 million of available credit under the DRA revolving facility. This was not expected to be sufficient to meet first quarter 1992 liquidity needs. Therefore, pending completion of the debt restructuring, the Company arranged an additional facility with three of its four DRA lenders in the amount of $6.0 million, available until the earlier of March 31, 1992 or the sale of one of its forest products operations.

Adequate arrangements are in place to accommodate the Company's liquidity requirements until the restructuring is implemented. The restructuring, combined with Westshore's stable cash flow and reduced capital expenditures, and a reduced need for cash by the forest products operations upon completion of their sale, is expected to ensure that the Company's on-going liquidity needs are met.

Capital Expenditures

Capital expenditures for both continuing and discontinued operations amounted to $32.7 million in 1991, including $23.3 million for Westshore's dumper project, compared to $24.7 million in 1990, which included $8.2 million for the dumper project. Of the 1991 expenditures on the project, $1.5 million represents interest which was capitalized during construction. Capital expenditures at Westshore are reflected in additions to property, plant and equipment in the consolidated statement of changes in financial position. Those relating to Timber are included in the increase in investment in discontinued forest products operations.

Expected 1992 capital expenditures are $3.9 million and $2.6 million at Westshore and Timber, respectively. Of Westshore's expected capital expenditures, $1.2 million relate to further improvements for dust control and other environmental spending. Timber's capital expenditures include approximately $1.0 million for the construction of roads. Other capital expenditures for both operations are solely for the maintenance of current capacity.

Preferred Share Redemptions

The March 31, 1991 redemption of 38,333 Class C Preferred shares of Westar Industries Ltd. for $38.3 million was offset against the outstanding indebtedness owing from Mining. The remaining 38,333 shares, which are held by Mining, are redeemable on March 31, 1992 at a cost of $38.3 million. Since the Company's debt restructuring is expected to make no provision for the redemption of these Preferred shares, except by way of set-off against the indebtedness owing from Mining, Westar Industries Ltd. will only be able to redeem Preferred shares in the amount of $6.1 million.

Westar Mining Ltd.

Sales revenue increased in 1991 due to a 6% increase in coal shipments, offset by a U.S. $1.00 per tonne price reduction on April 1, 1991 for metallurgical coal sold to the Japanese steel industry. Effective April 1, 1992 these metallurgical coal prices will be further reduced by U.S. $0.50 per tonne. Due to the price reductions, the strength of the Canadian dollar in recent years and worsening mining conditions at Mining's Balmer mine, Mining is experiencing severe financial difficulties. Mining is in discussion with its lenders and others regarding a financial recovery plan which will include a restructuring of its debt obligations and a plan to rehabilitate the Balmer mine.

Unusual items in 1991 include a $31.2 million provision against the net carrying value of Mining's investment in the Class C Preferred shares of Westar Industries Ltd.

Westar Petroleum Ltd.

Bank debt of $45.8 million has been reclassified as long-term because of an agreement, in principle, with its lender to restructure the debt. The restructuring, expected to be implemented in the first quarter of 1992, will significantly reduce future debt service costs and allow greater latitude for capital reinvestment.

World oil prices in 1991, reduced from their previous highs in 1990, combined with a decline in production to lower 1991 revenues and operating profits. Unusual items in 1991 include a $27.2 million write-down of petroleum and natural gas properties.

The following financial results were extracted from the audited financial statements of these companies for the years ended December 31:

	Westar Mining Ltd.		*Westar Petroleum Ltd.*	
	1991	*1990*	*1991*	*1990*
	(Millions)		*(Millions)*	
Financial Position				
Net current assets	**$ (44.9)**	$ (16.9)	**$ 2.0**	$ (45.4)
Fixed assets	**212.3**	230.4	**11.6**	44.5
Other assets	**3.6**	78.1	**0.3**	0.2
Long-term debt	**(336.5)**	(385.0)	**(45.8)**	—
Other long-term liabilities	**(20.4)**	(16.4)	**—**	—
Deferred taxes	**(60.7)**	(74.6)	**—**	—
Shareholders' deficit	**$ (246.6)**	$ (184.4)	**$ (31.9)**	$ (0.7)
Financial Results				
Sales	**$ 457.1**	$ 445.8	**$ 14.2**	$ 19.4
Operating costs & expenses	**(453.7)**	(438.6)	**(8.2)**	(8.9)
Depreciation	**(21.0)**	(21.3)	**(5.9)**	(6.0)
Operating profit (loss)	**(17.6)**	(14.1)	**0.1**	4.5
Financing costs	**(18.6)**	(41.0)	**(4.4)**	(7.1)
Income tax recoveries	**9.7**	49.1	**—**	—
Unusual and other items	**(35.7)**	1.6	**(27.0)**	0.1
Net loss	**$ (62.2)**	$ (4.4)	**$ (31.3)**	$ (2.5)

Management's Responsibility

To the Shareholders of Westar Group Ltd.

The consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in these consolidated financial statements and other sections of this Annual Report. To fulfil this responsibility the Company maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are properly executed in accordance with management's authorization.

Coopers & Lybrand, the auditors appointed by the shareholders, have reviewed the systems of internal control and examined the consolidated financial statements. Their examinations were made in accordance with generally accepted auditing standards to enable them to express to the shareholders their independent professional opinion on the fairness of these financial statements. Their opinion follows.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control through an Audit Committee which is composed of four directors who are neither executive officers nor employees of the Company. This committee meets regularly with the auditors and management to review their activities and reviews with them the consolidated financial statements before they are presented to the Board of Directors for approval. The auditors have full and direct acccess to the Audit Committee.

R. Chase

Robert F. Chase
Senior Vice President, Finance
and Chief Financial Officer
Vancouver, Canada
February 13, 1992

Auditors' Report

To the Shareholders of Westar Group Ltd.

We have audited the consolidated balance sheets of Westar Group Ltd. as at December 31, 1991 and 1990 and the consolidated statements of loss, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1991 and 1990 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants
Vancouver, Canada
January 31, 1992

Consolidated Statements of Loss

For the Years Ended December 31	*1991*	*1990*
	(Millions)	*(restated - note 2)*
Revenue *(Note 9)*	$ 110.7	$ 99.3
Costs and expenses		
Operating costs	41.4	36.2
Selling and administrative	5.2	5.7
Depreciation and amortization	8.8	8.8
	55.4	50.7
Operating income	55.3	48.6
Financing costs *(Note 10)*	(46.1)	(56.5)
Earnings (loss) before income taxes and discontinued forest products operations	9.2	(7.9)
Income taxes (recovery) *(Note 11)*	4.8	(2.4)
Earnings (loss) for the year from continuing operations	4.4	(5.5)
Loss from discontinued forest products operations *(Note 2)*	(12.2)	(13.7)
Loss for the year	$ (7.8)	$ (19.2)
Loss per Common share	$ (0.04)	$ (0.11)

Consolidated Statements of Deficit

For the Years Ended December 31	*1991*	*1990*
	(Millions)	
Deficit at beginning of the year	$ 836.5	$ 816.1
Loss for the year	(7.8)	(19.2)
	844.3	835.3
Preferred share dividends	—	0.2
Expenses related to the issuance of Common shares	—	1.0
Deficit at end of the year	$ 844.3	$ 836.5

Consolidated Balance Sheets

As at December 31	*1991*	*1990*
	(Millions)	*(restated - note 2)*
Assets		
Current		
Cash	$ 1.5	$ 7.2
Accounts receivable *(Note 9)*	10.2	4.7
Inventories	5.3	4.3
Prepaid expenses	1.7	3.5
Investment in discontinued forest products operations *(Note 2)*	114.8	—
	133.5	19.7
Investment in discontinued forest products operations *(Note 2)*	—	120.4
Property, plant and equipment *(Note 3)*	177.7	161.5
Investments and advances *(Note 4)*	6.0	46.4
Deferred income taxes *(Note 11)*	2.7	10.3
	$ 319.9	$ 358.3
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 14.0	$ 11.2
Current portion of long-term debt *(Note 5)*	127.5	11.7
	141.5	22.9
Long-term debt *(Note 5)*	258.4	369.2
Minority interest in subsidiary *(Note 6)*	38.3	76.7
	438.2	468.8
Shareholders' Equity (Deficit)		
Share capital *(Note 7)*	726.0	726.0
Deficit	(844.3)	(836.5)
	(118.3)	(110.5)
	$ 319.9	$ 358.3

Basis of accounting presentation, commitments and contingencies *(Notes 1 and 8)*

Approved by the Directors:

