# ALGOMA CENTRAL RAILWAY ANNUAL REPORT 1979



HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 25 1980
McGILL UNIVERSITY

## Comparative Highlights

| | 1979 | 1978 |
|---|---|---|
| Revenue | 121,321,000 | 102,485,000 |
| Net Income (before extraordinary items) | 11,807,000 | 8,816,000 |
| Operating Expenses to Revenue | 77.3% | 79.7% |
| Earnings per Common Share | | |
| before extraordinary items | 3.60 | 2.69 |
| after extraordinary items | 4.89 | 2.69 |
| Dividends Paid per Common Share | .96 | .87 |
| Cash Flow per Common Share | 8.65 | 7.01 |
| Total Payroll | 37,755,000 | 32,664,000 |
| Employee Benefits | 8,099,000 | 7,077,000 |
| Taxes—Income and Other | 11,147,000 | 8,901,000 |
| Depreciation and Amortization | 9,744,000 | 8,146,000 |
| Fixed Asset Additions | 42,325,000 | 23,679,000 |
| At December 31 | | |
| Shareholders' Equity | 68,290,000 | 55,517,000 |
| Equity per Common Share | 20.83 | 16.93 |
| Retained Income | 59,753,000 | 46,980,000 |
| Long-Term Debt | 69,207,000 | 59,427,000 |
| Working Capital | 5,435,000 | 5,434,000 |
| Working Capital Ratio | 1.27/1 | 1.30/1 |

The Annual Meeting of Shareholders will be held Thursday, April 10, 1980 at 11.00 a.m. in the Holiday Inn, Sault Ste. Marie, Ontario

**About the company**

Incorporated in 1899 the Company operated for many years primarily as a wilderness railroad to transport iron ore and forest products out of Northern Ontario but in recent years Algoma Central has become a diversified transportation company moving cargo by water, rail and road. It operates a fleet of twelve dry bulk cargo vessels principally on the Great Lakes and the St. Lawrence Seaway. Its main railway line runs 295 miles north from Sault Ste. Marie and serves the natural resource, manufacturing and tourist industries of the Algoma region of Northern Ontario. Algoma Central's fleet of trucks is licensed to carry general cargo on routes serving the highly industrialized corridor extending from Detroit, Michigan to Toronto, Ontario and serves those centres and principal intermediate industrial communities. Closed corridor privileges extending to and from all points in this area permit service to and from Montreal, Quebec. Algoma Central has also developed a real estate complex on lands owned on the waterfront in downtown Sault Ste. Marie and, in addition, owns approximately 850,000 acres of land, including mineral and timber rights, in the Algoma region.

**The Cover**

Snow laden evergreens make an enticing invitation to enjoy Algoma Central country. Many tourists take the "Snow Train" to view the wilderness wonderland when the white of winter is everywhere.

Photo Credits:

| | |
|---|---|
| Directors | P. Crouch, Toronto |
| Officers | M. Brauer, Sault Ste. Marie |
| Cover | Soo Photo Service Limited, Sault Ste. Marie |
| M/V Algoport | George S. Butt Photographers Limited, Niagara Falls |
| Algo Centre | Film Labs, Elliot Lake |

## To our Shareholders

The results for the year 1979 continued a growth trend with net income increasing by 34% to $11,807,000 on total revenues of $121,321,000, 18% above 1978. In addition, the Company realized extraordinary gains of $4,229,000 on the sales of a bulk vessel and a transport terminal, adding $1.29 to the earnings of $3.60 per share from operations. The resulting equity per share increased sharply from $16.93 in 1978 to $20.83 at December 31, 1979. Cash flow from operations rose to $28,360,000 ($8.65 per share) compared to $22,981,000 ($7.01) in the previous year. This factor was significant in our ability to keep funded debt at a reasonable level since a record $42,325,000 was expended on fixed assets.

The year culminated a ten-year period of expansion and diversification during which growth in revenues and net income exceeded 21% compounded annually. The main thrust of this growth has been in the transportation industry with major expansion taking place in the marine division and with diversification into the trucking, warehousing, ship repair and real estate development businesses. In all divisions it will be our ongoing objective to continue providing a superior service to customers and to capitalize on growth opportunities as they become available.

The record 1979 fixed asset acquisition program resulted from each division expending more than normal replacement requirements. The M/V Algoport delivered in August, 1979 cost approximately $23,600,000, 55% of the added assets, with some $8,175,000 for the trucking division spent on an ultra-modern terminal in Montreal, additional warehousing facilities at Sarnia and Chatham and equipment for both replacement and expansion. The Elliot Lake project of Algocen Realty accounted for a further $6,600,000 and was 60% completed at the year-end. However, the sale of a vessel and a truck terminal reduced cash requirements by $7,374,000 and enabled the Company to finance the $13,000,000 required by short term bank commitments.

The decision to further expand our Marine Division, as evidenced by recent contracts signed with Canadian Shipbuilding & Engineering Limited for two self-unloading vessels to be delivered in 1981 and 1982, indicates our belief in the future growth of water transport. These capital commitments of $70,000,000 may result in some longer term financing at an opportune time.

The year 1979 included the settlement of all labour contracts with one exception. Marine and rail union agreements have been renewed to May 31 and December 31, 1981, respectively. Road transport employee contracts, with the exception of the Montreal local which is now in negotiation, are in effect until September, 1982.

Our investment in Viking Helicopters Limited did not reach its expected potential although equipment utilization exceeded the previous year. Late delivery of aircraft coupled with a fire that completely destroyed the head office in June impeded certain aspects of operations. Fortunately the damage did not extend to the maintenance facilities and flying time in the field was not adversely affected.

The Company introduced both a dividend reinvestment and a stock dividend plan for shareholders, effective March 1, 1980 and increased the annual dividend rate from $ .96 to $1.10. These plans could not be made available to shareholders resident in the United States since the Company's shares are not registered under the Securities Act of 1933. It is pleasing to report that over 60% of the registered shares are now participating in these plans, thus expanding the Company's equity base.

Our outlook for the year 1980 continues to be optimistic. The current slowdown in the automotive and building product industries is having a negative influence on our road transport division but other sectors remain strong and should more than offset this effect. We are now entering a new decade and, although increased interest charges, higher fuel costs, double digit inflation and higher taxes must be faced, we remain confident your Company will continue its growth pattern.

Our officers and employees are to be congratulated for the excellent results reported with the certain knowledge that together we will continue to serve our customers well and give satisfaction to our shareholders.

Chairman of the Board

President

L. N. Savoie J. B. Aird

# Review of Operations

## Marine Operations

The results for the Company's Marine Division in 1979 showed a marked improvement over the preceding year, with gross revenues at a record level of $57,206,000, 31% higher than the previous year's amount of $43,612,000. The total tonnage moved by our fleet of twelve vessels, of which nine have self-unloading capability, was 14,726,000 tons, an increase of 18% over 1978.

Many factors contributed to these improved operating results including full and more efficient use of our total carrying capacity, a relatively stable labour scene, more equitable freight rate levels and an added vessel.

As new capacity has been steadily added over the years, we have been fortunate to secure additional tonnage to ensure its immediate utilization which is a tribute to the loyalty of our existing customers and to our ability to attact new customers. This was the case in 1979 when the services of the M/V Algobay were available for its first full navigation season and the M/V Algoport went into service immediately after being delivered to us by Collingwood Shipyards on August 30th.

A new labour agreement was negotiated with the Seafarer's International Union on behalf of unlicensed marine personnel early in the year and we now have contracts expiring May 31, 1981 with all three of our marine unions; the Canadian Marine Officer's Union and the Canadian Merchant Service Guild representing the engineers and deck officers respectively.

