The White Pass and Yukon Corporation Limited
1984 Annual Report

Directors' Report to Shareholders

DIRECTORS

*John F. Fraser,
Winnipeg, Manitoba
Thomas H. King,
Whitehorse, Yukon
Augustus S. Leach, Jr.,
Winnipeg, Manitoba
*Arthur V. Mauro,
Winnipeg, Manitoba
John S. Pelton,
Winnipeg, Manitoba
*J. Derek Riley,
Winnipeg, Manitoba
Stewart A. Searle,
Winnipeg, Manitoba

OFFICERS

J. F. Fraser,
Chairman of the Board
T. H. King,
President and Chief Executive Officer
M. P. Taylor,
Executive Vice-President and Chief Operating Officer
G. W. Goertz,
Vice-President, Finance
T. J. Martin,
Vice-President, Administration
H. W. Wray,
Vice-President, Financial Planning
A. M. Stewart,
Secretary

HEAD OFFICE

P.O. Box 4070
Whitehorse, Yukon
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REGISTRAR AND TRANSFER AGENT

The Royal Trust Company
Vancouver, Calgary
Toronto, Montreal

*Member of Audit Committee

1984 RESULTS

Net earnings before extraordinary item for the year ended December 31, 1984 were $3,020,000 or $1.40 per common share, compared to earnings of $1,543,000 or $0.62 per common share in 1983. Revenue in 1984 totalled $137,004,000 compared to $91,951,000 in 1983.

During the fourth quarter the Company determined that its investment in the White Pass Railway and related operations was permanently impaired resulting in an extraordinary charge to income of $15,219,000 or $8.05 per share. The charge reduced net earnings for the year to a loss of $12,199,000 or $6.65 per common share.

FREIGHT HAULING SERVICES

In its first full year as a subsidiary of White Pass, Canadian Motorways Ltd. performed well. Sales of $105.4 million and operating earnings of $7.5 million were achieved despite a slow start in the first quarter. From the second quarter on, volumes and profits continued to grow — enhanced by innovative marketing and efforts to reduce operating costs and increase productivity. As a measure of this performance, on the year, Motorways achieved a return of 20% on the initial investment.

In addition:

- The contract-hauling Cougar Division was expanded by the establishment of Cougar Pacific, based in Vancouver. The new division, which began operation in the fourth quarter, will concentrate on traffic flowing north and south from the Port of Vancouver.
- To capitalize on rapidly-escalating demand for courier services in Canada, "Motopak" was formed late in the year to offer overnight courier services, using existing equipment, in an area stretching from Thunder Bay, Ontario to the Alberta/Saskatchewan border.
- More than 100 tractors were sold and replaced by rental equipment.
- To reduce costs, terminals at North Portal and Estevan, Saskatchewan were combined, and the terminal at Kenora, Ontario sold at a gain and replaced with a leased facility.
- Operating authorities were extended to all highway points between Prince George and Prince Rupert, B.C. The Company's fourth international border crossing authority was secured at Pigeon River, Ontario.
- In January of 1985, management of Canadian Motorways was restructured. Thomas H. King assumed the position of Chief Executive. J. Marshall Cumberland, a seasoned transportation executive with many years of experience in the trucking field, was appointed Executive Vice-President and Chief Operating Officer.

In 1985, management of Canadian Motorways will continue to keep costs under tight control while aggressively pursuing new markets. Due to a slowly strengthening western Canadian economy, and Motorways' pre-eminent position in western markets, forecasts are for good growth in both sales and share of market for general freight, contract and specialized trucking operations. This, combined with anticipated freight rate increases, should improve both revenue and earnings in 1985.

NORTHERN OPERATIONS

The continued closure of the Cyprus Anvil mine, and a decision by the Canadian Government to support road transportation to tidewater for mineral concentrates, resulted in major changes at White Pass in 1984.

At the end of the year, a decision was taken to write down more than $15 million of rail and marine transportation assets which had been idle for two years or more.

With both marine shipping and the railway suspended, and the former general freight trucking operations amalgamated into Canadian Motorways, White Pass is a considerably smaller organization, one that has been restructured to be able to move quickly to capitalize on opportunities.

