THE White Pass and Yukon CORPORATION LIMITED

ANNUAL REPORT 1958

FOR THE YEAR ENDED DECEMBER 31st

1958 ANNUAL REPORT

THE WHITE PASS AND YUKON CORPORATION LIMITED

HEAD OFFICE 1422 STANDARD BLDG., VANCOUVER 2, B.C.

DIRECTORS

RALPH D. BAKER
Vancouver, B.C.

GEORGE C. BATEMAN, C.M.G.
Montreal, Quebec

FRANK H. BROWN, C.B.E.
Vancouver, B.C.

MICHAEL H. CRICHTON, O.B.E.
London, England

NORMAN F. W. H. D'ARCY
London, England

HERBERT L. FAULKNER
Juneau, Alaska

SIDNEY HOGG
Vancouver, B.C.

WILLIAM MANSON
Vancouver, B.C.

CLIFFORD J. ROGERS
Vancouver, B.C.

OFFICERS

FRANK H. BROWN, C.B.E.
President

CLIFFORD J. ROGERS
Managing Director

ALBERT P. FRIESEN, C.A.
Secretary

REGISTRAR AND TRANSFER AGENT
(COMMON STOCK)

THE ROYAL TRUST COMPANY,
Vancouver and Toronto

President's Report . . .

To the Shareholders:

On behalf of the Board of Directors, I have pleasure in presenting herewith the Annual Report of the Company and its wholly owned subsidiaries for the year 1958.

BUSINESS IN GENERAL:

The overall volume of business in 1958 was lower by about 11% than in 1957, as a result mainly of reduced economic activity in the Territory (in common with the rest of Canada and the United States) and more active competition. These factors, together with increased wage rates, were largely responsible for a reduction in net profit.

EARNINGS:

The consolidated net profit for the year amounted to $397,788, which is equivalent to 58c per share, as compared with $434,605 or 63c per share in 1957. Some of the principal factors affecting earnings have already been referred to above. The decline in net profit of approximately 8% was somewhat less than the reduction in gross operating revenues of 11%.

BALANCE SHEET:

The working capital increased by $290,779 to $1,522,013 as compared with $1,231,234 at the end of 1957. (Due to a reclassification of investments in Government bonds, the 1957 figure has been adjusted from that indicated in last year's Report to make the figures comparable for the two years.) The Company now has investments in bonds of or guaranteed by the Government of Canada amounting to $711,681, compared with $216,921 at the end of 1957. This fund has been reserved for future capital expenditures, in particular the building of a companion ship to the "CLIFFORD J. ROGERS" when the need arises, and is, therefore, excluded from Current Assets in the Balance Sheet.

A change of presentation has been made in the Shareholders' Equity section of the Balance Sheet. The reserve representing the excess of the value of assets, as carried in the books of the subsidiaries over the effective cost to the parent, has been included in that Equity. The original cost of the assets of the subsidiaries represents a conservative valuation; these assets could not be replaced for anything like these figures. We feel, therefore, that it is sound to include the amount of this reserve in the book value of the shareholders' investment.

DIVIDEND POLICY:

Your directors felt warranted in paying a small dividend early in 1959 with reference to last year's earnings. However, the Company faces so many problems with financial implications and must continue to be prepared to spend such substantial sums on modernization and expansion that no firm policy as regards future dividends can be set at this time. The subject will continue to receive consideration as the year moves along.

RAIL DIVISION:

Revenue tonnage carried by the Railway was less than the preceding year. Important savings were made in operating expenses, but these were partially offset by further increases in wage rates.

The Company's rail operation is now about 90% dieselized (in terms of train miles) and savings are being realized in operating and maintenance costs. It is still necessary to operate steam locomotives for snow removal in winter and for passenger service in summer. The full benefits of dieselization will not be realized until the remaining steam locomotives and steam-operated rotary snow plows are replaced by diesel units. This we hope to accomplish in the next three years or so.

The Company continued its rail relay programme during the year, replacing approximately 11 miles of track with heavier rail. Approximately 3 miles of such rail were on hand at the end of the year and, shortly after the end of the year, the Company purchased an additional 15 miles at a favourable price. We plan to lay a total of 18 miles of heavier rail in 1959.

