SIDBEC–DOSCO INC.

Annual Report 1987

All Sidbec-Dosco steel is produced by continuous casting. Two slab continuous casting operators, Réjean Marcotte and Paul-André Lemire (in foreground), work at making a quality product.

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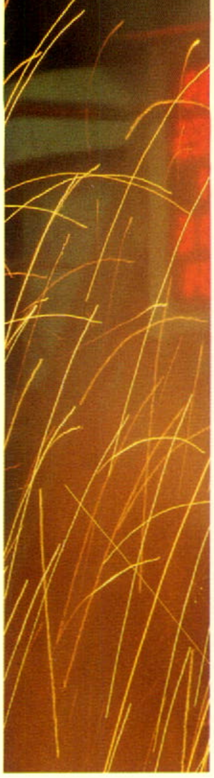
Restructuring

In order to totally dissociate its manufacturing operations from the discontinued operations, Sidbec underwent a legal and financial restructuring which came into effect on November 22, 1987. Under the terms of the restructuring, all assets attributable to manufacturing operations were sold to Sidbec-Dosco Inc. and the corresponding liabilities transferred to it. On December 31, 1987, Sidbec-Feruni Inc. and Sidbec International Inc., which were subsidiaries of Sidbec, became subsidiaries of Sidbec-Dosco Inc.

The data provided in this annual report relate to Sidbec-Dosco Inc. on a consolidated basis.



Sidbec-Dosco Inc.

Purpose

Sidbec-Dosco Inc. takes over the mission of its parent company:

"The object of the Company is to pursue the operation of a steel complex, alone or with partners, to ensure, as a profitable enterprise, the consolidation and expansion of its operations, so as to promote the development of steel consuming industrial undertakings in Quebec."

(Bill 73, assented to on December 21, 1979 by the Assemblée nationale du Québec)

Subsidiaries

Sidbec-Feruni Inc.	(100%)
Sidbec International Inc.	(100%)

Investment

Delta Tube and Company, Limited (40%)

The Contrecoeur steel plant is the heart of the Company. Here, Réjean Marcotte and Paul-André Lemire (in foreground) work at the slab continuous casting machine.

Its Facilities

Contrecoeur Works

Equipment:
- two reduction plant modules one of which is in operation
- three electric arc furnaces
- a ladle furnace
- two billet continuous casting machines
- a slab continuous casting machine
- a hot mill and a cold mill
- a rod and bar mill

Capacity:
- 1,300,000 tons of direct reduced iron
- 1,300,000 tons of raw steel
- 950,000 tons of finished products

Montreal Works

Equipment:
- an electric arc furnace
- a billet continuous casting machine
- a merchant mill
- a wire mill
- a pipe mill

Capacity:
- 200,000 tons of raw steel
- 250,000 tons of finished products

Longueuil Works

Equipment:
- a merchant mill

Capacity:
- 300,000 tons of finished products

Etobicoke Works

Equipment:
- a wire mill
- a nail shop

Capacity:
- 62,000 tons of finished products

Its Products

Sheet and pipe:
- sheet and strip, hot rolled, pickled and oiled
- sheet and strip, cold rolled
- skelp
- continuous weld pipe and electric resistance weld pipe

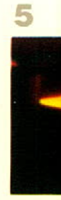
Bars and shapes:
- bars: flats, rounds, squares and special bar quality
- shapes: channels, angles and others
- reinforcing bars

Rod and wire products:
- wire rod
- wire: heavy and fine gauge, bright, galvanized or annealed, low and high carbon
- nails

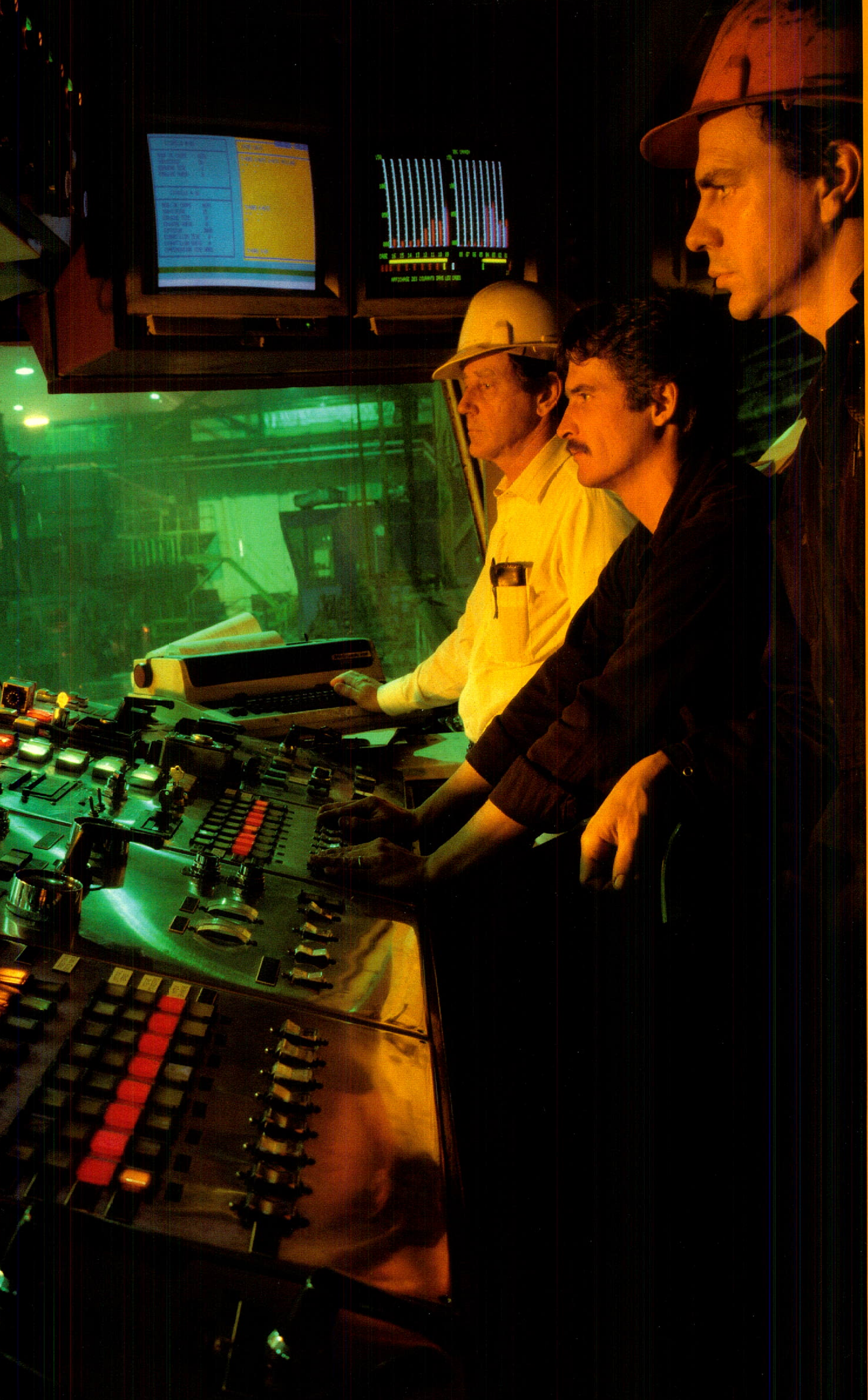
Semi-finished products:
- billets
- slabs

