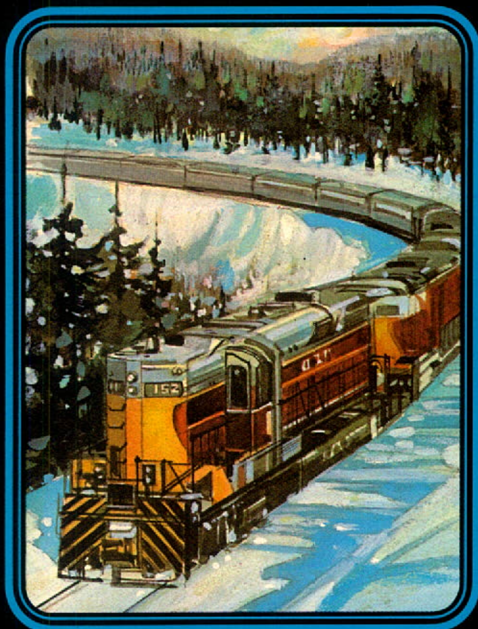


# ALGOMA CENTRAL RAILWAY ANNUAL REPORT 1980

**Algoma Central Railway**
*and Principal Subsidiary Companies*

Corporate Head Office
Marine Division
Rail Division
Algocen Mines Limited
Algocen Realty Holdings Limited
Algoma Steamships Limited

289 Bay Street,
Sault Ste. Marie, Ontario, P6A 5P6
(705) 949-2113

**Toronto Office**
15th Floor, 145 King Street W., Toronto,
Ontario, M5H 2J3 (416) 364-1241

**Marine Division Operations**
(416) 834-6313
**Herb Fraser and Associates Limited**
(416) 834-4549
1 Chestnut Street, Port Colborne,
Ontario, L3R 1B3

**Algocen Transport Holdings Limited**
**Thibodeau-Finch Express Limited**
Terminals: Detroit, Windsor, Chatham,
London, Sarnia, Brantford, Burlington,
Toronto and Montreal
3049 Devon Road, Windsor,
Ontario, N8X 4L3
(519) 966-1222

**Transport T.F. Québec Limitée**
197 Petit Bois, Varennes,
Quebec, J0L 2P0 (514) 652-2415

**Flanagan Warehousing**
**& Distribution Co. Ltd.**
Warehouses:
London, Chatham and Sarnia
1036 Green Valley Road, London,
Ontario N6A 4C2 (519) 681-5100

**ACR, Delaware, Inc.**
**Algocen, Florida, Inc.**
Suite 1, 555 Colorado Avenue, Stuart,
Florida 33494 (305) 287-2600

**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. 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 carries general cargo on routes extending from Detroit, Michigan to Toronto, Ontario and Montreal, Quebec. Algoma Central also has developed commercial real estate complexes in Sault Ste. Marie and Elliot Lake, Ontario. In addition the Company owns approximately 850,000 acres of land, including mineral and timber rights, in the Algoma region.

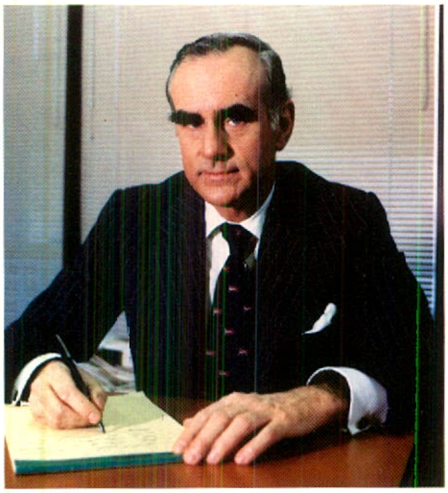
# Comparative highlights

| For The Year | 1980 | 1979 |
|---|---|---|
| Revenue | $132,392,000 | $121,321,000 |
| Income before Extraordinary Items | $ 10,403,000 | $ 11,807,000 |
| Operating Expenses to Revenue | 79.8% | 77.3% |
| Cash Flow | $ 29,041,000 | $ 28,360,000 |
| Fixed Asset Additions | $ 37,453,000 | $ 42,325,000 |
| Average Number of Common Shares Outstanding | 3,324,000 | 3,279,000 |
| Earnings per Common Share | | |
| before extraordinary items | $3.13 | $3.60 |
| after extraordinary items | $3.13 | $4.89 |
| Dividends Paid per Common Share | $1.10 | $ .96 |
| Cash Flow per Common Share | $8.74 | $8.65 |

| At December 31 | | |
|---|---|---|
| Total Assets | $231,297,000 | $203,307,000 |
| Shareholders' Equity | $ 77,316,000 | $ 68,290,000 |
| Long-Term Debt | $ 80,959,000 | $ 69,207,000 |
| Long-Term Debt to Shareholders' Equity | 105% | 101% |
| Common Shares Outstanding | 3,377,000 | 3,279,000 |
| Equity per Common Share | $22.90 | $20.83 |
| Working Capital | $ 5,900,000 | $ 5,435,000 |

The Annual Meeting of Shareholders will be held Thursday, April 9, 1981 at 11.00 a.m. in the Holiday Inn, Sault Ste. Marie, Ontario

# TO OUR SHAREHOLDERS



H. N. R. Jackman

L. N. Savoie

The Company's performance during 1980 reflected the general slowdown of the economy. Total revenues were $132.4 million versus $121.3 million in 1979, representing an increase of 9% which was below the rate of inflation. Net income before extraordinary items at $10.4 million ($3.13 per share) was down 12% from the record of $11.8 million ($3.60 per share) reported a year earlier. Cash flow from operations remained approximately the same at $29.0 million ($8.74 per share) compared to $28.4 million ($8.65 per share) the previous year.

Total capital expenditures for the year were $37.5 million. Of this amount $23.2 million represented payments on the three lake vessels we have on order with Canadian Shipbuilding and Engineering Limited in Collingwood, Ontario. The first of these vessels was launched and christened the "M/V Algowood" in October of 1980 and will be delivered in time for the opening of navigation in April 1981. The other two vessels are scheduled for delivery in 1982 and 1983. An additional $8.3 million was paid during the year on the completion of our shopping centre-hotel complex in Elliot Lake which opened for business in May and on the Phase II expansion to Station Mall in Sault Ste. Marie. The remaining capital expenditures, approximately $6.0 million, were used to replace and upgrade equipment for the Rail, Trucking and Ship Repair Divisions.

