The White Pass and Yukon Corporation Limited
Annual Report 1982

APR 21 1983
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Directors' Report to Shareholders

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Winnipeg, Manitoba
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Whitehorse, Yukon
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Winnipeg, Manitoba
*Arthur V. Mauro,
Winnipeg, Manitoba
John S. Pelton,
Winnipeg, Manitoba
*J. Derek Riley,
Winnipeg, Manitoba
Stewart A. Searle,
Winnipeg, Manitoba

OFFICERS

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President and Chief Executive Officer
G. W. Goertz,
Vice-President, Finance
W. V. McIsaac,
Vice-President, Truck Transportation
W. D. Davie,
Secretary

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

1982 RESULTS

For the fiscal year ended December 31, 1982, earnings were $23,000, a sharp decrease from $3,059,000 in 1981. After providing for dividends on preferred shares, a loss of $0.18 per common share was incurred in 1982, compared to a gain of $1.42 in the previous year.

Including an extraordinary gain of $324,000, net earnings in 1981 were $3,383,000 or $1.59 per common share. There were no extraordinary items in 1982.

Revenue for 1982 was $81,018,000, compared to $99,782,000 in 1981.

REVIEW OF 1982

The dominant issue in 1982 was the closing of the Cyprus Anvil mine at Faro, Yukon in June, and the continuing uncertainty as to the timing and nature of a re-opening. In response to poor metal prices and as a consequence of extreme cash flow pressures, a decision was taken by the mine owners to extend indefinitely what was first a three to five-week summer shutdown. The ripple effect of this and other smaller mine closures has been dramatic throughout Yukon—with estimates of a 40 per cent reduction in overall economic production. The future implication of mine closures on the company's principal businesses is described in more detail below.

PETROLEUM SALES AND SERVICES

Petroleum sales declined 16 per cent from 1981. Most of the reduction occurred in the second half of the year, almost totally because of the closure of Cyprus Anvil and other Yukon mines. The cessation of mining also sharply reduced the amount of power required, much of which is generated by petroleum products sold by White Pass. Further, the railway and trucking operations in the North are major users of diesel products, and their curtailment in the third and fourth quarter affected sales.

Profitability of the petroleum division declined over 50 per cent, reflecting reduced volume and increasing pressure on margins as competitors continued to penetrate the Yukon marketplace. This competitive situation arises primarily because of a glut of petroleum products on the west coast, itself a result of the activity declines in the forestry and mining industries.

FREIGHT TRANSPORTATION SERVICES

Freight dollar volume fell 16 per cent from 1981, once again largely a result of mine closures in Yukon and their attendant economic effect. Operating profits worsened from a break-even position in 1981 to a loss in excess of $2.7 million. Marine volume declined by more than 50 per cent, a consequence of the fact that a major proportion of bulk cargo handled by this operation is destined for the Cyprus Anvil mine. Further, general falloff in demand for consumer commodities, including petroleum products carried within the ship, produced a less frequent travelling schedule.

The marine route, however, did demonstrate its relative economics by regaining the important Kelly Douglas contract for hauling foodstuffs into Yukon, a traffic formerly handled by an all road haul, and marine profitability actually ran ahead of 1981 until the final quarter, when the full effects of mine closures became apparent.

The White Pass and Yukon railway suspended operations on October 8th, 1982, an action brought on by the disclosure that the Cyprus Anvil mine would not open until at least the spring of 1983, and with no assurance that that date was firm. Ironically, during the first and second quarter, volume handled by the railway was extraordinarily high, reflecting the decision by Cyprus Anvil to ship as much product as their mill could produce. After the mine closed on June 4th, 1982, the railway continued to operate for four months, carrying other freight and passengers. The tourist business declined somewhat from 1981; but by historic standards was reasonably high.

Profitability of the railway was adversely affected by the severely cold winter and by unusually heavy volumes of lead-zinc shipped during the first five months, requiring the railway to operate on a seven-day basis and to incur substantial overtime and other penalty costs. In addition, the decision to operate a passenger operation with greatly reduced general freight loads increased the losses. However, management efforts at cost-cutting and the recording of shortfall tonnage penalties payable by Cyprus Anvil left the railway in virtually the same loss position as in 1981— approximately $3 million.