T. S. Dool, Manager — Fleet Operations; P. R. Cresswell, Vice-President (Marine Division).

Although freight rate increases have enabled us to recover the rapidly escalating cost increases we are experiencing, particularly with respect to fuel purchases, we are concerned that these same freight rate levels rarely approach an adequate return when measured against the ever-increasing replacement cost of our vessels. Recognizing the responsibility that we have to provide adequate carrying capacity for our customers' expanding future needs, it is hoped that our customers will understand the necessity for adequate rates of return to allow future capital commitments.

The launching of M/V Algoport, May 7, 1979.

| Marine — Net tons carried (thousands) | | | | | |
|---|---|---|---|---|---|
| | Ore | Coal and Coke | Grain | Other | Totals |
| **1979** | **4,185** | **2,227** | **1,195** | **7,119** | **14,726** |
| 1978 | 4,040 | 1,297 | 1,185 | 5,944 | 12,466 |
| 1977 | 4,115 | 1,368 | 1,337 | 5,332 | 12,152 |
| 1976 | 3,036 | 1,042 | 1,188 | 5,170 | 10,436 |
| 1975 | 2,999 | 1,078 | 1,413 | 4,854 | 10,344 |
| 1974 | 2,707 | 695 | 1,090 | 3,950 | 8,442 |
| 1973 | 2,950 | 1,233 | 1,590 | 3,858 | 9,631 |
| 1972 | 2,589 | 1,361 | 1,684 | 2,602 | 8,236 |
| 1971 | 2,640 | 1,350 | 1,275 | 2,895 | 8,160 |
| 1970 | 2,126 | 765 | 835 | 2,259 | 5,985 |

This, combined with the general confidence which the Company has in the future of Great Lakes shipping, has prompted us to place orders with Canadian Shipbuilding and Engineering Limited for two maximum Seaway-size self-unloading bulk carriers for delivery in April, 1981 and December, 1982 respectively. These two contracts, both eligible for Shipbuilding Industry Assistance Program subsidies, will represent an additional capital investment of approximately $70 million.

These new vessels will incorporate many of the modern design features we have utilized so successfully in the recent past and, in addition, will have new characteristics allowing our fleet to continue being considered the newest and most modern on the Great Lakes. Some areas of design where we are in the forefront include: ice breaking bows for navigation season extension; hull strengthening to allow wider operating capability beyond normal Great Lakes limits to Nova Scotia and Newfoundland; unloading systems to better handle less free-flowing bulk commodities such as western Canadian coal; more fuel efficient propulsion systems using heavier fuels and steering nozzles; and improved single room accommodation for our crews which utilize up-to-date fire protection materials and equipment.

With the outlook for 1980 indicating full utilization of our present fleet and with known increases in bulk tonnage movements beyond 1980, we are confident that our decision to expand our self-unloading vessel capacity by some 25% is justified.

Activities at Herb Fraser and Associates Limited, our ship repair subsidiary located in Port Colborne, Ontario, on the Welland Canal, continue to grow as a valuable service both to the Company's vessels and to others in the industry. Expansion is being carried out to meet these future needs with a 7,000 square foot building presently under construction for completion in March, 1980.

Mrs. H. R. Jackman, sponsor of the vessel, shown with her husband, christened the new fleet addition.

Immediately before launching the vessel has been raised from the "keel blocks" to the "ways".

# Review of Operations

## Rail Operations

A record year for both the Snow Train and Agawa Canyon tours, moderate increases in freight tonnage and the signing of three-year labour contracts highlighted a relatively trouble free year for the rail division.

Steel, woodpulp, paper and petroleum products all contributed to a 16% increase in the tonnage of manufactured commodities. This expanded tonnage, although offset by a small reduction in forest products, resulted in 4,067,000 tons of freight handled, 3% greater than in 1978.

Ideal weather and the promotion of the Sault Ste. Marie area by the Ontario Ministry of Industry and Tourism, which complemented our own advertising program, attracted a record 10,700 passengers to the Snow Train Tour and 103,400 to the Agawa Canyon Tour. These levels represent 44% and 4% increases, respectively, over 1978. Indications are that while the majority of tourists are United States residents, more Canadians are experiencing the many attractions of the Algoma District.

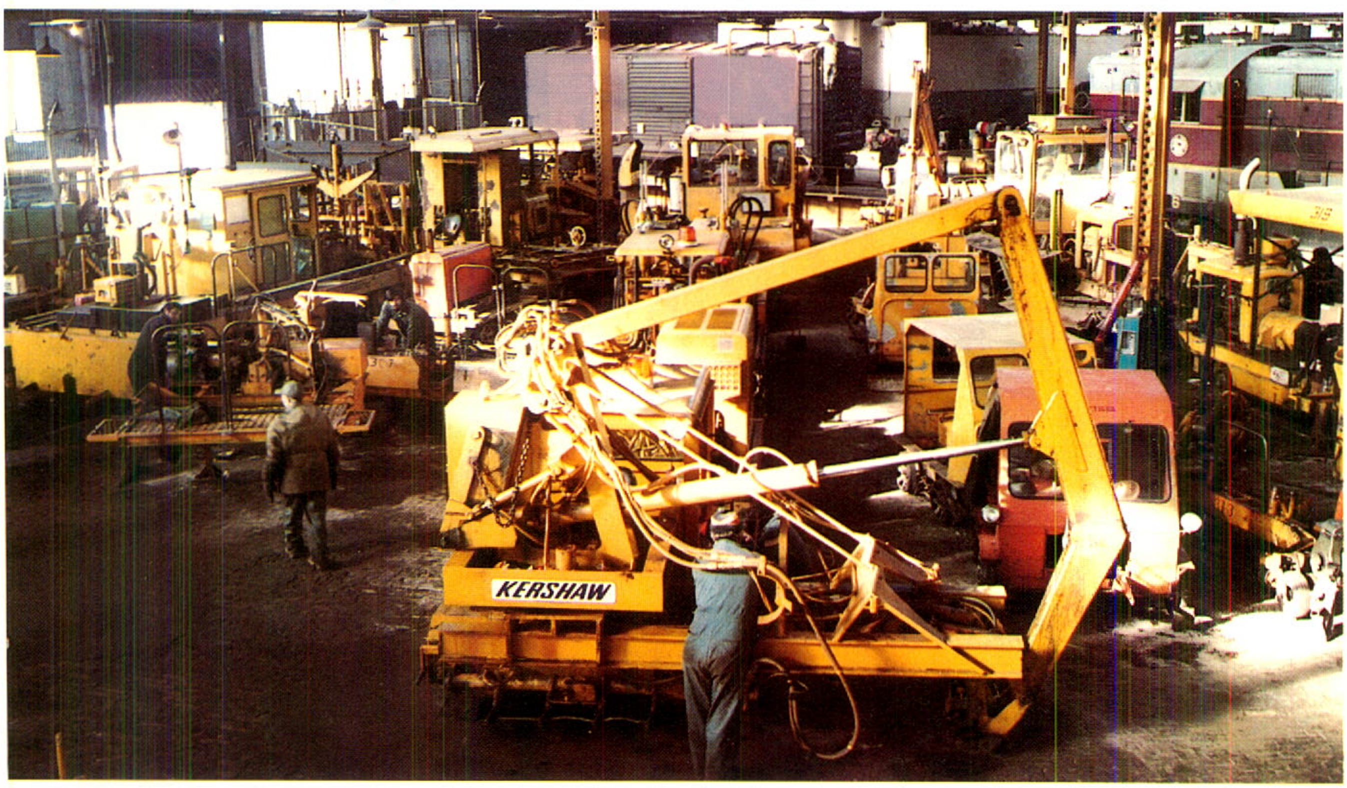
Federal government payments toward our operating losses related to the regular passenger train service were increased during the year but further reviews are required before our full entitlement is paid. Retroactive adjustments to 1977 are outstanding.