Dividends paid to shareholders in 1980 increased by 15% to $1.10 per share versus 96¢ paid for the year 1979. Quarterly dividend payments were increased a further 9% from 27.5¢ to 30¢ per share commencing with the first payment of 1981. The stock dividend and dividend reinvestment plans which became effective in 1980 resulted in the reinvestment of approximately 65% of the dividends paid. These funds combined with internal cash flow allowed us to hold the year end debt to equity ratio at a level only slightly higher than it was at the previous year end in spite of our high capital expenditure program.

Although the economic slowdown in Ontario and the United States affected all of our Divisions, it was particularly adverse to our trucking activities throughout Southern Ontario. Lower volumes by the automotive and building products industries created a very competitive environment for the whole trucking industry in that area. The effect of reduced traffic available combined with extreme rate pressures resulted in a very low financial return from that Division relative to previous years. A second major factor which impacted our overall 1980 results was the extreme cold weather in December which increased operating costs and caused extraordinary delays requiring us to forego traffic that was otherwise available.

During the year the Company made a $1.9 million dollar investment in a real estate joint venture in Florida which will, over the next five or six years, build about 650 condominium units for resale on a 110 acre piece of well situated oceanfront land. The Company also negotiated during the year the sale, subject to certain conditions, of its 50% equity in Viking Helicopters Limited for consideration approximating the carrying value. After two years of exposure to the helicopter rental business, we concluded that it is not compatible with our other transportation activities. Completion of the sale now awaits approval of the Canadian Transport Commission.

Our forecast for 1981 indicates an improvement in operating results but there are a number of influences which could affect us significantly. On the positive side we have concluded contracts which will keep our entire marine fleet, including the new M/V Algowood, fully occupied. The outlook of our major customers on the railroad is very positive at least during the first half of the year and there are indications of some increase in traffic for our Trucking Division. On the negative side 1981 could be a very difficult year for labour negotiations. Our own marine union agreements must be renewed in May and many of our customers, and others such as seaway workers and grain elevator operators, have contracts expiring during the year. A lengthy work stoppage by any of these groups could have a major impact on our performance over the period.

The Honourable John B. Aird, O.C., Q.C., who had been a director of the Company since 1959 and Chairman of the Board since 1974, resigned in September to accept an appointment as the Lieutenant Governor of the Province of Ontario. The Board acknowledges his long and valued service to the Company and wishes him well in his new position. Following this resignation, Mr. Henry N. R. Jackman was elected Chairman of the Board. Mr. Jackman has been a director of the company since 1971 and the Company's association with the Jackman family goes back many years.

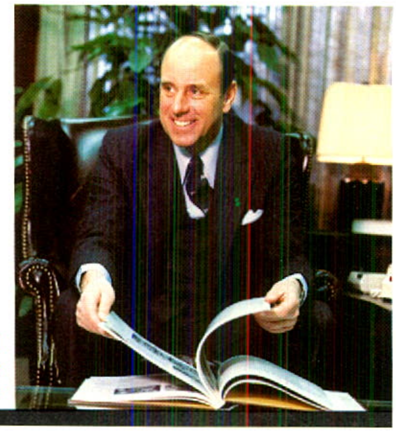
The achievement of reasonable results during the very difficult year of 1980 owes much to the continued support of our customers and the untiring efforts of our officers and employees. To both groups we express sincere appreciation.

H N R Jackman

Chairman of the Board

L N Savoie

President



# MARINE OPERATIONS

P. R. Cresswell
Vice-President and General Manager
Marine Division

The total tonnage moved during 1980 by the Marine Division's fleet of twelve vessels was 13.6 million tons. This represents a reduction of 7% from the 1979 tonnage level of 14.7 million tons and is attributable to the decreased demand for bulk raw materials relating to the automotive and construction industries.

Despite our total movement being reduced, gross revenues increased to $66.4 million, 16% greater than the 1979 record level of $57.2 million. Many factors contributed to this, including the increased fuel surcharges which resulted from rising fuel costs, the added capacity of the M/V Algoport for the entire 1980 shipping season, the resurgence of the movement of potash by vessel from Thunder Bay and improved loading and unloading times experienced within the grain trade.

The M/V Algowood was christened and launched at Collingwood Shipyards, Collingwood, Ontario on October 7, 1980. We anticipate delivery of the vessel, the Company's fourth maximum Seaway size self-unloader, in early April 1981. The Company has now added nine self-unloading vessels to the fleet since 1968 and has the distinction of being the second largest Canadian self-unloader fleet operating on the Great Lakes and St. Lawrence Seaway.

Estimates indicating that the St. Lawrence Seaway movement of grain will increase substantially by 1985, as a result of the Canadian Government's expressed intention to increase Canada's overall grain exports, have led the Company to place an order for a maximum Seaway size bulk carrier for delivery in July 1982. This will be the first such order for delivery of a vessel to the Company without self-unloading capability since 1968 and indicates our confidence in the viability of the Seaway route for export of Western Canadian grain. In order to obtain an early delivery date for this bulk carrier, the delivery of Hull 224, a maximum Seaway size self-unloading bulk carrier ordered in 1979, has been deferred from its original delivery date of December 1982 to June 1983.

These orders for vessels to be delivered over the next three years are all eligible for Shipbuilding Industry Assistance Program subsidies and represent a capital investment of approximately $96 million.

We expect that our present fleet, as well as the additional capacity of the M/V Algowood, will be fully utilized in 1981. However, of some concern are the numerous labour agreements scheduled for negotiation during this year which might affect our operations. These include contracts with all three of the marine unions representing our shipboard personnel, which expire on May 31, 1981, and many of the labour contracts relating to our major shippers. It is our hope that the good relations that have developed in recent years with our marine personnel will lead to the satisfactory settlement of new contracts without causing disruption of service to our customers.