Its Head Office

300, rue Léo-Pariseau
Montréal (Québec)
H2W 2S7



Mill roughers Denis Ruest and Louis Ferland inspect the condition of rolls at the Longueuil merchant mill.



Message from the Board of Directors

For the year ended December 31, 1987, Sidbec-Dosco Inc. recorded a profit of $8.9 million on net sales of $568 million. This represents a 36% increase over the $6.5 million profit reported in 1986 and a 9.9% rise in sales which last year totalled $517 million.

Shipments of finished and semi-finished products were up 6.8% over last year, rising from 1,170,000 tons to 1,250,000 tons. Between 1984 and 1987, shipments of finished products increased by 14.7%.

The combined effects of a particularly strong market throughout the year, firmer selling prices – especially during the last six months of 1987 – and marked improvements in productivity at the Contrecoeur steel plant during the fourth quarter more than compensated for the negative impact of the work stoppage in November and of higher scrap prices.

Strategic plan

Two consecutive years of profitable operations after eleven years of losses indicate that the results expected from the 1985 recovery plan – break-even point and self-financing – have been achieved.

Underlying the strategy for the coming years are three basic objectives:

1) to derive maximum advantage from the Company's special characteristics, specifically its technological process (electric steel plant using direct reduced iron) which enables it to constantly improve its range of products;

2) to pursue its regional vocation by focusing on markets in Eastern Canada and the Northeastern United States;

3) to promote joint venture projects wherever possible in order to ensure that the Company's limited financial resources are used to maximum effect.

Sidbec-Dosco recently entered into two joint venture agreements with other companies. First, it joined forces with Nova Steel in August 1987 to create Delta Tube and Company, Limited, a limited partnership in which Sidbec-Dosco holds a 40% interest. This new company manufactures pipe for Sidbec-Dosco and hollow structural sections for Nova Steel. Then, more recently, Sidbec-Dosco and Dofasco came to an agreement to set up a galvanized-sheet production plant which will be built in Quebec. Once in operation, this limited partnership, which will be owned equally by the two partners, will become a new supplier of galvanized steel to the Canadian market.

From left to right, electronics technician Jean-Roch Cloutier, mill stand operator Gilles Hébert and maintenance mechanic Normand Bérubé keep an eye on operations from the control panel of the Longueuil rolling mill.

Restructuring

As mentioned at the beginning of the annual report, we undertook a legal and financial restructuring which came into effect on November 22, 1987. Under the terms of this restructuring, Sidbec-Dosco's consolidated financial statements now include all assets and liabilities as well as the financial results of the manufacturing operations. At the same time, we streamlined the Company's structure and wound up the subsidiaries that had become inoperative.

Investments

Capital expenditures in 1987, including the investment in Delta Tube and Company, Limited, amounted to $26.2 million. Total investments for 1987 are more or less equivalent to the depreciation for the year.

Total quality control

We continued to push on with implementation of our total quality control plan. This action plan, designed to ensure total quality in all departments, is based on management/employee commitment, participative management, mobilization of human resources and use of technical tools in an ongoing improvement process. To better control and measure the impact of these actions, we introduced the "non-quality cost" concept in the 1988 budget of certain plants.

Collective agreements

Collective agreements which expired on January 31, 1988, were recently renewed for a three-year period. For the first time in Sidbec-Dosco's history, these agreements include an employee profit-sharing plan.

Free trade

Last October, the governments of Canada and the United States signed an agreement to establish a free-trade zone between the two countries. This agreement would seem to be vastly preferable to the *status quo* since it will facilitate free trade in steel products. It will also enable Canada and Quebec to develop those sectors in which we enjoy comparable advantages. The Company feels that free trade will be beneficial for the Canadian steel industry in general and for Sidbec-Dosco in particular.

Moreover, to reassure the U.S. administration and American producers of the good faith of their Canadian counterparts with respect to steel trading in the United States, Sidbec-Dosco continued to limit its shipments to the U.S. and in doing so refused a significant volume of orders throughout the year.

Outlook for 1988

The stock market crash which shook up the Western economies had no real impact on North American steel markets. In fact, demand appears to be very strong for the first six months of 1988, and we can feel cautious optimism for the second half of the year. Capital expenditures will be a driving force for growth this year, and any increase in these will more than compensate for the expected slump in consumer sectors. Selling prices continue to strengthen after the long period of depressed prices that has prevailed since the 1982 recession.