L.I. (Larry) Bell
Director

L.M. Johnstone
Director

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31	*1991*	*1990*
	(Millions)	*(restated - note 2)*
Operating activities		
Operating income	$ 55.3	$ 48.6
Depreciation and amortization	8.8	8.8
Decrease (increase) in operating working capital *(Note 13)*	(1.9)	6.9
Other	(0.5)	(0.3)
	61.7	64.0
Investing activities		
Additions to property, plant and equipment	(24.9)	(11.3)
Increase in investment in discontinued forest products operations	(6.6)	(5.8)
	(31.5)	(17.1)
Financing activities		
Financing costs	(46.1)	(56.5)
Preferred share dividends	—	(0.2)
Long-term debt repayments	(2.8)	(58.7)
Change in revolving credit facilities	7.8	(10.9)
Reduction in minority interest *(Note 6)*	(38.3)	(38.3)
Reduction in advance to Westar Mining Ltd. *(Note 4)*	38.3	38.3
Issue of Common shares	—	84.3
Preferred shares repurchased	—	(4.5)
Other	5.2	3.0
	(35.9)	(43.5)
Increase (decrease) in cash	(5.7)	3.4
Cash, beginning of year	7.2	3.8
Cash, end of year	$ 1.5	$ 7.2

1. Significant Accounting Policies and Basis of Accounting Presentation

The Company is incorporated under the Company Act of the Province of British Columbia and follows accounting principles generally accepted in Canada when preparing its consolidated financial statements.

Basis of Accounting Presentation

The consolidated financial statements are prepared on the assumption that the Company will continue to realize the recorded value of its assets and discharge its liabilities in the normal course of operations for the foreseeable future, which is dependent on the favourable resolution of the uncertainties set out below.

A portion of the Company's consolidated long-term debt matures March 31, 1992. The Company has made significant progress with its lenders in restructuring this portion of its long-term debt. However, the restructuring is subject to final approvals by the lenders and Revenue Canada Taxation (note 5). The sale of the Company's forest products operations on a timely basis and for sufficient proceeds is a requirement of this proposed restructuring. The Company is working towards the sale of its forest products operations (note 2). In the event that these matters are not favourably resolved, the Company's existence as a going concern is uncertain.

Westar Mining Ltd. is experiencing severe financial difficulties and is in discussion with its lenders and others regarding a financial recovery plan which includes a further restructuring of its debt obligations. Failure to obtain such a plan would jeopardize Westar Mining Ltd.'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 liable for a portion of Westar Mining Ltd.'s debt (note 8) and receives a significant portion of its revenues from that company (note 9).

Consolidation

The consolidated financial statements include the accounts of Westar Group Ltd., Westshore Terminals Ltd., Westar Timber Ltd. and Westar Industries Ltd. all of which are wholly-owned. Westar Mining Ltd. and Westar Petroleum Ltd. are recorded as investments at nominal values (note 4).

The accounts of Westar Mining Ltd. and Westar Petroleum Ltd. have not been consolidated since September 30, 1987 and September 30, 1986, respectively, at which times the Company's investments in those companies were written down to nominal value. Under current generally accepted accounting principles, consolidation is appropriate only in respect of those subsidiaries over which the Company has the continuing power to determine strategic operating, investing and financing policies without the cooperation of others. The Company does not have this continuing power over Westar Mining Ltd. and Westar Petroleum Ltd. due to their substantial indebtedness and the provisions of the debt agreements applicable thereto.

The accounts of the Company's forest products operations for the current and prior period have been segregated as discontinued operations and are recorded on the equity basis at a value not exceeding their estimated net realizable value (note 2).

As a consequence of the above accounting presentations, substantially all of the continuing operations reported in these consolidated financial statements are those of the coal terminal business.

Translation of Foreign Currencies

Transactions in foreign currencies are initially recorded in Canadian dollars at exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the end of the year. The resultant gain or loss is included in net income, except for gains or losses relating to long-term liabilities, which are deferred and amortized over the expected life of the related debt, and for gains or losses relating to hedged items, which are offset against the corresponding gain or loss of the related hedge.

Inventories

Inventories are valued at average cost less a provision for obsolescence.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided using a unit-of-production method based on the estimated useful life of the assets for periods up to 25 years. During the construction of major capital projects, interest is capitalized as a cost of these projects on the basis of expenditures incurred without reference to specific borrowings for these projects.

2. Discontinued Forest Products Operations

On May 24, 1991, the Company announced its intention to sell the assets of its forest products operations. Accordingly, the assets, liabilities and operating results for the current and prior period of the forest products operations have been restated as discontinued operations in these financial statements.