Interests in mineral deposits, forest lands and industrial property continued throughout the year. Development plans for the multiple-use of forest and recreational holdings were advanced with government agencies. Several agreements were entered into with mining companies to carry out mineral exploration on the Company's land. Recreational leases written with private and commercial applicants represented an 11% increase over total leases at the end of 1978. Our reforestation program continued at normal level although a softening of markets for wood products suppressed timber harvesting.

S. A. Black, Vice-President; J. A. Campbell, Comptroller; W. L. Oliphant, Manager — Lands and Forests (Rail Division).

Three-year labour contracts, effective until December 31, 1981, were concluded with 9 railway unions. These agreements provide for wages and improved benefits consistent with the Canadian railway industry. Co-oper-

Track equipment is reconditioned during the slack winter season.



| Rail — Net tons carried (thousands) | | | | |
|---|---|---|---|---|
| | Mining | Manu-facturing | Forestry | Totals |
| **1979** | **2,383** | **1,139** | **545** | **4,067** |
| 1978 | 2,382 | 984 | 566 | 3,932 |
| 1977 | 2,338 | 832 | 492 | 3,662 |
| 1976 | 2,434 | 831 | 484 | 3,749 |
| 1975 | 1,881 | 683 | 281 | 2,845 |
| 1974 | 3,194 | 1,027 | 474 | 4,695 |
| 1973 | 2,875 | 1,056 | 506 | 4,437 |
| 1972 | 2,561 | 994 | 504 | 4,059 |
| 1971 | 2,338 | 922 | 519 | 3,779 |
| 1970 | 2,338 | 975 | 621 | 3,934 |

ative labour-management programs continued during 1979.

Although few operating problems or difficulties resulting in service interruptions were experienced, those that did occur were overcome by the initiative of the employees in the areas involved. The good working relationship among employees contributed substantially to the successes attained.

Capital undertakings included an accelerated tie renewal program, completing the replacement of 85 lb. rail with 100 lb. rail on the Soo Subdivision, acquiring new track machinery, improving on-line living accommodations for maintenance forces, rebuilding 4 locomotives, replacing shop machinery and vehicles, renovating the diesel shop, refurbishing 4 coaches and covering gondola cars for steel loading. Bulkhead flat cars for expanding our fleet of lumber and steel cars expected during 1979 will not be received until 1980. Programs to replace ties, modernize on-line housing facilities, buy more productive equipment and renew our diesel locomotives will continue in future years. A phased program will be undertaken commencing in 1981 to establish 115 lb. rail on the Soo Subdivision and 100 lb. on the Northern Subdivision.

Rate action consistent with that taken in the industry and recognizing competitive factors will be essential to offset rapidly escalating costs. Increasing fuel cost was a major factor during 1979 and will continue to have an even greater influence throughout 1980. Safety and energy conservation will also receive ongoing emphasis.

Rail officers meet regularly to resolve operating matters.

Many tourists take advantage of the inland lakes and waterways of Algoma Central country.

Over 100,000 excursionists visited Agawa Canyon in 1979.

# Review Of Operations

## Trucking Operations

Results for the trucking operations were disappointing in 1979. A slow automotive industry, strikes by major shippers, continuing soft Quebec markets, and a 9-day strike in April resulted in volumes equating to those in 1978. In addition, competitive rate action in the industry has not allowed for the full flow through of labour, capital and other cost increases resulting in a negative impact on margins.

Our warehousing operations continued to expand with high utilization of available space being maintained throughout the year. A new Flanagan warehouse at Sarnia opened in February, 1979 soon proved inadequate to meet customer needs and an 80,000 sq. ft. extension had to be added in late 1979. With the expansion of the Chatham warehouse by a further 30,000 sq. ft., a 45% increase in total capacity has been made available bringing warehouse space to approximately 360,000 sq. ft.

The trucking and warehousing group was involved in a major capital program in 1979. Expenditures which totalled over $8,000,000 during the year were used to upgrade and modernize equipment and facilities and to increase overall capacity.

Building by Thibodeau-Finch included an ultra-modern terminal in Montreal replacing facilities which were inadequate and an expansion to its head office facility in Windsor. In addition, Thibodeau-Finch continued its program to upgrade older rolling stock and to increase productivity and capacity through the addition of new units.

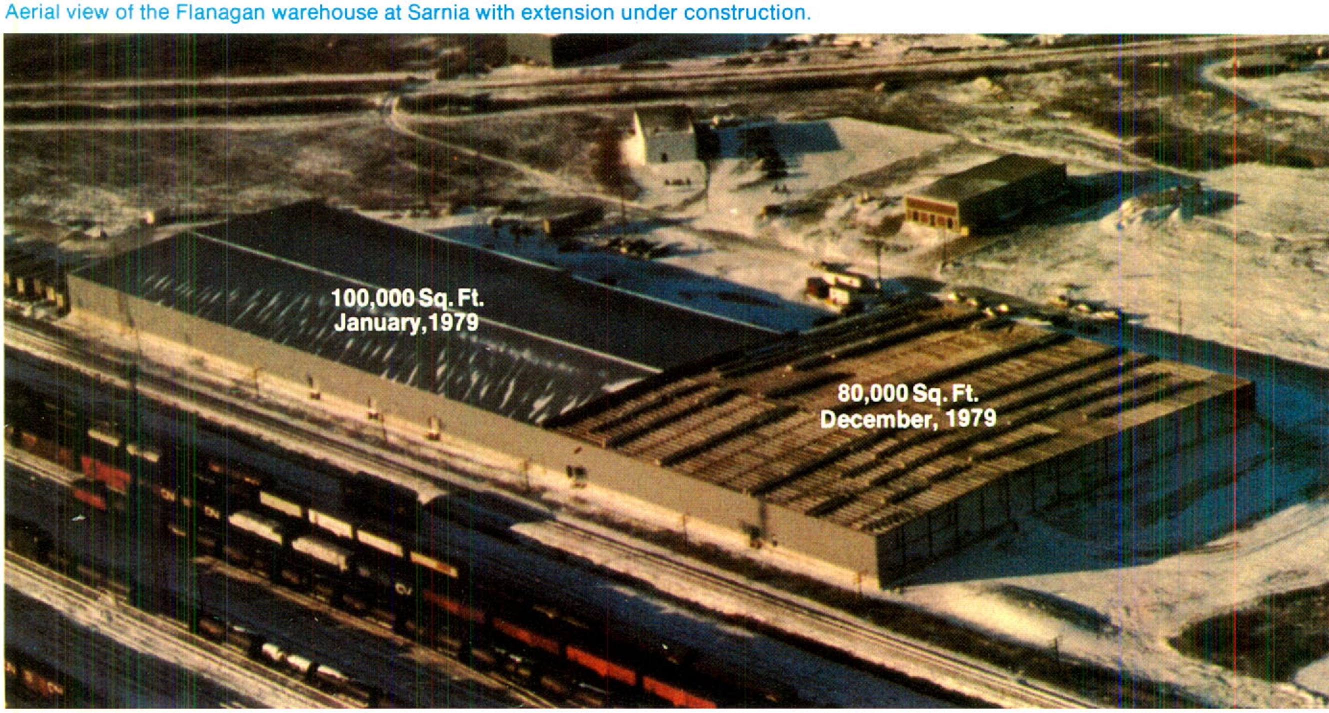
Installation of a new computer system at Thibodeau-Finch began in the latter part of the year. The computer, a Univac 9030B, will greatly expand data processing capabilities and will permit on-line operations controls as well as batch processing.