The northern highway operation, which hauls primarily Anvil ore from the mine to the railhead, experienced an excellent first half due to the high production levels at the mine. Unlike the railway, which has relatively high fixed costs, the highway division is able to be profitable over a larger range of freight volumes. Low equipment maintenance due to newly purchased power units and the absence of road bans in Yukon also contributed to first half profitability. However, third quarter losses mounted when the railway shut down and the division operated an alternative—and very expensive—service through the port of Haines, Alaska, itself curtailed by a strike in the fourth quarter. In addition the closure of United Keno Hills Mine made worse the steadily deteriorating profit performance in this division, with the result that earnings were almost $1 million lower than 1981.

The general freight division, operating an extensive network of routes in British Columbia, Alberta, Yukon and Northwest Territories, was not as severely affected by the Cyprus Anvil closure. However, volumes were decreased by the deepening recession in Western Canada, with total sales down nearly 40 per cent in the second half. Some pick-up was evident in the fourth quarter, but overall volumes were very disappointing.

Profitability in this division was also reduced by the costs of acquiring and integrating new routes—in particular the Vancouver to Whitehorse run which represents an important strategic direction for the entire White Pass and Yukon Corporation. The existence of operating authorities between Vancouver, Edmonton and Whitehorse allows the company to provide an alternative service to the traditional White Pass Route, which uses the marine and rail links.

During the year, agreement was reached for the sale of land in Skagway and Whitehorse. Proceeds of approximately $1,200,000 have been received, and have been credited to freight division operations.

From virtually every standpoint, 1982 was a particularly disappointing year for the White Pass and Yukon Corporation. Poised to produce record earnings, the company experienced the best first quarter in its history. But the closure of all mines in the Yukon—an event unprecedented in this century—together with the unexpected severity of the economic recession in Western Canada, combined to reduce performance to a break-even position.

Cash-flow for the year, after providing for needed capital replacements, was approximately even, allowing the corporation to remain essentially debt free and to maintain financial strength.

OUTLOOK FOR 1983

The restructuring of White Pass for the coming year is based on the presumption that the activity of Cyprus Anvil in 1983 will be directed to stripping overburden and not to the shipping of ore. As a result, marine operations were halted after the January sailing and the suspension of railway activities was continued into 1983. The company is targeting its Yukon efforts to petroleum sales and distribution operations, with the emphasis in Western Canada on the hauling of general freight.

Regrettably, the personnel complement, which was at 750 people in May 1982, will be reduced to fewer than 250 people by March of 1983. Only essential management personnel will be retained in the Marine and Rail Divisions, and the company will be actively seeking business elsewhere than Yukon to employ trucking assets formerly used to haul ore from Anvil to the railhead. All of the company's union agreements will expire during 1983, and it is expected that White Pass will be able to negotiate renewal agreements that will be competitive in the new and unsettled environment.

In summary, Yukon will remain a severely depressed area and sales of petroleum products and other White Pass services will be curtailed throughout the year. However, the company expects to expand materially its general freight operation south of the 60th parallel and to obtain a number of trucking contracts for activities such as exploration drilling in the Beaufort Sea. Although the costs of restructuring will be significant, it is expected that any loss experienced in 1983 will not be material, and there is a reasonable possibility of profitable operations before 1984.

On behalf of the Board of Directors,

JOHN F. FRASER
Chairman of the Board

THOMAS H. KING,
President and Chief Executive Officer

March 16, 1983

Consolidated Balance Sheet
as at December 31, 1982

	$000	
ASSETS	*1982*	*1981*
Current		
Accounts receivable	$ 5,730	$11,733
Income taxes recoverable	1,237	–
Inventories (Note 2)	11,879	14,493
Prepaid expenses	317	813
	19,163	27,039
Fixed (Note 3)		
Property and equipment	80,632	81,021
Less accumulated depreciation	37,984	36,397
	42,648	44,624
Other		
Mortgages and agreements receivable (Note 4)	141	167
Deferred charges	145	65
	286	232
	$62,097	$71,895

See accompanying notes to consolidated financial statements.

