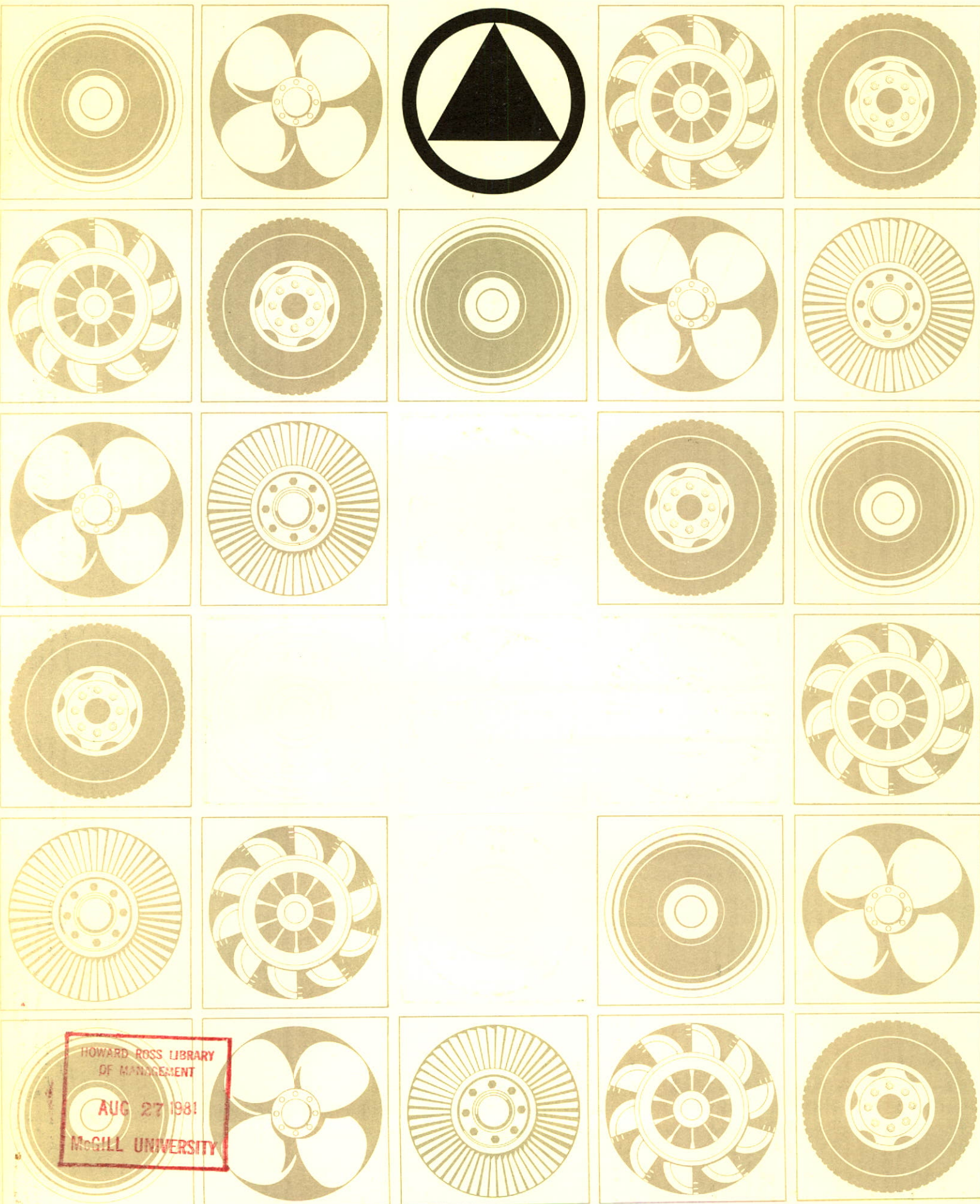


# Federal Industries Ltd. Annual Report 1980<sup>c</sup>









## The cover

Transportation and transportation services are common denominators for all of Federal Industries' current business operations. The five "wheels" on this year's Annual Report cover (turbine blades, ship propeller, bucket wheel and rail and truck wheels) symbolize the company's involvement in efficiently moving goods and people ... and in servicing the needs of other companies involved in transportation.

## Points of interest

## Page

Sales, earnings increase; return on equity exceeds 15% target level

2

Liquidity increases for fourth successive year

5

Transportation: a central theme for Company operations . . . a base for future expansion

21

Sales and earnings for Standard Aero grow dramatically

22

Thunder Bay Terminals completes first full year of operations with 15% increase in sales and earnings

24

White Pass returns to profits; loss reduced on railway

26



## **Federal Industries Ltd.**

Federal Industries is a Canadian-controlled, diversified transportation company, with Head Office located in Winnipeg, Manitoba. Through wholly-owned subsidiaries, it is engaged in the provision of truck, ocean and rail services to Western Canada, in the servicing of other transportation systems through a bulk product transshipment terminal, and in aerospace product

re-manufacturing and distribution. Current operations are grouped into three divisions: Aerospace, Terminals and Transport. The Company has annual sales in excess of \$159 million and assets of \$179 million. Ninety-four percent of the 3,944,006 shares are owned by residents of Canada and are traded on the Toronto and Winnipeg Stock Exchanges.

1

### **Annual meeting**

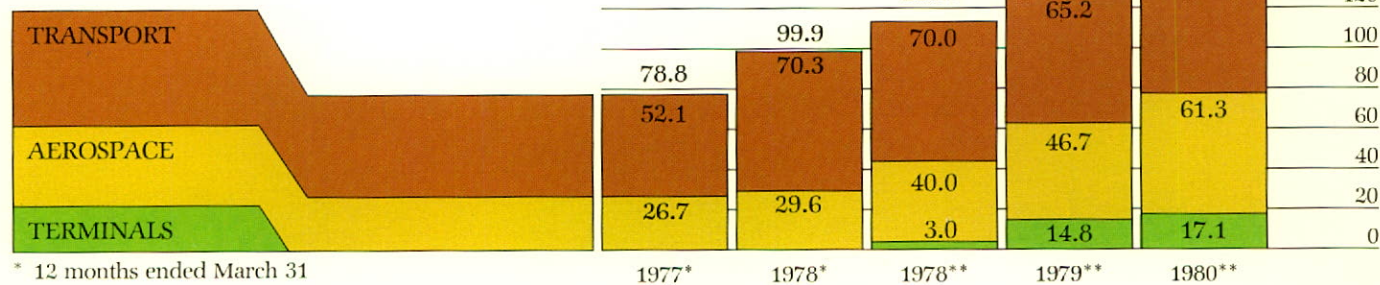
The Annual Meeting of the Shareholders will be held at the Winnipeg Inn, Two Lombard Place, Winnipeg, Manitoba, on Friday, May 15, 1981 at 10:00 a.m.



## Financial highlights

	December 1980 12 Months (\$ Million)	December 1979 12 Months (\$ Million)
Sales	159.2	126.7
Earnings before interest, taxes and extraordinary items	23.7	13.1
Interest Charges	8.7	9.3
Net Income before Extraordinary Items	7.4	1.8
Net Income after Extraordinary Items	7.1	1.8
Working Capital	24.2	14.6
Earnings per Share before Extraordinary Items	\$ 2.06	\$ .51
Earnings per Share after Extraordinary Items	\$ 1.98	\$ .51
Equity per Class A and Class B share	\$ 13.95	\$ 12.40

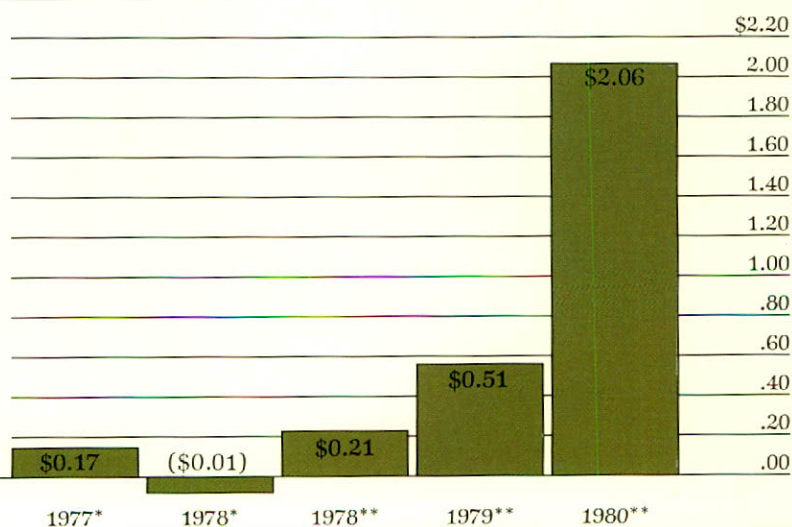
### Sales from continuing operations (\$ million)



\* 12 months ended March 31

\*\*12 months ended December 31

### Earnings per share before extraordinary items



\*12 months ended March 31

\*\*12 months ended December 31



## Report to Shareholders.

1980 was a record year for your Company with all the Divisions reporting strong gains in sales and profits.

Earnings before extraordinary items were \$7,407,000 or \$2.06 per share, a significant improvement from the \$1,789,000 or 51 cents per share reported in 1979. After extraordinary items, 1980 earnings were \$7,117,000 or \$1.98 per share. There were no extraordinary items in 1979.

Consolidated sales from continuing operations rose 26% to \$159,226,000, reflecting a new high in sales for Aerospace and substantial gains in both Transport and Terminals.

Liquidity improved dramatically as a consequence of a 110% gain in cash flow from operations, the sale of subsidiary Neptune Bulk Terminals and the private placement of common shares.

In perspective, 1980 results reflect substantial achievement of the central objectives set by management in 1978: "To encourage, support and expand our winners; to improve our average performers; and to fix or dispose of our losers quickly." The performance target set then for a 15% return on shareholders' equity has been exceeded.

### Aerospace Division

Operating earnings of Standard Aero for 1980 increased by 68%. Overall sales increased 31% to \$61 million, a gain that rises to 55% if a special one-time military parts sale is removed from 1979 results.

All aspects of the Division's business contributed to this growth. In commercial overhaul, higher service sales in helicopter turbine engines were largely responsible for a 59% increase in business. In product distribution, sales grew 57% to \$22 million, nearly one-third of which was contributed by the rapidly-growing branch in London, England. While growth in military overhaul was a more modest 37%, it was significant in light of the flat performance achieved in this area in 1979.

During the year the company leased a 30,000 square-foot building to house reciprocating engine overhaul operations and invested over \$920,000 on equipment for overhaul of a new family of turbine engines.

The company is optimistic about 1981, although growth experienced in 1980 is unlikely to be matched. Standard Aero intends to respond when bids are called for the overhaul contract for jet engines used in the F-18 fighter aircraft purchased by the Canadian Armed Forces. If successful, this business could provide a base to expand into commercial jet engines. The current slowdown in oil and gas exploration resulting from the Federal Government's National Energy Program will decrease Standard Aero's business derived from this sector, but the effect on earnings should not be material.

The longer term outlook remains positive, with signifi-

cant opportunities for expansion into new geographic areas, particularly in the parts distribution business.

### Terminals Division

The Terminals Division figured prominently in the Company's 1980 performance. As reported in the third quarter, Vancouver-based subsidiary Neptune Bulk Terminals was sold to a consortium of users. The impact on corporate liquidity was substantial.

