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The White Pass and Yukon Corporation Limited
Annual Report 1983

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
G. W. Goertz,
Vice-President, Finance and Secretary
W. V. McIsaac,
Vice-President, Truck Transportation

HEAD OFFICE

P.O. Box 4070
Whitehorse, Yukon
Y1A 3T1

REGISTRAR AND TRANSFER AGENT

The Royal Trust Company
Vancouver, Calgary
Toronto, Montreal

*Member of Audit Committee

1983 RESULTS

Net earnings for the year ended December 31, 1983 amounted to $1,543,000 compared to a profit of $23,000 in 1982. After dividends on preferred shares the net earnings per common share for 1983 were 62¢ compared to a loss of 18¢ per share in 1982. Revenues totalled $91,981,000 in 1983 compared to $81,018,000 for 1982.

REVIEW OF 1983

Effective June 30, 1983, the Company acquired substantially all the equity of Canadian Motorways Ltd. from British Electric Traction Co. PLC for cash consideration aggregating $15,976,000. This operation now conducts all of the general freight trucking business previously handled by White Pass.

The acquisition of Motorways more than offset the anticipated dramatic decline in the level of activity of the Company's northern operations resulting from the continued closure of the Company's major customer, Cyprus Anvil Mining Corporation. However, by year-end management had restructured Yukon Operations to produce at a minimum a break-even position at current activity levels.

In late December, the Canadian Transport Commission published an interim report on Yukon transportation. Its conclusions support the White Pass Railway as the preferred and economic means for transporting bulk freight to and from Yukon. It is expected that the final report, and the industry and government communication it will initiate, could lead to a satisfactory conclusion to the longstanding problem of the Railway.

BULK HAULAGE, MARINE AND RAIL DIVISIONS

The operations of all three of these divisions were suspended in the first quarter of 1983 due to the announcement that the Cyprus Anvil mine would not ship concentrates in 1983. Except for key management positions, all staff in these three divisions was laid off in the first quarter of 1983. Equipment and facilities required to operate these three divisions are being maintained in readiness at a minimum cost until such time as the Cyprus Anvil mine might commence milling operations and product shipment.

The Company continues to explore a number of options to utilize the two owned ships in the marine division on a variety of special projects.

During the year White Pass was successful in having the Full Crew Law repealed in Alaska. The Full Crew Law had constrained operations by requiring overmanning in its rail division in the U.S. The Company can now work with the unions to develop more appropriate staffing levels. When the railway reopens, it is of paramount importance that management recover its rights to conduct its operations in the most efficient manner and that the high cost of labour be moderated to make the rail more competitive with other forms of transportation in Yukon. During 1983 and continuing in 1984, management has and will continue to negotiate with the various unions to achieve these vital objectives.

As a result of the disastrous economic impact of mine closures, in June, 1983, the Yukon Territorial Government asked the Canadian Transport Commission to carry out a special inquiry into Yukon transportation. White Pass' position paper to the CTC stated that the preferred option for transporting minerals from Yukon mines was the railway, and a transportation subsidy should be provided to the mine if railway costs were shown to be higher than trucking. The CTC's preliminary report issued on December 15, 1983, clearly supported the railway by indicating that, if direct and indirect costs are taken into account, the railway is the most economic means of moving mineral concentrates to tidewater.

PETROLEUM DIVISION

The petroleum division continues to be profitable although volume declined by 39% to 15.2 million gallons, reflecting the severe economic decline in Yukon and increased competition as a result of the continuing glut of petroleum products in western Canada.

Improvements were made in the pipeline system between Skagway, Alaska and Whitehorse, Yukon to allow for the movement of gasoline products through the line. Previously, gasoline products were transported by rail tank car. In addition, advanced filtration systems were installed and a laboratory placed in Whitehorse to ensure the noncontamination of products.

A long-term contract was signed with Imperial Oil Limited to transport petroleum products via marine-pipeline and provide bulk storage in Yukon.

Looking ahead to 1984, The White Pass and Yukon Corporation has restructured its non-trucking operations to maintain, at a minimum, a break-even position assuming no change in present conditions. Should the CTC's final report be consistent with the preliminary report and government adopt the recommendations contained therein, or should the Cyprus Anvil mine reopen and White Pass recover its tonnage, northern operations of White Pass would again provide a positive profit contribution to the Company.

LAND DIVISION

A $1 million sale of land to the Government of Yukon was consummated in the fourth quarter of 1983. The proceeds from this sale were used to repay the loan of equal amount from the Government of Yukon received in 1981 as part of the purchase price of four new locomotives which, to this date, remain undelivered.

GENERAL FREIGHT DIVISION

Newly-acquired Canadian Motorways Ltd., headquartered in Winnipeg, is one of Canada's ten largest general freight truck transportation companies with sales in excess of $100 million.