With a relatively stable market and the continued improvement experienced in plant productivity over the past few months, we are hopeful that the 1988 results could reach a level much closer to the real potential of Sidbec-Dosco.

Management

Pierre Lacroix, who has held the position of Secretary and General Counsel for two years, was appointed Vice-President in April. Pierre Gosselin, Vice-President, Production, since January 1984, left the Company in July to join Norsk Hydro Canada Inc. His successor, J.P. Richard Leblanc, who has eighteen years' experience in the steel industry, took office in September.

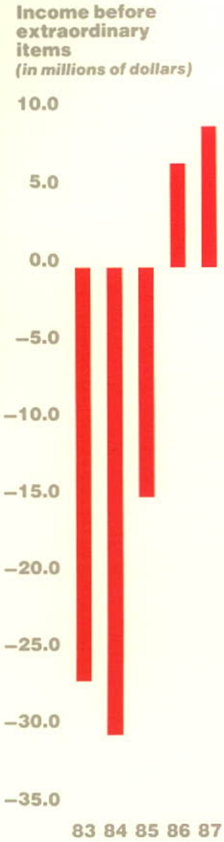
The Board of Directors and management would like to express their sincere gratitude to all employees for their constant efforts, and to customers and suppliers for their unflagging support throughout the year.

Pierre Laurin
Chairman of the Board

John LeBoutillier
President and Chief Executive Officer

Montreal, April 11, 1988

Review of the Year



Strategic plan

The recovery plan launched in 1985 was fully implemented in 1987 and has produced the results that Sidbec-Dosco had hoped for namely, to reach the breakeven point and to become self-financing.

Underlying the strategy set by management for the coming years are three basic objectives:

- to derive maximum advantage from the Company's special characteristics, specifically its technological process (electric steel plant using direct reduced iron) which enables it to constantly improve its range of products;
- to pursue its regional vocation by focusing on markets in Eastern Canada and the Northeastern United States;
- to promote joint venture projects wherever possible in order to ensure that the Company's limited financial resources are used to maximum effect.

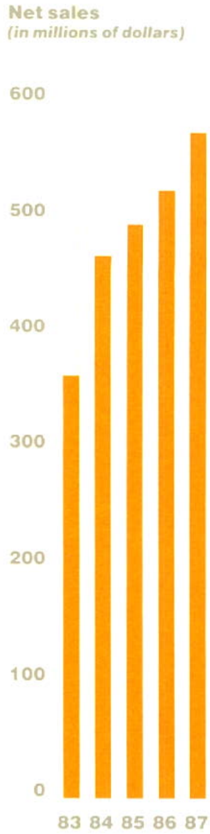
With these goals in mind, the following measures were taken:

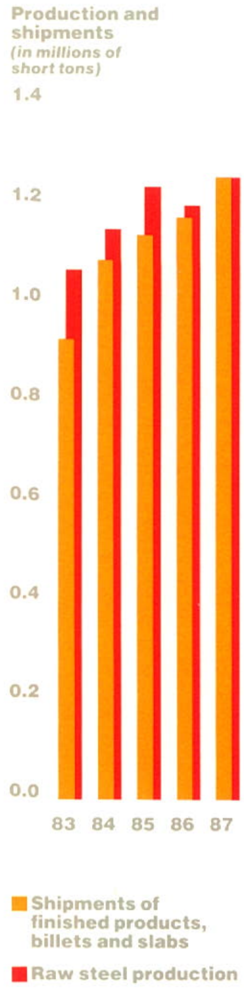
In August 1987, Nova Steel Ltd. and Sidbec-Dosco Inc. announced that they had formed a partnership to expand and operate a pipe mill in LaSalle. The new company, Delta Tube and Company, Limited, in which Sidbec-Dosco holds a 40% interest, has an annual production capacity of 50,000 tons. It manufactures pipe for Sidbec-Dosco and hollow structural sections for Nova Steel. This investment will allow the Company to continue to develop its market for electric resistance weld pipe on a competitive basis and to thus widen its range of pipe products.

In December 1987, the Board of Directors agreed in principle to the modernization project for the Contrecoeur rod and bar mill. Under this project, existing wire rod finishing equipment (two-strand twist low-speed mill, Schloemann cooling lines) will be replaced with competitive equipment (single-strand no-twist high-speed Morgan mill, Stelmor-type retarded cooling system). The project also provides for coil weights to be increased to 3000 lbs. By the time the project is completed in 1989, Sidbec-Dosco will have the necessary tools to produce top-of-the-line wire rod at competitive costs. Flexibility in the production of wire rod or bars, which is a feature of this rolling mill, will be preserved.

In March 1988, Sidbec-Dosco Inc. and Dofasco Inc. announced their intention to form a limited partnership on a fifty-fifty basis for the purpose of building a hot-dip galvanizing line in Quebec. The new facility will operate independently and will have its own marketing resources. Once in operation, the facility will employ about 80 people and is expected to have an annual production capacity of 125,000 tons. The addition of a painting line is also under consideration.

Interior view of the Contrecoeur steel plant.





Markets

An excellent economic climate prevailed in 1987 in which durable goods consumption rose by 6%, non-residential construction by 2% and machinery and equipment purchases by 6%. Consequently, Sidbec-Dosco saw its sales jump by 9,9% and its shipments of finished and semi-finished products by 6,8% over 1986.

The sheet sector benefited greatly from the high level of consumer spending. A slowdown in the automotive sector, predicted at the end of 1986, came to nothing. In fact, sheet production facilities operated at full capacity and the project to modernize the pusher furnace, which would have shut down the hot mill for an extended period during the summer, was postponed until 1988.