As at December 31 the Company's investment in its forest products operations are as follows:

	1991	*1990*
	(Millions)	
Current assets	**$ 44.4**	$ 71.5
Net fixed assets	**91.9**	98.7
Current liabilities	**(25.9)**	(34.6)
Long-term debt	**(3.0)**	(4.5)
Reforestation provision	**(9.7)**	(10.7)
Deferred operating loss *(see below)*	**17.1**	—
	$ 114.8	$ 120.4

The Company has deferred the recognition of the operating loss of the forest products operations since May 24, 1991, the date the decision was made to sell the operations. The deferred operating loss, which does not include any allocation of financing costs, will be offset against the expected gain on disposition.

The operating results for the discontinued forest products operations for the years ended December 31 are summarized below:

	1991	*1990*
	(Millions)	
Sales	**$ 161.6**	$ 243.5
Operating costs	**(190.9)**	(257.2)
Operating loss	**(29.3)**	(13.7)
Deferred operating loss	**17.1**	—
Loss from discontinued forest products operations	**$ (12.2)**	$ (13.7)

On January 18, 1992, the Company announced that an agreement for the sale of its Castlegar operations had been signed subject to the approval of certain government authorities. The Company expects to realize net proceeds, after related selling costs, of approximately $20.0 million. The proceeds will be paid to the lenders of Westar Group Ltd. as a reduction of the secured credit facility (note 5).

The remaining forest products operations are expected to be sold by the end of 1992 and consequently have been classified as a current asset in 1991.

3. Property, Plant and Equipment

	1991	1990
	(Millions)	
Property, buildings, machinery and equipment, at cost	$ 245.5	$ 223.1
Accumulated depreciation and amortization	67.8	61.6
	$ 177.7	$ 161.5

4. Investments and Advances

	1991	1990
	(Millions)	
Westar Mining Ltd.		
Common shares, 67% interest carried at nominal value of $1	$ —	$ —
Loan receivable from Westar Mining Ltd.	6.0	46.4
Westar Petroleum Ltd.		
Common and Preferred shares, 100% interest carried at nominal value of $1	—	—
	$ 6.0	$ 46.4

The loan receivable by Westar Industries Ltd. from Westar Mining Ltd. bears interest at the prime rate plus 1% with interest payable quarterly. Interest payments by Westar Mining Ltd. (1991 – $2.3 million) are offset by additional loans from Westar Industries Ltd. The loan is repayable on demand from Westar Industries Ltd. but only in amounts which exceed the redemption value of Westar Industries Ltd. Class C Preferred shares held by Westar Mining Ltd. (note 6). Full provision was included in the 1987 write-down of Westar Mining Ltd. for the future impact of dividends to be declared on the Class C Preferred shares to March 31, 1992, net of after-tax interest to be charged on the loan receivable from Westar Mining Ltd.

Westar Industries Ltd. may offset dividends and mandatory redemption payments on its Class C Preferred shares held by Westar Mining Ltd. against the loan receivable. During the year, the second mandatory redemption payment of $38.3 million and dividends of $4.9 million were offset (note 6).

5. Long-Term Debt and Restructuring Arrangements

	1991	1990
	(Millions)	
Westar Group Ltd., secured bank credit facility		
Term portion	$ 219.1	$ 231.3
Revolving credit facilities	52.4	44.6
	271.5	275.9
Westshore Terminals Ltd., secured term credit facility	114.4	105.0
	385.9	380.9
Less: Amounts due within one year	127.5	11.7
	$ 258.4	$ 369.2

Westar Group Ltd.

The Company's assets are pledged as security for the bank credit facility, which is to mature on March 31, 1992. Borrowings under the facility include U.S. $12.6 million which is translated at the year-end exchange rate.

The existing revolving credit facilities provide for borrowings and repayments by the Company at its option within a maximum limit of $60 million during the term of the secured bank credit facility and an additional $6 million for general liquidity which is available until the earlier of March 31, 1992 or the sale of one of the forest products operations.

Borrowings under the secured bank credit facility are available by way of bankers' acceptances with a floating stamping fee (currently 1%) plus ¼%, or directly in Canadian or U.S. funds at prime rate or U.S. base rate, respectively, plus ¼% or Eurodollars at LIBOR plus ⅞%. The interest rate on $57.8 million has been fixed at an average of 12.0% through interest rate swap agreements expiring in early 1992. The average cost of borrowings under this facility was 9.2% at December 31, 1991 and 13.2% at December 31, 1990.

During 1991, the Company made required principal repayments of $3.7 million. The December 31, 1991 required principal repayment of $1.3 million was deferred to March 31, 1992, at which time the existing facility matures and is expected to be replaced by a new facility (see "Restructuring Arrangements" below).