Canadian Motorways Ltd. has over 1,700 employees, owns 2,600 pieces of transportation equipment, and conducts operations from 46 terminals and 11 agencies in Canada, and three terminals in the U.S. Acquired through White Pass in July 1983, the general freight operations of the two companies were integrated in November 1983 under Canadian Motorways Ltd.

Motorways' operations are divided into four regions: the Western Region consisting of British Columbia and Yukon, the Alberta Region, the Central Region consisting of Saskatchewan, Manitoba and northwestern Ontario to Thunder Bay, and the Eastern Region extending from Thunder Bay to Montreal. As part of its "LTL" (less than truckload) operations, Motorways provides an express service operating from Montreal and Toronto to Winnipeg, Regina, Saskatoon, Calgary, Edmonton and Vancouver under the trade name "MOTOSPAN".

The full load contract hauling operations of Motorways are carried on through its Cougar Freight Systems division which utilizes independent contractors to provide motive power.

Under the trade name "HIGH-TECH", Motorways operates a specialized service for transporting fragile equipment including computers and related equipment, banking equipment, and fragile office equipment such as photocopiers.

The recessionary trend that adversely impacted Motorways' freight volumes in 1981 and 1982 continued into the first half of 1983. The Company enjoyed a mild upturn in business activity during the third quarter which dropped off in the fourth quarter, partially due to seasonal factors. Overall, Motorways experienced a 3% decline in volume over 1982, although the industry in total had tonnage declines averaging 12%.

For the six months ended December 31 — the period of ownership by The White Pass and Yukon Corporation Limited — Motorways reported revenues of $51.1 million, an increase of 4% over the comparable period in 1982. During this period Motorways provided a profit contribution to the Transport Group. On a full year basis, 1983 revenues of $102.5 million were approximately equal to 1982. These results reflect a volume decline which was effectively offset by freight rate increases.

The sale of Motorways' household moving operations was completed in 1983. While revenue for this portion of operations amounted to approximately $18 million on an annual basis, it had only returned acceptable profits in two of the last nine years. The purchasers of this operation assumed all union contracts and offered employment to most salaried personnel. As a result of the closing of the household division, Motorways has a number of redundant assets which it plans to divest. The funds so generated will be redeployed in its primary general freight activities. Divestiture of this operation will enable the Company to devote all of its time and resources to its primary activity, general freight operations.

During 1984 the Company will pursue improved productivity in its existing operations and expand volume in those regions where it can do so profitably, with particular emphasis on eastern Canada. The Company will focus on increasing tariffs where possible and work to reduce labour costs so as to improve its competitive position relative to other carriers, many of which are non-union. Strategies are being developed to increase the Company's international traffic through its three U.S. portals — Seattle, Minneapolis/St. Paul and Buffalo.

On behalf of the Board of Directors,

JOHN F. FRASER
Chairman of the Board

THOMAS H. KING
President and Chief Executive Officer

March 29, 1984

Consolidated Balance Sheet
as at December 31, 1983

	$000	
ASSETS	1983	1982
Current		
Accounts receivable	$ 23,215	$ 5,730
Income taxes recoverable	1,441	1,237
Inventories (Note 5)	11,087	11,879
Prepaid expenses	970	317
	36,713	19,163
Fixed (Note 6)		
Property and equipment	150,892	80,632
Less accumulated depreciation	79,294	37,984
	71,598	42,648
Other		
Mortgages and agreements receivable	138	141
Deferred charges	132	145
Intangible assets	1,814	–
	2,084	286
	$110,395	$ 62,097

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	1983	1982
Current		
Bank indebtedness, secured (Note 7)	$ 6,428	$ 2,596
Accounts payable and accrued liabilities	18,398	5,506
Current portion of long term debt	2,167	801
	26,993	8,903
Long term debt (Note 8)	23,721	12,054
Due to parent company (Note 9)	16,589	–
Deferred income taxes	7,071	6,291
	74,374	27,248
Contingencies and commitments (Notes 3, 4 and 15)		
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		
200,000 6¾% preferred shares, Series A	5,500	5,500
1,891,516 common shares	4,783	4,783
Surplus resulting from consolidation (Note 10)	–	6,631
Retained earnings	25,738	17,935
	36,021	34,849
	$110,395	$ 62,097

