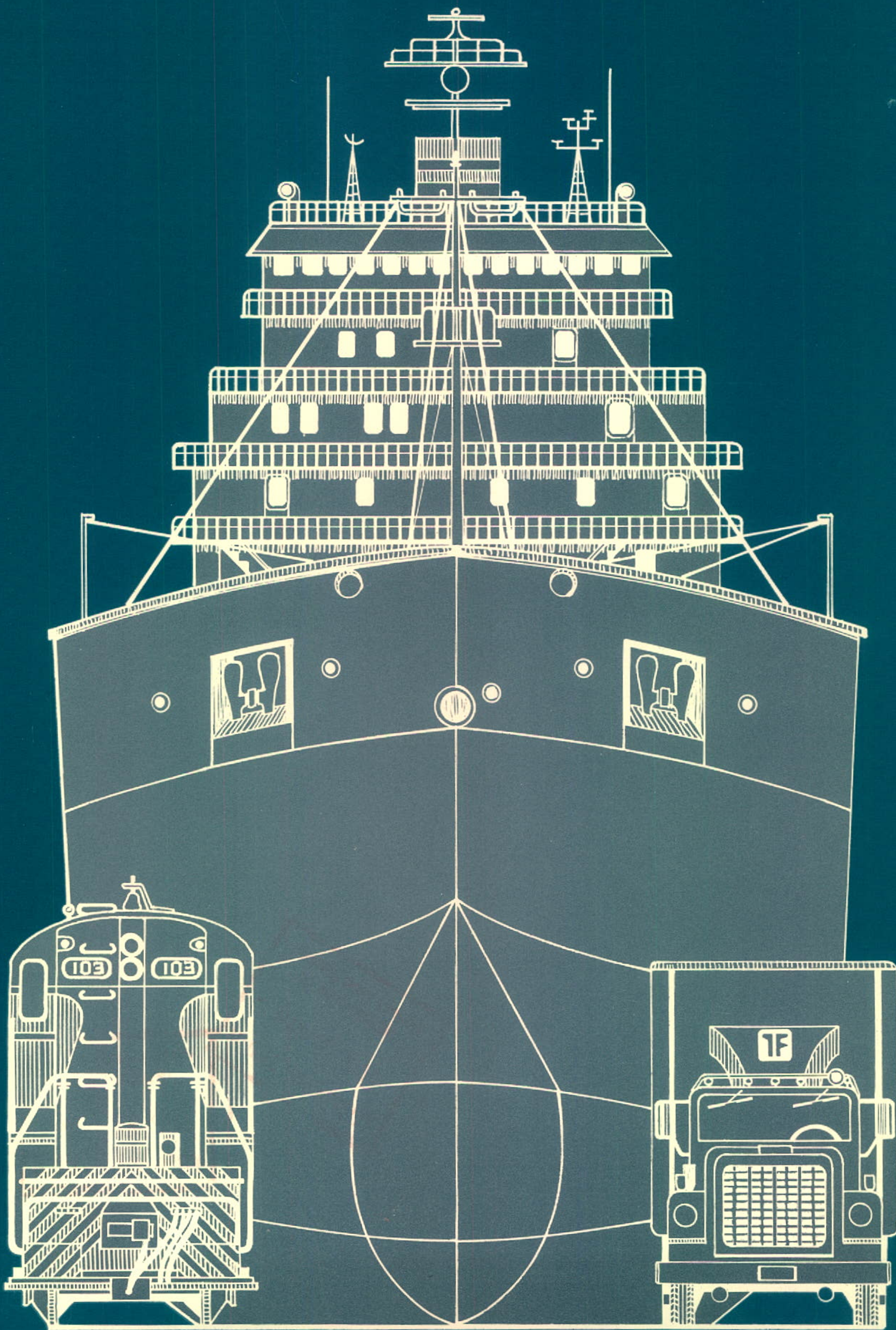
ALGOMA CENTRAL RAILWAY ANNUAL REPORT 1982



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 fourteen 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 and Buffalo, New York 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.

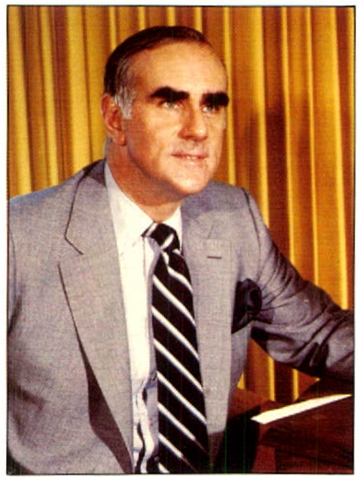
Comparative Highlights

For the Year	1982	1981
Revenue	$146,015,000	$155,117,000
Income before extraordinary item	$ 3,289,000	$ 9,424,000
Net income	$ 2,216,000	$ 9,424,000
Operating expenses to revenue	87.6%	80.8%
Cash flow	$ 22,115,000	$ 32,008,000
Fixed asset additions	$ 21,707,000	$ 44,796,000
Average number of common shares outstanding	3,586,000	3,431,000
Earnings per common share:		
Before extraordinary item	$ 0.92	$ 2.75
After extraordinary item	$ 0.62	$ 2.75
Dividends paid per common share	$ 1.05	$ 1.20
Cash flow per common share	$ 6.17	$ 9.33
At December 31		
Total assets	$271,971,000	$267,532,000
Shareholders' equity	$ 87,827,000	$ 86,060,000
Long-term debt	$ 95,360,000	$ 96,893,000
Long-term debt to shareholders' equity	109%	113%
Common shares outstanding	3,650,000	3,506,000
Equity per common share	$ 24.06	$ 24.55
Working capital	$ 8,571,000	$ 9,769,000

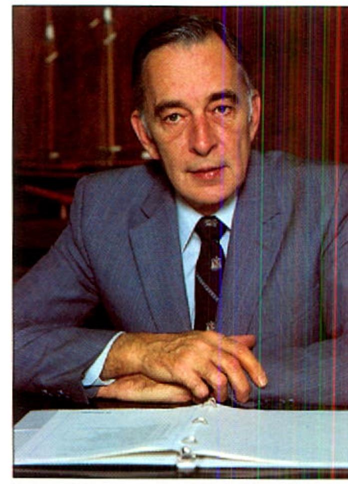
Contents

The Annual Meeting of Shareholders will be held Thursday, April 21, 1983 at 11:00 a.m. at the Holiday Inn, Sault Ste. Marie, Ontario.