Looking ahead to the future of water transportation we are encouraged by the forecasts for grain exports and the anticipated movement of United States export coal through the St. Lawrence Seaway. In addition, the Federal Government's decision to increase oil prices to four times the present levels by 1990 will ensure that the marine mode will continue to be the dominant means for the

1

**1** Mrs. D. A. Berlis, sponsor of the M/V Algowood shown with The Honourable John B. Aird Lieutenant Governor of Ontario, Mrs. Aird and Mr. Berlis

**2** M/V Algowood — Launched October 7th, 1980

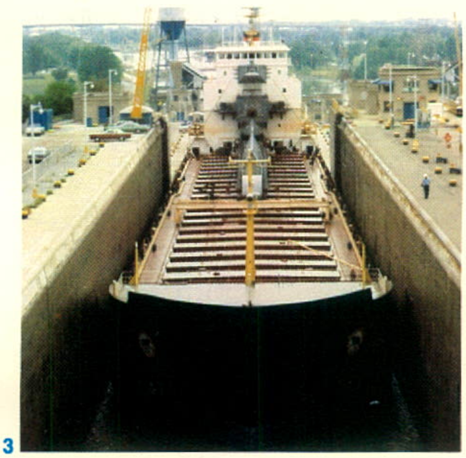
**3** M/V Algoport proceeding into a lock of the Welland Canal.

| Marine — Net tons carried (thousands) | | | | | |
|---|---|---|---|---|---|
| | Ore | Coal and Coke | Grain | Other | Totals |
| 1980 | 3,518 | 2,250 | 1,621 | 6,242 | 13,631 |
| 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 |


2

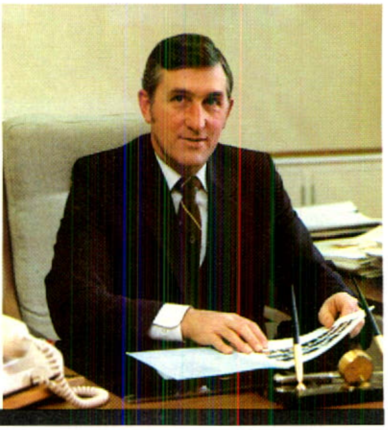
transportation of bulk raw materials because of its inherent fuel efficiency. We are concerned, however, that current freight levels will not provide adequate returns when measured against the increasing replacement costs of our vessels as a result of the reduction in the Shipbuilding Industry Assistance Program subsidy to 9% from 20% on all vessels ordered after July 1, 1980 and of the continuing effects of inflation on shipbuilding costs.

The expansion of the facilities at Herb Fraser and Associates Limited, our ship repair subsidiary located in Port Colborne, Ontario, began in 1979 and was completed in 1980. This expansion, combined with the purchase of additional equipment in 1980, ensures that this company will be able to continue to provide the best possible service to its customers and our own vessels. Since it specializes in ship repairs, the majority of its repair work is performed during the annual winter lay up period, resulting in unused capacity during the summer months. We are pursuing methods to improve year-round utilization of this facility.



3

# RAIL OPERATIONS



S. A. Black
Vice-President, Rail

Although economic conditions resulted in reduced freight tonnage and a small decrease in passenger travel the Rail Division was able to achieve operating efficiencies and additional payments toward passenger train losses of prior years in order to maintain its operating results.

The accompanying chart indicates that freight tonnage dropped by 9% to 3.7 million tons. Declines in ore and related products, pulpwood, lumber and manufactured steel were somewhat offset by increased movements of woodpulp, logs and petroleum products.

A mild winter coupled with increased fuel prices seemed to discourage travel on tour trains during 1980 although the 2% overall decline from the record year in 1979 still resulted in the third highest year on record. Co-operative promotion with the Ontario Ministry of Industry and Tourism undoubtedly contributed to 8,800 people taking the Snow Train, 102,200 taking the Agawa Canyon Tour and 2,300 touring the line from Sault Ste. Marie to Hearst.

Further payments toward operating losses from the regular passenger train services since January 1977 were received from the Federal Government although balances on claims for this period continue to be outstanding.

Planning for development of industrial lands and the multi-use of resource and recreational lands continued throughout the year. Firms continued to express interest in rail serviced lands which led to consideration of establishing an industrial park in Sault Ste. Marie. Mineral exploration by three firms is ongoing and an intensive drilling program has been undertaken in connection with a gold deposit. Land use planning has included considerations of a tentative subdivision plan for remote cottage sites on Company owned lands and co-operation with the Ontario Ministry of Natural Resources regarding private forest land management.

Emphasis on safety during the year reinforced continuing labour-management programs. It is felt that relationships are at a good level for entering into the negotiation of labour contracts which expire December 31, 1981. Employees are commended for their individual efforts towards achieving the operating efficiencies which contributed to a successful year.

Programs for upgrading employee facilities, modernizing equipment and improving structures continued. Fifty bulk-


1

**1** Sportsmen prepare to board train to Algoma Central Country

**2** Scarifier prepares logged lands for reforestation

**3** Locomotive having trucks replaced

Rail — Net tons carried (thousands)

| | Mining | Manu-facturing | Forestry | Totals |
|---|---|---|---|---|
| 1980 | 2,053 | 1,130 | 515 | 3,698 |
| 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 |

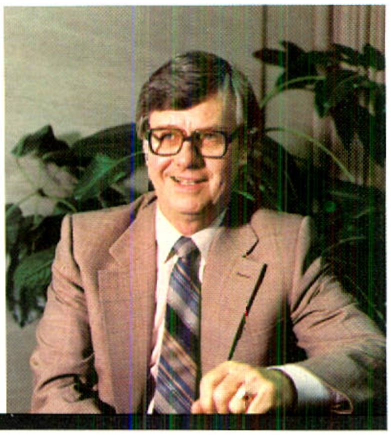
head flat cars were added to the fleet during 1980 and orders were placed for 23 woodchip cars and 6 – 2000 horsepower locomotives to be delivered during the first half of 1981. The beginning of a multi-year program to instal heavier main line rail will commence during 1981 with 10 miles of 115 lb. rail being installed on the Soo Subdivision. The reforestation program will be expanded with improved scarifying and seeding techniques.

A small increase in freight tonnage, above 1980 levels, is expected to return during 1981. This, coupled with rate adjustments which recognize competitive factors and continuing efforts to improve safety and productivity point toward a satisfactory year.

2

3

# TRUCKING OPERATIONS



L. J. Thibodeau, President
Thibodeau-Finch Express Limited

While the trucking industry generally experienced an upturn during the last quarter of 1980, the soft economic conditions throughout the first part of the year resulted in reduced demand for freight services, severe freight rate competition and reduced trucking revenues for the year. Warehousing operations, however, continued to be strong during the year with good utilization of space maintained in all locations including the new 80,000 sq. ft. Sarnia expansion which opened early in 1980.

Late in the year T. F. Québec reached agreement, pending regulatory approval, for the purchase of Transport Rathé Inc., a small carrier operating between Montreal and the heavily industrialized St. Jean/Iberville area. Our application to operate over the Niagara River Gateway to and from the United States, initiated in 1979, was delayed as a result of the untimely passing of one member of The Ontario Highway Transport Board which necessitates a further hearing in early 1981. We anticipate a decision shortly thereafter.