Earnings and sales from Thunder Bay Terminals Ltd. increased by more than 15% on the strength of larger than expected coal volumes and the completion of the first full year of operations. Expansion to provide a supplementary handling system to transfer lignite to the adjacent Mission Island electrical generating station was essentially completed, with product movement expected in the second half of 1981.

In the longer term, Thunder Bay Terminals' sales and earnings growth will likely come from handling of other bulk commodities. Ontario Hydro, currently the company's sole customer, has significant excess load capacity and may not increase materially its use of western Canadian thermal coal in the medium term. As a result, a major marketing effort is being mounted by the company to handle additional products. However, even in the absence of other large tonnages, the Division is expected to produce stable and modestly increasing earnings.

### Transport Division

Reflecting the substantial effort that has been made over the past two years, The White Pass and Yukon Corporation reported overall sales growth of approximately 25% to in excess of \$80 million, and more importantly, a return to profitability. While these results are gratifying and are expected to improve, earnings are still below a minimum satisfactory rate of return, primarily due to rail losses. On a fully-allocated cost basis, 1980 rail operations in Yukon and Alaska lost \$3.1 million, and although this loss is lower than that experienced in 1979, it is unacceptable.

Three factors are critical if rail operations are to be made profitable: increased traffic, reduced costs and achieving and maintaining compensatory tariffs.

The key factor for longer term profitability of the railway is greater volume. New mines are a potential source of new tonnage, and a number are almost certain to be developed in future years. In addition, White Pass is actively pursuing transportation contracts for an estimated 400,000 tonnes of pipe required for construction of a proposed northern natural gas pipeline. Further, if the pipeline is constructed, the company expects to provide a major share of general freight services and petroleum product requirements.

Agreement in principle was reached recently with the Federal and Yukon governments for provision of up to



\$6 million in interest-free loans to be used to purchase locomotives and other rail equipment. When delivered in 1982, efficiencies will result in lower operating costs.

In 1980, agreement on a revised contract with higher rates was reached with the company's major customer. Additional revenue from this contract will contribute materially to reduce losses, and a return to normal volume levels would further improve operating results.

The closure in 1978 of Cassiar Resources' asbestos mine in Yukon and the loss to a competing carrier of the volume from Cassiar's British Columbia site were serious blows to the earnings potential of this Division. However, during 1980, 20% of the fibre traffic was regained, and for 1981, the company will be moving a full one-third of the mine's output.

### Corporate Developments

At last year's Annual Meeting, shareholders approved the creation of new Class B common shares on which dividends may be declared in the form of additional Class B shares. These shares are inter-convertible with the Company's Class A shares which pay a cash dividend. At December 31, 1980, 329,211 Class B shares and 3,614,795 Class A shares were outstanding.

On November 7, 1980, the Company reached agreement with Investors Securities Management Ltd. of Winnipeg for the private placement of 390,000 Class A common shares at a subscription price of \$12 per share. This treasury share issue generated approximately \$4.7 million.



Stewart A. Searle  
Chairman

John F. Fraser  
President

On March 16, 1981, the Board of Directors approved the issuance of rights which would entitle shareholders to purchase one additional Class A share for each five Class A or B shares held. The net proceeds of approximately \$9.4 million will be available for financing internal expansion and for future acquisitions. At the same meeting, the Board of Directors approved an increase in the quarterly dividend payable April 1, 1981 on Class A and B common shares from 5¢ to 7½¢, providing recognition of the successful turnaround of earnings while retaining a substantial proportion of profits to fund the capital projects and expansion that will ensure the continued growth of Federal Industries.

### Management Appointments

In recognition of his outstanding efforts in the turnaround of The White Pass and Yukon Corporation, Thomas H. King, formerly Executive Vice President, was appointed its President and Chief Executive Officer. At Standard Aero, John O. Baatz, formerly President of a major Canadian transportation company, was appointed President and Chief Executive Officer, and Harold W. Grant, formerly President, was appointed Chairman of the Board. At Thunder Bay Terminals, N.H. (Jack) Carr, a proven manager with broad experience in heavy equipment and terminal operations, was appointed Vice-President and General Manager — a position he held at Neptune Terminals. Kenneth C. Kinsley was appointed Vice-President, Administration of Federal Industries. Mr. Kinsley will be responsible for the development of overall management control systems.

Your Company has assembled a group of operational and corporate managers whose hard work and dedication have begun to realize the potential of the organization and positioned your Company to continue aggressive, profitable growth.

With activities consolidated, and with human and financial resources in place, your Company is poised and ready for success in future opportunities.

On behalf of the Board of Directors.

Stewart A. Searle, Chairman

John F. Fraser, President

March 16, 1981.





*John S. Pelton  
Vice-President,  
Finance*

*Kenneth C. Kinsley  
Vice-President,  
Administration*

### Earnings

Earnings for 1980 before extraordinary items rose to \$7,407,000 or \$2.06 per share from \$1,789,000 or 51¢ per share in the previous year. This improvement resulted primarily from substantial profit gains at Standard Aero Limited and the return to profitability of The White Pass and Yukon Corporation Limited.

A net extraordinary loss of \$290,000 or 8¢ per share reduced earnings for the year to \$7,117,000 or \$1.98 per share. The extraordinary loss was comprised of three items: reduction of income taxes from utilization of loss carryforwards at White Pass of \$414,000; an allowance of \$469,000 against a claim by the Company currently under litigation; and a loss of \$235,000 on the sale of Neptune Bulk Terminals Ltd., detailed under "Divestitures" below. There were no extraordinary items in 1979.

Operations of major Divisions are described more particularly in the review following the Consolidated Financial Statements.

### Divestitures

Effective January 1, 1980, the assets and business of Neptune Bulk Terminals Ltd. were sold to a consor-

tium of users of the terminal, resulting in a net extraordinary loss to the company of \$235,000. This amount was comprised of three major items: a profit on disposition of assets of \$1,163,000; a gain of \$800,000 resulting from the recording of available loss carryovers; and a write-off of \$2,198,000 in unamortized goodwill which arose on the original purchase of the company.

The total sales price for Neptune's assets was approximately \$19,500,000, consideration for which consisted of assumption of \$3,100,000 in liabilities and \$16,400,000 cash. After repaying bank and other debt of \$5,800,000 in Neptune, net cash of \$10,600,000 remained. In addition, the \$800,000 gain from tax loss carryovers noted above will result in cash tax savings of an equivalent amount during 1981.

Primarily because of a lengthy review by the Foreign Investment Review Agency, the transaction was not completed until October 23, 1980. Under the terms of the sales agreement, Neptune received interest on the net sales price, from January 1 to closing, which interest income aggregated \$1,808,000. After deduction of \$517,000, representing interest paid by the company to third parties during the ten-month period, a net amount of \$1,291,000 is shown in the Statement of Earnings as "interest earned".

On November 1, 1980, Neptune was amalgamated with Standard Aero to form a new company, Standard Aero Limited. Consequently, the proceeds from sale of Neptune's assets and business, together with tax loss carryovers, became assets of new Standard Aero, and have been used initially to pay down obligations of that company.

The effect of this divestiture in the Statement of Earnings for 1979 has been segregated under the caption "earnings from discontinued operations". Since the sale was effective January 1, 1980, there is no amount for the current year shown as discontinued operations. The Consolidated Historical Summary also reflects retroactively adjustments required to segregate discontinued operations.

### Interest costs

Total interest expense from continuing operations declined to \$8,740,000 from \$9,340,000 in 1979. After excluding costs of debt related to Thunder Bay Terminals, which costs are covered by an all-events contract with Ontario Hydro (see Balance Sheet section below), interest declined over 33% to \$2,566,000, a reflection of the Company's much improved liquidity. This liquidity was the result of strong funds flow from operations, proceeds from the Neptune disposition and the sale of capital stock. Since the latter two events were not concluded until the fourth quarter, 1980 interest cost reduction was not as dramatic as the change in total debt. For 1981, the completion of a proposed rights



offering in the second quarter will further improve liquidity, and make the Company relatively insensitive to interest rate fluctuations.

### Foreign exchange fluctuations

Foreign exchange fluctuations have caused significant operating losses at The White Pass and Yukon Corporation. Most of the costs of running that company's railway between Skagway, Alaska and Whitehorse, Yukon have been incurred in U.S. dollars, while revenues derived from the service have been payable historically in Canadian dollars. The resulting imbalance has depressed profits by \$1,400,000 in the current period and by over \$1,200,000 in 1979.

To compensate, the company has revised freight rates on non-contractual commodities, and has renegotiated its major rail contract to provide for the payment of U.S. rail services in U.S. currency. These measures, together with an expected significant revenue increase from rail passenger operations should partially offset the problem in 1981 and later.

### Income taxes

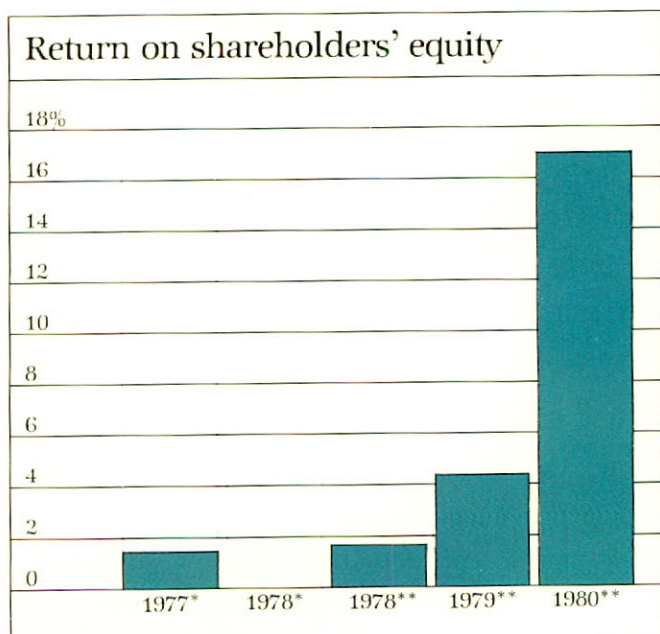
Because Federal Industries is comprised of a number of subsidiaries in several tax jurisdictions, the consolidated rate of tax may vary from period to period. This is particularly true when one or more companies incur losses while others remain profitable, or where tax

incentive programs affect the amount of tax paid. In 1980, the consolidated income tax rate increased to 47.9% from 44.9% in 1979, reflecting changes of circumstance in two subsidiaries. The three White Pass railway subsidiaries remained unprofitable in 1980, and the accounting practice of not recognizing in the current year potential recovery of taxes from loss carryovers resulted in an overall tax rate for consolidated, profitable White Pass of 55.2%, compared to 50.7% in 1979. At Standard Aero Limited, the tax rate rose 4.4 percentage points as a consequence of the differing impact of the federal inventory tax credit. Because pre-tax income rose by more than 70%, the percentage impact of the tax credit, which is applied against taxes otherwise payable, was much less.

The Company has organized its affairs in the United States to allow for the filing of joint tax returns, but such practice is not yet permitted in Canada. Until this is allowed, and because of the use of available tax incentives, some volatility in the consolidated rate of tax will persist.