Report to Shareholders



H.N.R. Jackman



L.N. Savoie

The deteriorating economy that persisted throughout 1982 had an adverse effect on the operations of all divisions within our Company. Low levels of activity in most of the industries we serve translated into low capacity utilization and higher than normal operating ratios for our marine, rail and trucking services while declining retail sales restrained rental revenues from real estate operations. Management's efforts during the year were therefore concentrated on cost reduction, curtailment of capital spending and aggressive marketing, all of which contributed to reduce the impact of the slowdown. These efforts will put the Company in a good position to benefit from recovery in the economy, when that occurs.

Consolidated revenue for the 12-month period ended December 31, 1982 was $146,015,000, down 6% from the $155,117,000 revenue level for the prior year. Although all three transportation divisions experienced some decline in revenue, a major reduction occurred on the railroad because its major sources of revenue, iron ore and forest products, were severely cut back from the levels of previous years.

Consolidated income before extraordinary item for 1982 declined to $3,289,000 ($0.92 per share) from the $9,424,000 ($2.75 per share) earned in 1981. An extraordinary write-off of $1,073,000 further reduced net income to $2,216,000 ($0.62 per share). The decision to write off deferred exploration and development costs related to the Algocen Mines Limited silica-sand and kaolin-clay deposit northeast of Hearst, Ontario was taken because prospects for its near-term development were not positive. We continue to hold a lease on this high-quality deposit in the belief that it may become viable in the future.

Cash flow from operations declined for the first time in eight years, to $22,115,000 versus $32,008,000 in 1981, reflecting the cutback in our operations and the continuing high interest rates. Capital expenditures for the year amounted to $21,707,000, the funds for which were fully provided by internally generated cash flow. As has been the case in recent years, the major portion ($17,188,000) of total capital expenditures was expended by the Marine Division. Final payment on the bulk vessel *M/V Algowest*, which was delivered to us in July 1982, and the reengining of another vessel were the major items. Approximately $4,068,000 was spent on the railroad primarily to upgrade track and roadbed and to replace various items of maintenance equipment. Capital expenditures by the Trucking and Real Estate Divisions were held to minimal amounts for absolutely necessary replacements.

Previously established quarterly dividend payments of $0.30 per share were reduced to $0.15 in the fourth quarter bringing the total dividend paid in 1982 to $1.05 per share compared to $1.20 in 1981. This move to conserve cash together with dividends reinvested through the Stock Dividend and Dividend Reinvestment Plans, introduced by the Company in 1980, contributed to reduction in the 1982 year-end debt-equity ratio to 1.09:1 from 1.13:1 the previous year. This ratio is forecast to increase by the end of 1983 mainly due to our taking delivery of the *M/V John B. Aird* which will require a payment of approximately $43,000,000. We have no vessels on order beyond this one and no other major capital commitments outstanding at this time. It is currently anticipated that 1984 will be a year of consolidation during which we will reduce debt and strengthen our balance sheet.

The joint venture in which we invested two years ago to build condominiums in Florida is proceeding on schedule. The first of six buildings to be built is nearing completion and will be ready for occupancy in May 1983. Sales of Florida real estate have been slow during the past depressed year, however mortgage interest rates are currently declining thus giving signs of recovery in this market. The second building in this project will not be started until the economic recovery is well established. We continue to have confidence that our choice location and site, together with the approved zoning that now would be very difficult to duplicate, will make this venture a success over the next six or seven years.

Our forecast for 1983 is for modest improvement in the performance of all three of our transportation divisions. This is based on the premise that the economy will recover gradually over the year. Compared to conditions as they existed one year ago, inflation and interest rates have come down substantially and North American government attitudes are more supportive of the private sector. There are currently signs in many of the industries we serve that gradual recovery is beginning to take hold.

Our Marine Division, which operated all of its vessels through the 1982 season, continues to have good contracts in grain, salt and coal. Fleet capacity will increase by the addition of one new vessel partway through the 1983 season. Any modest improvement in the steel and construction industries should enable us to improve over last year's performance.

The Rail Division is very dependent on iron ore, finished steel and forest products. There are signs of an upturn in demand for lumber related to housing which would generate some additional traffic. Significant increases, however, will not come until activity improves in major North American capital projects.

Our Trucking Division serves mainly the manufacturing sector located in southern Ontario. Industries such as automotive, agricultural equipment, household appliance and building products have been depressed for the past three years. A backlog of consumer demand exists for these products. Declining interest rates combined with improving consumer confidence should generate some recovery in these industries during 1983.

Considering the nervous state of the economy and the uncertainty implied in the above outlook, our operating priorities for 1983 will continue to be cost control and cash conservation combined with customer service and aggressive marketing to take advantage of recovery as it occurs.

The Board of Directors records with deep regret the death in 1982 of Charles F. W. Burns, C.M. Prior to his retirement from the Board in October 1981, Mr. Burns served as a director of the Company for 22 years. His wise counsel and untiring interest in the progress of the Company will be sadly missed.

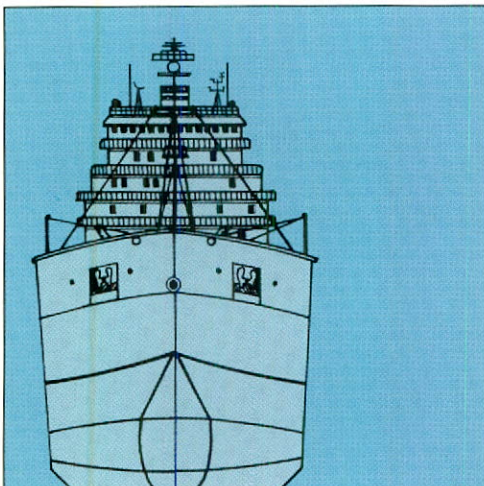
At the 1982 Annual Meeting, James W. Whittall chose not to stand for reelection as a director after serving on the Board for eight years. He was replaced by Radcliffe R. Latimer, President and Chief Executive Officer of TransCanada PipeLines. Mr. Latimer has many years of experience in the Canadian railway industry.

The Directors acknowledge with sincere appreciation the dedication and efforts of all employees and the support of customers, suppliers and shareholders during the very difficult year of 1982.

Chairman of the Board

President

Marine Division



Operating results for the Marine Division in 1982 declined from the previous year with gross revenue down 2% to $78,295,000. Total tonnage moved by our fleet of 14 vessels was only 12,381,000 tons, a decrease of 13% from 1981. Another indication of the deterioration in traffic activity was the decline in the number of vessel operating days in 1982. The Company's vessels operated a total of 3,390 days, a decrease of 2.4%, notwithstanding the addition to the fleet of the *M/V Algowest* during the year.

