The White Pass and Yukon Corporation Limited
Annual Report 1981

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

John F. Fraser, *Chairman of the Board*
Thomas H. King, *President and Chief Executive Officer*
William D. Davie, *Secretary*
Gary W. Goertz, *Chief Financial Officer and Treasurer*

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

1981 RESULTS

For the fiscal year ended December 31, 1981, earnings before extraordinary items were $3,059,000, an increase of 59% from $1,924,000 in 1980. After providing for dividends on preferred shares, earnings per common share were $1.42 compared to $0.82 in 1980.

Including an extraordinary gain of $324,000, net earnings were $3,383,000 or $1.59 per common share, compared to earnings of $2,338,000 or $1.04 per common share in 1980.

Revenue for 1981 was $99,782,000, an increase of 22% over $81,602,000 in 1980.

1981 REVIEW

This substantial and encouraging profit growth, primarily the result of improved earnings in the Petroleum and Marine divisions, was achieved despite the adverse impact of several events, including a four-week rail strike, spring road bans in Yukon for the first time and recurring production difficulties of the Company's major customer, Cyprus Anvil Mining Corporation. While these improvements are gratifying and are expected to continue, the Rail division, on a fully allocated cost basis, experienced further substantial losses.

Final agreement was reached during the year with Federal and Yukon governments for the provision of $6,000,000 in interest-free loans to purchase locomotives and other rail equipment. Delivery of most equipment is expected in 1982, and resulting efficiencies will reduce operating costs. This important agreement is also an indication of a commitment of both levels of government to maintaining a successful rail infrastructure as a key part of the transportation system of the North.

The most significant improvement over 1980 was achieved in petroleum distribution. During the year, agreement was reached with the Company's supplier, Chevron Canada, to purchase petroleum at the refinery in Burnaby, B.C. rather than Whitehorse. This new arrangement will give more efficient control of inventories, timing of purchases and method of delivery. Also, your Company was successful in signing a five year agreement with the Northern Canada Power Commission to provide diesel fuel for electrical generation. In late 1981, a major relocation of petroleum tank storage was completed in Skagway. Although constructed primarily for safety reasons, the new facility will provide a more efficient and effective transshipment operation.

Trucking operations continued to expand during the year. The Company received operating authorities between Vancouver and Whitehorse and began service from a new terminal in Burnaby, B.C., offering — for time sensitive freight — a new alternative to the Company's marine service. Additional operating authorities were received from the Alberta Government to truck on a new route between Edmonton and Prince George, B.C. An application for the B.C. portion of the route has been heard by the B.C. Motor Transport Board. In addition approval is being sought to provide service to other areas including Tuktoyaktuk and McKinley Bay, N.W.T. These initiatives are part of the Company's overall strategy to expand its trucking service on a north/south access and, over time, to become a prominent mover of general freight and other commodities in British Columbia, Alberta, Yukon, North West Territories and into the United States.

During the year Mr. R. A. Hubber-Richard, a Director and formerly President of your Company, tendered his resignation as a result of accepting the position as Chairman of the Pilotage Commission of the Port of Vancouver, British Columbia. The Directors gratefully acknowledged the contribution Mr. Hubber-Richard has made to the growth and success of the Company.

OUTLOOK FOR 1982

The outlook for 1982 is bright. An expected return to more normal tonnages at Cyprus Anvil will improve materially both the volume and the balance of products carried by the Company. Although the most dramatic effect of this development will be in the railway, all divisions will derive significant efficiencies. Passenger business should increase substantially, reflecting both the rectification of the mechanical problems that affected cruise ships in 1981 and a substantially increased marketing effort to stimulate passenger movement both south from and north to Whitehorse.

Events in 1981 surrounding the construction of the Northern Natural Gas Pipeline have been encouraging and suggest that this major undertaking could begin relatively soon. The Company is in an ideal position to provide substantial proportion of the haulage and servicing connected with construction and in 1981 we successfully designed a special railway flatcar to carry large diameter pipe on existing roadbed. This, together with the Company's proven competence in Northern trucking services, should ensure its prominent position among firms chosen to handle transport of up to 400,000 tonnes of pipe, to provide general freight services and to supply petroleum products during the construction period.

The combination of these and other factors should produce significant increased earnings and enhance the future prospects for the Company.