HIGHWAY DIVISION:

Highway Division tonnage and revenues fell off considerably as compared with the preceding year. A substantial part of the loss of revenue was due to the closing in the latter part of 1957 of one of the base metal mines in the Territory.

PETROLEUM DIVISION:

While sales and net profit were lower than in the preceding year, the Petroleum Division has maintained its strongly competitive position in the distribution of petroleum products throughout the Territory. For the past several years now competitive products have entered the Territory from the South along the Alaska Highway and also through the Port of Haines, Alaska, thence over the Haines cutoff road and the Alaska Highway. The principal market in the Territory is centered in Whitehorse and the Company is able to transport and handle petroleum products to that market at a lower cost than is possible by any other route. In addition the Company has a large share of the markets elsewhere in the Territory.

OCEAN DIVISION:

The volume of freight carried by the Ocean Division was somewhat lower than in the preceding year and its profit was slightly down.

The main engines of M.V. "CLIFFORD J. ROGERS" continued to give unsatisfactory performance, with the result that at the end of the year the ship was placed in dry dock and those engines replaced with two new and more powerful engines. This replacement, including the cost of the new engines, was paid for entirely by the engine builders. We received fine co-operation from them and the shipbuilders in every way so that the job took only 20 days. The vessel has made several round trips between Vancouver and Skagway since that time.

PIPELINE DIVISION:

This Division was newly formed during the year and commenced operations on April 1st. The facilities are those of and associated with the 4" Canol (No. 2) pipeline from Skagway, Alaska to Whitehorse, Yukon Territory, constructed by the United States Army during World War II. Essentially all of the main pipeline and all the storage and pumping facilities at Skagway lie on land owned or controlled by the Company. Those facilities which are located on the U.S. side of the border were purchased outright by the Company from the U.S. Government early in 1958. The facilities on the Canadian side of the border are being operated with the permission of the Canadian Government. Negotiations are taking place to lease the section of the pipline in Canada and half the storage tanks at Whitehorse from the Canadian Government on a long term basis as soon as the Canadian Government has title to the latter. We hope a contract will be signed soon.

To date the Company has transported oils through the pipeline for its own Petroleum Division only, and not for other parties. It is the intention, however, to operate the line as a common carrier as soon as the necessary arrangements can be completed.

ROAD DEVELOPMENT:

The Canadian Government is completing a new bridge across the Yukon River near Carmacks on the road from Whitehorse to Mayo and Dawson City, and is planning to start construction this year of additional bridges on this road across the Pelly and Stewart Rivers. In addition to providing freight for the Company during the construction period, these bridges, when completed, will eliminate the semi-annual interruptions of freight movement to and from the mines during the freeze-up and break-up periods of the rivers. These interruptions have been a cause of inconvenience and cost and the Government deserves the gratitude of everyone in the Territory.

As a further step in its programme of northern development the Government is also about to construct a "road to resources" from Flat Creek, near Dawson City, to Fort McPherson in the Northwest Territories, a distance of about 300 miles. Tenders for the commencement of this road have been called and construction is to start this spring.

OIL EXPLORATION:

Exploration activity is continuing in the Eagle Plain area. Additional supplies were taken in this winter from Flat Creek, and further drilling will be done. The progress of this work is being watched with close interest by most of the chief oil companies of this continent. They have bought oil concessions many hundreds of miles in extent in this and further northern areas and are under obligation to do development work. We cannot assess the chances of success but it could mean a great deal indeed to our future growth.

MINING:

No new mines were brought in this year but we hear of new discoveries of asbestos and tungsten which may become productive in years to come. Further development resulted in outlining additional ore in the asbestos deposits at Cassiar and the base metal deposits in the Keno Hill area.

Your Company is contributing financially in a relatively small way to exploration activities of a syndicate holding a gold prospect in the Pelly River area, north east of Whitehorse. In addition, the Company will have a senior geologist, aided by prospectors, examining mineral prospects in the Territory, during the summer. In past years, our geologists did a very considerable amount of work in assessing and analysing the Government maps of the area, which should be very valuable for further field work.