Continued efforts are being made to increase the energy efficiency of our fleets in order to offset escalating fuel costs. Examples of such programs with which we are involved include the introduction of "fuel squeezer" engines, the reduction of road speeds through mechanical alterations to our power units and the full utilization of wind deflectors on our highway equipment. We also completed a program in 1980 whereby all of our tractors were converted to tubeless radial tires. We estimate that these programs will not only reduce fuel consumption by approximately 10-15% but will also extend equipment life and increase highway safety.

Thibodeau-Finch and T. F. Québec renewed collective labour agreements with their Quebec employees during the year. Negotiations on labour contracts covering Flanagan employees in Ontario are currently under way. The remainder of our labour contracts expire in April 1982.

1981 will be another challenging year for the Trucking Division as many industries, including automotive, continue to be slow. Concerted emphasis again will be placed on productivity improvements and the development of more compensatory freight rates.


 One of Thibodeau-Finch's first trucks dwarfed here by modern highway giant

# REAL ESTATE OPERATIONS

N. J. Hirt
Vice-President and General Manager
Algocen Realty Holdings Limited

The shopping centre and hotel complex in Elliot Lake was completed on schedule. Major tenants such as the Woolco department store, Dominion food store and Shopper's Drug Mart as well as the 84-room hotel and restaurant under our management commenced operations early in the year. Adverse economic conditions in general, high interest rates and the deferred construction of the new municipal sewage and water treatment plants in Elliot Lake, which in turn delayed building of an additional 1,500 homes in the new townsite, had a detrimental effect on hotel occupancy and leasing of smaller stores in the shopping centre. However, the municipality commenced construction on the new townsite in January 1981 which will increase activity in the community and improve future operating results.

At Sault Ste. Marie all properties exceeded our expectations for revenue and operating income in 1980. They continue to be fully leased and well accepted in the market place.

Negotiations were completed with The Corporation of the City of Sault Ste. Marie for the Phase II expansion to Station Mall totalling 127,000 square feet of leaseable retail floor space including a Zeller's department store of 66,700 square feet. Construction on this expansion began in October 1980 and is on schedule with a planned opening date of August 19, 1981. Leasing has been proceeding well and indications are that this expansion will be fully occupied on opening day.

1


2

**1** Station Mall Phase II addition under construction

**2** Woolco Department Store opened in Algo Centre, Elliot Lake — May 1980

# FINANCIAL REVIEW

R. G. Topp, Vice-President Finance
T. B. Gillespie, Treasurer and Corporate Development Manager

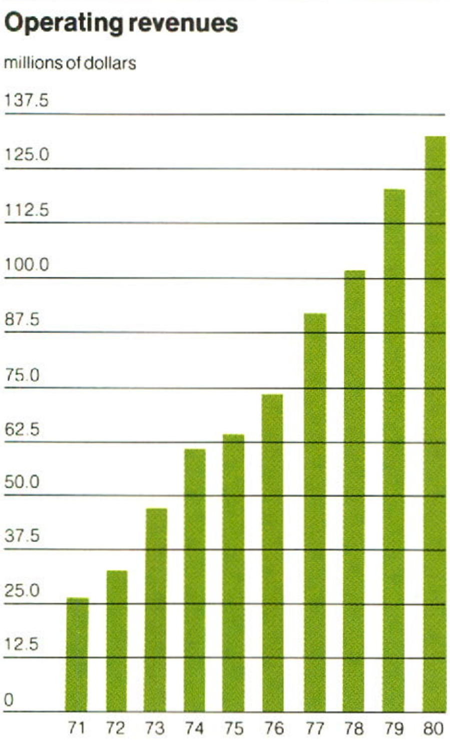
The financial statements and notes thereto have been prepared by management. Where estimates or approximations have been used, they were based upon careful judgement and information available up to February 20, 1981. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality.

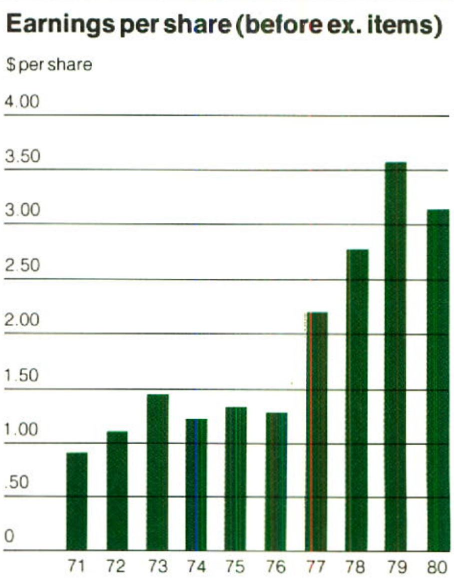
A number of changes to the financial statements have been made to improve presentation. Segmented industry information (Note 9) is shown for the first time. In addition, while consideration was given to the new requirement under generally accepted accounting principles in Canada to disclose related party transactions, the Board of Directors determined that the Company did not have, in 1980, such related party transactions.

During the year, working capital totalling $46.2 million was used. Of this amount $37.5 million was expended on fixed asset additions, $3.8 million on shareholder dividends, $3.1 million on maturing long-term debt repayments and $1.8 million on investments. In addition, working capital increased by one-half million dollars. These funds came from operations ($29.0 million), bank borrowings ($14.9 million), reinvested shareholder dividends ($2.4 million) and proceeds on fixed asset disposals ($0.4 million). As a result, long-term debt increased marginally to 105% of shareholders' equity and 97,699 common shares were issued for the reinvested dividends.

At year end, capital commitments totalling about $85 million were outstanding; $73.3 million for vessels under construction, $5.4 million for new diesel locomotives, $1.0 million for new freight cars and $5.3 million for Station Mall Phase II expansion. Approximately $31 million of the total will be spent in 1981 with the balance over 1982 and 1983. These commitments may result in some fixed rate longer term financing at an opportune time.

Your attention is drawn to the ten-year summary presented on pages 20 and 21 for a comprehensive comparison of Company growth.