The *M/V Algowest* was delivered to the Company in July by Canadian Shipbuilding and Engineering Limited, Collingwood, Ontario and was placed immediately into service for the Canadian Wheat Board under a long-term contract to move grain from Thunder Bay, Ontario to transshipment points on the St. Lawrence River. This maximum-Seaway-size bulk carrier, the fourth of its kind in our fleet, performed well, was fully utilized to the end of the shipping season and established new cargo records for ships loading wheat and barley at Thunder Bay.

The *M/V Algosea,* our ocean-going self-unloading bulk carrier, was reengined last winter and returned to service in May 1982. In July it commenced a long-term time charter with a Quebec-based shipper and was renamed the *M/V Saunière*. The reengining, which cost some $6,000,000, has added to the reliability and fuel efficiency of the vessel and will improve its profit contribution.

As previously indicated, overall tonnage levels were down substantially with major reductions in iron ore, coal and limestone primarily attributable to the reduced level of activity in the North American steel industry. One major strength in 1982 was the movement of Canadian grain from Thunder Bay which reached record levels during the year.

While the grain movement on the Great Lakes, particularly on the Canadian side, will remain strong, our fleet, if it is to be fully and efficiently employed, requires increased levels of tonnage for the other bulk commodities which we handle. Unfortunately, with the current recession still very much in evidence and the likelihood that it will continue with only marginal improvement through 1983, we do not expect sufficient increases in tonnage to produce a satisfactory return on investment in 1983.

The Company will take delivery in June 1983 of Hull 224 which was ordered in 1979 and which will be a maximum-Seaway-size self-unloading bulk carrier. With this addition our fleet will consist of 15 vessels, 11 of which have self-unloading capabilities. Hull 224, which will be christened *"M/V John B. Aird"* after the Lieutenant Governor of Ontario, a former Chairman of the Company, embodies the most advanced engineering design and will add greatly to the overall efficiency of the fleet. When an upturn in the level of activity on the Great Lakes takes place, the Company will be well positioned to participate.

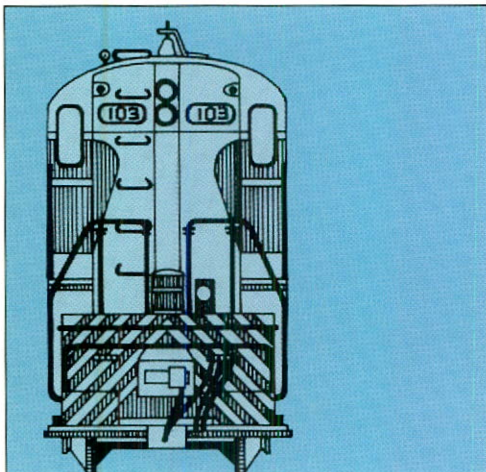
Herb Fraser and Associates Limited, our ship repair subsidiary located in Port Colborne, Ontario, also felt the effects of the current recession. With a significant number of Canadian vessels laid up for all or part of the shipping season, the need for repair work declined. This company, which provides a valuable service to marine fleets, including our own, will benefit from a return to normal of Great Lakes shipping.

Marine
Net tons carried, in thousands

	Ore	Coal and Coke	Grain	Other	Total
1982	1,848	2,609	2,165	5,759	12,381
1981	3,688	3,212	1,478	5,930	14,308
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

Top: M/V Algowest undergoing sea trials on Georgian Bay.
Bottom: Launching of Hull 224 at Collingwood, Ontario.

Rail Division



During 1982 Rail Division personnel were challenged by accommodating special customer needs and operating under very restrained circumstances. Freight, passenger and forestry business declined significantly, although, there was an increased interest in mineral exploration. These circumstances required adapting operations and staff levels to meet traffic and regulatory requirements in a manner that minimized expenditures.

The accompanying table "Rail net tons carried" shows less tonnage for each of the mining, manufacturing and forestry classifications resulting in an overall reduction of 40% compared to 1981. This is the lowest tonnage level we have experienced since 1945. Shippers have been pressed to meet competitive factors in their markets and we have worked closely with them toward maximizing their opportunities while minimizing the number of trains, yard movements and active freight equipment operated.

The Company has undertaken to adhere to the voluntary pricing restraint guidelines put forward by the federal Minister of Transport in setting rates for railway movements during the two years of the program. Competitive conditions have kept, and are continuing to keep, price adjustments below these Government of Canada guidelines in many market areas.

A cool summer, snow storms early in 1982 and general economic conditions all contributed to fewer people travelling on our passenger trains. Continuing promotional advertising, appearances at shows and presentations by ourselves and the Ontario Ministry of Tourism and Recreation over an extended area contributed substantially to the 102,700 people who experienced our four train tours. This total is down 13.6% from the records of 1981 and is the lowest since 1977. Of the total, 92,000 took the Agawa Canyon Tour, 7,700 the Snow Train and 2,600 the Tour-of-the-Line between Sault Ste. Marie and Hearst.

The Canadian Transport Commission reviewed its order to continue the passenger train service between Sault Ste. Marie and Hearst during 1982. They confirmed that the service is uneconomic and ordered that it not be discontinued. As a result of this requirement the Government of Canada has continued to make payments toward 80% of operating losses.

Continuing interest in mineral exploration on Company lands increased during 1982 with several companies undertaking work in connection with precious and base minerals over 15 townships. We have retained equity interests in each of these ventures.

Recreational, forestry and industrial uses of our land holdings have continued within the multiuse policies we have established and are advancing with regulatory authorities. Annual reforestation programs to reestablish spruce and jackpine stands are continuing.

With the reduction in business levels, employment on the railroad has been reduced in accordance with service requirements and expenditure control. Clerical employees have participated in work-sharing programs since the beginning of June, supervisory personnel have had salary increases held back and other classifications have experienced layoffs.

Two-year labour agreements effective until December 31st, 1983, which are consistent with national railway settlements, were signed during 1982 with all nine labour organizations. Since railway employees are subject to wage controls under Bill C-124, the portions of labour contracts dealing with compensation will be held to the 6% and 5% provisions of the Public Sector Compensation Restraint Act which are applicable for 1983 and 1984.