On behalf of the Board of Directors,

JOHN F. FRASER
Chairman of the Board

THOMAS H. KING,
President and Chief Executive Officer

April 5, 1982

Consolidated Balance Sheet
as at December 31, 1981

	$000	
ASSETS	***1981***	***1980***
Current		
Accounts receivable	$11,733	$11,278
Inventories (Note 2)	14,493	8,484
Prepaid expenses	813	805
Due from parent company	–	11
	27,039	20,578
Fixed (Note 3)		
Property and equipment	81,021	69,767
Less accumulated depreciation	36,397	33,639
	44,624	36,128
Other		
Mortgages and agreements receivable (Note 4)	167	1,390
Deferred charges	65	138
	232	1,528
	$71,895	$58,234

See accompanying notes to financial statements.

Approved by the Directors

Director

Director

The White Pass and Yukon Corporation Limited

(Continued under the Canada Business Corporation Act)

	$000	
LIABILITIES	***1981***	***1980***
Current		
Bank indebtedness, secured	$ 8,525	$ 5,409
Accounts payable and accrued liabilities	11,880	10,569
Income taxes payable	1,471	1,201
Current portion of long-term debt	734	849
	22,610	18,028
Long term debt (Note 5)	7,682	2,939
Deferred income taxes	6,256	4,932
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)	6,780	6,780
Retained earnings	18,284	15,272
	35,347	32,335
	$71,895	$58,234

Consolidated Statement of Income

for the year ended December 31, 1981

	$000	
	1981	*1980*
Revenue		
Petroleum	$54,920	$39,065
Transportation	44,742	42,225
Other	120	312
	99,782	81,602
Less		
Cost of sales and operating expenses	88,780	73,540
Depreciation	3,103	2,648
Interest on long-term debt	294	839
Interest on short-term debt	826	276
Gain on sale of fixed assets	(241)	(26)
	92,762	77,277
Income before income taxes and extraordinary item	7,020	4,325
Provision for income taxes		
Current	3,113	2,208
Deferred	848	193
	3,961	2,401
Income before extraordinary item	3,059	1,924
Extraordinary item		
Reduction in income taxes through the realization of losses carried forward	324	414
Net income for the year	$ 3,383	$ 2,338
Net income per common share		
Before extraordinary item	$ 1.42	$ .82
Extraordinary item	.17	.22
Including extraordinary item	$ 1.59	$ 1.04

See accompanying notes to financial statements.

Consolidated Statement of Retained Earnings

for the year ended December 31, 1981

	$000	
	1981	*1980*
Balance at beginning of year	**$15,272**	$13,305
Net income for the year	**3,383**	2,338
	18,655	15,643
Dividends paid		
Preferred	**371**	371
Balance at end of year	**$18,284**	$15,272

See accompanying notes to 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 as at December 31, 1981 and the consolidated statements of income, 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 Company as at December 31, 1981 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.

Vancouver, B.C.,
February 6, 1982.

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, 1981

	$000	
	1981	*1980*
Funds were provided by		
Operations		
Net income for the year	$ 3,383	$ 2,338
Charges to earnings not resulting in an outlay of working capital		
Amortization of deferred charges	73	95
Deferred income taxes	848	193
Depreciation	3,103	2,648
Extraordinary item	(324)	(414)
Gain on disposal of fixed assets	(241)	(26)
Funds from operations	6,842	4,834
Disposal of fixed assets	378	402
Increase in long-term debt	5,526	–
Mortgages and agreements receivable	1,223	340
Reclassification from current to deferred income taxes	476	–
Reduction in income taxes through the realization of losses carried forward	324	414
	14,769	5,990
Funds were used for		
Dividends paid	371	371
Purchase of fixed assets	11,736	1,982
Reduction of long-term debt	783	3,392
	12,890	5,745
Increase in working capital	1,879	245
Working capital at beginning of year	2,550	2,305
Working capital at end of year	$ 4,429	$ 2,550

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

December 31, 1981

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 company:
  Pioneer Alaska Express, Inc.
White Pass Transportation, Inc. and its subsidiary companies:
  Pacific and Arctic Pipelines Incorporated
  Pacific and Arctic Railway and Navigation Company
  Skagway Terminal Company
  Haines Terminal & Highway 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. Gains and losses on disposal of equipment and real property are included in earnings.

e. Deferred charges

The Company defers major overhaul costs to equipment which extend the estimated useful lives of the equipment. Such costs are charged against earnings on a straight-line basis over 36 months.

