

The White Pass and Yukon Corporation Limited
Annual Report 1980



SEP 1 1981
MCGILL UNIVERSITY

Directors' Report to Shareholders



DIRECTORS

- * John F. Fraser, *Winnipeg, Manitoba*
- Richard A. Hubber-Richard, *Vancouver, B.C.*
- 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*
- John S. Pelton, *Vice-President, Finance*
- William D. Davie, *Secretary*
- Gary W. Goertz, *Chief Financial Officer and Treasurer*

HEAD OFFICE

2400 - One Lombard Place
Winnipeg, Manitoba
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EXECUTIVE OFFICES

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

REGISTRAR AND TRANSFER AGENT

The Royal Trust Company
Vancouver, Calgary,
Toronto, Montreal

* Member of Audit Committee

1980 RESULTS

For the fiscal year ended December 31, 1980, earnings before extraordinary items were \$1,924,000 compared to a loss of \$1,165,000 for 1979. After providing for dividends on preferred shares, earnings per common share were 82¢ in 1980, while in 1979 a loss of 81¢ per share was incurred.

Including an extraordinary gain of \$414,000, net earnings were \$2,338,000 in 1980, or \$1.04 per common share, compared to a loss of \$1,307,000 or 89¢ per common share in 1979.

Revenue for 1980 was \$81,022,000, an increase of 24% over \$65,261,000 in 1979.

1980 REVIEW

The year marked a return to profitability for the Company after two years of losses. All divisions of the Company, except the railway, were profitable. On a fully allocated basis, 1980 rail operations in Yukon and Alaska lost \$3.1 million, and while this loss is slightly lower than that experienced in 1979, it is still clearly unacceptable.

The year was particularly significant in light of three major developments: the negotiation of a new rate for the hauling of lead/zinc concentrate, agreement in principle with Federal and Yukon governments for \$6 million in interest-free loans to purchase railway equipment, and the recovery of nearly one-third of the

asbestos volume from the Cassiar Resources mine in northern British Columbia.

Foreign exchange fluctuations continue to cause significant operating losses, resulting in profits being reduced by \$1,400,000 in the current year, compared to approximately \$1,200,000 in 1979. To compensate, the Company has revised freight rates on non-contractual commodities, and has renegotiated its major rail contract to provide for the payment of U.S. rail services in U.S. currency. These measures, together with an expected significant revenue increase from rail passenger operations should partially offset the problem in 1981 and later.

In 1980, the railway carried 67,000 passengers, an increase of 63% over the 41,000 who were transported in 1979.

OUTLOOK FOR 1981

Profitability for the railway remains a pre-eminent goal. Increased efficiency from new equipment purchased with government assistance is a step in the right direction, but additional tonnage and increased labour productivity are essential to achieve a rail profit. The extra volume could come from a variety of sources, including construction of a proposed northern natural gas pipeline and an increase in output from existing mines. However, for the long-term, the development of new mines remains the railway's greatest hope.

In the trucking operations, a program that was started during 1980 for replacement of existing highway tractors with more efficient equipment, will continue into 1981. This program will assure continuation of the trend to lower operating costs and improving profits.

Applications have been made to licensing authorities to extend truck routes in British Columbia, Yukon and Northwest Territories. If successful, these new authorities will permit a significant enlargement of the Company's general freight operations.

In ocean operations, successful negotiations with marine unions have made it feasible to refit one of our ships and put it back into service as a manned vessel. At the present time, our two ships are used as "dumb barges" and towed between Vancouver and Skagway. One ship will now be able to maintain our current service for bulk commodities and general freight, with the remaining ship to be used on short-term charter or laid up in anticipation of future pipeline traffic.

In an increasingly competitive petroleum market, the Company expects to hold its market share. As an indicator of confidence in the future of the petroleum business, the Company is investing more than \$5 million in new facilities this year. Gasoline storage tanks are being re-located and rebuilt in Skagway, and new

aviation gas storage facilities are being built at Whitehorse, along with a new supply depot at Faro.

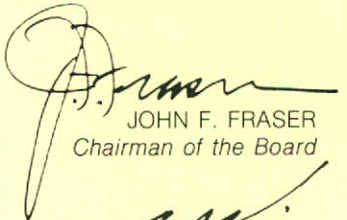
EXECUTIVE APPOINTMENT

In recognition of his outstanding efforts in the turnaround of the Company, Thomas H. King, formerly Executive Vice-President and General Manager, was appointed President and Chief Executive Officer. John F. Fraser, formerly President, was appointed Chairman of the Board.

Mr. King will continue to reside in Whitehorse, the centre of the operations of the Company.

The Directors would like to record their appreciation to all Company personnel for their dedicated and efficient service during a time of re-organization of operations.