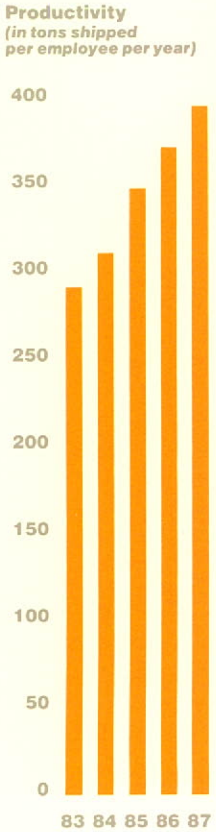
As a result of the aforementioned efforts to develop the market for electric resistance weld pipe, pipe sector shipments increased by 34% over 1986. Although a sharp increase in imports during the first quarter caused a substantial drop in selling prices, the situation improved at the end of the year.

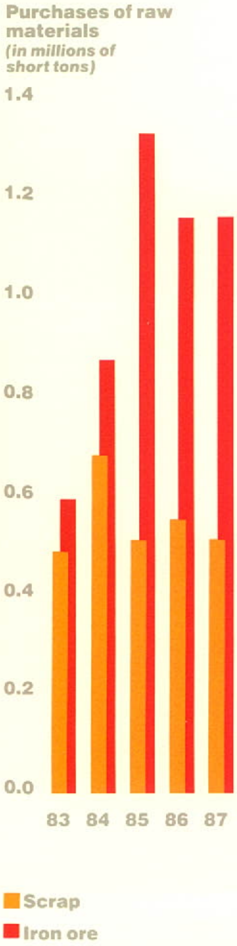
Shipments of bars and shapes climbed by almost 30% compared with 1986. Demand was heavy for all products – reinforcing steel, bars and shapes – and the objectives set by management in its program to develop the special bar quality market were achieved. Because of this strong demand, the industry was able to increase prices in order to partially offset the higher costs it had had to absorb almost in their entirety over the preceding years.

Unlike the other sectors, the wire rod and related products sector showed little improvement over 1986. Only the improved mix of products sold, specifically the increased volume of wire products, is worth mentioning. An extremely competitive market at the start of the year caused the selling price of wire rod to weaken.

Operations

Despite the fact that the Company's two steel plants operated at full capacity throughout the year, production was insufficient to meet the needs of the rolling mills and consequently, semi-finished products had to be purchased on the market. The operational problems experienced at the Contrecoeur steel plant in 1986 persisted until late summer. A plan of action introduced in September has already begun to produce results. In fact, in October, the steel plant set a production record and has maintained the same pace ever since. Overall, raw steel production for the two steel plants was 4% higher than in 1986.





As a result of measures implemented at the end of 1986 following a year characterized by numerous difficulties, the reduction plant operated very efficiently throughout 1987.

Because of the high number of outstanding orders, the flat mills operated through the summer, forgoing the traditional shutdowns. Interruption periods were restricted to the down time required for equipment maintenance or repair and to a nine-day strike in November which affected all Sidbec-Dosco's Quebec plants.

The Longueuil rolling mill had a successful year. The improvements expected from the 1986 installation of the new furnace materialized. An automated system to control rolling speeds was installed during the summer and is now being run in. In November, the utilization rate for the rolling mill was increased from three to four shifts, leading to a significant reduction in unit production costs.

The first phase of the modernization program for the Montreal merchant mill announced in 1986, and which provided for the addition of a 29-inch three-high stand, was completed in November. With this new equipment, which is also being run in, larger sections can be rolled and this will mean considerable savings in production costs.

To make the Etobicoke plant more competitive, a program was implemented to modernize the wire-drawing and nail production facilities. The work should be completed in mid 1988.

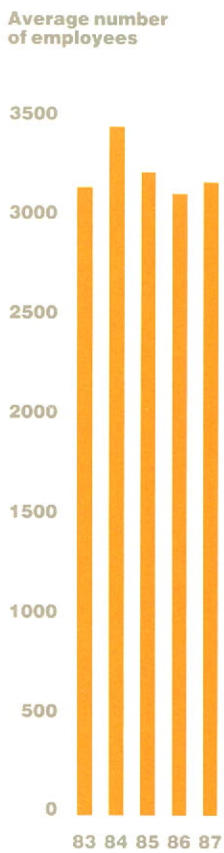
In early fall, a particular effort was devoted to standardizing management philosophy in the plants and to explaining the scale of values that should prevail in each. The philosophy, which is based on a system of priorities with emphasis on the wellbeing of the employees and the quality of the product, is now strictly applied.

Energy and raw materials

Sidbec-Dosco's energy bill for the year totalled $75,000,000. The Company profited from the deregulation of natural gas prices and especially from agreements signed in 1986 and 1987 with Gaz Métropolitain and Western Canadian producers.

Purchases of iron ore for the year were very similar to those of the previous year both in volume and in price paid.

In the case of scrap, the year was a more turbulent one. In November, the price of good quality scrap reached levels not seen since 1974. The price escalation had only a limited effect on Sidbec-Dosco's results; first, because it came late in the year, second, the Company had adequate stocks of scrap and, third, it uses a high proportion – more than 50% – of direct reduced iron in its steel plants. Although the price of scrap eased in December, it is expected to remain high in 1988, but should the increase prove to be permanent or become excessive, Sidbec-Dosco would have the option of restarting the reduction plant's module 1 which has been shut down since 1984.



Quality

The total quality control plan prepared by a multidisciplinary upper-management team at the end of 1986 is now being implemented. The plan, aimed at achieving total quality in every department, is based on management/employee commitment, participative management, mobilization of human resources and use of technological tools in a process of ongoing quality improvement.

The quality assurance program begun in 1985 and which is based on CSA specification CAN3-Z299-85 is firmly in place in the Contrecoeur and Longueuil plants and will be implemented in the Montreal and Etobicoke plants in 1988.