Rail
Net tons carried, in thousands

	Mining	Manu-facturing	Forestry	Total
1982	1,239	685	311	2,235
1981	1,993	1,296	455	3,744
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

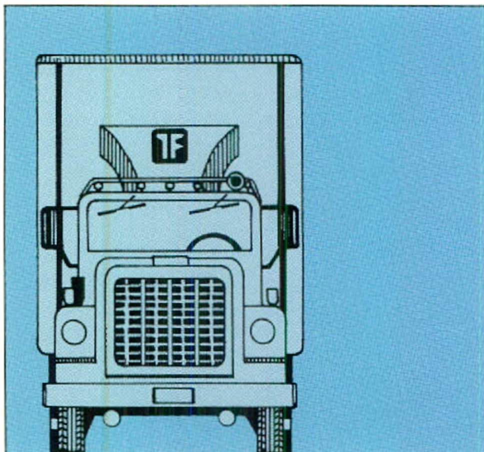
Top: Modern timber harvesting on Company-owned forest lands.
Bottom: Agawa Canyon Tour Train: autumn wilderness beauty.

Personnel at all levels are commended for their efforts, dedication and tolerance of these persistent, challenging times.

Capital expenditures have been held to those items that are essential for operations, safety or regulation or that produce a suitable economic return. Sixteen miles on the Soo Subdivision were upgraded with 115-pound rail and two miles of 85-pound rail on the Northern Subdivision were substituted with 100-pound rail. A bridge was replaced and materials acquired to permit a second bridge to be eliminated. Track, tie and ballast maintenance continued and energy efficiency projects were undertaken along with other productivity and modernization projects within the total of $4,068,000 expended during 1982. Similar work is planned for 1983 although rail replacement will be held to a total of eight miles and the value of all items will be in the order of $2,000,000.

Indications are that business levels experienced during 1982 will continue into 1983 although we are optimistic that freight tonnage will rise with an improved economy late in the year. Passenger travel to date and bookings for the summer tour point to increased passenger travel, although, it is not likely that the record levels of the recent past will be attained. Pricing adjustments will be within restraint guidelines recognizing competitive factors and the circumstances of our shippers. Expenditure control measures are in place to maintain a stable operation during 1983.

Trucking Division



Revenue and volume in 1982 showed a small decline from 1981. However, this did not accurately reflect the state of the industry as, for the most part, the levels of business in 1982 mirrored the slow state of the economy. As a result of the six-week strike by other major carriers during October and November 1982 and the appreciably increased business we enjoyed during that period, we were able to maintain revenue and volume for 1982 close to the prior year. This strike against some truckers demonstrated the substantial overcapacity within the industry as the nonstruck carriers were capable of handling all of the traffic during that period.

Cost-cutting procedures continued throughout 1982 to maximize operating efficiencies. These efforts culminated in the permanent closing of the Burlington, Ontario terminal in September 1982 and the integration of that business into the Toronto and Brantford facilities.

A new collective labour agreement, which will expire September 30, 1985, was signed during the year with Ontario employees. Terms of this settlement were basically the same as other companies negotiating at that time, many of whom experienced a six-week strike. These terms were higher than dictated by present industry conditions, however, they represented a substantial improvement over terms previously negotiated by two major competitors whose premature opening of the contract and settlement established guidelines for the negotiations. Our collective agreement in Quebec will expire on March 31, 1983. It is expected that a new contract will be in effect when the current one expires.

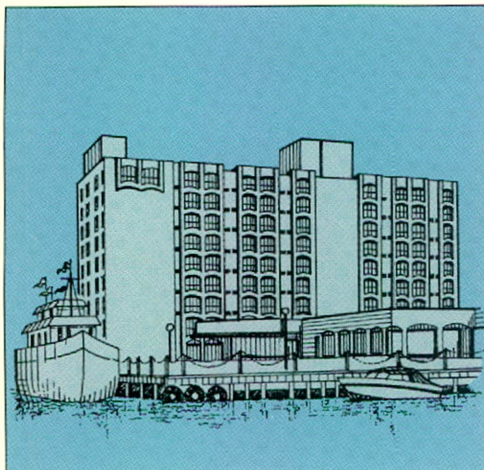
In our 1981 Annual Report, we indicated the Interstate Commerce Commission would be extending the Thibodeau-Finch operating authorities within the United States to include New York, Michigan and eight contiguous states. This extension was not received during 1982 but was delayed as a result of the moratorium on granting such authorities to foreign carriers imposed by the United States Government. This moratorium has been removed and we again anticipate receiving the authority shortly.

Warehousing operations continued to be strong for both our London and Sarnia, Ontario locations. Utilization of our warehouses in Chatham and Windsor, Ontario was less than normal during most of the year but improved in the final two months.

Looking ahead to 1983 we are guardedly optimistic of a limited turnaround. It appears that we have hit the bottom of this recession and that we can expect an increase in volumes. This is particularly true within the auto-related industries where we feel that, because of low finished goods inventory levels, manufacturers will require increased production to maintain their 1982 sales volumes.

Real Estate Division

Aerial view showing, among other things, our shopping centre - hotel - office tower complex and apartment building on the Sault Ste. Marie waterfront.

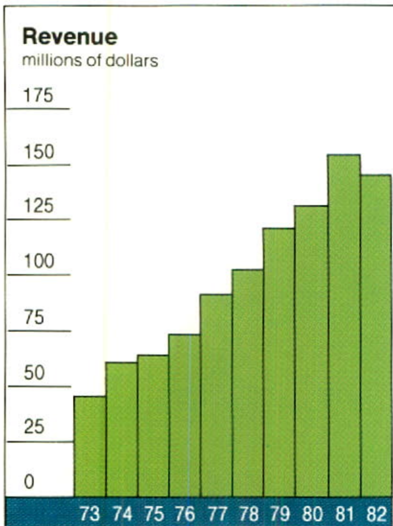


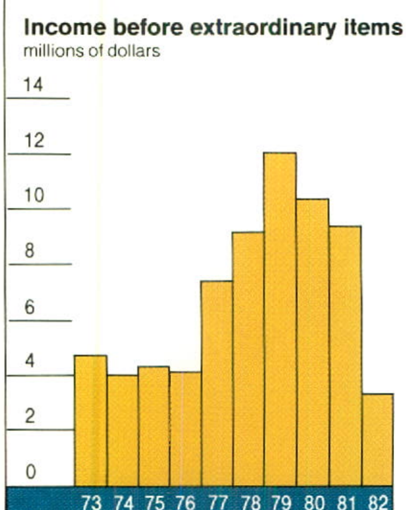
Real Estate operations in both Sault Ste. Marie and Elliot Lake, Ontario were adversely affected by the poor economy and were below expectations during 1982. In spite of this, revenues for the division increased 19% to $7,305,000 from $6,161,000 reported in 1981 and operating ratios improved. This improvement was due mainly to the first full-year's contribution of the 127,000 square feet of retail space added to Station Mall in 1981 and to tighter control of expenses.