# Consolidated Statement of Income and Retained Income

| Year ended December 31, 1980 | 1980 | 1979 |
|---|---|---|
| **Revenue** | | |
| Marine | $ 66,442,000 | $ 57,206,000 |
| Rail | 32,102,000 | 29,740,000 |
| Trucking | 29,298,000 | 31,466,000 |
| Real estate | 4,550,000 | 2,909,000 |
| | 132,392,000 | 121,321,000 |
| **Expenses** | | |
| Operations | 87,265,000 | 77,304,000 |
| Depreciation and amortization | 11,079,000 | 9,744,000 |
| Administrative and general | 7,270,000 | 6,714,000 |
| | 105,614,000 | 93,762,000 |
| **Income from Operations** | 26,778,000 | 27,559,000 |
| **Deduct (add)** | | |
| Equity in earnings of associated companies | (82,000) | (160,000) |
| Other income | (987,000) | (646,000) |
| Interest | 7,510,000 | 6,569,000 |
| | 6,441,000 | 5,763,000 |
| **Income before Income Taxes and Extraordinary Items** | 20,337,000 | 21,796,000 |
| **Income Taxes** | 9,934,000 | 9,989,000 |
| **Income before Extraordinary Items** | 10,403,000 | 11,807,000 |
| **Extraordinary Items** | — | 4,229,000 |
| **Net Income** | 10,403,000 | 16,036,000 |
| **Retained Income, Beginning of Year** | 59,753,000 | 46,980,000 |
| | 70,156,000 | 63,016,000 |
| **Dividends** | 3,758,000 | 3,263,000 |
| **Retained Income, End of Year** | $ 66,398,000 | $ 59,753,000 |
| **Earnings per Share** — Note 6 | | |
| Before extraordinary items | $3.13 | $3.60 |
| After extraordinary items | $3.13 | $4.89 |

# Consolidated Balance Sheet

| December 31, 1980 | 1980 | 1979 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash | $ 246,000 | $ 2,929,000 |
| Accounts receivable | 15,277,000 | 16,324,000 |
| Materials and supplies | 7,201,000 | 5,550,000 |
| Prepaid expenses | 1,594,000 | 865,000 |
| Income taxes recoverable | 934,000 | — |
| | 25,252,000 | 25,668,000 |
| Accident Compensation Fund | 677,000 | 508,000 |
| Investments — Note 2 | 4,700,000 | 2,791,000 |
| Forest Lands — at nominal value | 1,000 | 1,000 |
| Fixed Assets — Note 3 | 195,347,000 | 169,008,000 |
| Other Assets — Note 4 | 5,320,000 | 5,331,000 |
| | $231,297,000 | $203,307,000 |

Approved by the Board:

W M R Jackman Director

L N Savoie Director

(Incorporated by Special Act of the Parliament of Canada)

| | 1980 | 1979 |
|---|---|---|
| **Liabilities** | | |
| Current Liabilities | | |
| Bank indebtedness | $ 2,073,000 | $ 424,000 |
| Accounts payable and accrued charges | 13,530,000 | 13,312,000 |
| Income taxes | — | 2,687,000 |
| Current portion of long-term debt | 2,736,000 | 2,908,000 |
| Dividend payable | 1,013,000 | 902,000 |
| | 19,352,000 | 20,233,000 |
| Provision for Accident Compensation | 677,000 | 508,000 |
| Provision for Vessel Maintenance | 2,999,000 | 2,566,000 |
| Deferred Income Taxes | 49,984,000 | 42,493,000 |
| Long-Term Debt — Note 5 | 80,959,000 | 69,207,000 |
| Minority Interest in Subsidiary Company | 10,000 | 10,000 |
| | 153,981,000 | 135,017,000 |
| **Shareholders' Equity** — Note 6 | | |
| Share capital | | |
| Authorized | | |
| 170,000 preferred shares, par value $50 each | | |
| 5,000,000 common shares, par value $2 each | | |
| Issued and fully paid | | |
| 3,377,000 common shares (1979 — 3,279,000) | 6,753,000 | 6,558,000 |
| Contributed surplus | 4,165,000 | 1,979,000 |
| Retained income | 66,398,000 | 59,753,000 |
| | 77,316,000 | 68,290,000 |
| | $231,297,000 | $203,307,000 |

# Consolidated Statement of Changes in Financial Position

| Year ended December 31, 1980 | 1980 | 1979 |
|---|---|---|
| **Sources of Working Capital** | | |
| Operations | | |
| Income before extraordinary items | $10,403,000 | $11,807,000 |
| Items not affecting working capital | | |
| Depreciation and amortization | 11,079,000 | 9,744,000 |
| Deferred income taxes | 7,491,000 | 6,875,000 |
| Provision for vessel maintenance | 433,000 | 412,000 |
| Gain on sale of fixed assets | (283,000) | (318,000) |
| Equity in earnings of associated companies | (82,000) | (160,000) |
| | 29,041,000 | 28,360,000 |
| Increase in long-term debt | 14,866,000 | 12,998,000 |
| Dividends reinvested | 2,381,000 | — |
| Proceeds on sale of fixed assets | 412,000 | 7,374,000 |
| Other | — | 75,000 |
| | 46,700,000 | 48,807,000 |
| **Uses of Working Capital** | | |
| Additions to fixed assets | 37,453,000 | 42,325,000 |
| Investments | 1,827,000 | — |
| Repayment of long-term debt | 3,114,000 | 3,218,000 |
| Dividends | 3,758,000 | 3,263,000 |
| Other | 83,000 | — |
| | 46,235,000 | 48,806,000 |
| **Increase in Working Capital** | 465,000 | 1,000 |
| **Working Capital, Beginning of Year** | 5,435,000 | 5,434,000 |
| **Working Capital, End of Year** | $ 5,900,000 | $ 5,435,000 |

**Auditors' Report**

**Deloitte Haskins+Sells**

To the Shareholders of Algoma Central Railway:

We have examined the consolidated balance sheet of Algoma Central Railway as at December 31, 1980 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, 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.

Deloitte Haskins & Sells

Chartered Accountants
Toronto, Canada
February 20, 1981

# Notes to the Consolidated Financial Statements

**December 31, 1980**

1. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Algoma Central Railway and its subsidiary companies.

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

*Accident compensation fund:*
The accident compensation 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 and in the real estate joint venture on the equity basis (see Note 2).

*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 their 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.

*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 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 are written off at the time of abandonment.

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

*Earnings per share:*
Earnings per share are calculated using the weighted average number of shares outstanding during the year.

*Foreign currencies:*
Foreign currency accounts 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.

## 2. Investments

| | Share of Ownership | Carrying Value 1980 | 1979 |
|---|---|---|---|
| Associated companies: | | | |
| Viking Helicopters Limited | 50.0% | $2,025,000 | $2,025,000 |
| All Canadian-American Investments Limited | 33.6% | 587,000 | 505,000 |
| Real estate joint venture | 50.0% | 1,856,000 | — |
| Mortgages | | 136,000 | 155,000 |
| Other | | 96,000 | 106,000 |
| | | $4,700,000 | $2,791,000 |

The difference between the carrying value of the associated companies and the equity in their underlying net assets is not material. The Company has entered into a conditional agreement to sell its interest in Viking Helicopters Limited for consideration approximating the carrying value.