In December 1991, $8.5 million of the term facility owing to one of the lenders was repaid through additional loans of $9.4 million provided to Westshore Terminals Ltd. by the lender as an increase to its existing credit facility.

Restructuring Arrangements

The Company has made significant progress with its lenders on a new restructuring of Westar Group Ltd.'s long-term debt. This restructuring is expected to be effective March 31, 1992 subject to completion of required documentation and final approvals by the lenders and Revenue Canada Taxation.

Under the terms of the restructuring, up to $269.0 million of the Company's outstanding indebtedness will be exchanged by the lenders for special preferred shares issued by a wholly-owned subsidiary of the Company. The preferred shares will be subject to mandatory redemption by the Company on March 31, 1997. The restructuring will include a $10 million revolving facility that will also mature on March 31, 1997.

The shares will be redeemable and non-voting, except under certain circumstances, and will pay dividends monthly. The initial dividend rate will be 61% of prime rate plus 1¼%. The dividend rate will be adjusted annually to take into consideration the effective tax rates of the lenders. The revolving facility will be available through direct advances at prime rate plus 2%.

The restructuring will require quarterly repayments, to commence June 30, 1992, of $2.0 million each in 1992 and 1993; $3.0 million each in 1994; $3.5 million each in 1995; and $4.0 million each in 1996.

The restructuring will also require that payments from all sources made by the Company to the lenders aggregate not less than $30 million on or before June 30, 1992 and a further $70 million on or before December 31, 1992.

In addition, the restructuring will require that all excess cash of the Company determined quarterly must be applied as mandatory redemption of these special preferred shares. Excess cash will be defined to include all cash flow of the Company and its consolidated subsidiaries after provision for permitted capital expenditures and certain other specified payments. The calculation of excess cash makes no provision for the redemption of the Westar Industries Ltd. Class C Preferred shares held by Westar Mining Ltd. (note 6).

Westshore Terminals Ltd.

Under newly renegotiated terms, Westshore Terminals Ltd.'s secured term credit facility is repayable in quarterly instalments of $3.3 million from September 30, 1992 to March 31, 1997 with a final payment of $51 million due June 30, 1997. Substantially all of Westshore Terminals Ltd.'s assets have been pledged as security for the facility.

Borrowings are available by way of bankers' acceptances with a stamping fee of 1%. Drawings may be made directly in Canadian or U.S. funds at prime rate or U.S. base rate, respectively, plus ¼%. Eurodollars are also available at LIBOR plus 1%. The average cost of borrowings under this facility was 8.3% at December 31, 1991 and 13.6% at December 31, 1990.

In December 1991, the lender of this facility provided an additional $9.4 million of loans which were in turn loaned by Westshore Terminals Ltd. to Westar Group Ltd. who then repaid its borrowings to the same lender.

Maturity Schedule

Minimum consolidated aggregate repayments of long-term debt, after the restructuring, in each of the five years subsequent to December 31, 1991 are as follows (millions):

1992	*1993*	*1994*	*1995*	*1996*
$ 127.5	$ 21.3	$ 25.3	$ 27.3	$ 29.3

The 1992 amount includes $6.7 million due under Westshore Terminals Ltd.'s facility and $120.8 million due under the restructuring at Westar Group Ltd., including $114.8 million from sales of forest products operations.

6. Minority Interest in Subsidiary

	1991	*1990*
	(Millions)	
Westar Industries Ltd.		
38,333 Class C Preferred shares		
(1990 – 76,666 shares)	$ 38.3	$ 76.7

The Class C Preferred shares are held by Westar Mining Ltd. The Class C Preferred share provisions require redemption of the remaining issued shares on March 31, 1992 at a redemption price of $1,000 per share plus any accrued and unpaid dividends unless such redemption is prohibited by law. Dividends are cumulative and are payable quarterly at the rate of 70% of the average prime rate of a Canadian chartered bank during the quarter.

Dividend and mandatory redemption payments may be offset against the indebtedness owing from Westar Mining Ltd. (note 4). During 1991, 38,333 shares were redeemed by offset against the indebtedness owing from Westar Mining Ltd. and dividends totalling $4.9 million were similarly offset. At March 31, 1992, the redemption amount for the remaining 38,333 shares is expected to be $38.3 million as to which approximately $6.1 million will be satisfied by offset against the indebtedness owing from Westar Mining Ltd. Westar Industries Ltd. expects that it will be prohibited by applicable law from redeeming the remaining shares (estimated to be $32.2 million) on the redemption date and is not certain when it will be able to do so (note 5).