ALASKAN STATEHOOD:

It is too early yet for us to be able to form a judgment as to the effect which the emergence of Alaska as a State will have upon our operations.

EMPLOYEES:

The Directors have pleasure in expressing their appreciation of the loyal and conscientious support of the staff at all levels, who have made major contributions to the success of the Company's operation.

DIRECTORATE:

During the year, the Board of Directors accepted with regret the resignation of Mr. E. M. C. McLorg, but we shall continue to enjoy the benefits of his advice in legal matters. The Board has appointed in his place Mr. William Manson, who recently retired as Regional Vice President of Canadian Pacific Railway Company. His wide experience and sound judgment have already proved most helpful to the Company.

All Directors are eligible for re-election.

On behalf of the Board of Directors,

Frank H. Brown

FRANK H. BROWN,
President.

April 8th, 1959.

THE WHITE PASS AND YUK

(Incorporated under the laws of Canada)

CONSOLIDATED BALANCE S

(WITH COMPARATIVE FIGURES

ASSETS

		1958	1957
FIXED ASSETS—at cost:			
Rail property and equipment		**$11,557,363**	$11,478,523
Ships, freight containers, motor vehicles, buildings, pipeline and other property		**4,520,462**	4,526,085
		$16,077,825	$16,004,608
Less accumulated depreciation		**3,629,692**	3,454,587
		$12,448,133	$12,550,021
CURRENT ASSETS:			
Cash		**$ 291,879**	$ 20,647
Accounts receivable, less allowance for doubtful accounts		**921,281**	1,076,771
Inventories valued at the lower of cost or market—			
Petroleum products	$583,945		
Materials and supplies	526,904		
		1,110,849	1,210,044
Prepaid insurance and rentals		**82,979**	123,370
		$ 2,406,988	$ 2,430,832
OTHER ASSETS:			
Bonds of and guaranteed by the Government of Canada held for future capital expenditure—at cost (market value $695,349)		**$ 711,681**	$ 216,921
Investments in bonds and shares, advances to other companies and mortgages receivable		**320,704**	343,372
Discount and issue expense of loan capital less amounts written off		**282,376**	298,614
Organization expense		**56,059**	52,196
		$ 1,370,820	$ 911,103
		$16,225,941	$15,891,956

On behalf of the Board:

F. H. BROWN, Director

C. J. ROGERS, Director

The notes attached hereto are an integral part of the above

ON CORPORATION LIMITED
and its subsidiaries

HEET, DECEMBER 31, 1958
S AT DECEMBER 31, 1957)

LIABILITIES

	1958	1957
SHAREHOLDERS' EQUITY:		
Capital (note 1)—		
Authorized:		
1,250,000 common shares of no par value		
Issued and fully paid:		
690,200 common shares	**$ 1,634,000**	$ 1,617,000
Excess of the value of assets as carried in the books of the subsidiaries over the effective cost to the parent	**6,894,118**	6,894,118
Consolidated earned surplus	**2,467,804**	2,070,016
	$10,995,922	$10,581,134
RESERVES:		
Excess of par value of 4½% first debenture stock 1961/76 purchased and held over purchase price thereof	**$ 53,418**	$ 58,846
Deferred income taxes (note 2)	**375,473**	96,000
	$ 428,891	$ 154,846
DEFERRED LIABILITIES:		
Loan capital (note 3)	**$ 3,785,200**	$ 3,808,600
Amounts owing on purchase of fixed assets due 1960 to 1962	**130,953**	147,778
	$ 3,916,153	$ 3,956,378
CURRENT LIABILITIES:		
Due to bankers	**—**	$ 36,328
Accounts payable and accrued charges	**$ 724,348**	775,081
Accrued interest on loan capital	**31,541**	31,826
Income and other taxes payable	**129,086**	356,363
	$ 884,975	$ 1,199,598
	$16,225,941	$15,891,956

lance sheet and should be read in conjunction therewith.