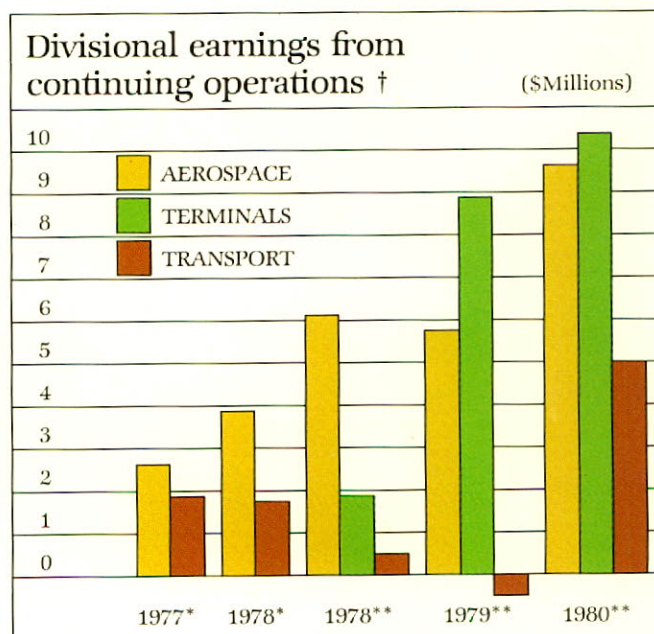
### Balance sheet

Working capital improved by \$9,617,000 to \$24,227,000, the fourth successive annual increment in this important indicator. Of particular significance in the increase was cash flow from continuing operations, which rose over \$7,000,000 to \$13,599,000.



\*12 months ended March 31

\*\*12 months ended December 31



† Before taxes, extraordinary items, interest and inter-company charges



Long term debt decreased by \$26,190,000 primarily as a result of the application of proceeds from sales of the Company's shares and from disposition of Neptune Bulk Terminals. Of the \$68,853,000 outstanding at December 31, 1980, \$65,721,000 represented funded obligations of Thunder Bay Terminals. As more fully set out in Note 4 to the financial statements, a long term contract between the terminal and Ontario Hydro provides in all events for the payment of debt service, and under the terms of the mortgage bonds, security is limited to assets of the terminal. Accordingly, it is appropriate to exclude this "project financing" debt in assessing the Company's long term debt-to-equity ratio, and on this basis, the year-end ratio was 0.05 to 1 compared to 0.44 to 1 at December 31, 1979. Total debt-to-equity was 0.27 to 1 at the end of 1980, compared to 0.79 to 1 in 1979.

As part of new loan arrangements reached with the Bank of Montreal subsequent to the year-end, the Company has established an operating line of credit of \$32,000,000, secured primarily by charges against current assets, and an acquisition line of \$15,000,000, to be secured against other assets. The medium term operating and capital requirements of the Divisions can be met from internally generated cash flow as supplemented from time to time by the operating line of credit. The acquisition line, together with proceeds from the sale of Neptune, the private placement of shares and the prospective rights offering, provides

a substantial base for funding expansion of the Company.

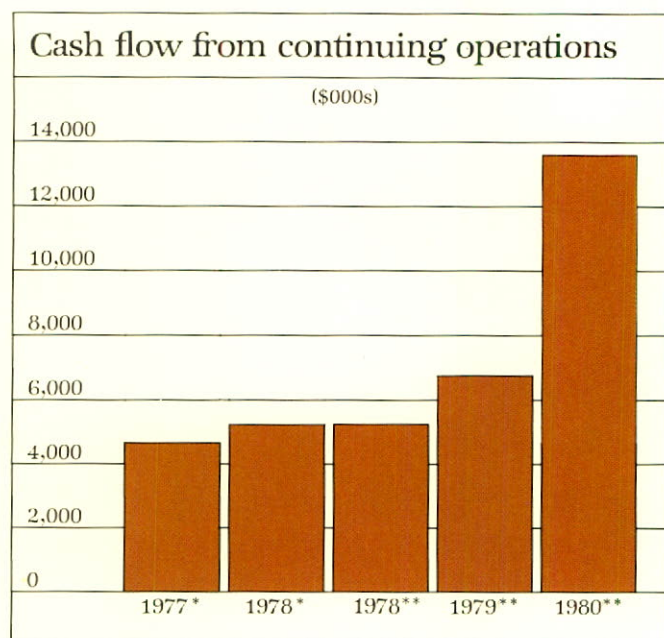
### Capital expenditures and depreciation

Capital expenditures totalled \$5,829,000 of which \$3,249,000 represented costs of construction at, and additions to, Thunder Bay Terminals. Excluding the terminal, capital outlays declined to \$2,580,000 for the year, compared to \$3,057,000 in 1979, reflecting a continuing policy of restraint throughout the organization. The majority of 1980 expenditures related to replacement of highway equipment at White Pass.

Depreciation increased slightly during the year to \$5,615,000 from \$5,227,000 in 1979. After excluding Thunder Bay Terminals depreciation, the comparable amounts are \$3,021,000 for 1980 and \$3,023,505 for 1979. It is apparent, therefore, that depreciation provided the necessary cash flow for current, non-terminal capital costs, and, as noted above, a long term contract with Thunder Bay's major customer provides for funding of necessary capital expenses as incurred.

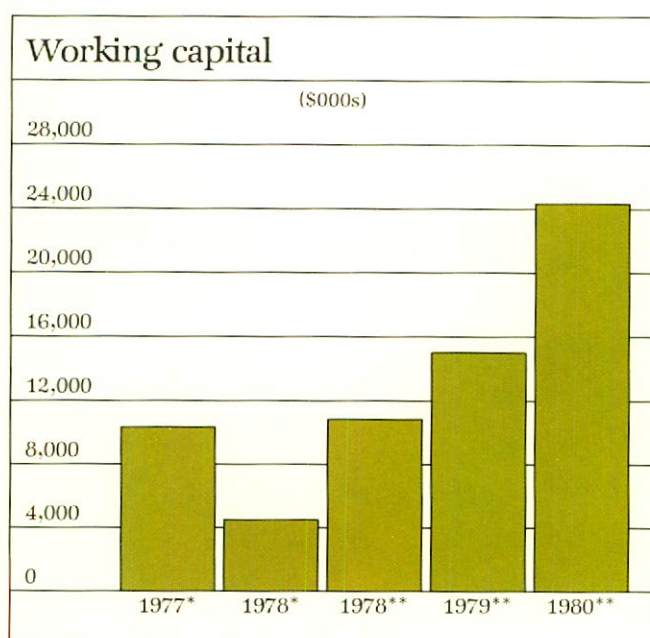
### Share capital

In May, 1980 the Company was continued under the Canada Business Corporations Act. As part of the continuance, a new share capital structure resulted in which all formerly issued and outstanding Class A and Class B shares became new Class A shares. A new Class B share was created, and made inter-convertible



\* 12 months ended March 31

\*\* 12 months ended December 31



\* 12 months ended March 31

\*\* 12 months ended December 31



with Class A shares. The Class B shares provided for the payment of dividends in the form of additional Class B shares.

During the year, the Company issued 390,000 Class A shares through a private placement for aggregate consideration of \$4,680,000; 20,000 Class A shares under a stock purchase plan for \$133,000; and 5,106 Class B shares as stock dividends of \$40,000 on Class B shares outstanding. An additional 1,134 Class B shares were issued as stock dividends of \$16,000 on January 1, 1981.


At December 31, 1980, there were 3,944,006 shares outstanding, comprised of 3,614,795 Class A shares and 329,211 Class B shares. The weighted average number of Class A and B shares outstanding for 1980, 3,593,009 shares, was used in calculating 1980 per share earnings.

Market performance of Federal Industries' shares was encouraging. Prices increased from a low of \$6.38 in early 1980 to a high in the fourth quarter of \$15.25. Volume rose over 60% compared to 1979, and three major investment dealers began to follow the Company.

### Summary

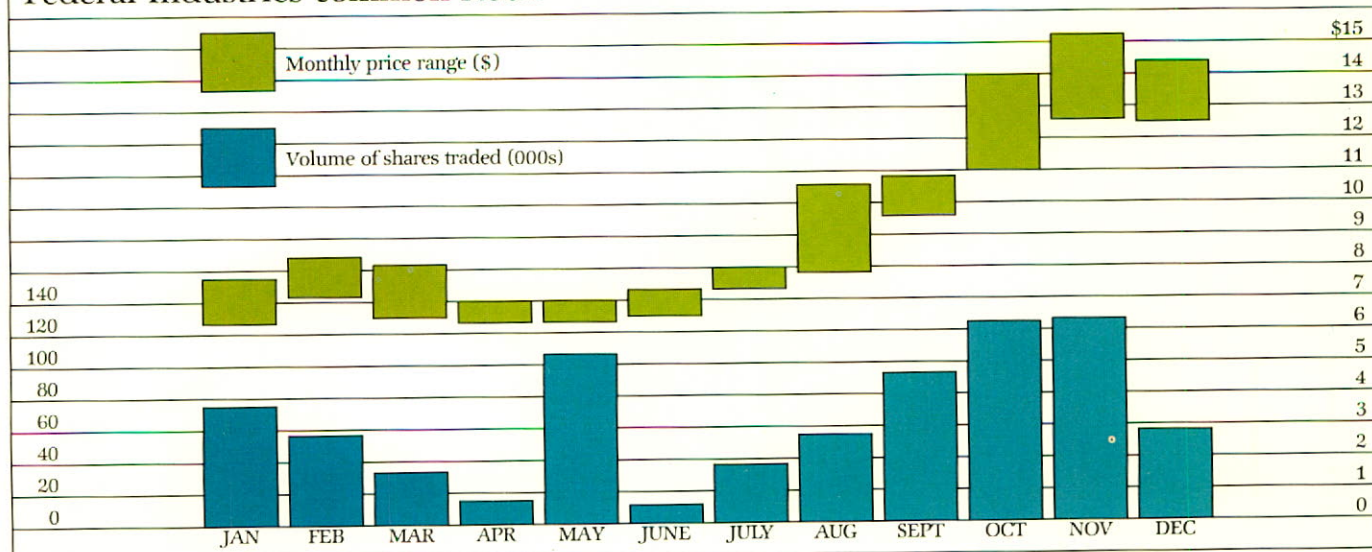
Events and actions of 1980 underscore the success of management's overall financial policy: to maintain liquidity and avoid excessive leverage. The collapse of

long term bond markets and continuing record high interest rates confirm the importance of this posture. Operations have been improved to the extent that internally generated funds will provide both for the majority of medium term capital requirements and for a growing dividend distribution to shareholders. New equity raised during the year and to be raised in 1981 provides the Company with a solid base for aggressive growth by acquisition without the need to encumber the earnings base of existing subsidiaries.