J. Singleton, Vice-President & General Manager; L. J. Thibodeau, President; W. K. Robinson, Treasurer (Algocen Transport Holdings Limited).

In order to increase its operating authority Transport T.F. Québec Ltée filed for and was successful in receiving a 400-mile radius expansion from Varennes for two major customers. Thibodeau-Finch has recently filed a major application with the Ontario Highway Transport Board to extend its coverage through the Buffalo gateway expanding service capabilities.

Outlook for the trucking division in 1980 remains guardedly optimistic. Major labour negotiations in the U.S. and Ontario sectors have been finalized for the next three years and negotiations with Quebec employees are expected to be settled without business interruption.

Aerial view of the Flanagan warehouse at Sarnia with extension under construction.



## Real Estate Operations

The waterfront complex at Sault Ste. Marie continues to be fully leased with revenues increasing beyond forecasts. The main objective in this area is to proceed with Phase II of the development in the near future.

Negotiations with the municipality have continued over the past year with respect to the addition of 196,000 square feet of leaseable floor space to the Station Mall. Hopefully, negotiations will be concluded in the very near future and construction can begin as originally scheduled this year with the opening in 1981. Leasing negotiations with a major department store have commenced and continued high interest has been expressed by ancillary tenants wishing to locate in the extension.

Construction began in April 1979 on an integrated and fully enclosed complex in Elliot Lake known as the Algo Centre. Consisting of 173,000 square feet of leaseable retail floor space, it will include a Woolco department store and a Dominion food store as well as an 87-room hotel with recreational and banquet facilities and 10,000 square feet of rentable office space. The Algo Inn hotel, to be operated by Algocen Realty, is scheduled to open in April, 1980. The official opening for the shopping centre portion of the complex is planned for mid-August, 1980.

Algocen Realty has expanded its construction capabilities by adding experienced contracting personnel and as a result is now carrying out the general contracting duties for this project. Further real estate developments, mainly in the central core areas of Northern Ontario communities, are now being investigated.

B. E. Boyes, Comptroller and Assistant General Manager; N. J. Hirt, Vice-President & General Manager; A. J. Lebon, Property Manager (Algocen Realty Holdings Limited).

Advance planning meetings ensure construction co-ordination with emphasis on scheduling.

"Algo Centre" in Elliot Lake begins to take shape.

## Review of Operations

### Financing

One of the main problems facing business today is the cost of borrowing long-term funds. We have been fortunate in benefiting from a high cash flow but present forecasts indicate projected capital expenditures in the next three-year period of over $110,000,000. Fortunately the major portion is not required until 1981 and 1982 and medium or long-term financing can be deferred to a more favourable time.

The dividend reinvestment and the stock dividend plans introduced on March 1, 1980 have been well received with 62% of shareholdings being registered for participation. In 1980 the new treasury shares issued should increase shareholders' equity by over $2,200,000 reducing our borrowings by a like amount.

The Series A debentures matured on March 1, 1980 and the sinking fund requirements of $600,000 of Series B bonds were again purchased in advance at discounted values with the gain being included in income. A reduction of income tax expenses in 1979 amounting to $830,000 has resulted from the investment tax credit applicable to transportation companies which invest in new equipment. The effect on earnings for the current year amounted to 25¢ per share. It should be noted that although we expect annual income to accrue while the legislation remains effective, the amount will vary widely from year to year as new equipment is delivered.

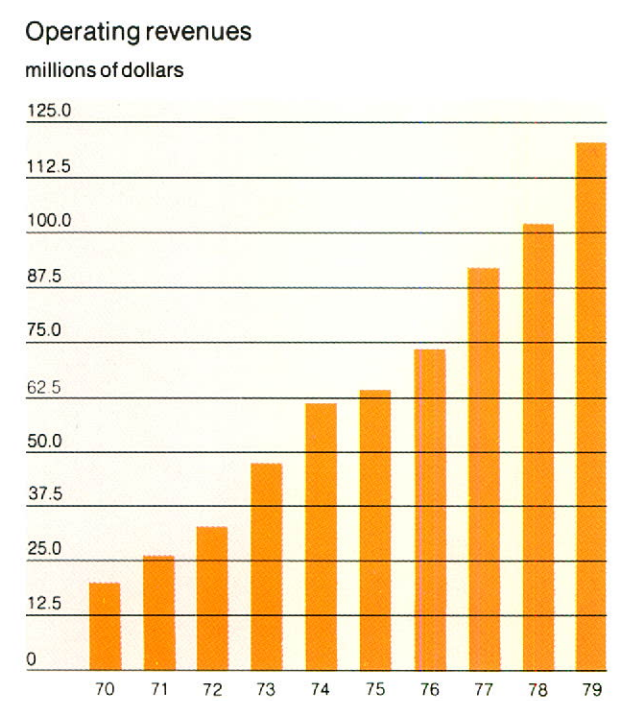
Your attention is drawn to the ten-year summary presented on pages 16 and 17 for a comprehensive comparison of Company growth.

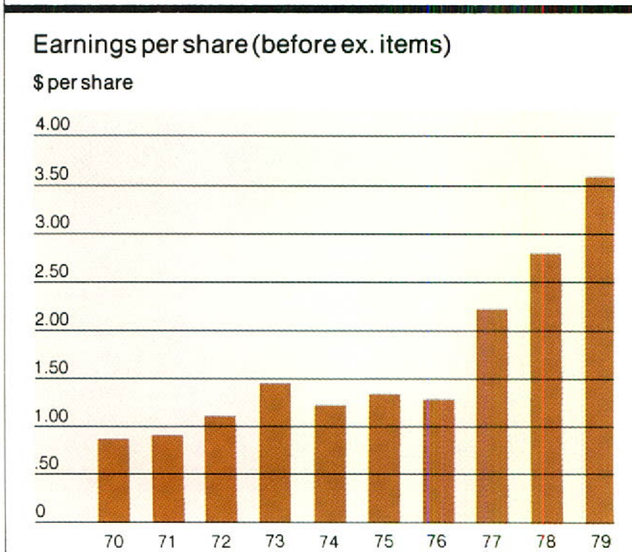
### General

Mr. R. G. Topp, C.A., previously Corporate Controller, was appointed Vice-President — Finance effective January 1, 1980 and Mr. T. S. Dool, C.A., replaced Captain J. Ferguson, Manager — Fleet Operations, Marine Division who died after a short illness in September, 1979. Captain Ferguson, well known and respected in the shipping field, joined the Company in March 1971 and will be greatly missed. Mr. Dool was formerly Comptroller — Marine Division.

It is also with deep regret that we note the death of Henry R. Jackman, Q.C., a former director. We wish to acknowledge his sage counsel and support during his years of office.