STATEMENT OF CONSOLIDATED PROFIT AND LOSS

FOR YEAR ENDED DECEMBER 31, 1958
(WITH COMPARATIVE FIGURES FOR YEAR 1957)

	1958	1957
Earnings from operations before the following charges	$ 1,230,154	$ 1,484,618
Deduct:		
Depreciation	$ 508,133	$ 533,997
Interest on loan capital and amortization of discount and issue expense	201,875	202,737
	$ 710,008	$ 736,734
Profit before taxes on income	$ 520,146	$ 747,884
Taxes on income (note 2)	152,300	323,500
Profit from operations	$ 367,846	$ 424,384
Capital gains (net)	23,750	4,422
Profit on 4½% first debenture stock 1961/76 purchased and transferred to sinking fund	6,192	5,799
Net profit for year	$ 397,788	$ 434,605
The following charges were incurred during 1958:		
Fees and remuneration to directors exclusive of those holding salaried employment	$ 8,000	
Remuneration of executive officers and legal fees	47,514	

STATEMENT OF CONSOLIDATED EARNED SURPLUS

FOR YEAR ENDED DECEMBER 31, 1958
(WITH COMPARATIVE FIGURES FOR YEAR 1957)

	1958	1957
Earned surplus at beginning of year	$ 2,070,016	$ 1,635,411
Add net profit for year	397,788	434,605
Earned surplus at end of year	$ 2,467,804	$ 2,070,016

The notes attached hereto are an integral part of the above statements and should be read in conjunction therewith.

NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 1958

1 During the year 5,100 common shares were issued under the conversion privileges attaching to the 5% convertible debenture stock 1961/76 wherein 50% of the original stock is convertible on the basis of 15 common shares per $50 debenture.

The 5½% unsecured loan stock 1963/78 carries the right to subscribe to three common shares for each $100 of loan stock at $20 per share over the period January 1, 1959 to September 30, 1961.

97,800 common shares are reserved for the possible conversion of or exercise of the rights on the above issues.

2 The Income Tax Act permits the company to claim depreciation in excess of the normal amounts provided in its accounts.

The requirements of the Board of Transport Commissioners for Canada are such that the tax reductions resulting from claiming additional depreciation on Canadian rail properties must be included in taxes on income and credited to a reserve for deferred income taxes.

The company's policy in respect of other depreciable assets is to claim the additional depreciation available and thereby reduce taxes on income. The tax reduction in the current year arising therefrom is $114,000 and the accumulated amount of such tax reductions for the years to date is $344,600.

3 Loan capital comprises:

		December 31, 1958	December 31, 1957
4½% First debenture stock 1961/76:			
Authorized and issued (less transferred to sinking fund and cancelled)		**$ 1,830,100**	$ 1,863,200
Less purchased and held by subsidiaries		**210,900**	237,600
		$ 1,619,200	$ 1,625,600
5% Convertible debenture stock 1961/76:			
Authorized and issued	$1,700,000		
Less converted to common shares	634,000	**1,066,000**	1,083,000
5½% Unsecured loan stock 1963/78:			
Authorized	$1,500,000		
Issued and outstanding		**1,100,000**	1,100,000
		$ 3,785,200	$ 3,808,600

4 The company has guaranteed a bank loan of an unrelated company in the amount of $200,000. This guarantee is secured by mortgages on the property of that company.

Auditors' Report

MONTREAL TORONTO HAMILTON
LONDON WINDSOR WINNIPEG
REGINA CALGARY EDMONTON
VANCOUVER

ARTHUR YOUNG, CLARKSON, GORDON & CO.
ACCOUNTANTS AND AUDITORS
OFFICES IN PRINCIPAL CITIES OF U.S.A.

Clarkson, Gordon & Co.
Chartered Accountants
1030 WEST GEORGIA STREET
Vancouver 5
CANADA

AUDITORS' REPORT

To the Shareholders of
The White Pass and Yukon Corporation Limited.