Approved by the Directors

Director

Director

The White Pass and Yukon Corporation Limited
(Continued under the Canada Business Corporations Act)

	$000	
LIABILITIES	***1982***	***1981***
Current		
Bank indebtedness, secured	$ 2,596	$ 8,525
Accounts payable and accrued liabilities	5,488	11,880
Income taxes payable	18	1,471
Current portion of long-term debt	801	734
	8,903	22,610
Long term debt (Note 5)	12,054	7,682
Deferred income taxes	6,291	6,256
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
Surplus resulting from consolidation (Note 6)	6,631	6,780
Retained earnings	17,935	18,284
	34,849	35,347
	$62,097	$71,895

Consolidated Statement of Earnings
for the year ended December 31, 1982

	$000 1982	$000 1981
Revenue		
Petroleum	$42,725	$54,920
Transportation	38,030	44,742
Other	263	120
	81,018	99,782
Less		
Cost of sales and operating expenses	77,364	88,780
Depreciation	3,318	3,103
Interest on long-term debt	427	294
Interest on short-term debt	783	826
Gain on sale of fixed assets	(687)	(241)
	81,205	92,762
Earnings (loss) before income taxes and extraordinary item	(187)	7,020
Provision for (recovery of) income taxes		
Current	(245)	3,113
Deferred	35	848
	(210)	3,961
Earnings before extraordinary item	23	3,059
Extraordinary item		
Reduction in income taxes through the realization of losses carried forward	–	324
Net earnings for the year	$ 23	$ 3,383
Net earnings (loss) per common share		
Before extraordinary item	($ .18)	$ 1.42
Extraordinary item	–	.17
Including extraordinary item	($ .18)	$ 1.59

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings
for the year ended December 31, 1982

	$000	
	1982	*1981*
Balance at beginning of year	$18,284	$15,272
Net earnings for the year	23	3,383
	18,307	18,655
Dividends		
Preferred shares	372	371
Balance at end of year	$17,935	$18,284

See accompanying notes to consolidated financial statements.

Touche Ross & Co.

Chartered Accountants

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 and its subsidiary companies as at December 31, 1982, and the consolidated statements of earnings, retained 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 companies as at December 31, 1982, and the results of their operations and the changes in their 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.

Vancouver, B.C.
February 9, 1983

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, 1982

	$000 1982	$000 1981
Source of funds		
Operations		
Net earnings for the year	$ 23	$ 3,383
Charges to earnings not resulting in an outlay of working capital		
Amortization of deferred charges	87	73
Deferred income taxes	35	848
Depreciation	3,318	3,103
Extraordinary item	–	(324)
Gain on sale of fixed assets	(687)	(241)
Funds provided by operations	2,776	6,842
Increase in long-term debt	5,107	5,526
Mortgages and agreements receivable	26	1,223
Proceeds from sale of fixed assets	900	378
Reclassification from current to deferred income taxes	–	476
Reduction in income taxes through the realization of losses carried forward	–	324
	8,809	14,769
Application of funds		
Dividends paid	372	371
Purchase of fixed assets	1,555	11,736
Increase in deferred charges	167	–
Reduction of long-term debt	735	783
Excess of cost of subsidiary company over identifiable assets (Note 6)	149	–
	2,978	12,890
Increase in working capital	5,831	1,879
Working capital at beginning of year	4,429	2,550
Working capital at end of year	$10,260	$ 4,429

See accompanying notes to consolidated financial statements.

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 Transportation Limited, and its subsidiary companies:
 Pioneer Alaska Express, Inc.
 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 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. Assets held for resale are valued at the lower of their net book value when offered for resale and net realizable value. 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. 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 taxeble income are not recognized until such future taxable income is earned.

g. 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.

h. 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—INVENTORIES

	$000	
	1982	1981
Petroleum products held for resale	$ 8,825	$10,957
Tires, batteries and accesories held for resale	428	765
Spare parts and supplies	2,626	2,771
	$11,879	$14,493

3—FIXED ASSETS

	$000			
	1982			1981
	Cost	Accumulated depreciation	Net	Net
Petroleum				
Trucks	$ 349	$ 258	$ 91	$ 89
Land and buildings	1,679	770	909	1,197
Other machinery and equipment	916	519	397	494
	2,944	1,547	1,397	1,780
Transportation				
Rail and pipeline	36,686	10,331	26,355	22,377
Storage facilities	3,844	207	3,637	3,963
Ship and containers	6,490	5,851	639	596
Trucks and containers	13,114	9,553	3,561	3,941
Skagway terminal	6,690	4,451	2,239	2,658
Land and buildings	3,392	1,261	2,131	1,998
Other machinery and equipment	604	357	247	245
Furniture and fixtures	527	292	235	165
Equipment under construction	–	–	–	4,694
Equipment held for resale	6,341	4,134	2,207	2,207
	77,688	36,437	41,251	42,844
	$80,632	$37,984	$42,648	$44,624