  
John S. Pelton  
Vice-President, Finance

  
Kenneth C. Kinsley  
Vice-President, Administration

### 1980 Trading volumes and price ranges: Federal Industries common stock





## Board of Directors

**\*A. V. Mauro**  
Executive Vice-President  
The Investors Group

**\*J. B. MacAulay**  
Partner, Fraser & Beatty  
Barristers and Solicitors

**A. S. Leach, Jr.**  
Vice-President  
Federal Industries Ltd.

**J. S. Pelton**  
Vice-President, Finance  
Federal Industries Ltd.

**J. F. Fraser**  
President  
Federal Industries Ltd.

\*Member of Audit Committee





**S. A. Searle**  
Chairman of the Board  
Federal Industries Ltd.

**R. A. Hubber-Richard**  
Corporate Director

**\*R. G. Graham**  
President  
Inter-City Gas Corporation

**C. L. Searle**  
Professor of Electrical  
Engineering  
Massachusetts Institute of  
Technology

**\*J. D. Riley**  
Corporate Director





**Consolidated statement of earnings**

for the year ended December 31, 1980

	\$000	
	1980	1979
<b>Sales and services (Note 10)</b>	<b>\$159,226</b>	<b>\$126,716</b>
Cost of sales and operating expenses (Note 11)	129,935	108,524
Depreciation and amortization	5,615	5,227
Amortization of goodwill	—	72
Interest on long term debt	8,319	7,969
Other interest expense	1,712	1,371
Interest earned (Note 12)	(1,291)	—
	144,290	123,163
<b>Earnings from continuing operations</b>	<b>14,936</b>	<b>3,553</b>
<b>Earnings from discontinued operations, after depreciation of \$908,000 (Note 12)</b>	<b>—</b>	<b>363</b>
<b>Earnings before income taxes and extraordinary items</b>	<b>14,936</b>	<b>3,916</b>
<b>Provision for income taxes</b>		
Current	4,857	661
Deferred	2,301	1,095
	7,158	1,756
<b>Earnings before extraordinary items</b>	<b>7,778</b>	<b>2,160</b>
<b>Extraordinary items (Note 13)</b>	<b>(290)</b>	<b>—</b>
<b>Net earnings</b>	<b>7,488</b>	<b>2,160</b>
<b>Earnings allocated to minority shareholders</b>	<b>371</b>	<b>371</b>
<b>Net earnings for the year</b>	<b>\$ 7,117</b>	<b>\$ 1,789</b>
<b>Net earnings per common share</b>		
Before extraordinary items	\$2.06	\$ .51
Extraordinary items	(.08)	—
Including extraordinary items	\$1.98	\$ .51

See accompanying notes to financial statements.



## Consolidated statement of retained earnings

for the year ended December 31, 1980

	\$000	
	1980	1979
<b>Balance, beginning of year</b>	<b>\$28,893</b>	<b>\$27,810</b>
Net earnings for the year	<b>7,117</b>	1,789
	<b>36,010</b>	29,599
Dividends (Note 9)		
Class A shares	<b>673</b>	447
Class B shares	<b>56</b>	259
	<b>729</b>	706
<b>Balance, end of year</b>	<b>\$35,281</b>	<b>\$28,893</b>

See accompanying notes to financial statements.

### Auditors' report

Touche Ross & Co.  
Suite 2000, 360 Main Street  
Winnipeg, Manitoba R3C 3Z3  
(204) 942-0051

To the Shareholders  
Federal Industries Ltd.

We have examined the consolidated balance sheet of Federal Industries Ltd. and its subsidiary companies as at December 31, 1980 and the statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at

December 31, 1980 and the results of their operations and the changes in their 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.

*Touche Ross & Co.*

Winnipeg, Manitoba,  
March 16, 1981.

Chartered Accountants



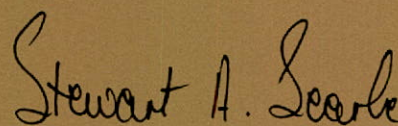
**Consolidated balance sheet**

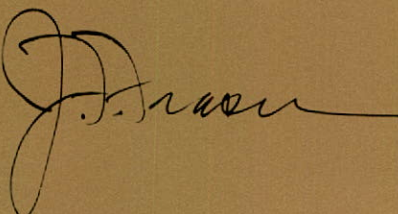
as at December 31, 1980

	\$000	
	1980	1979
<b>ASSETS</b>		
<b>Current</b>	\$ 691	\$ 25
Cash and short term deposits	26,039	22,313
Accounts receivable	676	—
Income taxes recoverable	35,467	25,361
Inventories (Note 2)	1,118	1,499
Prepaid expenses	869	5,367
Claims recoverable	3,850	1,925
Current portion of long term receivable (Note 4)	322	—
Current portion of mortgage	69,032	56,490
<b>Total current assets</b>		
<b>Fixed (Note 3)</b>		
Property, plant and equipment, at cost	131,259	152,046
Accumulated depreciation	43,086	44,714
	88,173	107,332
Terminal facility under construction (Note 4)	14,077	11,760
	102,250	119,092
<b>Other</b>		
Unexpended construction funds (Note 4)	2,737	7,596
Long term receivable (Note 4)	1,487	1,423
Other investments, at cost (Note 5)	3,602	4,403
Deferred charges	139	515
Goodwill, at cost less amounts amortized (Note 13)	—	2,198
	7,965	16,135
	<b>\$179,247</b>	<b>\$191,717</b>

See accompanying notes to financial statements.

On behalf of the Board


 Stewart A. Seale, Director


 J. J. Mason, Director



	\$000	
<b>LIABILITIES</b>	<b>1980</b>	<b>1979</b>
<b>Current</b>		
Bank indebtedness, secured (Note 6)	\$ 14,059	\$ 15,440
Accounts payable and accrued liabilities	24,446	20,996
Dividends	197	176
Income taxes payable	1,388	742
Current portion of long term debt	4,715	4,526
<b>Total current liabilities</b>	<b>44,805</b>	<b>41,880</b>
<b>Long term (Note 7)</b>	<b>68,853</b>	<b>95,043</b>
<b>Deferred income taxes</b>	<b>5,079</b>	<b>5,525</b>
<b>Minority interest (Note 8)</b>	<b>5,500</b>	<b>5,500</b>
<b>Total liabilities</b>	<b>124,237</b>	<b>147,948</b>

#### **SHAREHOLDERS' EQUITY**

<b>Share capital</b>		
Common shares (Note 9)	19,729	14,876
<b>Retained earnings</b>	<b>35,281</b>	<b>28,893</b>
<b>Total shareholders' equity</b>	<b>55,010</b>	<b>43,769</b>
	<b>\$179,247</b>	<b>\$191,717</b>



**Consolidated statement of changes in financial position**

for the year ended December 31, 1980

	\$000	
	1980	1979
<b>Source of funds</b>		
Operations		
Net earnings for the year	\$ 7,117	\$ 1,789
Add Depreciaton and amortization	5,615	5,227
Amortization of goodwill	—	72
Deferred income taxes	2,301	1,095
Accrued revenue in respect of deferred income taxes (Note 4)	(2,068)	(1,700)
Extraordinary items	290	—
Earnings allocated to minority shareholders	371	371
Gain on sale of fixed assets	(27)	(19)
Earnings from discontinued operations	—	(363)
Funds provided by continuing operations	13,599	6,472
Disposal of assets of a subsidiary company, net	17,165	—
Proceeds on sale of fixed assets	402	800
Issue of shares (Note 9)	4,797	240
Reduction in income taxes (Note 13)	1,214	—
Unexpended construction funds	4,859	—
Other investments	801	—
Deferred charges	376	—
Issue of first mortgage bonds 9 <sup>5</sup> / <sub>8</sub> %	—	14,496
Additional long term debt financing	—	3,965
Earnings from discontinued operations, before depreciation	—	1,271
	<b>\$43,213</b>	<b>\$27,244</b>
<b>Application of funds</b>		
Purchase of fixed assets	\$ 3,512	\$ 3,057
Terminal facilities under construction	2,317	10,297
Increase in long term receivable, net of deferred income tax component of \$2,068,000 (Note 4)	64	1,423
Decrease in long term debt	26,190	5,960
Dividends	673	706
Dividends paid by subsidiary company to minority shareholders	371	371
Allowance for claims recoverable, net of income taxes of \$400,000	469	—
Unexpended construction funds	—	617
Other investments	—	668
Deferred charges	—	194
	<b>33,596</b>	<b>23,293</b>
<b>Increase in working capital</b>	<b>9,617</b>	<b>3,951</b>
	<b>\$43,213</b>	<b>\$27,244</b>
<b>Working capital, end of year</b>	<b>\$24,227</b>	<b>\$14,610</b>

See accompanying notes to financial statements.



## Notes to consolidated financial statements

for the year ended December 31, 1980

### 1. Summary of significant accounting policies

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. The names of the subsidiaries, which are all wholly owned, are as follows:

Standard Aero Limited  
The White Pass and Yukon Corporation Limited  
Thunder Bay Terminals Ltd.

All material inter-company balances, transactions and profits have been eliminated.

#### (b) Foreign currency translation

The accounts of certain subsidiaries are maintained in United States dollars. These accounts have been translated into Canadian dollars as follows: current assets, current liabilities and long term debt at exchange rates prevailing at the end of the year; fixed assets and depreciation substantially on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation) on the basis of average exchange rates during the year. Exchange gains or losses from such translation practices have been included in consolidated earnings.

#### (c) Valuation of inventories

Inventories have been valued at the lower of cost and net realizable value.

#### (d) Capitalization of leases

All material leases of a capital nature have been recorded as fixed assets and long term debt obligations.

#### (e) Revenue recognition — bulk handling terminal contract

A portion of the revenues accruing under the bulk handling terminal contract between Thunder Bay Terminals Ltd. and Ontario Hydro is being recognized on a basis that reflects an approximate constant return over each of the fifteen years of the initial term of the contract. (See Note 4).

#### (f) Depreciation

Depreciation on completed property, plant and equipment is provided at rates which are estimated to amortize the original cost of such assets over their useful lives.

#### (g) Income taxes

The Company follows the tax allocation method of accounting for income taxes whereby earnings are

charged with income taxes relating to reported earnings.

Differences between such taxes and taxes currently payable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for income tax purposes.

Potential tax reductions that may result from the application of losses against future taxable income are not recognized until recovery out of future taxable income is virtually certain.

#### (h) Earnings per share

Earnings per common share are calculated using the weighted daily average number of common shares outstanding.

#### (i) International accounting standards

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with international accounting standards.