On behalf of the Board of Directors,



JOHN F. FRASER
Chairman of the Board



THOMAS H. KING,
President and Chief Executive Officer

April 20, 1981

Consolidated Balance Sheet

as at December 31, 1980



	\$000	
ASSETS	1980	1979
Current		
Accounts receivable	\$11,278	\$ 8,176
Income taxes recoverable	-	588
Inventories (Note 2)	8,484	6,964
Prepaid expenses	805	862
Due from parent company	11	-
	20,578	16,590
Mortgages and agreements receivable (Note 3)	1,390	1,730
Fixed (Note 4)		
Property and equipment	69,767	68,858
Less accumulated depreciation	33,639	31,688
	36,128	37,170
Deferred charges	138	233
	\$58,234	\$55,723

See accompanying notes to financial statements.

On behalf of the Board


 Director


 Director

The White Pass and Yukon Corporation Limited

(Continued under the Canada Business Corporations Act)

	\$000	
	1980	1979
LIABILITIES		
Current		
Bank indebtedness, secured	\$ 5,409	\$ 4,952
Accounts payable and accrued charges	10,569	8,110
Income taxes payable	1,201	-
Due to parent company	-	392
Current portion of long-term debt	849	831
	<u>18,028</u>	<u>14,285</u>
Long-term debt (Note 5)	2,939	6,331
Deferred income taxes	4,932	4,739
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)		
Authorized		
500,000 cumulative, redeemable, preferred shares with a par value of \$25 each, issuable in series		
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 7)	6,780	6,780
Retained earnings	15,272	13,305
	<u>32,335</u>	<u>30,368</u>
	<u>\$58,234</u>	<u>\$55,723</u>

Consolidated Statement of Income
for the year ended December 31, 1980

	\$000	
	1980	1979
Revenue		
Petroleum	\$39,065	\$27,037
Transportation	41,645	38,073
Other	312	151
	81,022	65,261
Less		
Cost of sales and operating expenses	73,356	64,190
Depreciation	2,648	2,700
Interest on long-term debt	754	814
Gain on sale of fixed assets	(26)	(82)
	76,732	67,622
Income (loss) before income taxes and extraordinary item	4,290	(2,361)
Income tax expense (recovery) (Note 8)		
Current	2,173	(592)
Deferred	193	(604)
	2,366	(1,196)
Income (loss) before extraordinary items	1,924	(1,165)
Extraordinary items		
Reduction in income taxes through the realization of losses carried forward	414	-
Provisions for costs and losses related to the discontinuance of subsidiary companies	-	(142)
	414	(142)
Net income (loss) for the year	\$ 2,338	\$ (1,307)
Net income (loss) per common share		
Before extraordinary items	\$.82	\$ (.81)
Extraordinary items	.22	(.08)
Including extraordinary items	\$ 1.04	\$ (.89)

See accompanying notes to financial statements.

Consolidated Statement of Retained Earnings

for the year ended December 31, 1980

	\$000	
	1980	1979
Balance at beginning of year	\$13,305	\$14,983
Net income (loss) for the year	<u>2,338</u>	<u>(1,307)</u>
	<u>15,643</u>	<u>13,676</u>
Dividends paid		
Preferred	<u>371</u>	<u>371</u>
Balance at end of year	<u>\$15,272</u>	<u>\$13,305</u>

See accompanying notes to 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, 1980 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, 1980 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, 1981.



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, 1980

	\$000	
	1980	1979
Funds were provided by		
Operations		
Net income (loss) for the year	\$ 2,338	\$(1,307)
Charges to earnings not resulting in an outlay of working capital		
Depreciation	2,648	2,700
Gain on disposal of fixed assets	(26)	(82)
Deferred income taxes	193	(604)
Extraordinary items	(414)	142
Funds from continuing operations	4,739	849
Disposal of fixed assets	402	780
Mortgages and agreements receivable	340	-
Deferred charges	95	182
Reduction in income taxes through the the realization of losses carried forward	414	-
Increase in long-term debt	-	2,831
Reclassification from current to deferred income taxes	-	39
	5,990	4,681
Funds were used for		
Mortgages and agreements receivable	-	371
Purchase of fixed assets	1,982	942
Deferred charges	-	233
Dividends paid	371	371
Reduction of long-term debt	3,392	-
Provision for loss on discontinued operations	-	142
	5,745	2,059
Increase in working capital	245	2,622
Working capital (deficiency) at beginning of year	2,305	(317)
Working capital at end of year	\$ 2,550	\$ 2,305

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

December 31, 1980

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 significant inter-company transactions 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 transferred to consolidated income or expense.