## 3. Fixed Assets

1980

| | Land | Depreciable Assets | Accumulated Depreciation | Net |
|---|---|---|---|---|
| Marine | $ 55,000 | $166,877,000 | $41,596,000 | $125,336,000 |
| Rail | 608,000 | 56,822,000 | 35,121,000 | 22,309,000 |
| Trucking | 1,336,000 | 27,713,000 | 11,469,000 | 17,580,000 |
| Real estate | 784,000 | 31,345,000 | 2,007,000 | 30,122,000 |
| | $2,783,000 | $282,757,000 | $90,193,000 | $195,347,000 |

1979

| | Land | Depreciable Assets | Accumulated Depreciation | Net |
|---|---|---|---|---|
| Marine | $ 20,000 | $143,204,000 | $34,588,000 | $108,636,000 |
| Rail | 608,000 | 54,019,000 | 33,813,000 | 20,814,000 |
| Trucking | 1,255,000 | 26,502,000 | 10,438,000 | 17,319,000 |
| Real estate | 784,000 | 23,013,000 | 1,558,000 | 22,239,000 |
| | $2,667,000 | $246,738,000 | $80,397,000 | $169,008,000 |

## 4. Other Assets — at cost less amounts amortized

| | 1980 | 1979 |
|---|---|---|
| Licences and related goodwill | $3,350,000 | $3,317,000 |
| Deferred exploration and development | 1,059,000 | 1,060,000 |
| Deferred charges | 911,000 | 954,000 |
| | $5,320,000 | $5,331,000 |

## 5. Long-Term Debt

| | 1980 | 1979 |
|---|---|---|
| Bank loans and acceptances | $46,932,000 | $30,170,000 |
| 8¾% first mortgage sinking fund bonds, Series B, due June 1, 1991 | 6,000,000 | 6,564,000 |
| 9⅞% first mortgage sinking fund bonds, Series C, due October 17, 1997 | 13,870,000 | 15,000,000 |
| 9% blended payment bonds, due January 1, 1999 | 7,439,000 | 7,673,000 |
| 10¼% mortgage, repayable in equal monthly blended payments of $18,228, due November 15, 1982 | 1,913,000 | 1,936,000 |
| 10¼% mortgage, repayable in equal monthly blended payments of $18,347, due June 1, 1988 | 1,910,000 | 1,921,000 |
| 9½% promissory notes, repayable in equal annual instalments of $516,600, due September 30, 1982 | 517,000 | 1,033,000 |
| 11⅜% mortgage, repayable in equal monthly blended payments of $10,400, due May 1, 1995 | 868,000 | 897,000 |
| Transport equipment loans | 38,000 | 185,000 |
| Amounts payable in respect of construction in progress which will be converted to long-term debt in 1981 | 1,050,000 | 2,950,000 |
| 7½% capitalized lease, expiring October 31, 1984 | 422,000 | 551,000 |
| 7½% promissory notes | — | 327,000 |
| | $80,959,000 | $69,207,000 |

Interest on long-term debt amounted to $7,372,000 in 1980 (1979 — $6,364,000). Anticipated principal repayments during the next five years are as follows:

| | |
|---|---|
| 1981 | $2,736,000 |
| 1982 | $2,843,000 |
| 1983 | $2,659,000 |
| 1984 | $2,364,000 |
| 1985 | $1,795,000 |

Sinking fund principal requirements are $600,000 annually for the years 1981 to 1990, inclusive, for the Series B bonds and $800,000 annually for the years 1981 to 1996, inclusive, for the Series C bonds. The Company has purchased $50,000 Series B and $1,130,000 Series C bonds which qualify for application against future sinking fund requirements.

The 9% blended payment bonds are repayable in semi-annual instalments of $412,000 including interest and principal plus annual supplementary principal payments based upon revenue from the collateral property. The supplementary amount due in 1981 is $93,000.

*Bank loans:*

The Company arranges bank borrowings with various maturities according to requirements. The amounts shown as long-term debt consist of a series of loans which require repayment commencing in 1982. The weighted average interest rate is 18.5%. As security for certain bank loans, the Company has pledged shares of certain subsidiary companies.

### 6. Shareholders Equity

*Share capital and contributed surplus:*

Effective March 1, 1980, common shareholders may elect under the dividend reinvestment plan to reinvest cash dividends in common shares or under the stock dividend plan to receive dividends in the form of common shares. During the year, 97,699 shares were issued pursuant to these plans for an aggregate consideration of $2,381,000 of which $195,000 was applied to common share capital and $2,186,000 to contributed surplus.

*Dividend restrictions:*

Dividends on the common shares are restricted pursuant to the second supplemental mortgage trust deed. Consolidated shareholders' equity not subject to this restriction is $37,316,000.

### 7. Passenger Train Service

Pursuant to the Railway Act, the Canadian Transport Commission has ordered the Company to provide passenger train service between Sault Ste. Marie and Hearst, Ontario. Eighty percent of any losses incurred in providing this service is recoverable from the Government of Canada. These payments have been recorded as income in the year of receipt.

### 8. Income Taxes

Income taxes are accounted for on the tax-allocation basis. Timing differences creating deferred income taxes result primarily from claiming capital cost allowances in excess of depreciation charged in the account.

Investment tax credits are accounted for by the deferral method whereby the reduction in current income taxes payable is applied in part to increase deferred income taxes, $176,000 in 1980 (1979 — $821,000) and in part to reduce income tax expense, $164,000 in 1980 (1979 — $830,000). Unused investment tax credits available to reduce current income taxes in future years amount to $288,000.

### 9. Segmented Information — 1980

| | Transportation | Real Estate | Corporate | Total |
|---|---|---|---|---|
| Revenue | $127,842,000 | $ 4,550,000 | $ — | $132,392,000 |
| Income from operations | $ 24,338,000 | $ 2,440,000 | $ — | $ 26,778,000 |
| Deduct (add) | | | | |
| Interest | | | | 7,510,000 |
| Equity earnings | | | | (82,000) |
| Other income | | | | (987,000) |
| Income taxes | | | | 9,934,000 |
| Net income | | | | $ 10,403,000 |
| Assets | $193,975,000 | $31,399,000 | $5,923,000 | $231,297,000 |
| Capital expenditures | $ 29,121,000 | $ 8,332,000 | $ — | $ 37,453,000 |
| Depreciation and amortization | $ 10,563,000 | $ 516,000 | $ — | $ 11,079,000 |

### 10. 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. The unclaimed funds held by the trustee amount to $678,000.