R. G. Topp, Vice-President — Finance; T. B. Gillespie, Treasurer; R. J. Cook, Manager — Data Processing.



## Consolidated Statement of Income and Retained Income

| for the year ended December 31, 1979 (with prior year's figures for comparison) | 1979 | 1978 |
|---|---|---|
| Revenue: | | |
| Marine | $ 57,206,000 | $ 43,612,000 |
| Rail | 29,740,000 | 26,028,000 |
| Trucking | 31,466,000 | 30,187,000 |
| Real estate | 2,909,000 | 2,658,000 |
| Total revenue | 121,321,000 | 102,485,000 |
| Operating Expenses: | | |
| Operations | 73,510,000 | 64,248,000 |
| Depreciation and amortization | 9,744,000 | 8,146,000 |
| Administration and general | 6,714,000 | 6,018,000 |
| Pension and retirement | 2,636,000 | 2,270,000 |
| Taxes, other than income taxes | 1,158,000 | 1,004,000 |
| Total operating expenses | 93,762,000 | 81,686,000 |
| Income from Operations | 27,559,000 | 20,799,000 |
| Deduct (add): | | |
| Equity in earnings of associated companies | (160,000) | (292,000) |
| Other income | (646,000) | (888,000) |
| Interest | 6,569,000 | 5,266,000 |
| | 5,763,000 | 4,086,000 |
| Income before Income Taxes and Extraordinary Items | 21,796,000 | 16,713,000 |
| Income Taxes | 9,989,000 | 7,897,000 |
| Income before Extraordinary Items | 11,807,000 | 8,816,000 |
| Extraordinary Items — Note 8 | 4,229,000 | — |
| Net Income for the Year | 16,036,000 | 8,816,000 |
| Retained Income at Beginning of the Year | 46,980,000 | 41,115,000 |
| | 63,016,000 | 49,931,000 |
| Dividends | 3,263,000 | 2,951,000 |
| Retained Income at End of the Year | $ 59,753,000 | $ 46,980,000 |
| Earnings per Share | | |
| Before extraordinary items | $3.60 | $2.69 |
| After extraordinary items | $4.89 | $2.69 |

The accompanying notes are an integral part of the financial statements.

# Consolidated Balance Sheet

| as at December 31, 1979 (with prior year's figures for comparison) | 1979 | 1978 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash | $ 2,929,000 | $ 1,528,000 |
| Accounts receivable | 16,324,000 | 16,714,000 |
| Materials and supplies | 5,550,000 | 4,463,000 |
| Prepaid expenses | 865,000 | 644,000 |
| Total current assets | 25,668,000 | 23,349,000 |
| Accident Insurance Fund | 508,000 | 387,000 |
| Investments — Note 2 | 2,791,000 | 2,821,000 |
| Forest Lands — at nominal value | 1,000 | 1,000 |
| Fixed Assets — Note 3 | 249,405,000 | 212,500,000 |
| Less accumulated depreciation | 80,397,000 | 74,565,000 |
| Net fixed assets | 169,008,000 | 137,935,000 |
| Other Assets — Note 4 | 5,331,000 | 5,293,000 |
| Total | $203,307,000 | $169,786,000 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities: | | |
| Bank indebtedness | $ 424,000 | $ 821,000 |
| Accounts payable and accrued charges | 13,312,000 | 12,417,000 |
| Income taxes | 2,687,000 | 767,000 |
| Current portion of long-term debt | 2,908,000 | 3,123,000 |
| Dividend payable | 902,000 | 787,000 |
| Total current liabilities | 20,233,000 | 17,915,000 |
| Provision for Accident Insurance | 508,000 | 387,000 |
| Provision for Vessel Maintenance | 2,566,000 | 2,154,000 |
| Deferred Income Taxes | 42,493,000 | 34,376,000 |
| Long-Term Debt — Note 5 | 69,207,000 | 59,427,000 |
| Minority Interest in Subsidiary Company | 10,000 | 10,000 |
| **Shareholders' Equity:** | | |
| Share capital: | | |
| Authorized: | | |
| 170,000 preferred shares, par value $50 each | | |
| 5,000,000 common shares, par value $2 each | | |
| Issued and fully paid: | | |
| 3,278,875 common shares | 6,558,000 | 6,558,000 |
| Contributed surplus | 1,979,000 | 1,979,000 |
| Retained income — Note 7 | 59,753,000 | 46,980,000 |
| Total shareholders' equity | 68,290,000 | 55,517,000 |
| Total | $203,307,000 | $169,786,000 |

The accompanying notes are an integral part of the financial statements.

Approved by the Board: Director Director

# Consolidated Statement of Changes in Financial Position

| for the year ended December 31, 1979 (with prior year's figures for comparison) | 1979 | 1978 |
|---|---|---|
| **Working Capital Provided:** | | |
| From operations: | | |
| Income for the year before extraordinary items | $11,807,000 | $ 8,816,000 |
| Items not affecting working capital: | | |
| Depreciation and amortization | 9,744,000 | 8,146,000 |
| Deferred income taxes | 6,875,000 | 6,580,000 |
| Provision for vessel maintenance | 412,000 | 137,000 |
| Gain on sale of fixed assets | (318,000) | (406,000) |
| Equity in earnings of associated companies | (160,000) | (292,000) |
| Provided from operations | 28,360,000 | 22,981,000 |
| Proceeds on sale of fixed assets — net of current income taxes of $1,136,000 | 7,374,000 | 609,000 |
| Increase in long-term debt | 12,998,000 | 11,500,000 |
| Dividend from associated company | — | 179,000 |
| Other | 75,000 | — |
| Total | 48,807,000 | 35,269,000 |
| **Working Capital Applied:** | | |
| Additions to fixed assets | 42,325,000 | 23,679,000 |
| Investments | — | 1,944,000 |
| Repayment of long-term debt | 3,218,000 | 3,953,000 |
| Dividends | 3,263,000 | 2,951,000 |
| Other | — | 153,000 |
| Total | 48,806,000 | 32,680,000 |
| **Increase in Working Capital for the Year** | 1,000 | 2,589,000 |
| **Working Capital at Beginning of the Year** | 5,434,000 | 2,845,000 |
| **Working Capital at End of the Year** | $ 5,435,000 | $ 5,434,000 |

The accompanying notes are an integral part of the financial statements.

**Deloitte Haskins+Sells**

Chartered Accountants

3200 Royal Trust Tower
P.O. Box 283
Toronto-Dominion Centre
Toronto, Ontario M5K 1K4
(416) 863-1315
Cable DEHANDS

## Auditors' Report

To the Shareholders of Algoma Central Railway:

We have examined the consolidated balance sheet of Algoma Central Railway as at December 31, 1979 and the consolidated statements of income and retained income and of 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, 1979 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.

Auditors

Deloitte Haskins & Sells

February 22, 1980

# Notes to the Consolidated Financial Statements

## December 31, 1979

1. Significant Accounting Policies:

*Consolidation:*

The consolidated financial statements include the accounts of Algoma Central Railway and its subsidiary companies.

*Foreign currencies:*

Foreign currency accounts in these financial statements are translated to Canadian dollars as follows:

Current assets and current liabilities — at the rate of exchange prevailing at the year end.

Income and expenses — at a rate approximating the rate of exchange prevailing on the dates of the transactions.

Non-current assets, accumulated depreciation and long-term debt — at exchange rates prevailing at the time of acquisition or issue.

*Fixed assets:*

Fixed assets are stated at cost. The depreciation policy of the company is to write off the cost of fixed assets other than land over the estimated useful lives on a straight-line basis except for the buildings and site improvements owned by the realty subsidiary. The cost of these latter assets is written off on the sinking fund basis over thirty-five years at 5% compounded annually.

*Income taxes:*

Income taxes are accounted for using the tax-allocation basis. Timing differences creating deferred income taxes relate primarily to capital cost allowances being greater than depreciation. Investment tax credits are accounted for by the flow-through method which reduces income tax expense by $830,000 in 1979 (1978 — nil).

*Accident insurance fund:*

The accident insurance fund is stated at the lesser of cost and market value.

*Investments:*

The company accounts for its investment in the common shares of associated companies on the equity basis (see Note 2).

*Deferred exploration and development expenditures:*

Exploration and development expenditures incurred in connection with mining projects are deferred pending a decision as to the commercial viability of a project. Deferred expenditures relating to projects deemed commercially viable will be capitalized as mining properties and mineral rights and subsequently depleted on a unit-of-production method. Deferred expenditures relating to projects abandoned will be written off at the time of abandonment.

*Goodwill:*

Goodwill on the acquisition of subsidiaries is allocated to assets where applicable and any excess is then amortized over periods not exceeding twenty years.