4—MORTGAGES AND AGREEMENTS RECEIVABLE

	$000 1982	$000 1981
Amounts loaned at various rates to businesses and individuals, secured by charges on assets	$ 167	$ 208
Less current portion	26	41
	$ 141	$ 167

5—LONG-TERM DEBT

	$000 1982	$000 1981
Capitalized equipment leases at various rates of interest from 8.2% to 11.1% for one to six years with aggregate repayments in 1983 of $459,375	$ 1,498	$ 1,913
8½% first-ship mortgage note with annual principal repayments of $325,000 to 1984	650	975
Government of Canada non-interest bearing loan, repayable over twenty years with equal annual instalments of $250,000 commencing in 1984, secured by certain assets	5,000	5,000
Government of the Yukon Territory non-interest bearing loan, repayable over twenty years with equal annual instalments of $25,000 commencing in 1984, secured by certain assets	1,000	500
Alaska Industrial Development Authority Port Facility Bond at 13.75% interest, repayable over thirteen years with alternating instalments of $290,000 and $295,000 (U.S.) commencing in 1985	4,672	–
Mortgage at 7% interest with annual principal and interest payments at $1,184 until 1991	7	–
Non-interest bearing promisory note with monthly principal repayments of $516 (Canadian) and $658 (U.S.)	28	28
Total long-term debt	12,855	8,416
Less current portion	801	734
	$12,054	$ 7,682

The estimated amounts of retirement of the long-term debt over the next five years are as follows:
Canadian funds: 1983 — $791,000; 1984 — $1,090,000; 1985 — $624,000; 1986 — $346,000; 1987 — $351,000
U.S. funds: 1983 — $8,000; 1984 — $5,000; 1985 — $290,000; 1986 — $295,000; 1987 — $290,000.

6—SURPLUS RESULTING FROM CONSOLIDATION

The surplus resulting from consolidation represents the excess of net book value of subsidiaries at the date of acquisition over cost to the Company.

7—INCOME TAXES

The provision for and recovery of income taxes is related to the individual earnings and losses of the Company and its subsidiary companies. Some subsidiary companies have incurred losses against which future income tax recoveries have not been recognized in the accounts resulting in an increased effective tax rate in these consolidated financial statements.

8—REMUNERATION OF DIRECTORS AND OFFICERS

	Number 1982	Number 1981	Amount 1982	Amount 1981
As directors	7	7	$ 6,400	$ 7,000
As officers	5	4	$360,533	$175,000
Officers who are also directors	2	1	$ –	$ –

9—SEGMENT INCOME INFORMATION

$000	1982 Revenue	1982 Segment Margin*	1981 Revenue	1981 Segment Margin*
Petroleum	$ 46,069	$ 4,001	$ 58,712	$ 8,572
Transportation	44,126	(3,855)	48,369	(1,179)
	90,195	146	107,081	7,393
Inter-segment transactions	(9,177)	(333)	(7,299)	(373)
	$ 81,018		$ 99,782	
Earnings (loss) from operations		(187)		7,020
Income taxes		210		(3,961)
Extraordinary item		–		324
Net earnings for the year		$ 23		$ 3,383

	$000 1982	$000 1981
Capital expenditures during the year		
Petroleum	$ 86	$ 258
Transportation	1,469	11,478
	$ 1,555	$11,736
Depreciation expense for the year		
Petroleum	$ 196	$ 195
Transportation	3,122	2,908
	$ 3,318	$ 3,103

*Segment margins after deductions of interest of $99,400 (1981 — $129,000) for petroleum and $1,110,600 (1981 — $991,000) for transportation.

10—RELATED PARTY TRANSACTIONS

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

	1982	1981
Management fee expense	$ 15,000	$ 15,000
Interest expense	$177,000	$130,412

11—SIGNIFICANT EVENT

The Company's largest customer indefinitely shutdown its operations on June 4, 1982. The Company has suspended a major portion of its transportation operations. The customer and the Company are proceeding to arbitration in order to determine whether the customer is liable to the Company for damages for breach of its shipping agreement.

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