Consolidated Statement of Earnings

for the year ended December 31, 1983

	$000	
	1983	1982
Revenue		
Petroleum	$ 30,570	$ 42,725
Transportation	61,381	38,030
Other	30	263
	91,981	81,018
Less		
Cost of sales and operating expenses	84,926	77,364
Depreciation	2,900	3,318
Interest on long term debt	1,824	427
Interest on short term debt	1,000	783
Gain on sale of fixed assets	(1,516)	(687)
	89,134	81,205
Earnings (loss) before income taxes	2,847	(187)
Provision for (recovery of) income taxes (Note 11)		
Current	659	(245)
Deferred	645	35
	1,304	(210)
Net earnings for the year	$ 1,543	$ 23
Net earnings (loss) per common share	$ .62	$ (.18)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

for the year ended December 31, 1983

	$000	
	1983	1982
Balance at beginning of year	$ 17,935	$ 18,284
Surplus resulting from consolidation (Note 10)	6,631	–
Net earnings for the year	1,543	23
	26,109	18,307
Dividends		
Preferred shares	371	372
Balance at end of year	$ 25,738	$ 17,935

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, 1983 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, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba,
March 16, 1984

Touche Ross & Co

Chartered Accountants

700 - 1177 West Hastings Street,
Vancouver, British Columbia V6E 2L2
Telephone (604) 669-3343 – Telex 04-51293

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1983

	$000 1983	1982
Source of funds		
Operations		
Net earnings for the year	$ 1,543	$ 23
Add		
Amortization of deferred charges	13	87
Deferred income taxes	645	35
Depreciation	2,900	3,318
Gain on sale of fixed assets	(1,516)	(687)
Funds provided by operations	3,585	2,776
Advance from parent company	16,589	–
Increase in long term debt	10,822	5,107
Long term liabilities assumed on acquisition of subsidiary company	4,176	–
Proceeds from sale of fixed assets	3,264	900
	38,436	8,783
Application of funds		
Acquisition of subsidiary company		
Fixed assets acquired	27,450	–
Other non-current assets acquired	1,515	–
Dividends paid	371	372
Purchase of fixed assets	6,148	1,555
Reduction of long term debt	3,197	735
Other	295	290
	38,976	2,952
Increase (decrease) in working capital	(540)	5,831
Working capital at beginning of year	10,260	4,429
Working capital at end of year	$ 9,720	$ 10,260

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned except for Canadian Motorways Ltd. which is 99% owned, as follows:

- British Columbia-Yukon Railway Company
- The British Yukon Railway Company
- Canadian Motorways Ltd. and its subsidiary companies (results of operations have been included since its acquisition, July 1, 1983):
  - 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.
- Nissan Diesel (Canada) Ltd.
- White Pass Transportation Limited, and its subsidiary companies:
  - Pioneer Alaska Express, Inc.
  - T & H Cariboo Transport (1958) Ltd.
  - Triad Transport Ltd.
- 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.

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. Gains and losses on disposal of equipment and real property are included in earnings.

e. Deferred charges

The Company defers finance charges incurred in securing long term debt. Such costs are charged against earnings on a straight-line basis over the term of the debt.

f. Intangible assets

Intangible assets represent (i) amounts paid for distribution agreements, which are being amortized over a ten year period, and (ii) $1,538,000 of 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 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. ACQUISITION OF CANADIAN MOTORWAYS LTD.

Effective June 30, 1983, the Company acquired 99% of the issued shares of Canadian Motorways Ltd. which carries on a truck transportation business in Canada. Operations of this company are included in the accounts from the date of acquisition. The assets and liabilities of this company have been included in the consolidated balance sheet at December 31, 1983.

This acquisition, which was accounted for by the purchase method, is summarized as follows:

	$000
Net assets acquired, at fair market values at acquisition dates	
Current assets	$19,461
Current liabilities	(28,110)
Working capital	(8,649)
Fixed assets	27,450
Other non-current assets	1,515
	20,316
Long term debt assumed	(4,042)
Other non-current liabilities	(134)
	$16,140
Consideration	
Cash	$16,140

3. LEGAL PROCEEDINGS

The Company's largest customer indefinitely shut down its mining operations on June 4, 1982. As a result, a major portion of the Company's northern transportation operations were suspended throughout 1983. The Company has commenced legal proceedings in order to recover the amounts due to it under the shipping agreements with the customer.

4. SUSPENSION OF RAILWAY OPERATIONS

The Company has suspended its railway operations pending a recommencement of mining operations in Yukon sufficient to generate an appropriate level of shipping tonnage. The assets necessary for the operation of the railway are carried on the balance sheet at $25,893,000. If the railway does not recommence operations or if freight volumes available to the railway do not improve substantially from current levels or if the government decides to open the road from Skagway to Whitehorse for year round commercial traffic, then the economic viability of the railway and value of the railway assets on the books of the Company, will have to be reassessed. Any such reassessment would have no cash flow impact on the Company. The Company anticipates that mining shipments in Yukon will recommence in the future and that sufficient rail freight volumes will become available to warrant the reopening of the railway.