*Deferred charges:*

Deferred charges are being amortized on a straight-line basis over the life of the related asset or liability.

*Materials and supplies:*

Materials and supplies are valued at cost determined on a first-in, first-out basis.

*Passenger train subsidy:*

Pursuant to the Railway Act, the company is entitled to subsidy payments in respect of financial losses incurred on passenger train service. Once a method to determine these payments is clearly established, the amounts will be recorded on the accrual basis; in the meantime, the amounts are recorded on the cash basis. Payments of $861,000 were received in 1979 ($429,000 — 1978).

2. Investments:

Details of investments are as follows:

| | % of Common Share Ownership | Carrying Value 1979 | Carrying Value 1978 |
|---|---|---|---|
| Associated companies: | | | |
| Viking Helicopters Limited | 50.0 | $2,025,000 | $2,023,000 |
| All Canadian-American Investments Limited | 33.6 | 505,000 | 345,000 |
| Mortgages | | 155,000 | 335,000 |
| Other | | 106,000 | 118,000 |
| Total Investments | | $2,791,000 | $2,821,000 |

The difference between the carrying value of the associated companies and the equity in their underlying net assets is not material.

3. Fixed Assets:

Details of fixed assets by major operating divisions are as follows:

December 31, 1979

| | Cost: Land | Cost: Depreciable Assets | Accumulated Depreciation |
|---|---|---|---|
| Marine | $ 20,000 | $143,204,000 | $34,588,000 |
| Rail | 608,000 | 54,019,000 | 33,813,000 |
| Trucking | 1,255,000 | 26,502,000 | 10,438,000 |
| Real estate | 784,000 | 23,013,000 | 1,558,000 |
| Totals | $2,667,000 | $246,738,000 | $80,397,000 |

December 31, 1978

| | Cost: Land | Cost: Depreciable Assets | Accumulated Depreciation |
|---|---|---|---|
| Marine | $ 20,000 | $122,294,000 | $30,388,000 |
| Rail | 608,000 | 51,244,000 | 33,143,000 |
| Trucking | 985,000 | 20,177,000 | 9,781,000 |
| Real estate | 654,000 | 16,518,000 | 1,253,000 |
| Totals | $2,267,000 | $210,233,000 | $74,565,000 |

4. Other Assets:

Details of other assets at cost, less amounts written off, are as follows:

| | 1979 | 1978 |
|---|---|---|
| Licences and related goodwill | $3,317,000 | $3,317,000 |
| Deferred exploration and development | 1,060,000 | 1,051,000 |
| Deferred charges | 954,000 | 925,000 |
| Total other assets | $5,331,000 | $5,293,000 |

### 5. Long-Term Debt:

Details of long-term debt are as follows:

| | 1979 | 1978 |
|---|---|---|
| Bank loans and acceptances | $30,170,000 | $21,398,000 |
| 5¾% sinking fund debentures, Series A, due March 1, 1980 | — | 210,000 |
| 8¾% first mortgage sinking fund bonds, Series B, due June 1, 1991 | 6,564,000 | 7,053,000 |
| 9⅞% first mortgage sinking fund bonds, Series C, due October 17, 1997 | 15,000,000 | 15,000,000 |
| 9% blended payments bonds, due January 1, 1999 | 7,673,000 | 7,874,000 |
| 7½% promissory notes, repayable in equal semi-annual instalments of $327,000, due April 1, 1981 | 327,000 | 981,000 |
| 10¼% mortgage, repayable in equal monthly blended payments of $18,000, due November 15, 1982 | 1,936,000 | 1,958,000 |
| 10¼% mortgage, repayable in equal monthly blended payments of $18,000, due June 1, 1988 | 1,921,000 | 1,930,000 |
| 9½% promissory notes, repayable in equal annual instalments of $517,000, due September 30, 1982 | 1,033,000 | 1,550,000 |
| 11⅜% mortgage, repayable in equal monthly blended payments of $10,000, due May 1, 1995 | 897,000 | 917,000 |
| Transport equipment loans | 185,000 | 556,000 |
| Amounts payable in respect of construction in progress which will be converted to long-term debt in 1980 | 2,950,000 | — |
| 7½% capitalized lease, expiring October 31, 1984 | 551,000 | — |
| Total long-term debt | $69,207,000 | $59,427,000 |

Interest on long-term debt amounted to $6,364,000 in 1979 (1978 — $5,179,000). Estimated principal repayments for the next five years are as follows:

| | |
|---|---|
| 1980 | $2,908,000 |
| 1981 | $3,693,000 |
| 1982 | $3,296,000 |
| 1983 | $2,773,000 |
| 1984 | $2,215,000 |

*Bank loans:*

The companies arrange bank borrowings with various maturities according to requirements. At December 31, 1979 the amounts shown as long-term debt consist of a series of loans which require repayment commencing in 1981. The weighted average interest rate is 14.90%. As security for certain of the bank loans, the company has pledged its holdings in the shares of certain subsidiary companies.

*Sinking fund requirements:*

The 1980 sinking fund requirements are as follows:

| | |
|---|---|
| 8¾% first mortgage sinking fund bonds, Series B | $600,000 |
| 9⅞% first mortgage sinking fund bonds, Series C | — |
| Total sinking fund requirements | $600,000 |

Requirements for the Series B Bonds will be $600,000 principal annually for the years 1980 to 1990 inclusive, and the Series C bonds $800,000 principal annually for the years 1981 to 1996 inclusive. At December 31, 1979, the company has purchased $636,000 Series B bonds for application to subsequent principal retirement requirements.

*Blended payment bonds:*

The 9% blended payment bonds are repayable in semi-annual instalments of $412,000 including interest and principal. In addition, annual supplementary principal payments are required when revenue from the collateral property exceeds a given amount. The supplementary amount due January 1, 1980 is $80,000.

*Transport equipment loans:*

These loans and mortgages have varying interest rates, repayment terms and due dates, and are secured by individual assets. The weighted average interest rate is 10.9%; the maximum monthly principal and interest instalment is $39,000.

### 6. Bond Redemption Funds:

The unclaimed portion of funds placed with the trustee in 1959 for the redemption of the 5% income debenture stock and/or bonds which matured in that year has been invested and the company has taken into income the earnings thereon. The balance of funds unclaimed on March 10, 1989 will be returned to the company. At December 31, 1979 the unclaimed funds held by the trustee amount to $678,000.

### 7. Dividend Restrictions:

Dividends on the common shares are restricted by the terms of the second supplemental mortgage trust deed. The amount of consolidated shareholders' equity which is not subject to this restriction is $28,290,000 at December 31, 1979.

### 8. Extraordinary Items:

Extraordinary items comprise the following:

| | |
|---|---|
| Gain on sale of the M.V. Sir Denys Lowson, less related income taxes of $1,919,000 | $4,341,000 |
| Additional income taxes arising from the reassessment of 1974 taxable income | (334,000) |
| Gain on sale of land and building, less related income taxes of $126,000 | 222,000 |
| | $4,229,000 |

### 9. Pension Plans:

The company and a subsidiary have unfunded past service pension liabilities estimated at $3,495,000 as of December 31, 1979. These liabilities will be funded over the next thirteen years at an annual amount estimated to be $459,000. These payments will be charged to operations as incurred.