In Sault Ste. Marie our residential and office buildings were fully leased. A small decline in occupany levels for the Holiday Inn hotel was offset by slightly higher room rates and, as a result, our rental revenue remained approximately the same as 1981. The high unemployment that persisted in this city throughout the year was reflected in a decline of retail sales for Station Mall tenants causing our rental revenues from this facility to be below forecast.

The town of Elliot Lake was not affected by the recession to the same degree as most other northern Ontario centres. Full employment continued throughout the year while residential construction and new uranium-mine development continued on schedule. Revenues from leased retail and office space and from our hotel were all up from the previous year. The reluctance of potential new tenants to make commitments during this depressed period, however, prevented us from leasing all the space we have in Elliot Lake and Sault Ste. Marie. Vacant space represents less than 5% of our total leaseable retail area.

Financial Review





The financial statements of the Company have been prepared by management and approved by the Board of Directors. Management is responsible for all information in the Annual Report and financial and operating data contained therein are consistent with the financial statements. Where estimates have been used, they were based upon careful judgment and information available up to February 25, 1983. In management's opinion the financial statements have been properly prepared within reasonable limits of materiality.

During the year we discontinued the accident compensation fund, formerly shown as a noncurrent asset held in respect of the provision for accident compensation, and transferred those funds to the general treasury of the Company. This change was reflected retroactively in the financial statements resulting in a working capital reclassification for 1981.

Four quarterly dividends were paid in 1982, although, only three were declared since the dividend payable March 1, 1983 was declared in January 1983; past practice was to declare the dividend paid in March during the previous December. This change combined with the reduction in the quarterly dividend paid in December 1982 resulted in a lower charge, 1982 versus 1981, to retained earnings for dividends declared and the elimination of dividend payable.

Long-term debt was reduced by $1,533,000 in 1982 even though $21,707,000 was expended on new fixed assets and cash flow from operations fell 31% from the 1981 level. At December 31, 1982 long-term debt stood at 109% of shareholders' equity and 64% of shareholders' equity plus deferred income tax, down from 113% and 67% in 1981. These percentages will increase in 1983 as we anticipate spending about $50,000,000 on fixed asset replacement and acquisitions including approximately $43,000,000 on a new vessel. However, as the Company currently has no capital commitments after 1983, long-term debt could fall below shareholders' equity in 1984.

In 1982 we converted long-term debt of $15,000,000 from floating to five-year fixed-interest-rate obligations. At December 31, 1982, 47% (1981-31%) of our long-term debt bore fixed rates. In view of our expected capital expenditures in 1983, we may seek additional term financing at acceptable fixed rates in order to keep the floating-rate portion of our long-term debt to about 50% of the total.

In 1982, Mr. T. B. Gillespie, C.A. retired as Treasurer after 26 years of distinguished service with the Company. The Board and management wish to acknowledge his valued contribution.

Consolidated Statement of Income and Retained Income

Algoma Central Railway

Year Ended December 31, 1982	1982	1981
Revenue		
Marine	$ 78,295,000	$ 79,791,000
Rail	28,315,000	36,562,000
Trucking	32,100,000	32,603,000
Real Estate	7,305,000	6,161,000
	146,015,000	155,117,000
Expenses		
Operations	104,327,000	104,396,000
Depreciation and amortization	14,947,000	13,176,000
Administrative and general	8,580,000	7,835,000
	127,854,000	125,407,000
Income from Operations	18,161,000	29,710,000
Other Income	746,000	693,000
Interest	(12,553,000)	(12,812,000)
Income before Income Taxes and Extraordinary Item	6,354,000	17,591,000
Income Taxes — Note 5	3,065,000	8,167,000
Income before Extraordinary Item	3,289,000	9,424,000
Extraordinary Item — Note 9	1,073,000	—
Net Income	2,216,000	9,424,000
Retained Income, Beginning of Year	72,733,000	67,452,000
Dividends	(2,681,000)	(4,143,000)
Retained Income, End of Year	$ 72,268,000	$ 72,733,000
Earnings per Share		
Before extraordinary item	$0.92	$2.75
After extraordinary item	$0.62	$2.75

Consolidated Balance Sheet

Algoma Central Railway
(incorporated by Special Act of the Parliament of Canada)

December 31, 1982	**1982**	1981
Assets		
Current Assets		
Cash	**$ 581,000**	$ 195,000
Accounts receivable	**19,695,000**	20,516,000
Materials and supplies	**7,703,000**	6,285,000
Prepaid expenses	**1,431,000**	1,425,000
Income taxes recoverable	**330,000**	2,321,000
	29,740,000	30,742,000
Investments — Note 2	**4,266,000**	4,378,000
Forest Lands — at nominal value	**1,000**	1,000
Fixed Assets — Note 3	**233,702,000**	226,931,000
Other Assets — Note 4	**4,262,000**	5,480,000
	$271,971,000	$267,532,000

Approved by the Board:

H M R Jackman

Director

L N Savoie

Director

	1982	1981
Liabilities		
Current Liabilities		
Bank indebtedness	**$ 2,092,000**	$ 1,909,000
Accounts payable and accrued charges	**17,085,000**	15,807,000
Current portion of long-term debt	**1,992,000**	2,066,000
Dividend payable	**—**	1,191,000
	21,169,000	20,973,000
Provision for Accident Compensation	**1,076,000**	843,000
Provision for Vessel Maintenance	**4,778,000**	3,946,000
Deferred Income Taxes — Note 5	**61,761,000**	58,807,000
Long-Term Debt — Note 6	**95,360,000**	96,893,000
Minority Interest in Subsidiary Company — Note 9	**—**	10,000
	184,144,000	181,472,000
Shareholders' Equity — Note 7		
Share Capital		
Authorized		
170,000 preferred shares, par value $50 each		
5,000,000 common shares, par value $2 each		
Issued and fully paid		
3,650,000 common shares (1981 — 3,506,000)	**7,300,000**	7,012,000
Contributed Surplus	**8,259,000**	6,315,000
Retained Income	**72,268,000**	72,733,000
	87,827,000	86,060,000
	$271,971,000	$267,532,000