5. INVENTORIES

	$000	
	1983	1982
Petroleum products held for resale	$ 7,650	$ 8,825
Tires, batteries and accessories held for resale	503	428
Spare parts and supplies	2,934	2,626
	$11,087	$11,879

6. FIXED ASSETS

	$000			
	1983			1982
	Cost	Accumulated depreciation	Net	Net
Petroleum				
Pipeline	$ 1,173	$ 768	$ 405	$ 439
Storage facilities	4,138	512	3,626	3,637
Trucks	467	408	59	91
Land and buildings	1,820	841	979	909
Other machinery and equipment	915	577	338	397
	8,513	3,106	5,407	5,473
Transportation				
Rail	35,526	9,633	25,893	25,916
Ships and containers	12,855	9,990	2,865	2,846
Trucks and containers	55,833	44,423	11,410	3,561
Skagway terminal	6,690	4,451	2,239	2,239
Land and buildings	23,967	4,050	19,917	2,131
Other machinery and equipment	6,980	3,323	3,657	247
Furniture and fixtures	528	318	210	235
	142,379	76,188	66,191	37,175
	$150,892	$79,294	$71,598	$42,648

Included in the amounts reported above are assets under capital leases of $4,482,391 (1982 – $2,925,721) and related accumulated depreciation thereon of $1,974,800 (1982 – $1,842,395).

7. BANK INDEBTEDNESS

Bank indebtedness is secured by an assignment of book debts and inventories and fixed and floating charges on certain fixed assets.

8. LONG TERM DEBT

	$000	
	1983	1982
First ship mortgage note, 8½%, due 1984	$ –	$ 325
Capitalized lease obligations, 8.2%-14.4%	1,785	1,039
Government of Canada non-interest bearing loan, secured by certain rail assets	4,750	5,000
Government of Yukon Territory non-interest bearing loan, secured by certain rail assets	–	1,000
Alaska Industrial Development Authority Port Facility 13¾% bond, 1985 to 1998	4,368	4,672
Mortgages, 10⅝%-12½%, 1985 to 1988	3,409	–
Bank loan, secured, ½% above U.S. prime rate	403	–
Bank loan, secured, ¼% above prime, due 1985	9,000	–
Other	6	18
	$23,721	$12,054

The aggregate amount of maturities over the next five years is approximately as follows: 1984 – $2,167,000; 1985 – $12,673,000; 1986 – $1,262,000; 1987 – $1,142,000; 1988 – $1,918,000.

9. DUE TO PARENT

The amount due to Federal Industries Ltd. currently bears interest at 11.5% per annum, is payable on demand and is unsecured. The parent company does not intend to call the loan during 1984.

10. SURPLUS RESULTING FROM CONSOLIDATION

The surplus resulting from consolidation represented the excess of net book value of subsidiaries over the cost to the Company when acquired over 30 years ago. During the year this amount has been included in retained earnings.

11. INCOME TAXES

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

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

b. Certain subsidiaries of the Company have tax loss carry forwards of approximately $4,000,000 and investment tax credit carry forwards of approximately $1,750,000 available to reduce future taxable income and taxes payable. The potential benefits of these carry forwards will be recorded as the benefits are received.

12. REMUNERATION OF DIRECTORS AND OFFICERS

	Number 1983	Number 1982	Amount 1983	Amount 1982
As directors	7	7	$ 6,000	$ 6,400
As officers	4	5	$260,000	$360,533
Officers who are also directors	2	2	$ —	$ —

13. SEGMENTED INFORMATION

$000

	1983 Revenue	1983 Segment Margin*	1982 Revenue	1982 Segment Margin*
Petroleum	$ 31,830	$ 1,320	$ 46,224	$ 2,154
Transportation	65,511	1,630	43,971	(2,008)
	97,341	2,950	90,195	146
Inter-segment transactions	(5,360)	(103)	(9,177)	(333)
	$ 91,981		$ 81,018	
Earnings (loss) from operations		2,847		(187)
Provision for (recovery of) income taxes		1,304		(210)
Net earnings for the year		$ 1,543		$ 23

$000

	1983	1982
Capital expenditures during the year		
Petroleum	$ 320	$ 86
Transportation	5,828	1,469
	$ 6,148	$ 1,555
Depreciation expense for the year		
Petroleum	$ 474	$ 400
Transportation	2,426	2,918
	$ 2,900	$ 3,318

*Segment margins after deductions of interest of $448,000 (1982 – $418,000) for petroleum and $2,376,000 (1982 – $792,000) for transportation.

14. RELATED PARTY TRANSACTIONS

The Company recorded the following transactions with its parent company during the year:

	1983	1982
Management fee expense	$ —	$ 15,000
Interest expense	$179,000	$177,000

15. CONTINGENCIES AND COMMITMENTS

a. A subsidiary of the Company has guaranteed certain indebtedness of Federal Industries Ltd. As of December 31, 1983, the loans covered by this guarantee totalled $4,435,000.

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.