7. Share Capital

Authorized share capital consists of 100 million Preferred shares and 400 million Common shares, all without par value.

	1991	*1990*
	(Millions)	
Issued and Outstanding		
192,993,670 Common shares		
(1990 – 192,993,670)	$ 726.0	$ 726.0

In the first quarter of 1990, the Company issued 96,496,735 Common shares under a rights offering at a price of $0.94 per share. The proceeds, net of fees, were $86.1 million. Other expenses related to the rights offering were $1.8 million. These expenses, less taxes of $0.8 million, were charged to deficit.

The Westar Group Key Employee Stock Option Plan provides for granting to employees of the Company and its subsidiaries options to purchase Common shares of the Company. Each option granted under the plan expires after ten years and may be exercised in cumulative annual amounts of 20% to 33% on or after each of the first three or five anniversary dates of the grant.

At December 31, 1991 options exercisable between 1992 and 1999 were outstanding to 26 employees to purchase an aggregate of 2,190,000 shares at prices ranging from $0.64 to $1.24 per share.

8. Commitments and Contingencies

Commitments

The Company is committed under operating leases for rental of properties, facilities and equipment to March 1, 2002.

Future required minimum lease payments for the years ended December 31 are as follows (millions):

1992	*1993*	*1994*	*1995*	*1996*	*1997 and subsequent years*
$ 12.2	$ 12.2	$ 15.0	$ 15.5	$ 15.5	$115.1

Contingencies

The Company, as guarantor, is contingently liable for Westar Mining Ltd.'s indebtedness to a Canadian chartered bank. The guarantee is restricted to the amount outstanding, which, at December 31, 1991, was $45 million. There are restrictions governing the bank's ability to realize on the guarantee.

In July 1991, a class action antitrust suit was filed in Denver, Colorado alleging that Westar Timber Ltd. and fourteen other Canadian companies fixed prices on western Canadian softwood lumber sold to purchasers in the United States. Westar Timber Ltd. denies the allegations and will vigorously defend against them. Any conclusions about the outcome or about any potential loss would be premature.

The majority of the Company's timber supply is derived from long-term forest tenures granted to the Company by the Province of British Columbia. Certain of these tenures are in areas which are actually or potentially the subject of aboriginal land claims. The impact, if any, of these claims on the Company's operations cannot be determined at this time.

9. Related Party Transactions

Revenue includes $48.0 million (1990 – $40.4 million) of revenue from Westar Mining Ltd. of which $7.1 million (1990 – $1.7 million) is included in accounts receivable.

10. Financing Costs

	1991	*1990*
	(Millions)	
Long-term interest expense	$ 46.5	$ 56.8
Other	1.1	(0.3)
Less interest charged to major capital project	(1.5)	—
	$ 46.1	$ 56.5

11. Income Taxes

The components of the provision for income taxes are as follows:

	1991	*1990*
	(Millions)	
Earnings (loss) before income taxes	$ 9.2	$ (7.9)
Income taxes at the statutory combined federal and provincial rate	3.9	(3.4)
Effect on taxes from:		
Amortization of non-deductible acquisition costs	0.4	0.4
Large Corporations Tax	0.3	0.3
Other	0.2	0.3
Income tax provision	$ 4.8	$ (2.4)
Consisting of:		
Current income taxes	$ 0.3	$ 0.3
Deferred income taxes (recovery)	4.5	(2.7)
	$ 4.8	$ (2.4)

Deferred income taxes of $2.7 million (1990 – $10.3 million) on the Consolidated Balance Sheet are determined by applying income tax rates to tax losses and offsetting tax timing credits. At December 31, 1991 the Company had $82 million of losses carried forward for income tax purposes offset by $88 million in excess of net book value of property, plant and equipment over income tax value. The losses, the future tax benefits of which have been recognized in determining income tax provisions, must be utilized, in specified amounts, over the period to 1996.

Additionally, the Company has at December 31, 1991, approximately $15 million of losses, $86 million in excess of income tax value over net book value of property, plant and equipment and $10 million of reserves not deductible in the current period, all of which will be available to reduce future years' earnings for income tax purposes. The effect of such benefits, approximately $56 million at current statutory income tax rates, has not been recognized in the accounts and will be recognized in the future as a reduction to the income tax provision to the extent that these benefits can be utilized to reduce future taxes.

The Company also has investment tax credits of $4.8 million available to reduce taxes payable. Certain of these credits expire each year from 1993 to 1998.