As a measure of this, White Pass managed to make an operating profit in 1984, despite continuing stagnation in Yukon's economy. This achievement is particularly noteworthy because it was made on the strength of the petroleum distribution, oil rig moving and docking and terminalling businesses that represent "the new White Pass", the core companies which will be built upon in the years to come.

The best evidence of the Company's renewed activity during 1984 was at White Pass Systems Ltd., the newly-formed division specializing in large scale movements of oil drilling rigs and camps. As exploration activity continued to rebound in western Canada, Systems drew upon the considerable experience of its management and employees to become a significant force in the industry in its first year of operation. Late in the year, the Company made a strategic acquisition of the assets of Ron Jackson Transport Ltd. for $2.6 million. The purchase adds a northern Alberta market presence as well as equipment and know-how that will be essential to future expansion.

During 1984, White Pass Systems carried out work in Alberta, northern British Columbia, Yukon and Northwest Territories via the Dempster Highway. Over the next year, calling on its own people as well as independent contract drivers who provide their own tractors, White Pass Systems intends to expand its base of operations into Saskatchewan, to other points in British Columbia and Northwest Territories.

In White Pass' Alaska and Yukon operations, profit growth was achieved against prevailing economic currents. The major factor in this growth was petroleum distribution. While sales volumes were impacted negatively by slow economic conditions, White Pass petroleum operations provided higher levels of both cash flow and profits. During the year, White Pass signed a three-year extension of its agency agreement with Chevron U.S., covering distribution of petroleum products in Skagway, Alaska.

In other significant developments:

- $1.3 million (U.S.) in dock modifications, funded by the State of Alaska and the City of Skagway, were completed at the Skagway Terminal Company. Originally designed to handle lead zinc concentrates, the Terminal will now generate sales and profits by offering docking and terminalling services to cruise ships which make Skagway a port-of-call during the tourist season.
- The lawsuit lodged by White Pass against Cyprus Anvil Mining Co. was settled in September and had a positive after-tax effect.

Late in the year, Mr. Marvin Taylor, formerly manager of the White Pass Rail Division, was promoted to Executive Vice-President and Chief Operating Officer, White Pass and Yukon Corporation, responsible for operations in Yukon and Alaska. Mr. Taylor has relocated from Skagway to Whitehorse, and will spearhead future growth in White Pass' northern operations.

For 1985, increased profits for White Pass are expected as a consequence of increased penetration of oil field transportation, greater use of the Skagway Terminal, and strengthening margins for petroleum products.

On behalf of the Board of Directors,

JOHN F. FRASER
Chairman of the Board

THOMAS H. KING
President and Chief Executive Officer

March 28, 1985

Consolidated Balance Sheet
as at December 31, 1984

ASSETS	$000 1984	1983
Current		
Cash	$ 211	$ –
Accounts receivable	23,957	23,215
Income taxes recoverable	1,575	1,441
Inventories (Note 3)	7,936	11,087
Prepaid expenses	942	970
	34,621	36,713
Fixed (Note 4)		
Property and equipment	116,653	150,892
Less accumulated depreciation	56,907	79,294
	59,746	71,598
Other		
Mortgages and agreements receivable	106	138
Deferred charges	523	132
Intangible assets	1,542	1,814
	2,171	2,084
	$ 96,538	$110,395

Approved by the Directors

Director

Director

See accompanying notes to consolidated financial statements.

The White Pass and Yukon Corporation Limited

(Continued under the Canada Business Corporations Act)

	$000	
LIABILITIES	1984	1983
Current		
Bank indebtedness	$ 3,746	$ 6,428
Accounts payable and accrued liabilities	19,034	18,398
Due to parent company	1,966	–
Current portion of long term debt	1,521	2,167
	26,267	26,993
Long term debt (Note 6)	40,474	40,310
Deferred income taxes	6,346	7,071
	73,087	74,374
Contingencies and commitments (Note 10)		
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized		
500,000 cumulative, redeemable, preferred shares, with a par value of $25 each, issuable in series and redeemable at $25.25 each		
12,000,000 common shares, without par value		
Issued and fully paid		
220,000 6¾% preferred shares, Series A	5,500	5,500
1,891,516 common shares	4,783	4,783
Retained earnings	13,168	25,738
	23,451	36,021
	$ 96,538	$110,395