### 11. Pension Plans

The Company has unfunded past service pension liabilities of about $3,374,000 which will be funded and charged to operations over the next twelve years by annual payments of approximately $485,000.

### 12. Leases

Capital leases entered into after December 31, 1978 are accounted for as assets and obligations; those prior thereto, as operating leases. 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, 1980 would be as follows:

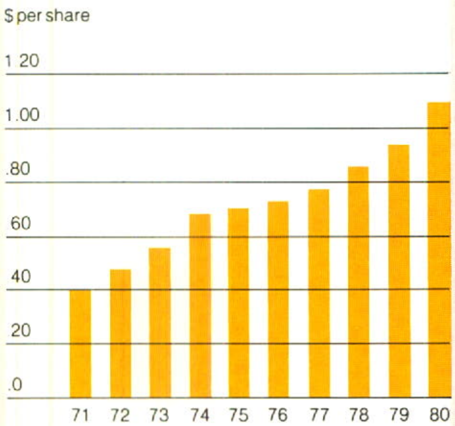
| | |
|---|---|
| (a) Assets under capital leases | $14,437,000 |
| Less accumulated amortization | 5,258,000 |
| Net capital lease assets | $ 9,179,000 |
| (b) Obligations under capital leases | $10,793,000 |
| Less current portion | 709,000 |
| Long-term capital lease obligations | $10,084,000 |
| In addition net income for 1980 would have decreased by | $ 44,000 |

### 13. Capital Commitments

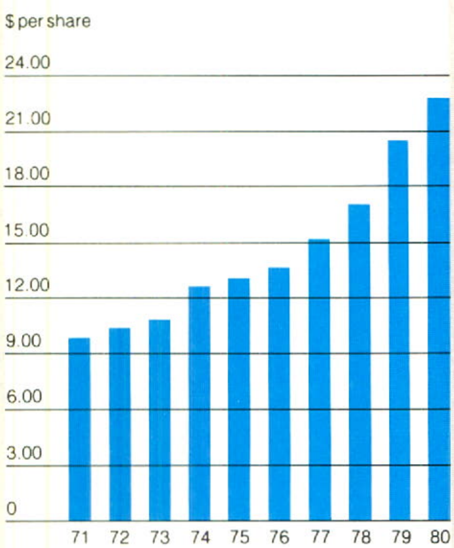
The Company has outstanding capital commitments of approximately $85,000,000 which are due for payment in 1981 — $31,000,000, 1982 — $14,000,000 and 1983 — $40,000,000.

# Ten Year Summary (Dollars in thousands except per share data)

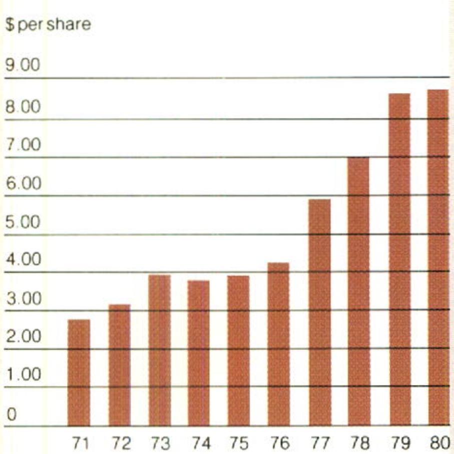
### Dividends per share




### Shareholders' equity per share




### Cash flow per share




| | 1980 |
|---|---|
| Revenue | |
| Marine | $ 66,442 |
| Rail | $ 32,102 |
| Trucking | $ 29,298 |
| Real estate | $ 4,550 |
| | $132,392 |
| Net income | |
| Before extraordinary items | $ 10,403 |
| After extraordinary items | $ 10,403 |
| Depreciation and amortization | $ 11,079 |
| Cash flow from operations | $ 29,041 |
| Dividends paid | $ 3,647 |
| Capital expenditures | |
| Marine | $ 23,754 |
| Rail | $ 3,204 |
| Trucking | $ 2,163 |
| Real estate | $ 8,332 |
| | $ 37,453 |
| Net fixed assets | |
| Marine | $125,336 |
| Rail | $ 22,309 |
| Trucking | $ 17,580 |
| Real estate | $ 30,122 |
| | $195,347 |
| Long-term debt | $ 80,959 |
| Shareholders' equity | $ 77,316 |
| Debt as % of net fixed assets | 41% |
| Debt as % of shareholders' equity | 105% |
| Dividends as % of net income (before extraordinary items) | 35% |
| Operating expense ratio | 79.8% |
| Working capital ratio | 1.30/1 |
| **Common Share Statistics** | |
| Common shares (000)—end of year | 3,377 |
| —average | 3,324 |
| Net income | |
| First Quarter | $ .24 |
| Second Quarter | $ .85 |
| Third Quarter | $ 1.03 |
| Fourth Quarter | $ 1.01 |
| Total before extraordinary items | $ 3.13 |
| Total after extraordinary items | $ 3.13 |
| Quoted market value | |
| High | $26.00 |
| Low | $22.00 |
| Dividends paid | $ 1.10 |
| Cash flow | $ 8.74 |
| Shareholders' equity | $22.90 |