Consolidated Statement of Changes in Financial Position

Algoma Central Railway

Year Ended December 31, 1982	**1982**	1981
Sources of Working Capital		
Operations		
Income before extraordinary item	**$ 3,289,000**	$ 9,424,000
Items not affecting working capital:		
Depreciation and amortization	**14,947,000**	13,176,000
Deferred income taxes	**2,954,000**	8,823,000
Provision for vessel maintenance	**832,000**	947,000
Provision for accident compensation	**233,000**	166,000
Gain on sale of fixed assets	**(101,000)**	(468,000)
Equity in earnings of associated company	**(39,000)**	(60,000)
	22,115,000	32,008,000
Increase in long-term debt	**15,000,000**	18,729,000
Dividends reinvested — Note 7	**2,232,000**	2,409,000
Proceeds on sale of fixed assets	**223,000**	585,000
Investments	**521,000**	382,000
Other	**2,000**	—
	40,093,000	54,113,000
Uses of Working Capital		
Additions to fixed assets	**21,707,000**	44,796,000
Investments	**370,000**	—
Repayment of long-term debt	**16,533,000**	2,745,000
Dividends	**2,681,000**	4,143,000
Other	**—**	258,000
	41,291,000	51,942,000
(Decrease) Increase in Working Capital	**(1,198,000)**	2,171,000
Working Capital, Beginning of Year		
As previously reported	**8,918,000**	6,954,000
Reclassification from prior year	**851,000**	644,000
As restated	**9,769,000**	7,598,000
Working Capital, End of Year	**$ 8,571,000**	$ 9,769,000

Auditors' Report

To the Shareholders of Algoma Central Railway:

We have examined the consolidated balance sheet of Algoma Central Railway as at December 31, 1982 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, 1982 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 25, 1983

Deloitte Haskins+Sells

December 31, 1982

1. Significant Accounting Policies

The consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Algoma Central Railway and its subsidiary companies, reflect the following policies:

Materials and supplies

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

Investments

The Company accounts for its investments in the common shares of the associated company and in the real estate joint venture on the equity basis.

Fixed assets

Fixed assets are stated at cost. Interest incurred on funds borrowed directly to finance fixed asset acquisitions is capitalized during the construction period.

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 buildings and site improvements owned by the real estate subsidiary. The cost of these latter assets is written off on the sinking-fund basis over thirty-five years at 5% compounded annually.

Goodwill

The cost of acquisition of subsidiaries is allocated to assets where applicable and any excess is treated as goodwill and amortized over periods not exceeding twenty years.

Deferred charges

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

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 in the accounts.

Investment tax credits are accounted for by the modified flow-through method.

Earnings per share

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

Foreign currencies

Foreign currency amounts are translated to Canadian dollars as follows:

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

Income and expenses — at rates approximating the exchange rates 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 1982	1981
All Canadian-American Investments Limited	33.6%	**$ 686,000**	$ 647,000
Florida real estate joint venture	50.0%	**2,369,000**	2,001,000
Long-term receivables		**1,065,000**	1,563,000
Other		**146,000**	167,000
		$4,266,000	$4,378,000

3. Fixed Assets

1982

	Land	Depreciable Assets	Accumulated Depreciation	Net
Marine	**$ 55,000**	**$210,830,000**	**$ 60,185,000**	**$150,700,000**
Rail	**528,000**	**67,096,000**	**35,456,000**	**32,168,000**
Trucking	**1,816,000**	**29,258,000**	**14,777,000**	**16,297,000**
Real Estate	**864,000**	**36,965,000**	**3,292,000**	**34,537,000**
	$3,263,000	**$344,149,000**	**$113,710,000**	**$233,702,000**

1981

	Land	Depreciable Assets	Accumulated Depreciation	Net
Marine	$ 55,000	$193,684,000	$ 50,204,000	$143,535,000
Rail	608,000	63,520,000	33,689,000	30,439,000
Trucking	1,768,000	29,450,000	13,240,000	17,978,000
Real Estate	784,000	36,800,000	2,605,000	34,979,000
	$3,215,000	$323,454,000	$ 99,738,000	$226,931,000

4. Other Assets — at cost less amounts amortized

	1982	1981
Licences and related goodwill	**$3,391,000**	$3,410,000
Deferred exploration and development—Note 9	**1,000**	1,074,000
Deferred charges	**870,000**	996,000
	$4,262,000	$5,480,000

5. Income Taxes

Investment tax credits are accounted for by the modified flow-through method whereby the reduction in current income taxes payable is applied in part to increase deferred income taxes, nil in 1982 (1981 — $321,000) and in part to reduce income tax expense, nil in 1982 (1981 — $321,000). Unused investment tax credits available to reduce current income taxes in future years amount to $5,138,000.

6. Long-Term Debt

	1982	1981
Bank loans and acceptances, net of term deposits held for specific long-term debt maturities of $4,488,000 in 1982 (1981 — nil) — secured	**$51,310,000**	$65,660,000
8¾% first mortgage sinking fund bonds, Series B, due June 1, 1991	**4,800,000**	5,391,000
9⅞% first mortgage sinking fund bonds, Series C, due October 17, 1997	**12,600,000**	13,400,000
9% blended payment bonds, due January 1, 1999 — secured	**6,883,000**	7,175,000
14⅜% mortgage, repayable in equal monthly blended payments of $23,000, due November 15, 1987	**1,874,000**	1,881,000
10¼% mortgage, repayable in equal monthly blended payments of $17,000, due June 1, 1988	**1,893,000**	1,905,000
11⅜% mortgage, repayable in equal monthly blended payments of $10,000, due May 1, 1995	**805,000**	838,000
15¾% promissory notes, due in 1987 — secured	**15,000,000**	—
7½% capitalized leases, expiring by November 30, 1986	**195,000**	366,000
Amounts payable in respect of construction in progress — converted to long-term debt	**—**	277,000
	$95,360,000	$96,893,000

Interest on long-term debt amounted to $14,204,000 in 1982 (1981 — $14,287,000), of which $1,760,000 (1981 — $1,672,000) was capitalized. Anticipated principal repayments during the next five years are as follows:

1983	$2,443,000
1984	$2,402,000
1985	$1,991,000
1986	$1,859,000
1987	$1,908,000

Sinking fund principal requirements are $600,000 annually for the years 1983 to 1990, inclusive, for the Series B bonds and $800,000 annually for the years 1983 to 1996, inclusive, for the Series C bonds. The Company has purchased $414,000 Series B and $208,000 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 1983 is $106,000.