12. Pension Plans

The Company has pension plans for hourly and salaried employees. The date of the last actuarial report on the Company's pension plans is January 1, 1991. At December 31, 1991, the estimated actuarial present value of accrued pension benefits was $46.9 million; the estimated market value of the pension fund assets was $35.8 million. An amount of $3.3 million has been expensed for the year 1991 (1990 – $2.0 million) representing the cost of pension benefits earned in the current year and the amortization, over the expected average remaining service life of current plan members, of the excess of accrued pension benefits over pension fund assets.

The costs of supplemental health care and life insurance benefits provided to eligible employees during retirement are recognized as incurred.

13. Decrease (Increase) in Operating Working Capital

The decrease (increase) in operating working capital consists of:

	1991	*1990*
	(Millions)	
Cash provided by (used for):		
Accounts receivable	$ (5.5)	$ 4.1
Inventories	(1.0)	(1.8)
Prepaid expenses	1.8	0.9
Accounts payable and accrued liabilities	2.8	3.7
	$ (1.9)	$ 6.9

	1991	1990	1989	1988	1987
Operating Results ($ Millions)					
Revenue from continuing operations	110.7	99.3	100.2	91.0	71.5
Earnings (loss) from continuing operations	4.4	(5.5)	8.1	4.9	(3.1)
Earnings (loss) from discontinued operations:					
Forest products operations	(12.2)	(13.7)	18.1	12.4	18.5
Coal operations	—	—	—	—	(322.9)
Net earnings (loss) for the year	(7.8)	(19.2)	26.2	17.3	(307.5)
Financial Position ($ Millions)					
Current assets[2]	133.5	19.7	19.4	12.1	12.1
Investment in discontinued forest products operations[2]	—	120.4	128.0	128.9	119.4
Property, plant and equipment (net)	177.7	161.5	159.1	164.9	171.8
Investments and advances	6.0	46.4	83.2	111.9	105.4
Deferred income taxes and other assets	2.7	10.3	11.8	19.9	24.0
	319.9	358.3	401.5	437.7	432.7
Current liabilities[2]	141.5	22.9	26.3	36.0	35.6
Long-term debt[2]	258.4	369.2	431.9	428.1	434.9
Minority interest	38.3	76.7	115.0	115.0	115.0
Shareholders' equity (deficit)	(118.3)	(110.5)	(171.7)	(141.4)	(152.8)
	319.9	358.3	401.5	437.7	432.7
Cash Flow ($ Millions)					
Cash provided by continuing operations	61.7	64.0	55.1	55.3	37.1
Cash provided by (used for) discontinued forest products operations	(6.6)	(5.8)	18.7	2.4	20.1
Proceeds of major asset dispositions	—	—	53.7	—	—
Capital expenditures and acquisitions	(24.9)	(11.3)	(3.1)	(1.8)	(1.0)
Financing costs	(46.1)	(56.5)	(59.7)	(46.3)	(43.0)
Preferred share dividends	—	(0.2)	(2.5)	(6.0)	(6.4)
Preferred share repurchases	—	(4.5)	(53.9)	(0.1)	(5.2)
Common share issues	—	84.3	0.1	—	—
Net additions to (repayment of) debt	5.0	(69.6)	(3.3)	(6.8)	—
Other	5.2	3.0	(1.4)	3.1	(0.3)
Increase (decrease) in cash	(5.7)	3.4	3.7	(0.2)	1.3

	1991	1990	1989	1988	1987
Common Share Information					
Net earnings (loss) for the year	**$ (0.04)**	(0.11)	0.24	0.12	(3.26)
Price range: High	**$ 0.88**	1.15	1.40	1.26	1.41
Low	**$ 0.41**	0.50	0.82	0.80	0.73
Close	**$ 0.53**	0.60	0.93	1.16	0.93
Common shares outstanding (Millions)	**193.0**	193.0	96.5	96.4	96.4
Number of registered Common shareholders (Thousands)	**91.9**	93.3	95.0	97.3	99.3
Other Information					
Capital expenditures ($ Millions)					
Forest Products	**7.2**	13.5	9.8	28.0	45.4
Terminal Operations	**24.9**	11.3	3.0	1.7	1.0
Coal	**4.5**	11.9	9.8	5.0	16.6
Oil & Gas	**1.1**	0.3	1.6	0.5	1.4
Corporate	**—**	—	0.1	0.1	—
	37.7	37.0	24.3	35.3	64.4
Shipments (Thousands)					
Lumber, mfbm: Produced	**509**	602	663	675	593
Wholesale	**75**	236	214	163	115
Agency	**177**	208	173	93	135
Terminal throughput, tonnes	**20,254**	18,907	20,000	19,154	16,295
Coal, tonnes [3]	**8,289**	8,022	8,889	8,685	7,658
Oil, barrels	**576**	596	678	773	890
Gas, mcf	**3,401**	3,286	3,632	3,556	4,193
Number of employees					
Forest Products	**1,086**	1,168	1,079	1,067	982
Terminal Operations	**191**	188	183	173	170
Coal	**1,972**	1,964	1,916	1,756	1,685
Oil & Gas	**46**	52	56	58	61
Corporate	**15**	15	23	23	21
	3,310	3,387	3,257	3,077	2,919
Wages and benefits ($ Millions)	**202.0**	192.2	186.1	177.5	163.6