In May 1987, General Motors approved the total quality control plan for the Contrecoeur flat products sector and gave it its SPEAR 3 evaluation.

A major effort was made to extend the use of statistical process control techniques, which up to now has been limited to technical personnel. The techniques have gradually been introduced at the production employee level and a dozen work groups have already been formed.

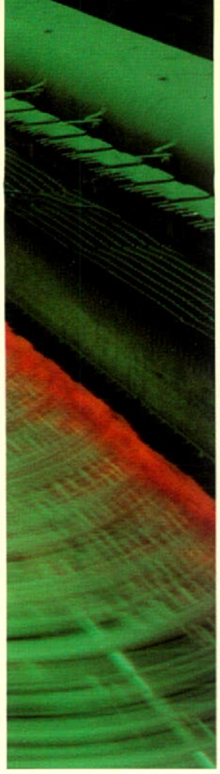
In order to be able to better control and assess the impact of the action taken, the "non-quality cost" concept has been integrated into the 1988 budget of certain plants. This procedure should be refined and introduced throughout the Company in the course of the coming years.

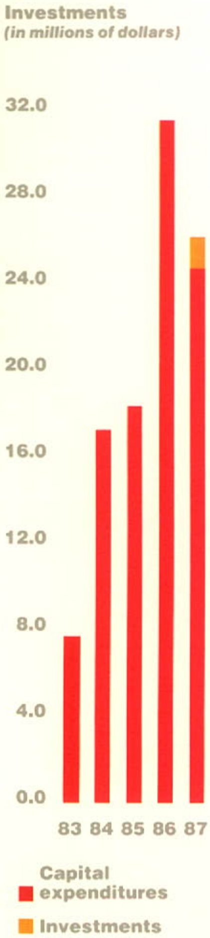
Human resources

The last collective agreements, which were signed on April 15, 1985, provided for the reopening in October 1987 of the contracts governing basic salaries. The negotiations were difficult and unfortunately led to a nine-day work stoppage in November. Finally, on November 20, 1987, an agreement satisfactory to both parties was signed.

Negotiations for the renewal of labour agreements due to expire on January 31, 1988 were begun in December of 1987 and continued into January and February of 1988. The Quebec plants ratified the new contracts in mid February, but it was only after a few days' strike that the Etobicoke, Ontario plant finally signed on March 17, 1988.

The new three-year agreements are the best settlement that Sidbec-Dosco could offer its employees given its financial situation. For the first time in the Company's history, the contracts include an employee profit-sharing program. Management decided that this program will also apply to all non-unionized personnel.





Training programs continued in 1987. Specifically, 525 operators completed courses in the use of new equipment installed under the capital investment program. Training courses to increase the skills of maintenance personnel were given to 175 employees.

The year also saw the introduction of an evaluation system for non-unionized clerical staff as well as implementation of a succession planning process and re-evaluation of fringe benefit programs for non-unionized employees.

Financial review

In order to totally dissociate its manufacturing operations from the discontinued operations, Sidbec underwent a legal and financial restructuring which came into effect on November 22, 1987. Under the terms of the restructuring, all assets and liabilities attributable to manufacturing operations appear on the balance sheet of Sidbec-Dosco Inc. Moreover, Sidbec-Feruni Inc. and Sidbec International Inc., which were subsidiaries of Sidbec, became subsidiaries of Sidbec-Dosco Inc. on December 31, 1987. Sidbec's balance sheet therefore now contains the assets and liabilities attributable to the discontinued operations as well as the investments in, and loans to, Sidbec-Dosco Inc., its wholly-owned subsidiary.

Sales for the year totalled $567,904,000, a rise of 9.9% over the 1986 total of $516,892,000. The year ended with a net profit of $8,906,000, an increase of 36% over the 1986 profit of $6,538,000.

While the economic situation in 1987 was very favourable, performance in the last quarter contributed in a major way to the year's results. In fact, the combined effects of a particularly strong market, pronounced improvements in productivity at the Contrecoeur steel plant and favourable end-of-year adjustments more than compensated for the negative impacts of the November work stoppage and the increase in the price of scrap.

New property, plant and equipment acquired directly or indirectly during the year amounted to $24,188,000 and include Sidbec-Dosco's acquisition of new property, plant and equipment ($17,876,000) as well as acquisitions made by Sidbec and Sidbec-Feruni before restructuring ($6,312,000). Furthermore, if the investment of $2,064,000 in the limited partnership is taken into account, total investments for the year amount to $26,252,000 compared with $31,542,000 in 1986.

Statistical Summary for the Last Five Years

	1987	1986	1985	1984	1983
Manufacturing sector income statement					
(in thousands of dollars)					
(1) Sales	**$569,529**	$519,629	$494,781	$463,184	370,453
(1) Cost of goods sold (before following items)	**492,979**	445,441	433,663	414,698	330,941
(1) Selling and administrative expenses	**14,384**	13,681	19,141	21,506	16,259
(1) Interest	**27,118**	29,320	30,061	31,183	24,903
(1) Depreciation	**26,355**	24,749	26,921	26,753	25,352
Income (loss) before extraordinary items	**8,547**	6,275	(15,005)	(30,956)	(27,002)
Extraordinary items	**359**	263	(36,661)	(3,869)	
Net income (loss)	**8,906**	6,538	(51,666)	(34,825)	(27,002)
Other financial data					
(in thousands of dollars)					
(2) Current assets	**$220,547**	$ –	$ –	$ –	$ –
(2) Current liabilities	**157,732**	–	–	–	–
Gross property, plant and equipment	**554,736**	531,995	509,809	551,105	535,045
Net property, plant and equipment	**266,668**	269,133	262,392	306,426	316,345
(2) Other assets	**4,752**	–	–	–	–
(3) Additions to property, plant and equipment	**24,188**	31,542	18,215	16,885	7,621
Other data					
Shipments and production					
(in thousands of short tons)					
Shipments of finished products, slabs and billets	**1,250 t**	1,170 t	1,140 t	1,090 t	930 t
Raw steel production	**1,250 t**	1,200 t	1,220 t	1,150 t	1,070 t
Average number of employees	**3,200**	3,130	3,260	3,480	3,180