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 extends 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 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 until such future taxable income is earned.

g. Net income (loss) per common share

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

2—INVENTORIES

	\$000	
	1980	1979
Petroleum products held for resale	\$4,818	\$3,223
Tires, batteries and accessories held for resale	809	828
Spare parts and supplies	2,857	2,913
	<u>\$8,484</u>	<u>\$6,964</u>

3—MORTGAGES AND AGREEMENTS RECEIVABLE

	\$000	
	1980	1979
i) Amounts advanced as at December 31, 1980 and secured by a first mortgage on an operating asset under contract. The mortgage bears interest at 12% per annum and is repayable at \$24,000 per month, principal and interest.	\$1,283	\$1,405
ii) Amounts loaned to an officer of the Company for the purpose of acquiring a residence.	—	140
iii) Amounts loaned at various rates to businesses and individuals, secured by charges on assets.	289	295
	1,572	1,840
Less current portion	182	110
	<u>\$1,390</u>	<u>\$1,730</u>

4—FIXED ASSETS

	\$000			
	1980		1979	
	Cost	Accumulated depreciation	Net	Net
Petroleum				
Trucks	\$ 343	\$ 196	\$ 147	\$ 98
Land and buildings	1,907	638	1,269	993
Other machinery and equipment	634	482	152	126
	<u>2,884</u>	<u>1,316</u>	<u>1,568</u>	<u>1,217</u>
Transportation				
Rail and pipeline	32,071	9,559	22,512	23,210
Ships and containers	12,980	9,974	3,006	3,410
Trucks	10,817	6,849	3,968	3,511
Skagway Terminal	6,797	3,745	3,052	3,492
Land and buildings	2,694	1,074	1,620	1,954
Other machinery and equipment	667	437	230	197
Furniture and fixtures	857	685	172	179
	<u>66,883</u>	<u>32,323</u>	<u>34,560</u>	<u>35,953</u>
	<u>\$69,767</u>	<u>\$33,639</u>	<u>\$36,128</u>	<u>\$37,170</u>

5—LONG-TERM DEBT

	\$000	
	1980	1979
Capitalized equipment leases at various rates of interest from 8.5% to 15.8% for three to ten years with aggregate repayments in 1981 of \$524,000	\$2,488	\$2,028
8½% first-ship mortgage note with annual principal repayments of \$325,000 to 1984	1,300	1,500
Term bank loan at 1½% above U.S. base rate of interest. Repayable over ten years with quarterly payments of \$75,000 U.S. commencing on December 31, 1980 converted to current bank indebtedness during 1980	—	3,504
6½% first-ship mortgage note	—	120
11¼% real property mortgage	—	10
Total long-term debt	<u>3,788</u>	<u>7,162</u>
Less current portion	<u>849</u>	<u>831</u>
	<u>\$2,939</u>	<u>\$6,331</u>

The estimated amounts of retirement of the long-term debt over the next five years are as follows: 1981 — \$849,000; 1982 — \$742,000; 1983 — \$814,000; 1984 — \$943,000; 1985 — \$236,000.

6—CAPITAL STOCK

The preferred shares are redeemable by the Company out of capital or otherwise, at \$25.25 per share.

7—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.

8—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 increase effective tax rate in these consolidated financial statements.

9—SEGMENT INCOME INFORMATION

	\$000			
	1980		1979	
	Revenue	Segment margin*	Revenue	Segment margin*
Petroleum	\$42,573	\$5,535	\$29,562	\$1,580
Transportation	43,726	(1,020)	38,782	(3,846)
	<u>86,299</u>	<u>4,515</u>	<u>68,344</u>	<u>(2,266)</u>
Inter-segment transactions	(5,388)	(336)	(3,234)	(246)
Interest earned from parent company	111	111	151	151
	<u>\$81,022</u>		<u>\$65,261</u>	
Income (loss) from operations		4,290		(2,361)
Income taxes		(2,366)		1,196
Extraordinary items		414		(142)
Net income (loss) for the year		<u>\$2,338</u>		<u>\$ (1,307)</u>

	1980	1979
Capital expenditures during the year		
Petroleum	\$ 189	\$ 95
Transportation	1,793	847
	<u>\$1,982</u>	<u>\$ 942</u>
Depreciation expense for the year		
Petroleum	\$ 160	\$ 134
Transportation	2,488	2,566
	<u>\$2,648</u>	<u>\$2,700</u>

*Segment margins after deductions of interest of \$710,000 (1979 — \$602,000) for petroleum and \$101,000 (1979 — \$1,154,000) for transportation. 1979 figures have been restated to conform with the 1980 presentation.

10—RELATED PARTY TRANSACTIONS

The Company recorded the following transactions with its parent company:

Management fee expense	<u>\$ 15,000</u>
Interest income	<u>\$110,909</u>