We have examined the consolidated balance sheet of The White Pass and Yukon Corporation Limited and its subsidiaries as at December 31, 1958 and the statements of consolidated profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

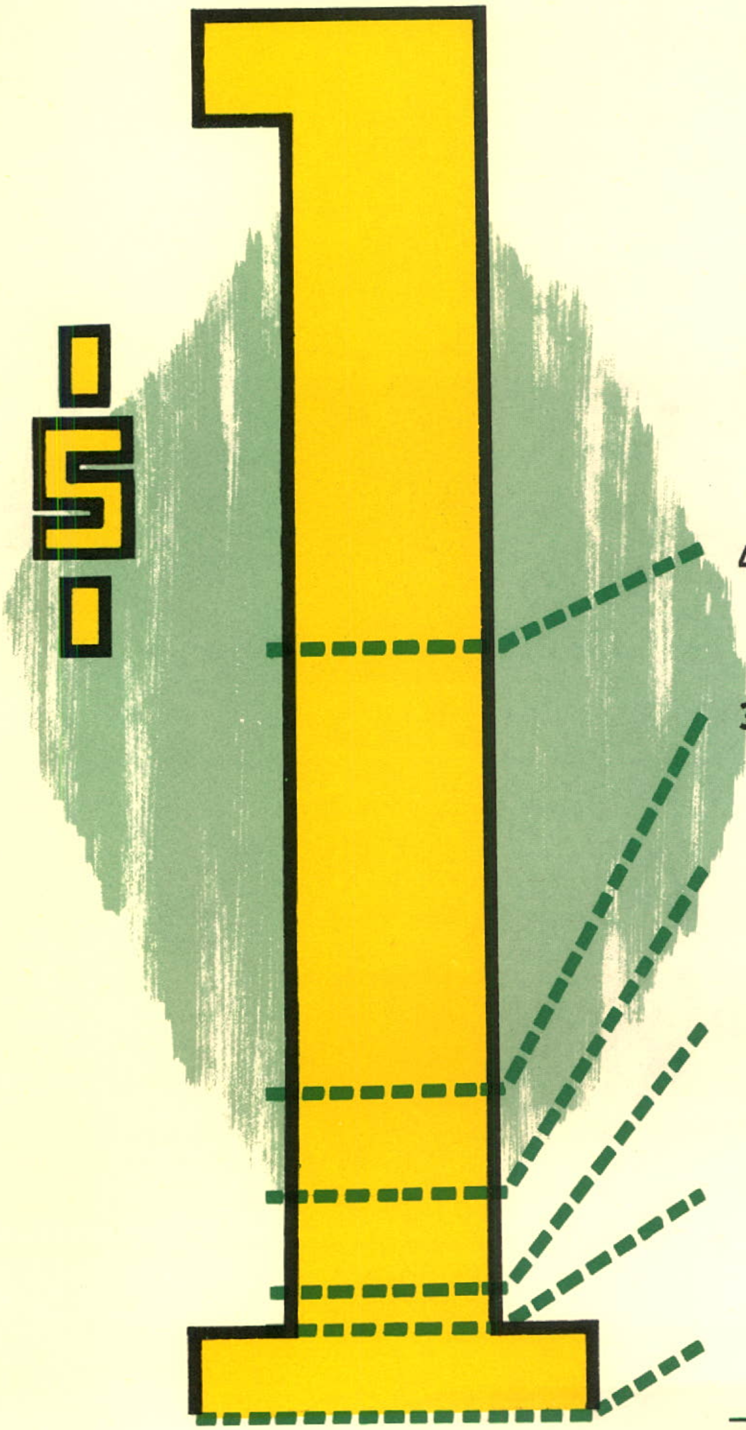
In our opinion the accompanying consolidated balance sheet and statements of consolidated profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1958 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

Clarkson, Gordon & Co.

Vancouver, Canada,
March 9, 1959.

Chartered Accountants.

WHERE THE 1958 INCOME DOLLAR WENT



For every dollar of income earned

48¢	was paid out for purchase of goods and services
32¢	was paid out in wages, salaries and employee benefits
7¢	was for Federal, Provincial, State and Municipal taxes
6¢	was set aside for replacement of equipment which was wearing out
2¢	was paid out in interest on borrowed money used in the business
5¢	was reinvested in the business
100¢	

WHITE PASS & YUKON ROUTE

GATEWAY TO THE YUKON

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