Consolidated Statement of Earnings
for the year ended December 31, 1984

	$000	
	1984	1983
Revenue		
Northern operations	$ 31,586	$ 33,007
Freight hauling services	105,418	58,944
	137,004	91,951
Cost of sales and operating expenses	125,726	84,926
Depreciation	4,048	2,900
Interest on long term debt	4,621	1,824
Interest on short term debt	623	1,000
Interest earned	(225)	(30)
Gain on sale of fixed assets	(2,855)	(1,516)
	131,938	89,104
Earnings before income taxes and extraordinary item	5,066	2,847
Provision for (recovery of) income taxes (Note 5)		
Current	(167)	659
Deferred	2,213	645
	2,046	1,304
Net earnings before extraordinary item	3,020	1,543
Extraordinary item (Note 2)	15,219	–
Net earnings (loss) for the year	$(12,199)	$ 1,543
Net earnings (loss) per common share		
Before extraordinary item	$ 1.40	$ .62
Extraordinary item	(8.05)	–
Including extraordinary item	$(6.65)	$ .62

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings
for the year ended December 31, 1984

	$000	
	1984	1983
Balance at beginning of year	$ 25,738	$ 17,935
Surplus resulting from consolidation	–	6,631
Net earnings (loss) for the year	(12,199)	1,543
	13,539	26,109
Dividends		
Preferred shares	371	371
Balance at end of year	$ 13,168	$ 25,738

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

The Shareholders,
The White Pass and Yukon Corporation Limited.

We have examined the consolidated balance sheet of The White Pass and Yukon Corporation Limited as at December 31, 1984 and the consolidated statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 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.

Winnipeg, Manitoba,
March 15, 1985.

Touche Ross & Co

Chartered Accountants

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1984

	$000 1984	$000 1983
Source of funds		
Operations		
Net earnings (loss) for the year	$(12,199)	$ 1,543
Add		
Amortization of deferred charges	13	13
Deferred income taxes	2,213	645
Depreciation	4,048	2,900
Gain on sale of fixed assets	(2,855)	(1,516)
Extraordinary item, net of impact on working capital of $5,239	9,980	–
Funds provided by operations	1,200	3,585
Advances from parent and affiliated companies	2,269	16,589
Increase in long term debt	3,704	10,822
Long term liabilities assumed on acquisition of subsidiary company	–	4,176
Proceeds from sale of fixed assets	4,031	3,264
Reclassification from current to deferred income taxes	1,254	–
	12,458	38,436
Application of funds		
Purchase of fixed assets	7,350	6,148
Reduction of long term debt	6,160	3,197
Dividends paid	371	371
Acquisition of subsidiary company		
Fixed assets acquired	–	27,450
Other non-current assets acquired	–	1,515
Other	(57)	295
	13,824	38,976
Decrease in working capital	1,366	540
Working capital at beginning of year	9,720	10,260
Working capital at end of year	$ 8,354	$ 9,720

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

- British Columbia-Yukon Railway Company
- The British Yukon Railway Company
- Nissan Diesel (Canada) Ltd.
- White Pass Systems Ltd.
- White Pass Transportation Limited, and its subsidiary companies:
  - T & H Cariboo Transport (1958) Ltd.
  - Triad Transport Ltd.
  - Canadian Motorways Ltd. and its subsidiary companies:
    - Motorways (1980) Limited
    - Cougar Freight Systems Limited
    - La Compagnie Motorways (Quebec) Limitée
    - Demanagement Hill Securite Inc.
    - Security Storage Limited
    - Motorways Inc.
    - Motorways Consolidation and Storage Inc.
- White Pass Transportation, Inc. and its subsidiary companies:
  - Haines Terminal & Highway Company
  - Pacific and Arctic Pipelines Incorporated
  - Pacific and Arctic Railway and Navigation Company
  - Skagway Terminal Company
- Yukon Pipelines Limited

All material inter-company balances, transactions and profits have been eliminated.