### 2. Inventories

	\$000	
	1980	1979
<b>Aerospace Division</b>		
Aircraft engines and parts	\$20,398	\$13,626
Work in process	5,391	3,403
	<b>25,789</b>	<b>17,029</b>
<b>Terminals Division</b>		
Spare parts and supplies		
Thunder Bay Terminal	1,194	858
Neptune Terminal	—	510
	<b>1,194</b>	<b>1,368</b>
<b>Transport Division</b>		
Petroleum division products		
held for resale	5,627	4,049
Spare parts and supplies	2,857	2,915
	<b>8,484</b>	<b>6,964</b>
	<b>\$35,467</b>	<b>\$25,361</b>



**3. Fixed assets**

	\$000			
	1980			1979
	Cost	Accumulated Depreciation	Net	Net
<b>Aerospace Division</b>				
Land and buildings	\$ 3,125	\$ 1,361	\$ 1,764	\$ 1,744
Machinery and equipment	4,068	3,147	921	704
	<b>7,193</b>	<b>4,508</b>	<b>2,685</b>	<b>2,448</b>
<b>Terminals Division</b>				
Terminal handling facilities				
Thunder Bay Terminal	53,953	4,802	49,151	50,811
Neptune Terminal	—	—	—	16,684
	<b>53,953</b>	<b>4,802</b>	<b>49,151</b>	<b>67,495</b>
<b>Transport Division</b>				
Rail and pipeline	32,071	9,559	22,512	23,210
Ships and containers	12,980	9,974	3,006	3,410
Trucks	11,161	7,045	4,116	3,609
Skagway terminal	6,797	3,745	3,052	3,492
Land and buildings	4,600	1,712	2,888	2,947
Machinery and equipment	2,158	1,604	554	502
	<b>69,767</b>	<b>33,639</b>	<b>36,128</b>	<b>37,170</b>
<b>Other corporate assets</b>	<b>346</b>	<b>137</b>	<b>209</b>	<b>219</b>
	<b>131,259</b>	<b>43,086</b>	<b>88,173</b>	<b>107,332</b>
<b>Terminal handling facilities under construction — Thunder Bay</b>	<b>14,077</b>	<b>—</b>	<b>14,077</b>	<b>11,760</b>
	<b>\$145,336</b>	<b>\$ 43,086</b>	<b>\$102,250</b>	<b>\$119,092</b>

Included in the amounts reported above are assets under capital leases of \$3,689,000 (1979 — \$2,643,000) and related accumulated depreciation thereon of \$1,323,000 (1979 — \$849,000).

The 1979 figures for certain fixed assets have been reclassified to conform to the 1980 asset presentation.

**4. Terminal handling facility — Thunder Bay, Ontario**

- (a) Thunder Bay Terminals Ltd. has entered into a long term contract with Ontario Hydro for the construction and operation of a bulk terminal handling facility at Thunder Bay, Ontario. The total cost of the terminal is estimated not to exceed \$71,496,000. At December 31, 1980, total cost incurred aggregated \$68,030,000 of which \$53,953,000 relates to completed facilities which became operational on March 1, 1979. The additional \$14,077,000 represents terminal facilities under construction.
- (b) The cost of the terminal has been financed by the issue of \$71,496,000 aggregate principal amount, 9<sup>5</sup>/<sub>8</sub>% First Mortgage Sinking Fund Bonds, Series A. As at December 31, 1980, the Series A bonds issued and outstanding aggregated \$69,571,000. The terms and conditions of the Series A bond issue are provided for in a Deed of Trust and Mortgage dated as of October 12, 1977 between the company and the trustee for the bondholders.
- (c) As at December 31, 1980 unexpended construction funds of \$2,737,000 were being held for the purpose of paying construction costs payable.
- (d) Under the terms of the agreements with Ontario Hydro, Thunder Bay Terminals Ltd. will receive, over the initial fifteen year term of the contract, contractual amounts of

revenue including specific revenue components to cover all payments required for the redemption of all of the Series A bonds and for income taxes. These revenue components become recoverable as and when the bond and income tax payments become due and payable. The use of the cash received in respect of these specific revenue components is restricted to the redemption of the Series A bonds and the payment of income taxes.

- (e) The amounts receivable over the fifteen years of the initial term of the contract to cover the redemption of the Series A bonds represent the revenues required to pay for the capital cost of the terminal facility. The net contribution to earnings from these revenues (total amounts receivable less depreciation on the terminal) is recorded in the accounts so as to reflect an approximate constant annual return over each of the fifteen years.
- (f) At December 31, 1980, the accrued revenues receivable from Ontario Hydro for the redemption of Series A bonds amount to \$5,337,000 of which \$1,487,000 is long term and \$3,850,000 is current. The long term accrued revenues receivable for the payment of income taxes amount to \$3,768,000 (1979 — \$1,700,000), all of which relate to deferred income taxes. Because the \$3,768,000 to be received is restricted to the payment of income taxes, the liability for the deferred income taxes has been netted against the long term receivable.



## 5. Other investments

	\$000	
	1980	1979
Mortgages and agreements for sale	\$2,136	\$3,066
Loans to officers and directors		
Stock purchase plan	619	499
Housing	135	141
Other securities	685	685
Cash surrender value of life insurance policies	27	12
	\$3,602	\$4,403

## 6. Bank indebtedness

Bank indebtedness is secured by a pledge of shares in subsidiaries, assignment of book debts and inventories, \$18,000,000 of debentures on the assets of Standard Aero Limited, and a \$10,000,000 (U.S. dollars) debenture on the assets of a subsidiary of The White Pass and Yukon Corporation Limited.

## 7. Long term debt

	\$000	
	1980	1979
<b>Aerospace Division</b>		
Term bank loan, secured, 1 <sup>3</sup> / <sub>4</sub> % above prime rate	\$ —	\$ 6,170
<b>Terminals Division</b>		
First mortgage bonds, 9 <sup>5</sup> / <sub>8</sub> % (Note 4)	65,721	69,571
Construction costs payable	—	1,452
Debenture, secured, 1 <sup>1</sup> / <sub>2</sub> % above prime rate	—	3,250
Purchase agreement, secured, non-interest bearing, due 1987	—	2,664
Purchase agreement, secured, prime rate	—	222
First mortgage bonds, 8 <sup>1</sup> / <sub>2</sub> % due 1989	—	1,172
	65,721	78,331
<b>Transport Division</b>		
Term bank loan, secured, 1 <sup>1</sup> / <sub>2</sub> % above prime rate	—	3,429
First ship mortgage note, 8 <sup>1</sup> / <sub>2</sub> % due 1984	975	1,300
Capitalized equipment leases, 9%-16%	1,964	1,602
	2,939	6,331
<b>Corporate Debt</b>		
Term bank loan, secured, 1 <sup>3</sup> / <sub>4</sub> % above prime rate	—	4,000
Capitalized lease obligations, 16 <sup>1</sup> / <sub>4</sub> %	193	211
	193	4,211
	\$68,853	\$95,043

The aggregate amount of maturities over the next five years are approximately as follows:

1981 — \$4,715,000; 1982 — \$4,610,000; 1983 — \$4,685,000; 1984 — \$4,808,000; 1985 — \$4,113,000.

## 8. Minority interest

Minority interest is \$5,500,000 of 6<sup>3</sup>/<sub>4</sub>% preferred shares of The White Pass and Yukon Corporation Limited (1979 — \$5,500,000).

## 9. Share capital

(a) During the year the Company continued under the Canada Business Corporations Act.

(b) At December 31, 1980 the authorized share capital of the Company consists of:

- an unlimited number of Class A convertible shares without nominal or par value; and
- an unlimited number of Class B convertible shares without nominal or par value.

Both the Class A shares and the Class B shares are inter-convertible at any time at the option of the holder on a share for share basis. The basic difference between the two classes of shares is that dividends on Class A shares are payable in the form of cash dividends, while dividends on Class B shares are presently payable in the form of stock dividends, payable in Class B shares.

(c) As part of the process of continuance under the Canada Business Corporations Act, all former issued and outstanding Class A shares and Class B shares were deemed to be new Class A shares. Subsequent to the continuance, some of the Class A shares were converted into Class B shares. In addition the following shares were issued:

- 390,000 Class A shares through a private placement for an aggregate consideration of \$4,680,000.
- 20,000 Class A shares to an officer of the Company under the provisions of the stock purchase plan for an aggregate consideration of \$133,000 (1979 — 40,000 old Class A shares to two officers for \$240,000).
- 5,106 Class B shares as stock dividends of \$40,000. An additional 1,134 class B shares were issued as stock dividends of \$16,000 on January 1, 1981.

(d) At December 31, 1980, there were 3,944,006 shares issued and outstanding comprised of 3,614,795 Class A shares and 329,211 Class B shares.

(e) In 1978 the shareholders confirmed a by-law authorizing a stock purchase plan, the purpose of which is to provide loans to employees of the Company for the purchase of Class A shares of the Company. The prices at which such shares may be purchased is the market value thereof and employee loans may be provided by the Company in such amounts and on such terms and conditions as the directors of the Company may determine. The by-law expressly provides the aggregate number of shares reserved for issuance under any such plan shall not exceed five percent (5%) of the aggregate number of common shares of the Company of all classes then issued and outstanding.

(f) At December 31, 1979 the authorized share capital of the Company consisted of:

- 6,000,000 Class A convertible shares without nominal or par value.



ii. 6,000,000 Class B convertible shares without nominal or par value.

The maximum consideration for the issue for those shares was not to exceed \$20,000,000. The two classes of shares were inter-convertible at any time and were

similar in all respects, including dividend rights.

At December 31, 1979 there were 3,528,900 old shares issued and outstanding comprised of 2,244,668 old Class A shares and 1,284,232 old Class B shares.

## 10. Segmented Information

	\$000			
	1980		1979	
	Sales & Services	Segment Margin*	Sales & Services	Segment Margin*
Divisions				
Aerospace	\$ 61,283	\$ 7,694	\$ 46,681	\$ 4,068
Terminals	17,091	4,136	14,856	3,408
Transport				
Petroleum	42,573	5,535	29,562	1,688
Transportation	43,726	(1,020)	38,782	(3,704)
	164,673	16,345	129,881	5,460
Inter-segment eliminations	5,447	336	3,165	246
	\$159,226	16,009	\$126,716	5,214
Corporate interest expense		(870)		(847)
Interest earned		1,291		—
Other corporate expenses		(1,494)		(814)
Earnings from continuing operations		14,936		3,553
Earnings from discontinued operations		—		363
Provision for income taxes		(7,158)		(1,756)
Extraordinary items		(290)		—
Allocated to minority shareholders		(371)		(371)
Net earnings		\$ 7,117		\$ 1,789

\*After deduction of interest: Aerospace \$1,975,000 (1979 — \$1,665,000); Terminals \$6,174,000 (1979 — \$5,505,000); Petroleum \$710,000 (1979 — \$602,000); Transportation \$101,000 (1979 — \$1,540,000).

## Other segmented information

	\$000					
	1980			1979		
	Capital Expenditures	Deprec. and Amort.	Identifiable Assets	Capital Expenditures	Deprec. and Amort.	Identifiable Assets
Divisions						
Aerospace	\$ 575	\$ 338	\$ 43,871	\$ 185	\$ 299	\$ 31,296
Terminals	3,251	2,594	75,670	10,297	2,209	77,409
Transport						
Petroleum	189	160	12,820	95	134	8,541
Transportation	1,793	2,488	45,414	847	2,566	47,182
Discontinued operations	—	—	—	1,686	908	26,891
Other corporate assets	21	35	1,472	244	19	398
Total	\$ 5,829	\$ 5,615	\$179,247	\$ 13,354	\$ 6,135	\$191,717

- (a) The Company has segmented its operations on the basis of the major industries in which it operates as described below:
- The Aerospace Division's operations consist of the remanufacturing and rebuilding of aircraft engines and sales of related parts and accessories.
  - The Terminals Division operates a major coal handling terminal facility.
  - The Transport Division's operations consist of the marketing of petroleum and related consumer products, and the provision of ocean, rail and truck transportation services.

Inter-segment sales are accounted for at prices comparable to open market prices for similar products and services.

- (b) The Aerospace Division had sales to foreign customers, principally in Europe, of \$11,087,000 (1979 — \$6,795,000).