1. All results in the Five Year Review, with the exception of the "Other Information" section, exclude the coal and oil and gas operations, which have been deconsolidated. Additionally, the accounts of the forest products operations have been segregated as discontinued operations and are recorded on the equity basis.

2. In 1991, the Company's investment in discontinued forest products operations and an equivalent amount of long-term debt are classified as current items.

3. Excludes 20% of the total shipments from the Greenhills Mine Joint Venture.

(Unaudited – $ Millions except per share)	*Three Months Ended* *March 31*	*June 30*	*Sept. 30*	*Dec. 31*	*Total*
1991					
Revenue	28.1	29.1	26.2	27.3	110.7
Earnings from continuing operations	1.0	2.1	0.9	0.4	4.4
Loss from discontinued forest products operations	(7.8)	(4.4)	—	—	(12.2)
Net earnings (loss) for the period	(6.8)	(2.3)	0.9	0.4	(7.8)
Net earnings (loss) per Common share	(0.04)	(0.01)	0.01	—	(0.04)
1990					
Revenue	25.0	23.6	26.7	24.0	99.3
Loss from continuing operations	(0.1)	(2.4)	(0.7)	(2.3)	(5.5)
Earnings (loss) from discontinued forest products operations	0.5	(0.4)	(3.1)	(10.7)	(13.7)
Net earnings (loss) for the period	0.4	(2.8)	(3.8)	(13.0)	(19.2)
Net earnings (loss) per Common share	—	(0.02)	(0.02)	(0.07)	(0.11)

In keeping with Westar Group's environmental policy, materials used in the publication of this annual report are intended to be environmentally friendly. The cover and text stock use recycled, acid-free fibre which may be further recycled.

Corporate Information

Board of Directors*

L.I. (Larry) Bell
President and Chief Executive Officer
Westar Group Ltd.

Brent S. Belzberg
President and Chief Executive Officer
Harrowston Corporation

Samuel Belzberg
Chairman, Bel-Fran Investments Ltd.

Gilbert S. Bennett
President and Chief Executive Officer
Lundrigans Limited

John Bradlow
President
First City Capital Markets (Canada) Ltd.

Gordon F. Gibson
President, GFG Enterprises Ltd.

Lucille M. Johnstone
Chairman, President and Chief Executive Officer
Integrated Ferry Constructors Ltd.

Edwin C. Phillips
Chairman of the Board
Westar Group Ltd.

William G. Saywell
President, Simon Fraser University

J. Allan Thorlakson
President, Tolko Industries Ltd.

*Four of the present Directors will not be standing for re-election as Directors at the Annual General Meeting on April 23,1992 and four new nominees will be proposed for election. Please refer to page 3 for details.

Subsidiary Management

Robert C. Stanlake
President, Westshore Terminals Ltd.

Peter Berry
President and Chief Executive Officer
Westar Timber Ltd.

Peter Dolezal
President and Chief Executive Officer
Westar Mining Ltd.

L.I. (Larry) Bell
President, Westar Petroleum Ltd.

Officers

Edwin C. Phillips
Chairman of the Board

L.I. (Larry) Bell
President and Chief Executive Officer

Robert F. Chase
Senior Vice President, Finance
and Chief Financial Officer

Suzanne K. Wiltshire
General Counsel and Secretary

Dorothy M. McClelland
Assistant Secretary

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The Toronto Stock Exchange

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Also in Calgary, Winnipeg, Toronto, Montreal

Quarterly Reports
Beginning in 1992, quarterly reports will be mailed only to shareholders who have specifically asked to receive them. If you wish to receive quarterly reports please advise Montreal Trust Company at the address above.

Change of Address
In order to keep the shareholders list current, please advise Montreal Trust Company of any change in your address.

Westar Group

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