Notes to the Statistical Summary for the Last Five Years

As a result of the restructuring carried out at the end of the year, which was aimed at bringing all manufacturing activities under Sidbec-Dosco, some of the financial data relating to Sidbec-Dosco for the year 1987 cannot be compared with those of previous financial years. However, these financial data were reprocessed and completed so that they can be compared with those of the manufacturing sector for the preceding years. The following notes give details of the reprocessing.

(1) Since the restructuring took place at the end of the year, Sidbec-Dosco's sales do not include those of its subsidiary Sidbec-Feruni which, prior to 1987, were included in the sales of Sidbec's manufacturing sector. Moreover, the cost of goods sold and manufactured in facilities not owned by Sidbec-Dosco at the beginning of the financial year includes the leasing cost for these facilities which corresponds to their depreciation costs. The re-arrangement of net sales and expenses into a form similar to that of previous years is given below:

	Sidbec-Dosco	**Manufacturing sector**
Net sales	$567,904	$569,529
Cost of goods sold	508,513	492,979
Selling and administrative expenses	14,384	14,384
Interest	26,783	27,118
Depreciation	9,531	26,355
	559,211	560,836
Earnings before income taxes, proportional share of the limited partnership and extraordinary items	$ 8,693	$ 8,693

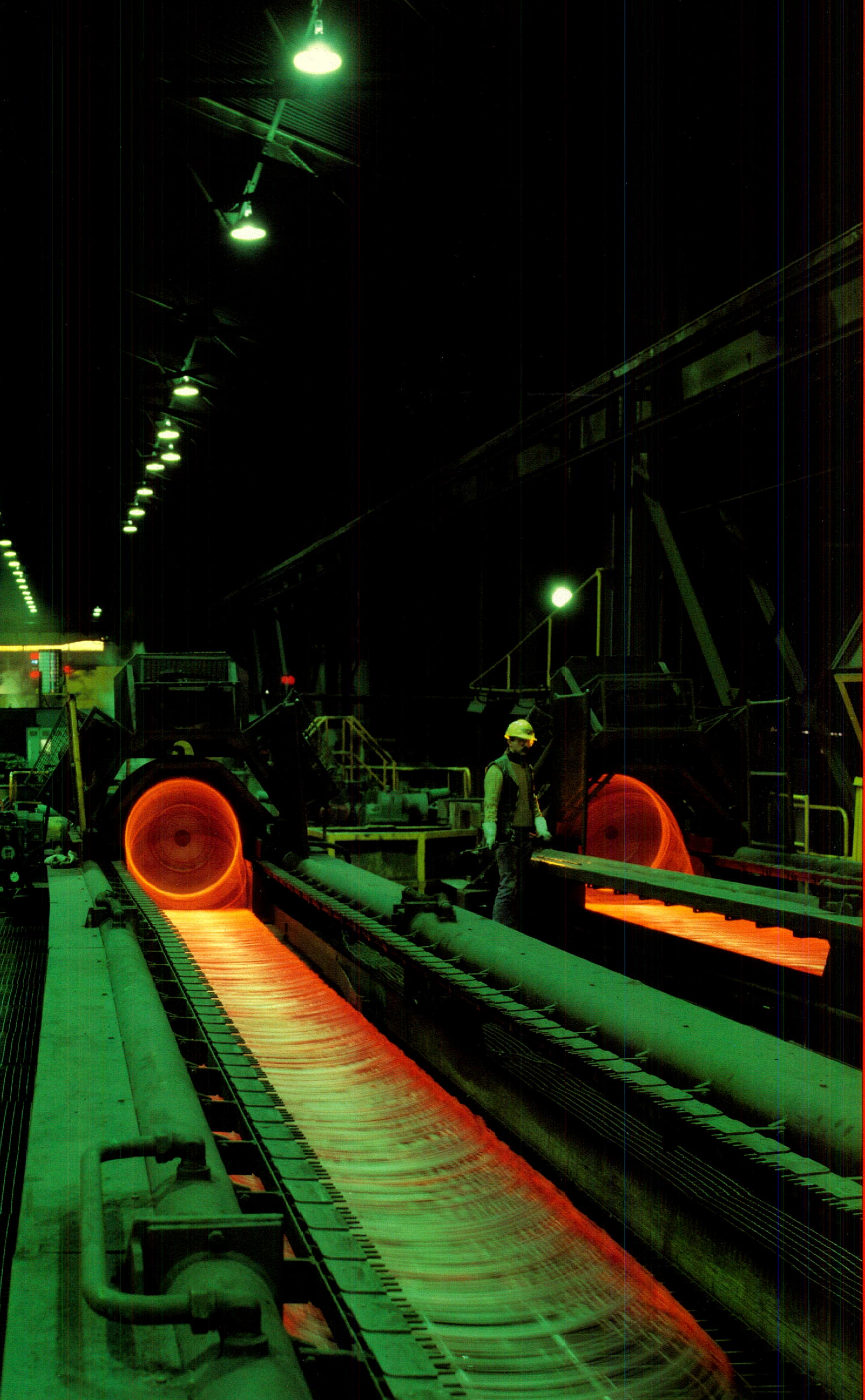
(2) No comparison can be made between Sidbec-Dosco and the manufacturing sector for these balance sheet items. Consequently, data prior to 1987 are not shown.