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 1984. The weighted average interest rate is 12.5%.

7. Shareholders' Equity

Share capital and contributed surplus

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, 144,000 shares were issued pursuant to these plans for an aggregate consideration of $2,232,000 of which $288,000 was applied to common share capital and $1,944,000 to contributed surplus.

Dividend restrictions

Dividends, other than stock dividends, on the common shares are restricted pursuant to the second supplemental mortgage trust deed. Consolidated shareholders' equity not subject to this restriction is $47,827,000.

8. 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. The amount included in revenue in 1982 is $2,853,000 (1981 — $1,963,000).

9. Extraordinary item

In 1982, the Company concluded that the silica-kaolin mining venture would not be commercially viable in the foreseeable future and therefore wrote down the related deferred exploration and development expenditures by $1,073,000 (net of minority interest's share of $10,000) to the nominal value of $1,000. The Company intends to maintain its lease on the silica-kaolin property.

10. Segmented Information

1982

	Transportation	**Real Estate**	**Corporate**	**Total**
Revenue	**$138,710,000**	**$ 7,305,000**		**$146,015,000**
Income from operations	**$ 14,152,000**	**$ 4,009,000**		**$ 18,161,000**
Other income				**746,000**
Interest				**(12,553,000)**
Income taxes				**(3,065,000)**
Income before extraordinary item				**3,289,000**
Extraordinary item				**1,073,000**
Net income				**$ 2,216,000**
Assets	**$230,513,000**	**$36,363,000**	**$5,095,000**	**$271,971,000**
Capital expenditures	**$ 21,542,000**	**$ 165,000**		**$ 21,707,000**
Depreciation and amortization	**$ 14,155,000**	**$ 761,000**	**$ 31,000**	**$ 14,947,000**

1981

	Transportation	Real Estate	Corporate	Total
Revenue	$148,956,000	$ 6,161,000		$155,117,000
Income from operations	$ 26,451,000	$ 3,259,000		$ 29,710,000
Other income				693,000
Interest				(12,812,000)
Income taxes				(8,167,000)
Net income				$ 9,424,000
Assets	$225,730,000	$36,468,000	$5,334,000	$267,532,000
Capital expenditures	$ 39,341,000	$ 5,455,000		$ 44,796,000
Depreciation and amortization	$ 12,506,000	$ 649,000	$ 21,000	$ 13,176,000

11. 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 $668,000.

12. Pension Plans

The Company has unfunded past service pension liabilities of about $3,300,000 which will be funded and charged to operations over the next eleven years by annual payments of approximately $449,000.

13. 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 $1,682,000 for rolling stock under capital leases commencing prior to 1979 and expiring at various dates until 1992. If these leases had been capitalized, balance sheet values would have been increased as follows:

	1982	1981
(a) Assets under capital leases	**$13,996,000**	$14,060,000
Less accumulated amortization	**6,552,000**	5,861,000
Net capital lease assets	**$ 7,444,000**	$ 8,199,000
(b) Obligations under capital leases	**$ 8,997,000**	$ 9,791,000
Less current portion	**827,000**	763,000
Long-term capital lease obligations	**$ 8,170,000**	$ 9,028,000
and net income would have been increased by	**$ 20,000**	$ 11,000

14. Capital Commitments

The Company has outstanding capital commitments of approximately $44,000,000 due for payment in 1983.

15. Guarantee

A subsidiary has guaranteed repayment by the Florida real estate joint venture of certain bank indebtedness. Liability under this guarantee is approximately U.S. $7,400,000.

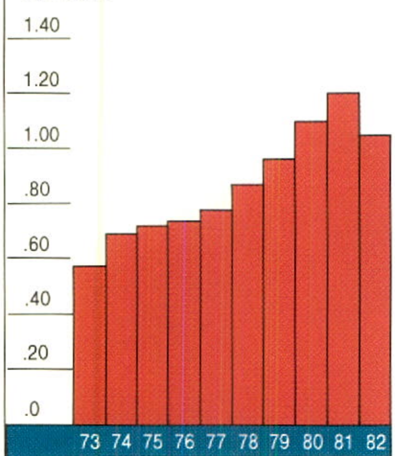
16. Comparative Figures

Certain of the 1981 comparative figures have been reclassified to conform to the presentation adopted in 1982.

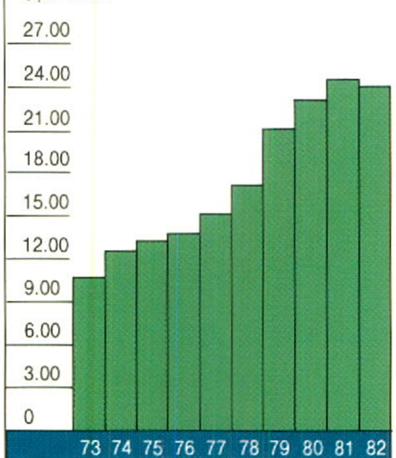
Ten Year Summary

(Dollars in thousands except per share data)

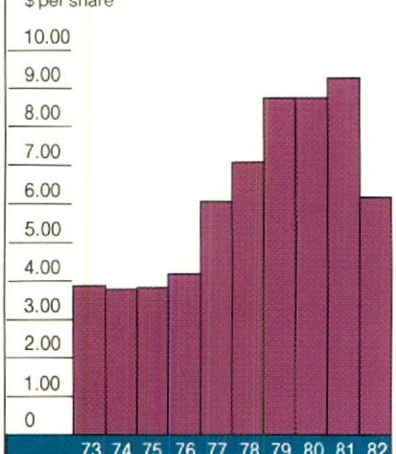
Dividends paid per share
$ per share



Shareholders' equity per share
$ per share



Cash flow per share
$ per share



	1982
Revenue	
Marine	$ 78,295
Rail	$ 28,315
Trucking	$ 32,100
Real Estate	$ 7,305
	$146,015
Net income	
Before extraordinary items	$ 3,289
After extraordinary items	$ 2,216
Depreciation and amortization	$ 14,947
Cash flow from operations	$ 22,115
Dividends paid	$ 3,733
Fixed asset additions	
Marine	$ 17,188
Rail	$ 4,068
Trucking	$ 286
Real Estate	$ 165
	$ 21,707
Net fixed assets	
Marine	$150,700
Rail	$ 32,168
Trucking	$ 16,297
Real Estate	$ 34,537
	$233,702
Long-term debt (LTD)	$ 95,360
Shareholders' equity	$ 87,827
LTD as % of net fixed assets	41%
LTD as % of shareholders' equity	109%
Dividends paid as % of income before extraordinary items	113%
Operating ratio	87.6%
Working capital ratio	1.40/1
Common Share Statistics	
Common shares (000)—end of year	3,650
—average	3,586
Net income	
First Quarter	$ (.25)
Second Quarter	$ .29
Third Quarter	$ .56
Fourth Quarter	$ .32
Total before extraordinary items	$ .92
Total after extraordinary items	$ .62
Quoted market value	
High	$18.25
Low	$13.00
Dividends paid	$ 1.05
Cash flow	$ 6.17
Shareholders' equity	$24.06