b. Foreign currency translation

The accounts of certain subsidiaries are maintained in United States dollars. These accounts represent integrated foreign operations and have been translated into Canadian dollars as follows: current assets, current liabilities and long term debt at exchange rates prevailing at the end of the year; fixed assets and depreciation substantially on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation) on the basis of average exchange rates during the year. Exchange gains or losses from such translation practices have been included in consolidated earnings, except for exchange gains and losses on long term debt which are deferred and amortized over the remaining term of the debt.

c. Inventories

Inventories of bulk petroleum products are valued at the lower of cost applied on a "first-in, first-out" basis and market determined at net realizable value; inventories of other products and materials and supplies are valued at the lower of average cost and net realizable value or replacement cost.

d. Fixed assets and depreciation

Fixed assets are recorded at cost. All equipment leases of a capital nature entered into subsequent to 1977 have been recorded as fixed asset acquisitions and long term debt obligations. Depreciation is determined at rates which amortize the cost of the assets over their estimated useful lives on the straight-line, declining balance or volume of use method, whichever is appropriate in the circumstances under which the assets are employed. No depreciation is recorded on idle assets or equipment held for sale. Gains and losses on disposal of equipment and real property are included in earnings.

e. Deferred charges

Deferred charges include (i) a foreign exchange loss on long term debt which is repayable in United States dollars and (ii) finance charges incurred in securing long term debt, both of which are being amortized over the remaining terms of the respective debts.

f. Intangible assets

Intangible assets represent licenses, operating rights and franchises which are not being amortized.

g. Income taxes

The Company follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings.

Differences between such taxes and taxes currently payable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for income tax purposes.

Potential tax reductions that may result from the application of losses against future taxable income are not recognized unless recovery out of future taxable income is virtually certain.

h. Net earnings (loss) per common share

Net earnings (loss) per common share has been computed by dividing the net earnings (loss) for the year less the preferred share dividends paid during the year by the number of common shares outstanding during the year.

i. International accounting standards

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with international accounting standards.

2. CONTINUED SUSPENSION OF RAILWAY OPERATIONS

In October 1982 the Company suspended its railway operations pending a recommencement of mining operations in the Yukon. In December 1984 the Canadian Government decided that it should support year round commercial operation of a road running parallel to the Railway. Accordingly, the Directors of the Company concluded that permanent impairment has resulted in the Company's investment in the Railway and its related assets, resulting in an extraordinary non-cash write down in the carrying value of such assets of $15,219,000, net of deferred income taxes of $4,191,000. This amount includes provisions for costs of continued suspension of railway operations.

3. INVENTORIES

	$000	
	1984	1983
Petroleum products held for sale	$ 6,151	$ 7,650
Tires, batteries and accessories held for sale	434	503
Spare parts and supplies	1,351	2,934
	$ 7,936	$11,087

4. FIXED ASSETS

	$000			
	1984			1983
	Cost	Accumulated depreciation	Net	Net
Northern operations				
Storage facilities	$ 4,133	$ 798	$ 3,335	$ 3,626
Pipeline	1,174	829	345	405
Terminal	6,690	4,481	2,209	2,239
Rail	–	–	–	25,893
Ship and containers	–	–	–	500
Automotive equipment	10,992	6,702	4,290	59
Land and buildings	4,889	2,065	2,824	1,776
Machinery and equipment	2,657	1,376	1,281	634
	30,535	16,251	14,284	35,132
Freight hauling services				
Automotive equipment	42,600	34,166	8,434	11,304
Land and buildings	20,558	3,026	17,532	19,227
Machinery and equipment	8,198	3,464	4,734	3,570
	71,356	40,656	30,700	34,101
Assets held for sale	14,762	–	14,762	2,365
	$116,653	$56,907	$59,746	$71,598

Included in the amounts reported above are assets under capital leases of $3,281,000 (1983 – $4,482,000) and related accumulated depreciation thereon of $1,659,000 (1983 – $1,975,000).