## 11. Directors' remuneration

The aggregate remuneration of directors and senior officers of the Company is as follows:

	1980				1979			
	As Directors		As Officers		As Directors		As Officers	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Federal Industries Ltd.	13	\$ 30,500	7	\$407,400	12	\$ 38,500	7	\$351,200
The White Pass & Yukon Corporation Limited	8	6,600	1	25,000	8	6,600	1	34,200
Thunder Bay Terminals Ltd.	4	—	—	—	5	200	—	—

5 Officers are also Directors of the Company (1979 - 5 officers).

## 12. Discontinued operations

The assets and business of Neptune Bulk Terminals Ltd. were sold to a consortium of users of the terminal for consideration consisting of cash and the assumption of certain obligations of that company. The sale was effective January 1, 1980 but because of certain conditions precedent the transaction was not completed until October 23, 1980. Under the sales agreement, Neptune received interest of \$1,808,000 on the net sales price. This \$1,808,000, less interest paid by Neptune to third parties of \$517,000, gives the \$1,291,000 which has been shown as a separate item of earnings under the heading "interest earned". The disposition of the assets and business of Neptune resulted in an extraordinary loss of \$235,000 (Note 13).

On November 1, 1980, subsequent to the completion of the sale transaction, Neptune Bulk Terminals Ltd. and Standard Aero Limited amalgamated to form a new corporation called Standard Aero Limited.

For comparative purposes, the figures for 1979 relating to the operations of the Neptune terminal have been eliminated from sales and services, cost of sales, etc., and the results of those operations have been shown as a separate item of earnings under the heading "earnings from discontinued operations".

## 13. Extraordinary items

	\$000	
	1980	1979
Loss on disposition of assets and business of Neptune Bulk Terminals Ltd. (Note 11)		
Gain on sale of assets and business, net of income taxes of \$483,000	\$1,163	\$ —
Reduction of income taxes arising from the utilization of loss carry forward	800	—
Write off of goodwill	(2,198)	—
	(235)	—
Allowance in respect of claims recoverable, net of income taxes of \$400,000	(469)	—
Reduction of income taxes arising from the utilization of loss carry forwards by a subsidiary company	414	—
	\$ (290)	\$ —

## 14. Contractual obligations

- The Company and its subsidiary companies have operating lease commitments with varying terms requiring annual rental payments of approximately \$450,000.
- Commitments for capital expenditures at December 31, 1980 were approximately \$327,000.
- The Company is guarantor of bank loans of a non-affiliated company to a maximum of \$1,500,000.



## Consolidated Historical Summary

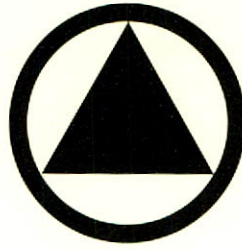
	12 Mos. 31 Dec. 80	12 Mos. 31 Dec. 79	12 Mos.* 31 Dec. 78	12 Mos. 31 Mar. 78	12 Mos. 31 Mar. 77
<b>Income Information (\$000)</b>					
Sales & Services	159,226	126,716	112,987	99,830	78,848
Gross Earnings from Operations	29,291	18,192	11,293	7,779	7,095
Net Earnings Before Extraordinary Items	7,407	1,789	714	(17)	591
Extraordinary Items	(290)	—	(1,527)	(2,498)	891
Net Earnings After Extraordinary Items	7,117	1,789	(813)	(2,515)	1,482
Depreciation	5,615	5,227	3,974	3,431	3,743
Interest on Long Term Debt	8,319	7,969	3,120	1,074	1,267
Income Taxes	7,158	1,756	1,475	1,611	573
Earnings (Loss) per Common Share (\$)	1.98	.51	(.23)	(.73)	.43
Earnings (Loss) per Share Excluding Extraordinary Items (\$)	2.06	.51	.21	(.01)	.17
<b>Balance Sheet Information (\$000)</b>					
Current Assets	69,032	56,490	50,044	49,039	52,508
Current Liabilities	44,805	41,880	39,386	44,618	42,457
Working Capital	24,227	14,610	10,658	4,421	10,051
Fixed Assets — Net	102,250	119,092	112,574	98,398	60,369
Other Assets	7,965	16,135	13,347	7,635	5,840
Total Assets	179,247	191,717	175,965	155,072	118,717
Long Term Debt	68,853	95,043	82,542	59,396	22,034
Deferred Income Taxes	5,079	5,525	6,091	5,744	5,193
Minority Interest	5,500	5,500	5,500	5,500	5,500
Shareholders' Equity	55,010	43,769	42,446	39,814	45,533
<b>Other Information</b>					
Gross Margin Ratio %	18.4	14.4	10.0	7.8	9.0
Net Earnings as % of Sales	4.5	1.4	(.7)	(2.5)	1.9
No. Shares Outstanding (A & B)	3,944,006	3,528,900	3,488,900	3,438,900	3,438,900
Dividend per Share					
Class A (\$) Note 1	.20	.20	.20	.35	.40
Class B (\$) Note 2	.20				
Price Range of Stock (\$)					
High	15.25	8.00	7.12	8.00	6.00
Low	6.37	5.50	4.90	4.90	4.80
Shareholders' Equity per Share (\$)	13.95	12.40	12.17	11.58	13.24

\*Unaudited

## NOTES:

- (1) The formerly outstanding Class A convertible shares and Class B convertible shares were converted into Class A shares in May, 1980. Dividends were paid on the former Class B convertible shares out of the tax paid surplus of the Company at a rate which was approximately 15% lower than the dividends paid on the former Class A convertible shares.
- (2) 10¢ paid in cash — 10¢ payable by way of stock dividend in Class B shares. These Class B shares were created in May, 1980.

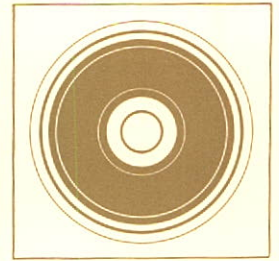
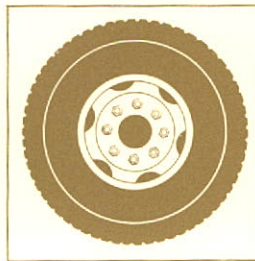
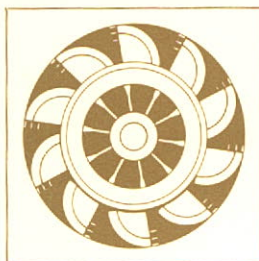
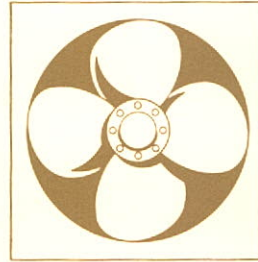
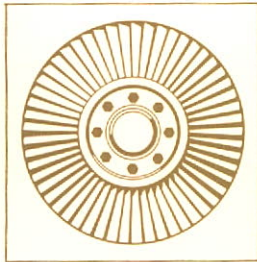
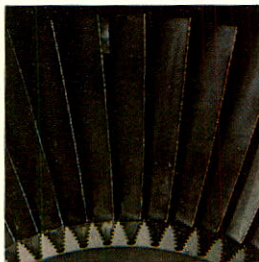




Transportation. It was one of the key elements that led to confederation... and it's still the "thread" that keeps Canada tied together as a nation.

At Federal Industries, transportation is equally fundamental. It's a central theme for the Company's present activities...and a solid base for future expansion.

That's because what Federal Industries does is directly or indirectly tied to transportation — to moving...





commodities and people from one place to another. And because many of Federal Industries' own managers and employees have strong backgrounds involving transportation.

The wheel is what keeps things "rolling" at Federal Industries. From coal handling systems at Thunder Bay Terminals . . . to the wheels of the trucks and trains of The White Pass and Yukon Corporation . . . Federal Industries is involved in transportation at the grass roots level.

But even where Federal Industries doesn't own the wheels, the Company's sub-

sidiaries are involved in servicing those who do. At Standard Aero, for example, turbine engines for helicopters and airplanes are serviced on an international scale. And, at White Pass, the petroleum and automotive parts distribution system keeps the North's vehicles running 24 hours a day.

As time goes on, transportation will continue to be a solid, revenue-generating base for expansion into complementary industries.

But it wasn't always that way. The Company began over 50 years ago as a buyer and seller of grain in western Canada — and for most of that

time, was known as Federal Grain, Limited. Despite the name, over the years the Company bought or sold operations involved in poultry, wood working, fertilizers, and transportation.

By the early 1970's, Federal Grain had sold all of its holdings in the grain business and renamed itself Federal Industries Ltd. In 1978, Federal Industries consisted of five companies, four of them related to transportation. However while the Company had a new direction, it wasn't operating profitably enough.

With this background, it was in 1978 that a fundamen-

## Aerospace Division

### FIVE YEAR REVIEW

12 months	Sales (Millions)	Earnings from Operations* (Millions)
1980 December	61.3	9.6
1979 December	46.7	5.7
1978 December	40.0	6.1
1978 March	29.6	3.8
1977 March	26.7	2.7

\* Before taxes, extraordinary items, interest and inter-company charges

### 1980 REVIEW

Sales and earnings for Standard Aero Limited increased dramatically in 1980, with all aspects of the Division's business contributing. In engine overhaul, for example, turbine service sales were significantly higher. Greater numbers of helicopters flew more hours and created a higher demand for repair and overhaul services, and a unique set of circumstances generated unanticipated demand for engine overhaul from a number of foreign customers.

At the end of 1980, commercial service sales accounted for

49% of Standard Aero's business — compared to 45% in 1979.

Sales of parts through Standard Aero's branch offices continued to grow rapidly. Particular standouts were the Winnipeg and London, England branches which both increased sales by more than 40%. Overall, product sales now account for more than 36% of the Aerospace Division turnover.

A 37% increase in military service sales resulted from increased spending by the Department of National Defence. While military business continues to be important to Standard Aero, its share of the sales dollars actually decreased in 1980 to 15% from 17% as a result of the outstanding growth in engine overhaul and parts distribution.

### THE OUTLOOK FOR 1981

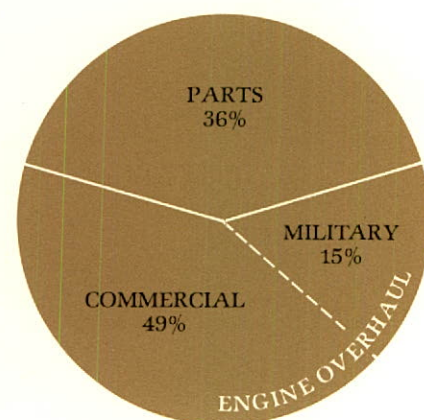
Growth in 1981 should be more modest both in sales and earnings as Standard Aero adjusts to a new higher sales level.

The outlook, however, is optimistic. This year will see the introduction of work on the T-55 helicopter engine — the first new

engine overhaul program in more than five years. The T-55 is used to power light helicopters and is expected to have a long service life. Space for this and other programs has been created by the lease of more than 30,000 square feet of additional plant capacity.

The Aerospace Division is on the threshold of a new expansion phase, particularly in parts distribution, with 1981 seen as a period of preparation, planning, organizing and testing.