1981	1980	1979	1978	1977	1976	1975	1974	1973
79,791	66,442	57,206	43,612	41,094	30,928	28,770	19,304	17,705
36,562	32,184	30,439	26,822	22,957	20,208	14,063	18,285	15,905
32,603	29,298	31,466	30,187	25,227	19,635	18,995	22,209	11,948
6,161	4,550	2,909	2,658	2,903	2,905	1,775	1,199	170
155,117	132,474	122,020	103,279	92,181	73,676	63,603	60,997	45,728
9,424	10,442	12,119	9,213	7,424	4,144	4,296	4,039	4,668
9,424	10,442	16,348	9,213	7,424	4,144	4,296	8,620	4,668
13,176	11,079	9,744	8,146	7,778	6,028	5,810	5,245	4,359
32,008	29,081	28,672	23,378	19,856	13,652	12,640	12,601	12,739
3,965	3,647	3,148	2,853	2,558	2,410	2,361	2,262	1,885
26,818	23,754	23,796	15,559	13,381	17,576	16,528	7,689	5,830
10,094	3,204	3,724	3,663	1,266	1,995	487	1,231	925
2,429	2,163	8,176	3,496	2,056	578	1,263	2,815	4,039
5,455	8,332	6,629	961	1,096	30	438	4,645	9,746
44,796	37,453	42,325	23,679	17,799	20,179	18,716	16,380	20,540
143,535	125,336	108,636	91,926	81,497	72,903	58,428	44,760	42,382
30,439	22,309	20,814	18,709	16,458	16,891	16,495	17,452	17,972
17,978	17,580	17,319	11,381	9,264	8,418	9,193	9,260	7,678
34,979	30,122	22,239	15,919	15,252	14,428	14,661	14,541	10,038
226,931	195,347	169,008	137,935	122,471	112,640	98,777	86,013	78,070
96,893	80,959	69,207	59,427	51,880	51,538	41,942	44,360	36,661
86,060	78,370	69,305	56,220	49,958	45,140	43,455	41,381	35,243
43%	41%	41%	43%	42%	46%	42%	52%	47%
113%	103%	100%	106%	104%	114%	97%	107%	104%
42%	35%	26%	31%	34%	58%	55%	56%	40%
80.8%	79.4%	76.8%	79.1%	80.0%	83.5%	83.4%	81.3%	76.8%
1.47/1	1.36/1	1.30/1	1.33/1	1.20/1	1.35/1	1.28/1	1.34/1	1.18/1
3,506	3,377	3,279	3,279	3,279	3,279	3,279	3,279	3,279
3,431	3,324	3,279	3,279	3,279	3,279	3,279	3,279	3,279
.08	.28	.31	.14	.01	(.10)	(.02)	.11	.16
1.04	.89	.93	.87	.66	.43	.32	.42	.38
.99	.96	1.28	1.01	1.05	.56	.44	.24	.50
.64	1.01	1.18	.79	.54	.37	.57	.46	.38
2.75	3.14	3.70	2.81	2.26	1.26	1.31	1.23	1.42
2.75	3.14	4.99	2.81	2.26	1.26	1.31	2.63	1.42
24.00	26.00	27.50	24.00	16.00	15.00	16.37	14.87	16.50
15.50	22.00	18.75	15.62	10.25	10.75	9.62	9.00	11.50
1.20	1.10	.96	.87	.78	.735	.72	.69	.575
9.33	8.75	8.74	7.13	6.06	4.18	3.85	3.84	3.89
24.55	23.21	21.14	17.15	15.24	13.77	13.25	12.62	10.75

Organization of Algoma Central Railway

Marine Operations

Marine Division
Operates 14 ships of which 12 are owned by the Company.
Supervises the ship repair and maintenance business.

Algoma Steamships Limited
Owns 2 ships 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 owned by the Company in Algoma region.

Algocen Mines Limited (90% owned)
Holds mining lease on silica-kaolin deposit north of Hearst, Ontario.

Trucking Operations

Algocen Transport Holdings Limited
Owns 3 terminals operated by Thibodeau-Finch Express Limited.

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

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

Flanagan Warehousing & Distribution Co. Ltd.
Conducts warehousing operations from premises owned in London, Chatham, Windsor 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 Florida real estate joint venture.

Corporate Information

Directors

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

H. Michael Burns
King, Ontario
Chairman and Chief Executive Officer, Extendicare Ltd.

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

George C. Hitchman
Toronto, Ontario
Corporate Director

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

John J. Jodrey*
Hantsport, Nova Scotia
Chairman and Chief Executive Officer,
Minas Basin Pulp and Power Company Limited

Radcliffe R. Latimer
Toronto, Ontario
President and Chief Executive Officer,
TransCanada PipeLines

Arthur J. Little, F.C.A.†
Toronto, Ontario
Corporate 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

*Member of Executive Committee
†Member of Audit Committee

Officers

Henry N. R. Jackman
Chairman

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

Nicholas J. Hirt, P. Eng.
Vice President and General Manager,
Algocen Realty Holdings Limited

Alexander S. Morris
General Manager,
Herb Fraser and Associates Limited

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

Algoma Central Railway
and Principal Subsidiary Companies

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

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Toronto Office
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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, Buffalo, Windsor, Chatham, London, Sarnia, Brantford, 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, Windsor and Sarnia.
1036 Green Valley Road, London, Ontario N6A 4C2
(519) 681-5100

ACR Delaware, Inc.
Algocen, Florida, Inc.
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Florida 33494 (305) 287-2600

Transfer Agents

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

Solicitors

Aird & Berlis

Stock Dividend Plan
Dividend Reinvestment Plan

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To make an election, contact:
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