### 10. Leases:

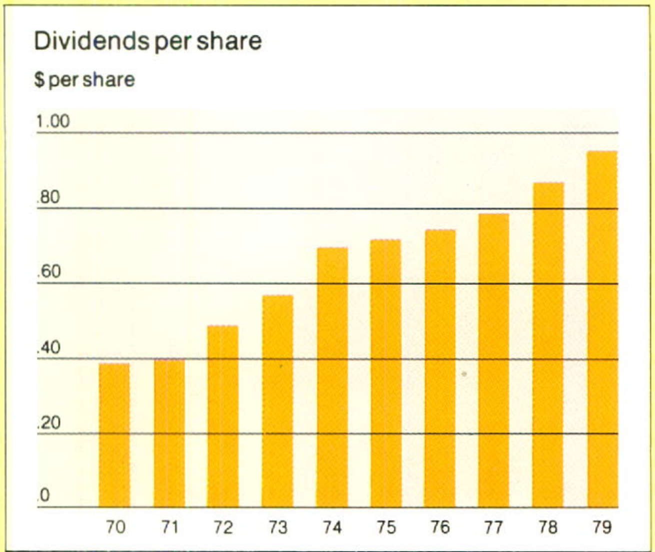
Capital leases commencing after December 31, 1978 are accounted for as assets and obligations; those prior thereto as operating leases. At December 31, 1979, the company is committed to annual rental payments of $1,735,000 for rolling stock under capital leases commencing prior to 1979 and expiring at various dates until 1992. If these leases had been capitalized, the values at December 31, 1979 would be as follows:

| | |
|---|---|
| (a) Assets under capital leases | $14,437,000 |
| Less accumulated amortization | 4,524,000 |
| Net capital lease assets | $ 9,913,000 |
| (b) Obligations under capital leases | $11,440,000 |
| Less current portion | 647,000 |
| Long-term capital lease obligations | $10,793,000 |
| (c) Decrease in net income for 1979 | $ 72,000 |

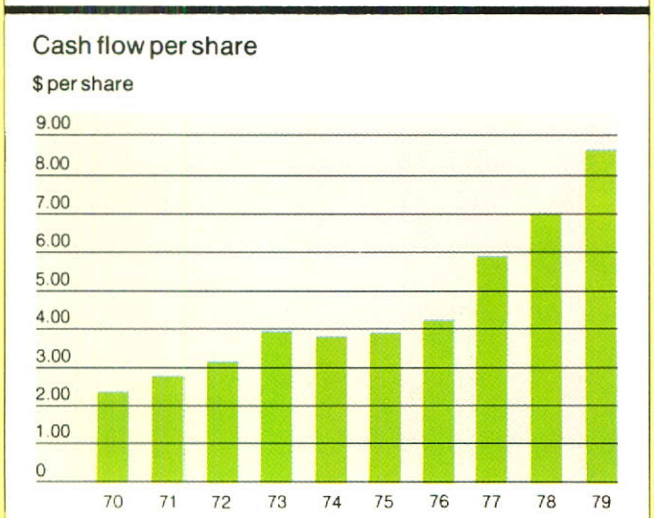
### 11. Capital Commitments:

The company has outstanding capital commitments of approximately $72,000,000 at December 31, 1979 which are due for payment as follows: 1980 — $6,000,000, 1981 — $29,000,000, 1982 — $37,000,000.

# Ten Year Summary








| (expressed in thousands) | 1979 |
|---|---|
| Revenue | |
| Marine | 57,206 |
| Rail | 29,740 |
| Trucking | 31,466 |
| Real estate | 2,909 |
| Total | 121,321 |
| Net income | |
| Before extraordinary items | 11,807 |
| After extraordinary items | 16,036 |
| Depreciation and amortization | 9,744 |
| Cash flow from operations | 28,360 |
| Dividends paid | 3,148 |
| Capital expenditures (including net book value of fixed assets purchased with business acquisitions) | |
| Marine | 23,796 |
| Rail | 3,724 |
| Trucking | 8,176 |
| Real estate | 6,629 |
| Total | 42,325 |
| Net fixed assets | |
| Marine | 108,636 |
| Rail | 20,814 |
| Trucking | 17,319 |
| Real estate | 22,239 |
| Total | 169,008 |
| Long-term debt | 69,207 |
| Shareholders' equity | 68,290 |
| Debt as % of net fixed assets | 41% |
| Debt as % of shareholders' equity | 101% |
| Dividends as % of net income (before extraordinary items) | 27% |
| Operating expense ratio | 77.3% |
| Working capital ratio | 1.27/1 |
| **Common Share Statistics** (3,278,875 shares outstanding) | |
| Net income | |
| Quarterly earnings | |
| First | .27 |
| Second | .92 |
| Third | 1.26 |
| Fourth | 1.15 |
| Total before extraordinary items | $ 3.60 |
| Total after extraordinary items | $ 4.89 |
| Quoted market value | |
| High | $27.50 |
| Low | $18.75 |
| Dividends paid | 96¢ |
| Cash flow | $ 8.65 |
| Shareholders' equity | $20.83 |

Note: Certain figures of prior years have been restated

| 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 | 1970 |
|---|---|---|---|---|---|---|---|---|
| 43,612 | 41,094 | 30,928 | 28,770 | 19,304 | 17,705 | 13,215 | 12,070 | 7,978 |
| 26,028 | 22,345 | 20,208 | 14,063 | 18,285 | 15,905 | 14,540 | 13,014 | 12,368 |
| 30,187 | 25,227 | 19,635 | 18,995 | 22,209 | 11,948 | 4,652 | | |
| 2,658 | 2,903 | 2,905 | 1,775 | 1,199 | 170 | | | |
| 102,485 | 91,569 | 73,676 | 63,603 | 60,997 | 45,728 | 32,407 | 25,084 | 20,346 |
| 8,816 | 7,118 | 4,144 | 4,296 | 4,039 | 4,668 | 3,549 | 2,839 | 2,629 |
| 8,816 | 7,118 | 4,144 | 4,296 | 8,620 | 4,668 | 3,549 | 3,589 | 5,519 |
| 8,146 | 7,778 | 6,028 | 5,810 | 5,245 | 4,359 | 3,742 | 3,359 | 2,508 |
| 22,981 | 19,550 | 13,708 | 12,640 | 12,601 | 12,739 | 10,091 | 8,508 | 7,433 |
| 2,853 | 2,558 | 2,410 | 2,361 | 2,262 | 1,885 | 1,557 | 1,312 | 1,241 |
| 15,559 | 13,381 | 17,576 | 16,528 | 7,689 | 5,830 | 7,045 | 11,328 | 6,708 |
| 3,663 | 1,266 | 1,995 | 487 | 1,231 | 925 | 727 | 438 | 448 |
| 3,496 | 2,056 | 578 | 1,263 | 2,815 | 4,039 | 4,505 | | |
| 961 | 1,096 | 30 | 438 | 4,645 | 9,746 | | | |
| 23,679 | 17,799 | 20,179 | 18,716 | 16,380 | 20,540 | 12,277 | 11,766 | 7,156 |
| 91,926 | 81,497 | 72,903 | 58,428 | 44,760 | 42,382 | 38,995 | 34,123 | 24,815 |
| 18,709 | 16,458 | 16,891 | 16,495 | 17,452 | 17,972 | 18,300 | 19,004 | 20,005 |
| 11,381 | 9,264 | 8,418 | 9,193 | 9,260 | 7,678 | 4,221 | | |
| 15,919 | 15,252 | 14,428 | 14,661 | 14,541 | 10,038 | | | |
| 137,935 | 122,471 | 112,640 | 98,777 | 86,013 | 78,070 | 61,516 | 53,127 | 44,820 |
| 59,427 | 51,880 | 51,538 | 41,942 | 44,360 | 36,661 | 23,503 | 16,894 | 12,040 |
| 55,517 | 49,652 | 45,140 | 43,455 | 41,381 | 35,243 | 34,218 | 32,636 | 30,609 |
| 43% | 42% | 46% | 42% | 52% | 47% | 38% | 32% | 27% |
| 107% | 104% | 114% | 97% | 107% | 104% | 69% | 52% | 39% |
| 32% | 36% | 58% | 55% | 56% | 40% | 44% | 46% | 47% |
| 79.7% | 80.6% | 83.5% | 83.4% | 81.3% | 76.8% | 75.5% | 75.0% | 72.3% |
| 1.30/1 | 1.19/1 | 1.35/1 | 1.28/1 | 1.34/1 | 1.18/1 | 1.31/1 | 1.46/1 | 1.44/1 |
| .11 | (.01) | (.10) | (.02) | .11 | .16 | .05 | | |
| .84 | .64 | .43 | .32 | .42 | .38 | .23 | Not | |
| .98 | 1.03 | .56 | .44 | .24 | .50 | .38 | Available | |
| .76 | .51 | .37 | .57 | .46 | .38 | .42 | | |
| $ 2.69 | $ 2.17 | $ 1.26 | $ 1.31 | $ 1.23 | $ 1.42 | $ 1.08 | 87¢ | 81¢ |
| $ 2.69 | $ 2.17 | $ 1.26 | $ 1.31 | $ 2.63 | $ 1.42 | $ 1.08 | $ 1.09 | $1.69 |
| $24.00 | $16.00 | $15.00 | $16.37 | $17.87 | $16.50 | $13.00 | $10.50 | $9.00 |
| $15.62 | $10.25 | $10.75 | $ 9.62 | $ 9.00 | $11.50 | $ 8.50 | $ 7.25 | $5.62 |
| 87¢ | 78¢ | 73½¢ | 72¢ | 69¢ | 57½¢ | 47½¢ | 40¢ | 38¢ |
| $ 7.01 | $ 5.96 | $ 4.18 | $ 3.85 | $ 3.84 | $ 3.89 | $ 3.08 | $ 2.59 | $2.28 |
| $16.93 | $15.14 | $13.77 | $13.25 | $12.62 | $10.75 | $10.44 | $ 9.95 | $9.34 |