Sales distribution  
for the twelve months  
to December 31, 1980





tal decision was made that did — and will — have far-reaching effects on Federal's future directions and fortunes. Management determined that dependable growth could come only from a position of strength. And it was decided to acquire new people . . . to put the right systems in place . . . to make the Company's divisions profitable — or more profitable. And where that couldn't be done, to eliminate the under-performers.

Some results of this new policy were apparent very quickly. Within four months, the Company's one remaining non-transportation asset, a

cabinet manufacturing business, which was incurring losses of close to \$2 million per year, was sold.

Other developments took longer to materialize. After a hard look at prospects for Neptune Bulk Terminals Ltd., it was decided that this company was incapable of producing a profit adequate to justify the capital tied up. A buyer was found, and after a lengthy period of regulatory review, Neptune, too, was sold.

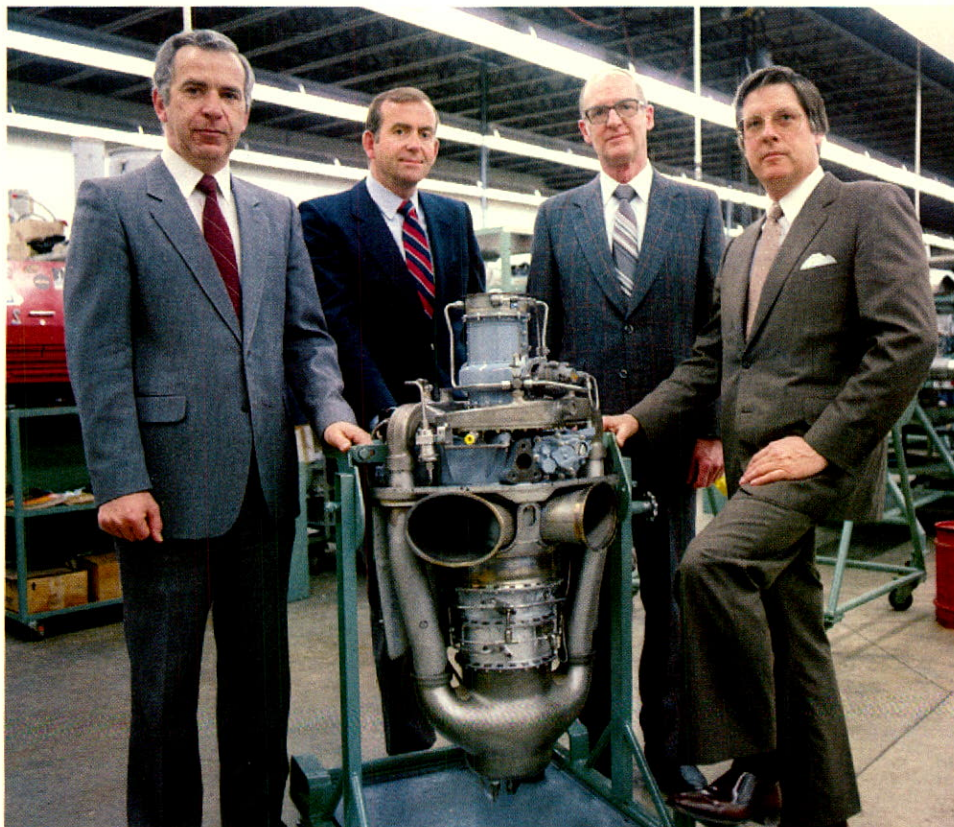
Other action wasn't as sudden and dramatic; but was equally critical to turning the Company around and making it a profitable base of opera-

tions for expansion. It meant rigid cost control . . . more aggressive marketing . . . making existing operations more profitable . . . improving the return on investment.

Nowhere was this policy applied more dramatically than at The White Pass and Yukon Corporation, where the return on shareholder's equity had been historically low . . . where there were substantial opportunities to become more efficient . . . and where one of the company's largest freight customers had just been lost.

A new, much smaller and more cohesive management

*Overhauling aircraft engines accounts for nearly 60% of Standard Aero's business.*



*The senior management team at Standard Aero includes (l to r): Art Carter, Vice-President, Distribution Division; Murray Moncrieff, Vice-President, Overhaul Division; Jack Burgess, Vice-President, Engineering; and John Baatz, President and Chief Executive Officer.*





team was appointed and moved north from Vancouver to Whitehorse — the centre of action. New systems were introduced. Productivity was improved among White Pass employees. Unprofitable operations and routes were eliminated. A new contract was negotiated with the railway's major customer providing for significantly higher rates. And funding for new equipment that will make the railway more efficient was arranged through government assistance.

As a result, the Transport Division began to return to profitability.

Overall, after a long and involved history, Federal Industries had been streamlined and stripped for action. It had taken less than three years.

But that's the past. That's what Federal Industries **was**. And how it changed its nature as part of a strategic plan.

What, specifically, is it now? Where is it going in the future? For shareholders, these are important questions.

### **Three divisions ... each serving a unique market.**

A tour of Federal Industries' subsidiaries in Canada reveals three unique corporations ... each with a special position and a distinct market ... and each managed and operated by a dedicated and skilled group of people.

### **Aviation overhaul and parts ... worldwide.**

The Company's Aerospace Division consists of Standard

Aero Limited, with a major aviation engine overhaul plant in Winnipeg ... and aviation parts distribution branches right across Canada and in London, England.

Standard is Canada's largest independent overhauler of aircraft and helicopter engines — and one of the largest in North America. It is also Canada's biggest distributor of aircraft parts and accessories, with a growing trade around the world.

For over 30 years, it has maintained an outstanding reputation for reliability.

The core of the operation is two turbine engines for which the company has both parts distributorship and overhaul rights. Amazingly, these two turbine engines, from two

## **Terminals Division**

### **THREE YEAR REVIEW**

12 months	Sales (Millions)	Earnings from Operations* (Millions)
1980 December	17.1	10.3
1979 December	14.8	8.9
1978 December	3.0	1.9

\* Before taxes, extraordinary items, interest and inter-company charges

### **1980 REVIEW**

The sale of Neptune Bulk Terminals generated the greatest amount of outside interest in the Terminals Division; but it was the steady performance of Thunder Bay Terminals that was the real story. Sales and earnings at Thunder Bay grew by more than 15 per cent during the year as the main system for shipping coal by vessel to Ontario Hydro completed its first full year.

Opening of the conveyor system to move coal to the nearby Mission Island Generating Station

is expected in the first half of 1981, with a resulting rise in overall volume.

### **THE OUTLOOK FOR 1981**

After the sale of Neptune, Thunder Bay Terminals will continue its role as the flagship of the Terminals Division. In 1979, the

company contributed most of the Division's earnings and its record of dependable profitability is expected to continue.

Coal is now the only commodity moving through the terminal, but the company is gearing to aggressively market its services for other bulk commodities.



*Senior management at Thunder Bay Terminals (l to r): Doug Kelso, Operations Superintendent; Gus Leach, President; Ken Traynor, Director of Finance; Don Thomas, Maintenance Superintendent; Jack Carr, Vice-President and General Manager.*



different manufacturers, power almost 85 per cent of the helicopters used in the free world — and a large variety of military and civilian aircraft.

Repairing and overhauling these and other engines for commercial operators and the military accounts for nearly two-thirds of Standard Aero's business. The remaining third is in parts distribution — a business which offers substantial growth prospects in Canada and other areas of the world.

Standard has done well. But in the medium-to-long term the future looks even brighter. And the reasons aren't hard to find. For example, use of helicopters is tied to the unavoidable growth in natural resource exploration

and developments — particularly in Canada's frontier areas. And the more helicopters that fly, the greater the engine overhaul and parts business for Standard Aero.

Canada already has the second largest population of helicopters in the free world. And those numbers are bound to grow.

Standard will be a bidder for overhaul of jet engines in the F-18 fighter aircraft purchased by the Canadian Armed Forces. If successful, the company will also have the opportunity to expand into the overhaul of engines for commercial jet aircraft.

On the strength of growing sales and profits in this Canadian operation, Standard is looking to expand its engine

overhaul and parts distribution business into other countries — building on its greatest resource, the experience and expertise of more than 600 skilled craftsmen in its Winnipeg plant.

### **Canadian coal for Canadian markets.**

At Thunder Bay, Ontario, another Federal Industries subsidiary operates a bulk commodity terminal which plays an important role in supplying the energy needs of Canada's industrial heartland.

Western Canadian coal is the key. And Thunder Bay Terminals is the transshipment point for this coal on its way to electric power stations on the Great Lakes.

Trains coming from

*Nearly 2.5 million tonnes of coal moved through Thunder Bay Terminals in 1980 en route to Ontario thermal generating stations.*



*The latest in bulk handling technology is employed at Thunder Bay.*



British Columbia, Alberta and Saskatchewan, carrying thermal coal, deposit their payloads at Thunder Bay Terminals for transportation by conveyor to a neighbouring power plant — and for longer voyage by ship to an Ontario Hydro generating station near Nanticoke, Ontario.

Western Canadian coal was able to capture a share of the market for thermal coal in Ontario for two reasons: because it represented a secure

additional source of supply, and because it is generally low in sulphur — the element that, when burned, can produce the pollutants that lead to acid rain. As a result, Ontario Hydro was the prime mover in setting up the complete transportation system for Western Canadian coal in which Thunder Bay Terminals is an important cog.

Things are running smoothly at Thunder Bay. All systems will be operational by the middle of 1981. If increased

concern about pollution should lead to a greater requirement for western Canadian coal in Ontario . . . or if other bulk commodities can be secured to move through the terminal, there's room to grow. And the right people are there to make it happen.

### **White Pass: best known, least understood and most underestimated.**

It's been said that The White Pass and Yukon Corporation is

## **Transport Division**

### **FIVE YEAR REVIEW**

12 months	Sales (Millions)			Earnings from Operations* (Millions)
	Freight	Petroleum	Total	
1980 December	41.0	39.8	80.8	5.0
1979 December	37.2	28.0	65.2	(0.6)
1978 December	40.6	29.4	70.0	0.4
1978 March	41.7	28.5	70.2	1.8
1977 March	30.4	21.7	52.1	1.9

\* Before taxes, extraordinary items, interest and inter-company charges

### **1980 REVIEW**

The year marked return to profitability for The White Pass and Yukon Corporation after two years of losses. This outstanding performance continued the upward trend of recent years. All divisions of the company except the railway were profitable.

The new management team can point proudly to significant increases in both freight and petroleum sales — along with improved labour utilization through staff reductions and greater productivity.

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

railway equipment, and the recovery of nearly one-third of the asbestos volume from the Cassiar Resources Mine in northern British Columbia.

There were no dramatic changes in the proportion of revenue among the company's five major areas of business.

### **THE OUTLOOK FOR 1981**

In an increasingly competitive petroleum market, White Pass expects to hold its market share. As an indicator of its confidence in the future, White Pass is investing more than \$5 million in new facilities this year. Gasoline storage tanks are being relocated and rebuilt in Skagway, and new aviation gas storage facilities are also

being built at Whitehorse along with a new supply depot at Faro.

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

Applications have been made to licensing authorities to extend truck routes in British Columbia, Yukon and Northwest Territories.

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



the best known of Federal Industries' Divisions; but that it's also the least understood and the most underestimated.

If that's true its primarily because in most people's minds, White Pass is "a railway".