| 1979 | 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|---|---|---|
| 57,206 | 43,612 | 41,094 | 30,928 | 28,770 | 19,304 | 17,705 | 13,215 | 12,070 |
| 29,740 | 26,028 | 22,345 | 20,208 | 14,063 | 18,285 | 15,905 | 14,540 | 13,014 |
| 31,466 | 30,187 | 25,227 | 19,635 | 18,995 | 22,209 | 11,948 | 4,652 | |
| 2,909 | 2,658 | 2,903 | 2,905 | 1,775 | 1,199 | 170 | | |
| 121,321 | 102,485 | 91,569 | 73,676 | 63,603 | 60,997 | 45,728 | 32,407 | 25,084 |
| 11,807 | 8,816 | 7,118 | 4,144 | 4,296 | 4,039 | 4,668 | 3,549 | 2,839 |
| 16,036 | 8,816 | 7,118 | 4,144 | 4,296 | 8,620 | 4,668 | 3,549 | 3,589 |
| 9,744 | 8,146 | 7,778 | 6,028 | 5,810 | 5,245 | 4,359 | 3,742 | 3,359 |
| 28,360 | 22,981 | 19,550 | 13,708 | 12,640 | 12,601 | 12,739 | 10,091 | 8,508 |
| 3,148 | 2,853 | 2,558 | 2,410 | 2,361 | 2,262 | 1,885 | 1,557 | 1,312 |
| 23,796 | 15,559 | 13,381 | 17,576 | 16,528 | 7,689 | 5,830 | 7,045 | 11,328 |
| 3,724 | 3,663 | 1,266 | 1,995 | 487 | 1,231 | 925 | 727 | 438 |
| 8,176 | 3,496 | 2,056 | 578 | 1,263 | 2,815 | 4,039 | 4,505 | |
| 6,629 | 961 | 1,096 | 30 | 438 | 4,645 | 9,746 | | |
| 42,325 | 23,679 | 17,799 | 20,179 | 18,716 | 16,380 | 20,540 | 12,277 | 11,766 |
| 108,636 | 91,926 | 81,497 | 72,903 | 58,428 | 44,760 | 42,382 | 38,995 | 34,123 |
| 20,814 | 18,709 | 16,458 | 16,891 | 16,495 | 17,452 | 17,972 | 18,300 | 19,004 |
| 17,319 | 11,381 | 9,264 | 8,418 | 9,193 | 9,260 | 7,678 | 4,221 | |
| 22,239 | 15,919 | 15,252 | 14,428 | 14,661 | 14,541 | 10,038 | | |
| 169,008 | 137,935 | 122,471 | 112,640 | 98,777 | 86,013 | 78,070 | 61,516 | 53,127 |
| 69,207 | 59,427 | 51,880 | 51,538 | 41,942 | 44,360 | 36,661 | 23,503 | 16,894 |
| 68,290 | 55,517 | 49,652 | 45,140 | 43,455 | 41,381 | 35,243 | 34,218 | 32,636 |
| 41% | 43% | 42% | 46% | 42% | 52% | 47% | 38% | 32% |
| 101% | 107% | 104% | 114% | 97% | 107% | 104% | 69% | 52% |
| 27% | 32% | 36% | 58% | 55% | 56% | 40% | 44% | 46% |
| 77.3% | 79.7% | 80.6% | 83.5% | 83.4% | 81.3% | 76.8% | 75.5% | 75.0% |
| 1.27/1 | 1.30/1 | 1.19/1 | 1.35/1 | 1.28/1 | 1.34/1 | 1.18/1 | 1.31/1 | 1.46/1 |
| 3,279 | 3,279 | 3,279 | 3,279 | 3,279 | 3,279 | 3,279 | 3,279 | 3,279 |
| 3,279 | 3,279 | 3,279 | 3,279 | 3,279 | 3,279 | 3,279 | 3,279 | 3,279 |
| .27 | .11 | (.01) | (.10) | (.02) | .11 | .16 | .05 | |
| .92 | .84 | .64 | .43 | .32 | .42 | .38 | .23 | |
| 1.26 | .98 | 1.03 | .56 | .44 | .24 | .50 | .38 | |
| 1.15 | .76 | .51 | .37 | .57 | .46 | .38 | .42 | |
| 3.60 | 2.69 | 2.17 | 1.26 | 1.31 | 1.23 | 1.42 | 1.08 | .87 |
| 4.89 | 2.69 | 2.17 | 1.26 | 1.31 | 2.63 | 1.42 | 1.08 | 1.09 |
| 27.50 | 24.00 | 16.00 | 15.00 | 16.37 | 17.87 | 16.50 | 13.00 | 10.50 |
| 18.75 | 15.62 | 10.25 | 10.75 | 9.62 | 9.00 | 11.50 | 8.50 | 7.25 |
| .96 | .87 | .78 | .735 | .72 | .69 | .575 | .475 | .40 |
| 8.65 | 7.01 | 5.96 | 4.18 | 3.85 | 3.84 | 3.89 | 3.08 | 2.59 |
| 20.83 | 16.93 | 15.14 | 13.77 | 13.25 | 12.62 | 10.75 | 10.44 | 9.95 |

# ORGANIZATION OF ALGOMA CENTRAL RAILWAY

All subsidiaries are wholly owned with the exception of Algocen Mines Limited where there is a 10% minority interest

## Marine Operations

**Marine Division**
Operates 12 ships of which 10 are owned by the Company.
Supervises the ship repair and maintenance business.

**Algoma Steamships Limited**
Owns 2 ships chartered to and operated by the Company.

**Herb Fraser and Associates Limited**
Performs ship repairs and maintenance.
Fabricates and repairs industrial metal products.
Operations based in Port Colborne.

## Rail Operations

**Rail Division**
Operates the Company's freight and passenger railway system.

**Forest Lands and Minerals**
Supervises use and development of 850,000 acres of land in Algoma region owned by the Company.

**Algocen Mines Limited**
Holds mining lease on silica-sand/kaolin deposit north of Hearst, Ontario.

## Trucking Operations

**Algocen Transport Holdings Limited**
Owns 4 terminals operated by Thibodeau-Finch Express Limited

**Thibodeau-Finch Express Limited**
Owns 2 terminals and leases 1 terminal.
Owns trucking fleet.
Operates 9 terminals.
Operates trucking routes from Detroit to Montreal.

**Transport T.F. Québec Limitée**
Owns trucking fleet.
Operates 1 terminal.
Operates trucking routes between Montreal and Varennes, Quebec.

**Flanagan Warehousing & Distribution Co. Ltd.**
Conducts warehousing operations from premises owned in London, Chatham and Sarnia. Two of these house terminals operated by Thibodeau-Finch Express Limited.
Operates cartage services in Southern Ontario.
Owns a fleet of trucks.

## Real Estate Operations

**Algocen Realty Holdings Limited**
Owns a shopping centre-hotel-office tower complex and apartment building in Sault Ste. Marie. Manages the shopping centre, office tower and apartment building.
Owns and manages a shopping centre-hotel complex with office space in Elliot Lake.

## Investment in the United States

**ACR, Delaware, Inc.**
Holding company for investments made in the United States.

**Algocen, Florida, Inc.**
Partner in real estate joint venture.

**Directors**

*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
*Company Director*

†*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,
Chatham, Ontario
*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**

Henry N. R. Jackman,
*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*

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

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

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

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

Herbert A. Fraser,
*Vice-President and General Manager, Herb Fraser and Associates Limited*

Nicholas J. Hirt,
*Vice-President and General Manager, Algocen Realty Holdings Limited*

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

**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

Printed in Canada