(3) Additions to Sidbec-Dosco's property, plant and equipment can be broken down as follows:

Acquisition of Sidbec's manufacturing assets	$181,282
Acquisition of new property, plant and equipment in Sidbec-Dosco	17,876
	199,158
Assets of Sidbec-Feruni following the purchase of Sidbec-Feruni shares	5,422
	$204,580

Also, the assets purchased from Sidbec and held following the acquisition of Sidbec-Feruni include assets purchased by both companies during the year. Thus, additions of new property, plant and equipment for the manufacturing sector are as follows:

Sidbec-Dosco	$17,876
Sidbec prior to restructuring	5,881
Sidbec-Feruni prior to restructuring	431
	$24,188



Report of Sidbec-Dosco's Management to the Shareholders

In the discharge of its duties, the Board of Directors of Sidbec-Dosco delegated the preparation of the financial statements to its officers.

After examination by an audit firm, the statements were submitted to the Board which approved them on the recommendation of the audit committee duly formed and commissioned by it.

In the opinion of the undersigned, the financial statements have been drawn up conscientiously, applying consistently and prudently, generally accepted accounting principles, particularly those explained in the accompanying footnotes, and using all the information available at the time of the last audit.

P.E. Landry
Paul E. Landry
Vice-President,
Finance and Administration,
and Treasurer

John LeBoutillier
President and Chief
Executive Officer

Product quality is a primary concern of our employees. Paul Proulx, who works at the cooling line of the Contrecoeur rod and bar mill, is just one of the 3250 employees who devote all their efforts to producing top quality steel at Sidbec-Dosco.

Auditors' Report

To the Shareholder
Sidbec-Dosco Inc.

We have examined the consolidated balance sheet of Sidbec-Dosco Inc. as at December 31, 1987 and the consolidated statements of income, contributed surplus, deficit 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 Company as at December 31, 1987 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, except for the change in the method of accounting for pension costs as explained in Note 1 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Poissant Richard

Chartered Accountants

Montreal
February 3, 1988

Maurice Provost, rolling mill operator at the Montreal merchant mill. This mill was substantially modernized during the year.

Assets

(in thousands of dollars)	1987	1986
Current assets		
Accounts receivable (Note 5)	**$ 70,312**	$ 70,850
Inventories (Notes 2 and 5)	**149,463**	142,746
Advances to affiliated companies	**–**	5,459
Prepaid expenses	**772**	655
	220,547	219,710
Investment		
Limited partnership (Note 3)	**2,277**	–
	2,277	–
Property, plant and equipment (Notes 4 and 6)		
Cost	**554,736**	195,906
Accumulated depreciation	**(288,068)**	(123,989)
	266,668	71,917
Other assets	**2,475**	1,695
	$491,967	$293,322

On behalf of the Board,

Director

Robert Despins

Director

Liabilities

(in thousands of dollars)	1987	1986
Current liabilities		
Bank overdraft and bank loans (Note 5)	$ 66,363	$ 94,670
Accounts payable and accrued liabilities	81,349	62,729
Current portion of long-term liabilities (Notes 6 and 7)	10,020	–
	157,732	157,399
Long-term debt (Note 6)	25,000	–
Loans from the parent company (Notes 5 and 7)	154,763	400,957
Other liabilities	2,945	2,204

Shareholder's Equity

Capital stock (Note 8)	247,514	43,381
Deficit (Note 9)	(95,987)	(310,619)
	151,527	(267,238)
	$491,967	$293,322

Consolidated Statement of Income
Year ended December 31

(in thousands of dollars)	**1987**	1986
Net sales	**$567,904**	$516,892
Expenses		
Cost of goods sold, excluding related depreciation	**508,513**	459,703
Selling and administrative expenses	**14,384**	13,681
Interest on long-term debt	**19,126**	18,976
Other interest	**7,657**	10,100
Depreciation of property, plant and equipment	**9,531**	7,894
	559,211	510,354
	8,693	6,538
Equity in net income of the limited partnership	**213**	–
Income before income taxes and extraordinary item	**8,906**	6,538
Income taxes	**359**	263
Income before extraordinary item	**8,547**	6,275
Extraordinary item		
Tax benefit of loss carry-forward	**359**	263
Net income	**$ 8,906**	$ 6,538

Consolidated Statement of Contributed Surplus
Year ended December 31

(in thousands of dollars)	**1987**	1986
Balance at beginning of year	**$ –**	$ –
Contribution by the parent company (Notes 4 and 12)	**163,345**	–
Reduction of capital stock (Note 8)	**42,381**	–
	205,726	–
Transfer to deficit (Note 9)	**205,726**	–
Balance at end of year	**$ –**	$ –

Consolidated Statement of Deficit
Year ended December 31

(in thousands of dollars)	**1987**	1986
Balance at beginning of year	**$310,619**	$317,157
Net income	**8,906**	6,538
	301,713	310,619
Transfer from contributed surplus (Note 9)	**(205,726)**	–
Balance at end of year	**$ 95,987**	$310,619

Consolidated Statement of Changes in Financial Position

Year ended December 31

(in thousands of dollars)	1987	1986
Operations		
Income before extraordinary item	$ 8,547	$ 6,275
Items not involving cash:		
Depreciation of property, plant and equipment	9,531	7,894
Gain on sale of property, plant and equipment	(457)	–
Equity in net income of the limited partnership	(213)	–
Net changes in other non-cash items	17,783	3,626
	35,191	17,795
Extraordinary item	359	263
	35,550	18,058
Financing		
Loans from the parent company	9,070	8,790
Long-term debt	26,371	–
Changes in other liabilities	741	(269)
Conversion of loans from the parent company (Note 8)	(246,514)	–
Issues of capital stock	246,514	–
Reduction of capital stock	(42,381)	–
Contributed surplus	205,726	–
Payments on long-term liabilities	(101)	–
	199,426	8,521
Investments		
Acquisition of subsidiaries (Note 12)	(5,422)	
Additions to property, plant and equipment	(199,158)	(14,212)
Investment in the limited partnership	(2,064)	–
Changes in other assets	(780)	(632)
Proceeds from sale of property, plant and equipment	755	51
	(206,669)	(14,793)
Decrease in bank overdraft and bank loans	(28,307)	(11,786)
Bank overdraft and bank loans at beginning of year	94,670	106,456
Bank overdraft and bank loans at end of year	$ 66,363	$ 94,670

General

The Company was continued on May 25, 1987, under the Canada Business Corporations Act. It operates steelmaking facilities.