Actually, petroleum distribution accounts for about 50 per cent of the company's business. A further 30 per cent of its revenue comes from ocean services and trucking and much of this trucking is done in British Columbia and Alberta as well

as in Yukon and Northwest Territories.

There's no question the railway is an important part of the company's operations now and in the future. And eliminating the loss on the railway is a critical objective for the White Pass management team. But to keep things in perspective, the railway represents only 20 per cent of sales volume.

The key to White Pass operations is the total system – rail, ocean, trucking and

petroleum. Working in the north is an entirely different "ball game". And White Pass people are "major league" at making it work.

The White Pass ocean division moves petroleum and a variety of other goods and bulk commodities north from Vancouver to Skagway, Alaska. A railway and a pipeline travel across the mountains to Whitehorse and, from there, freight and petroleum are delivered throughout Yukon by an

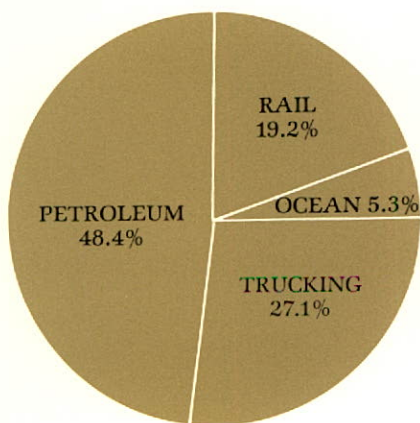
*Petroleum distribution accounts for almost 50% of White Pass revenue.*



*White Pass trucks move both bulk and general cargoes in Alberta, British Columbia, Yukon and Northwest Territories.*



*Sales distribution for the twelve months to December 31, 1980*



*White Pass' senior management group (l to r): Gary Goertz, Chief Financial Officer; Fred Taylor, Manager, Marketing; Marv Taylor, Manager, Rail and Alaska Operations; Tom King, President and Chief Executive Officer; Red McIsaac, Manager, Highway Division; Ken Steele, Lands Manager; Jack Stricharuk, Manager, Petroleum Sales and Service; Harry Hoskin, Manager, Industrial Relations and Personnel. Absent: Dick Sladden, Senior Manager, Vancouver; Sverre Kollbaer, Manager, Ocean Division; Bill Cowger, Manager, General Freight Division.*



extensive trucking fleet.

A general freight trucking operation headquartered in Edmonton serves northern Alberta and British Columbia and inter-connects with White Pass trucking operations at Whitehorse. And the company is looking to add thousands of route miles to its services in the western provinces and north of the 60th Parallel.

The White Pass petroleum division operates a chain of service stations, markets heat-

ing oil to residential and commercial customers, provides diesel fuel for electrical generation, and enjoys a growing business in tires, batteries and automotive accessories.

It's an amazingly complete system. But that's just how materials are moved into and around the market areas served by White Pass.

What comes out of Yukon is equally important. For the most part that means minerals. They're the lifeblood of the

Territory and every year White Pass carries hundreds of thousands of tonnes of bulk commodities — primarily lead, zinc, silver and copper concentrates by truck and trains to Skagway where waiting ships transport cargoes to markets all over the world.

Minerals are also a big part of the future of Yukon. In fact, further development of major mines is a virtual certainty — and the availability of White Pass transportation sys-

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*Skilled employees, such as these at Standard Aero Limited, are a key element in Federal Industries' success.*



*White Pass people are experts at operating year 'round in the North.*

*Thunder Bay Terminals is an essential link in the transportation system for Western Canadian coal to eastern markets.*



tems is an essential element in this future.

The construction of a proposed Alaska Highway natural gas pipeline could mean substantial new business for the Corporation. From pipe . . . to general freight . . . to fuel.

For more than 80 years, White Pass has served the needs of Yukon. That this service continues to improve along with the profitability of the operation is a testimonial to the company and its people.

### **The future: transportation and beyond.**

Strong new management, growing earnings and profitability . . . stable transportation-oriented businesses. That's Federal Industries today.

And it's from this solid platform that the Company is prepared to launch a program of acquisition and internal expansion . . . in transportation and other areas.

The rate at which this growth takes place will be dic-

tated by many factors: market conditions, internal and external opportunities that present themselves, government fiscal policies . . . and a host of others. At times it will be rapid and obvious — at other times barely noticeable to the outside observer. In all cases, it will be controlled and based on sound administrative and financial criteria.

Federal Industries is a transportation company truly "on the move".

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*Earnings at White Pass are improving; but long-term profitability of the railway will only be achieved through increased mineral traffic created by the opening of new mines.*



*One self-propelled manned vessel will maintain service for containerized and bulk freight from Vancouver to Yukon.*



## Company addresses



### BRITISH COLUMBIA

#### Vancouver

Standard Aero Limited  
4540 Cowley Crescent  
Vancouver International  
Airport  
Vancouver, B.C.  
V7B 1B8  
(604) 273-8621  
The White Pass and Yukon  
Corporation Limited  
P.O. Box 10140  
Pacific Centre  
Vancouver, B.C. V7Y 1E6  
(604) 683-7221

The White Pass and Yukon  
Corporation Limited  
Ocean Division  
P.O. Box 86190  
North Vancouver, B.C.  
V7L 4J9  
(604) 984-9561

#### Dawson Creek

White Pass Transportation  
Limited  
P.O. Box 358  
Dawson Creek, B.C.  
V1G 4H1  
(604) 782-8101

#### Fort St. John

White Pass Transportation  
Limited  
10603 - 87 Avenue  
Fort St. John, B.C.  
V1J 5K6  
(604) 785-6764

#### Fort Nelson

White Pass Transportation  
Limited  
P.O. box 236  
Fort Nelson, B.C.  
V0C 1R0  
(604) 774-2161

#### Prince George

White Pass Transportation  
Limited  
2099 Quinn Street  
Prince George, B.C.  
V2L 4S1  
(604) 564-0858

### ALBERTA

#### Edmonton

White Pass Transportation  
Limited  
16045 - 114 Avenue  
Edmonton, Alberta  
T5M 2Z3  
(403) 452-5920  
Standard Aero Limited  
48 Airport Road  
Industrial Airport  
Edmonton, Alberta  
T5G 0W7  
(403) 453-3502

#### Calgary

Standard Aero Limited  
Bay No. 1, Bldg. W154  
Calgary International  
Airport  
Calgary, Alberta  
T2E 5T3  
(403) 276-4471

#### Grande Prairie

White Pass Transportation  
Limited  
8919 - 111 Street  
Grande Prairie, Alberta  
T8V 4M5  
(403) 532-0895

### MANITOBA

#### Winnipeg

Federal Industries Ltd.  
2400 - One Lombard Place  
Winnipeg, Manitoba  
R3B 0X3  
(204) 942-8161

Standard Aero Limited  
No. 6 Hangar  
Winnipeg International  
Airport  
Winnipeg, Manitoba  
R2R 0S8  
(204) 775-9711

### ONTARIO

#### Thunder Bay

Thunder Bay Terminals Ltd.  
P.O. Box 1800, Station "F"  
Thunder Bay, Ontario  
P7C 5J7  
(807) 623-6921

### Toronto

Standard Aero Limited  
7171 Torbram Road  
Mississauga, Ontario  
L4T 3B6  
(416) 676-2578

### Ottawa

Standard Aero Limited  
P.O. Box 821, R.R. #5  
Ottawa International Airport  
Ottawa, Ontario  
K1G 3N3  
(613) 737-3985

### QUEBEC

#### Montreal

Standard Aero Limited  
2433 - 46th Avenue  
Lachine, Quebec  
H4Y 1A5  
(514) 636-9215

### NEW BRUNSWICK

#### Fredericton

Standard Aero Limited  
P.O. Box 74  
Postal Station "A"  
Fredericton, New Brunswick  
E3B 4Y2  
(506) 455-1551

### YUKON

#### Whitehorse

The White Pass and Yukon  
Corporation Limited  
P.O. Box 4070  
Whitehorse, Yukon  
Y1A 3T1  
(403) 667-7611

#### Watson Lake

White Pass Transportation  
Limited  
P.O. Box 387  
Watson Lake, Yukon  
Y0A 1C0  
(403) 536-7385

### UNITED STATES

### ALASKA

#### Skagway

The White Pass and Yukon  
Corporation Limited  
Rail Division  
P.O. Box 435  
Skagway, Alaska 99840  
(907) 983-2214



# Directory of subsidiaries

## AEROSPACE DIVISION

### Standard Aero Limited

Winnipeg, Manitoba

H.W. Grant

*Chairman of the Board*

J.O. Baatz

*President and Chief  
Executive Officer*

J.A. Burgess

*Vice-President, Engineering*

R.A. Carter

*Vice-President, Distribution  
Division*

M.G. Moncrieff

*Vice-President, Overhaul  
Division*

## TERMINALS DIVISION

### Thunder Bay Terminals Ltd.

Thunder Bay, Ontario

J.F. Fraser

*Chairman of the Board*

A.S. Leach, Jr.  
*President*

N.H. Carr

*Vice-President and General  
Manager*

D.E. Kelso

*Operations Superintendent*

D.R. Thomas

*Maintenance Superintendent*

K.W. Traynor

*Director of Finance*

J.W. Kepes

*Controller*

## TRANSPORT DIVISION

### The White Pass and Yukon Corporation Limited

WHITEHORSE, YUKON

J.F. Fraser

*Chairman of the Board*

T.H. King

*President and Chief  
Executive Officer*

G.W. Goertz

*Chief Financial Officer and  
Treasurer*

F.A. Taylor

*Manager, Marketing*

F.H. Hoskin

*Manager, Industrial  
Relations and Personnel*

J.L. Stricharuk

*Manager, Petroleum Sales  
and Service*

W.V. McIsaac

*Manager, Highway Division*

K.M. Steele

*Lands Manager*

EDMONTON, ALBERTA

W.T. Cowger

*Manager, General Freight  
Division*

SKAGWAY, ALASKA

M.P. Taylor

*Manager, Rail and  
Alaska Operations*

W.E. Feero

*Manager, Passenger Services  
and Planning*

VANCOUVER, B.C.

D.H. Sladden

*Senior Manager —  
Vancouver*

NORTH VANCOUVER, B.C.

S. Kollbaer

*Manager, Ocean Division*

## EUROPE

### ENGLAND

Standard Aero Limited

3 Ashford Industrial Estate,

Shield Road

Ashford, Middlesex, England

TW15 1AU

Ashford, Mx, (07842) 46291

UNITED  
KINGDOM

ASHFORD



## **Officers**

### **S. A. Searle**

Chairman of the Board

### **J. F. Fraser**

President

### **K. C. Kinsley**

Vice-President, Administration

### **A. S. Leach, Jr.**

Vice-President

### **J. S. Pelton**

Vice-President, Finance

### **W. D. Davie**

Secretary

## **The Company and its Subsidiaries**

FEDERAL INDUSTRIES LTD.

Ste. 2400 – One Lombard Place  
Winnipeg, Manitoba R3B 0X3

Standard Aero Limited

Thunder Bay Terminals Ltd.

The White Pass and Yukon  
Corporation Limited

### **Transfer agent and registrar**

The Royal Trust Company  
Calgary, Montreal, Toronto,  
Vancouver and Winnipeg