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 expenses 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 until such future taxable income is earned.

g. Net income per common share

Net income per common share has been computed by dividing the net income 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	
	1981	1980
Petroleum products held for resale	**$10,957**	$4,818
Tires, batteries and accessories held for resale	**765**	809
Spare parts and supplies	**2,771**	2,857
	$14,493	$8,484

3—FIXED ASSETS

	$000			
	1981			1980
	Cost	Accumulated depreciation	Net	Net
Petroleum				
Trucks	**$ 315**	**$ 226**	**$ 89**	$ 147
Land and buildings	**1,911**	**714**	**1,197**	1,269
Other machinery and equipment	**1,013**	**519**	**494**	152
	3,239	**1,459**	**1,780**	1,568
Transportation				
Rail and pipeline	**32,502**	**10,125**	**22,377**	22,512
Storage facilities	**3,978**	**15**	**3,963**	–
Ships and containers	**13,016**	**10,213**	**2,803**	3,006
Trucks and containers	**12,036**	**8,095**	**3,941**	3,968
Skagway terminal	**6,797**	**4,139**	**2,658**	3,052
Land and buildings	**3,170**	**1,172**	**1,998**	1,620
Other machinery and equipment	**732**	**487**	**245**	230
Furniture and fixtures	**857**	**692**	**165**	172
Equipment under construction	**4,694**	**–**	**4,694**	–
	77,782	**34,938**	**42,844**	34,560
	$81,021	**$36,397**	**$44,624**	$36,128

4—MORTGAGES AND AGREEMENTS RECEIVABLE

	$000 1981	1980
I) Amounts loaned at various rates to businesses and individuals, secured by charges on assets.	$ 208	$ 289
ii) Amounts advanced and secured by a first mortgage on an operating asset formerly under contract.	–	1,283
	208	1,572
Less current portion	41	182
	$ 167	$ 1,390

5—LONG-TERM DEBT

	$000 1981	1980
Capitalized equipment leases at various rates of interest from 8.2% to 11.1% for one to six years with aggregate repayments in 1982 of $405,000	$1,913	$2,488
8½% first-ship mortgage note with annual principal repayments of $325,000 to 1984	975	1,300
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	–
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.	500	–
Non-interest bearing promissory note with monthly principal repayments of $1,174 commencing in 1982	28	–
Total long-term debt	8,416	3,788
Less current portion	734	849
	$7,682	$2,939

The estimated amounts of retirement of the long-term debt over the next five years are as follows: 1982 — $734,000; 1983 — $802,000; 1984 — $1,211,000; 1985 — $512,000; 1986 — $345,000.

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 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—SEGMENT INCOME INFORMATION

	$000 1981 Revenue	1981 Segment Margin*	1980 Revenue	1980 Segment Margin*
Petroleum	$ 58,712	$ 8,572	$42,573	$ 5,535
Transportation	49,831	(1,179)	44,306	(985)
	108,543	7,393	86,879	4,550
Inter-segment transactions	(8,761)	(373)	(5,388)	(336)
Interest earned from parent company	–	–	111	111
	$ 99,782		$81,602	
Income from operations		7,020		4,325
Income taxes		(3,961)		(2,401)
Extraordinary item		324		414
Net income for the year		$ 3,383		$ 2,338

	$000 1981	1980
Capital expenditures during the year		
Petroleum	$ 258	$ 189
Transportation	11,478	1,793
	$11,736	$ 1,982
Depreciation expense for the year		
Petroleum	$ 195	$ 160
Transportation	2,908	2,488
	$ 3,103	$ 2,648

*Segment margins after deductions of interest of $129,000 (1980 — $710,000) for petroleum and $991,000 (1980 — $405,000) for transportation.

9—RELATED PARTY TRANSACTIONS

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

	$000 1981	1980
Management fee expense	$ 15	$ 15
Interest expense	$130	$ –
Interest income	$ –	$111

10—RESTATEMENT

Certain 1980 balances have been restated to conform to the 1981 presentation.

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