5. INCOME TAXES

a. The Company's effective income tax rate is derived as follows:

	1984	1983
Average combined tax rate	51.1%	49.5%
Inventory tax allowances	(2.4)	(5.4)
Reduced rate on capital gains	(3.6)	(20.7)
Unrecorded tax benefits related to losses of subsidiary companies	8.2	13.0
Investment tax credits	(11.7)	(0.1)
Foreign exchange	(1.1)	3.8
Other	(0.1)	5.7
Average effective tax rate	40.4%	45.8%

b. Certain subsidiaries of the Company have tax loss carry forwards of approximately $4,540,000 and investment tax credit carry forwards of approximately $1,494,000 available to reduce future taxable income and taxes payable. The potential benefit of these carry forwards will be recorded as the benefits are received.

6. LONG TERM DEBT

	$000	
	1984	1983
Due to an affiliated company, ½% above prime rate, payable on demand, secured by the Company's investment in Canadian Motorways Ltd. The affiliated company does not intend to call the loan during 1985.	$17,695	$ –
Due to parent company, ½% above prime rate, payable on demand, secured by the Company's investment in Canadian Motorways Ltd. The parent company does not intend to call the loan during 1985.	1,164	16,589
Bank loan, ¼% above prime rate	6,400	9,000
Bank loan, ½% above U.S. prime rate	415	652
Alaska Industrial Development Authority Port Facility, 13¾% bond, 1985 to 1988.	5,080	4,729
Government of Canada non-interest bearing loan, secured by certain rail assets.	4,750	5,000
Mortgages, 10⅝%-12½%, 1985 to 1988	3,397	3,544
Capitalized lease obligations, 8.2%-14.4%	1,784	2,620
Promissory note, 15%, secured, 1986 to 1987	1,280	–
First ship mortgage	–	325
Other	30	18
	41,995	42,477
Less Current portion	1,521	2,167
	$40,474	$40,310

The aggregate amount of maturities over the next five years, excluding demand loans with affiliated companies, is approximately as follows: 1985 – $1,521,000; 1986 – $1,951,000; 1987 – $1,930,000; 1988 – $1,183,000; 1989 – $742,000.

7. REMUNERATION OF DIRECTORS AND OFFICERS

	Number		Amount	
	1984	1983	1984	1983
As directors	7	7	$ 6,000	$ 6,000
As officers	5	4	$354,100	$260,000

8. SEGMENTED INFORMATION

	$000			
	1984		1983	
	Revenue	Segment Margin	Revenue	Segment Margin
Northern operations	$ 32,040	$ 2,536	$33,834	$2,337
Freight hauling services	105,418	7,549	60,204	3,407
	137,458	10,085	94,038	5,744
Inter-segment transactions	(454)	–	(2,087)	(103)
	$137,004	10,085	$91,951	5,641
Interest expense		5,244		2,824
Interest income		(225)		(30)
		5,019		2,794
Earnings from operations		5,066		2,847
Provision for income taxes		2,046		1,304
Net earnings before extraordinary item		3,020		1,543
Extraordinary item		15,219		–
Net earnings (loss)		$(12,199)		$1,543
Capital expenditures				
Northern operations		$ 3,346		$ 575
Freight hauling services		4,047		5,573
		$ 7,393		$6,148
Depreciation				
Northern operations		$ 951		$ 500
Freight hauling services		3,097		2,400
		$ 4,048		$2,900

9. RELATED PARTY TRANSACTIONS

The Company recorded the following inter-company transactions during the year:

	$000	
	1984	1983
a. Parent company		
Interest expense	$ 1,075	$ 179
Interest income	$ 225	$ –
b. Affiliated company		
Interest expense	$ 1,106	$ –

10. CONTINGENCIES AND COMMITMENTS

a. A subsidiary of the Company has guaranteed certain indebtedness of Federal Industries Ltd. to a maximum of $10,000,000.

b. A subsidiary of the Company and other members of The Western Tariff Bureau, an association of trucking companies, were charged in 1981 under the provisions of the Combines Investigation Act (Canada). The charges allege that the members of the bureau have breached the prohibition against price fixing in the Act since 1962 by publishing freight tariffs. The preliminary hearing on the charges has not yet been scheduled. At the present time, the Company is not able to estimate the probability of loss, if any, arising from this action.