o conform to the 1979 financial statement presentation.

# Directors of the Company

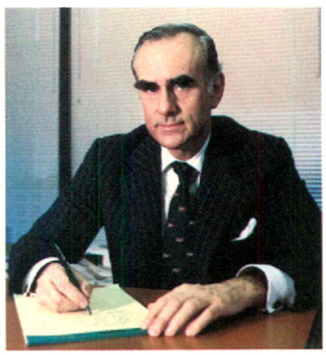

Hon. John B. Aird, O.C., Q.C.


Douglas A. Berlis, Q.C.


Charles F. W. Burns


Peter R. Cresswell, P.Eng.


George C. Hitchman

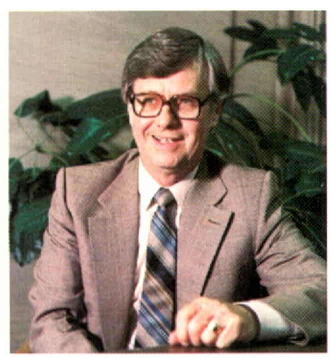

Henry N. R. Jackman

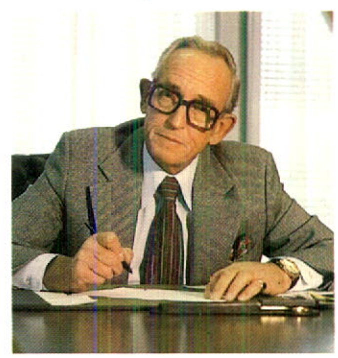

John J. Jodrey


Arthur J. Little, F.C.A.


W. Darcy McKeough


Leonard N. Savoie, P.Eng.


Leo J. Thibodeau


James W. Whittall

## Directors

*Hon. John B. Aird, O.C., Q.C., Toronto, Ontario
*Senior Partner, Aird & Berlis*

*Douglas A. Berlis, Q.C., Toronto, Ontario
*Senior Partner, Aird & Berlis*

†*Charles F. W. Burns, Toronto, Ontario
*Honorary Chairman, Burns Fry Limited*

**Peter R. Cresswell, P.Eng.**, Sault Ste. Marie, Ontario
*Vice-President and General Manager—Marine Division, Algoma Central Railway*

**George C. Hitchman**, Toronto, Ontario
*Deputy Chairman of the Board, The Bank of Nova Scotia*

†*Henry N. R. Jackman, Toronto, Ontario
*Chairman of the Board, The Empire Life Insurance Company*

*John J. Jodrey, Hantsport, Nova Scotia
*President, Minas Basin Pulp and Paper Company Limited*

†Arthur J. Little, F.C.A., Toronto, Ontario
*Company Director*

**W. Darcy McKeough,**
*President and Chief Executive Officer Union Gas Limited*

*Leonard N. Savoie, P.Eng., Sault Ste. Marie, Ontario
*President and Chief Executive Officer, Algoma Central Railway*

**Leo J. Thibodeau**, Windsor, Ontario
*President and Chief Executive Officer, Thibodeau-Finch Express Limited*

**James W. Whittall**, Toronto, Ontario
*Chairman of the Executive Committee, Reed Stenhouse Companies Limited*

*Member of Executive Committee
†Member of Audit Committee

## Officers

**Hon. John B. Aird, O.C., Q.C.**
*Chairman of the Board*

**Leonard N. Savoie, P.Eng.**
*President and Chief Executive Officer*

**Douglas A. Berlis, Q.C.**
*Vice-President, General Counsel and Secretary*

**Peter R. Cresswell, P.Eng.**
*Vice-President and General Manager—Marine Division*

**Stanley A. Black,**
*Vice-President—Rail*

**Robert G. Topp, C.A.**
*Vice-President—Finance*

**Thomas B. Gillespie, C.A.**
*Treasurer and Corporate Development Manager*

**C. Hugh Paul,**
*Traffic Manager*

**Transfer Agent:** The Royal Trust Company
Toronto—Halifax—Montreal—Vancouver

*Stock listed on the Toronto Stock Exchange —Symbol "ALC"*

**Banks:** Bank of Nova Scotia
Bank of Montreal
Royal Bank of Canada

**Auditors:** Deloitte Haskins + Sells

**Special Counsel:** Aird & Berlis

### ALGOMA CENTRAL RAILWAY and Subsidiary Companies

| | |
|---|---|
| Corporate Head Office<br>Marine Division<br>Rail Division<br>Algocen Mines Limited<br>Algocen Realty Holdings Limited<br>Algoma Steamships Limited<br>Providence Shipping Company Limited | 289 Bay Street, Sault Ste. Marie, Ontario, P6A 5P6<br>(705) 949-2113 |
| Toronto Office | 15th floor, 145 King Street W., Toronto, Ontario, M5H 2J3<br>(416) 364-1241 |
| Marine Division Operations<br>Herb Fraser and Associates Limited | 1 Chestnut Street, Port Colborne, Ontario, L3R 1B3<br>(416) 834-6313<br>(416) 834-4549 |
| Algocen Transport Holdings Limited<br>Thibodeau-Finch Express Limited<br>Terminals: Detroit, Windsor, Chatham, London, Brantford, Burlington, Toronto and Montreal | 3049 Devon Road, Windsor, Ontario, N8X 4L3<br>(519) 966-1222 |
| Transport T. F. Québec Limitée | 197 Petit Bois, Varennes, Quebec, J0L 2P0<br>(514) 652-2415 |
| Flanagan Warehousing & Distribution Co. Ltd.<br>Warehouses and Terminals: London, Chatham and Sarnia | 1036 Green Valley Road, London, Ontario, N6A 4C2<br>(519) 681-5100 |