Summary of significant accounting policies

Consolidation basis:

The consolidated financial statements include the accounts of the Company and of all its subsidiaries.

Inventories:

Goods in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined by the average cost method.

Raw materials are valued at the lower of cost, replacement cost and net realizable value. Cost is determined by the first in, first out method.

Supplies are valued at the lower of cost and replacement cost. Cost is determined by the average cost method.

Investment in the limited partnership:

The investment in the limited partnership is accounted for by using the equity method.

Property, plant and equipment:

Property, plant and equipment are stated at historical cost and depreciated over their estimated useful lives under the straight-line method at the following annual rates:

Land development	4%
Buildings	2½% to 7%
Machinery and equipment	4% to 20%
Rolling stock	4% to 25%
Furniture and fixtures	7% to 10%
Other	5% to 8%

Pension plans:

Pension costs are determined periodically by independent actuaries. Pension expense, based on assumptions made by management, is charged annually to operations and includes the following items:

- Cost of pension benefits provided in exchange for services rendered during the year, determined on the proration of years of service; and
- Amortization, on the expected average remaining service life of employees, using the annuity method, (a) of adjustments resulting from amendments to the plans or changes in the assumptions, (b) of actuarial gains or losses and (c) of the plans' deficit established upon the adoption of the new recommendations of the Canadian Institute of Chartered Accountants.

The cumulative difference between amounts recorded as pension expense and contributions to the pension fund is reflected on the balance sheet in **Other assets**.

Foreign currency translation:

Foreign currency accounts are translated into Canadian dollars according to the temporal method as follows:

- Monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date;
- Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates in effect on the dates on which they occur, except for depreciation which is translated at historical rates; and
- Gains and losses arising from changes in exchange rates are reflected in the income statement when they are realized, except for unrealized gains or losses relating to long-term debt which are deferred and amortized under the straight-line method based on the remaining life of the debt.

Lease:

The long-term lease under which the Company, as lessee, substantially keeps all the benefits and risks incident to the ownership of property, is accounted for as property, plant and equipment. The asset value and the corresponding obligation under this capital lease are accounted for at the present value of future minimum lease payments, using an appropriate discount rate.

1 – Change in accounting policy

During the year, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants regarding pension costs and obligations. The purpose of these recommendations is to allow a proper allocation of the costs of the plans to the years in which the related employee services are rendered. Previously, the pension expense represented contributions made to the pension fund in a given year to capitalize the plan and to provide for the amortization of actuarial loss.

The adoption of the recommendations resulted in an increase in net income of $836,000 in comparison with the amount accounted for under the method followed in 1986, and in the recording in **Other assets** of a deferred pension expense totalling the same amount.

As these recommendations were applied prospectively, no prior period adjustment was made.

2 – Inventories

(in thousands of dollars)	1987	1986
Goods in process and finished goods	$ 88,111	$ 96,079
Raw materials and supplies	61,352	46,667
	$149,463	$142,746

3 – Investment in the limited partnership

During the year, the Company entered, as limited partner, into a limited partnership whose purpose is to operate a rolling mill on a tolling basis.

The Company's contribution for the year was an amount totalling $2,064,000 which was distributed as follows:

Land and building	$ 714,000
Cash	1,350,000
	$2,064,000

4 – Property, plant and equipment

During the year, Sidbec, the parent company, transferred to the Company, the following manufacturing assets:

(in thousands of dollars)

	Cost	Net book value
Land	$ 2,353	$ 2,353
Land development	6,486	2,684
Buildings	55,871	26,976
Machinery and equipment	219,030	115,209
Rolling stock	719	180
Furniture and fixtures	277	65
Other	8,220	574
Construction in progress	6,870	6,870
	299,826	154,911
Machinery and equipment under a capital lease	$ 29,046	$ 26,371

As consideration, the Company assumed a capital lease totalling $26,371,153 and issued one Class B share of a stated value of $1. The excess, that is $154,910,781, was allocated to contributed surplus.

As at December 31, property, plant and equipment are as follows:

(in thousands of dollars)	**1987**		1986	
	Cost	**Net book value**	Cost	Net book value
Land	**$ 6,333**	**$ 6,333**	$ 2,366	$ 2,366
Land development	**9,267**	**3,763**	2,369	758
Buildings	**102,924**	**41,940**	42,434	13,049
Machinery and equipment	**361,993**	**158,720**	125,461	38,047
Rolling stock	**4,999**	**1,746**	2,753	672
Furniture and fixtures	**9,308**	**5,101**	7,162	4,149
Other	**13,428**	**4,894**	1,001	516
Construction in progress	**17,354**	**17,354**	12,360	12,360
	525,606	**239,851**	195,906	71,917
Machinery and equipment under a capital lease	**29,130**	**26,817**	–	–
	$554,736	**$266,668**	$195,906	$71,917

5 – Bank overdraft and bank loans

The bank overdraft and bank loans are secured by an assignment of accounts receivable and inventories. In addition, the Company undertook commitments to lending institutions to subordinate and extend its loans from the parent company.

6 – Long-term debt

(in thousands of dollars)	**1987**
Obligation relating to assets under a capital lease, repayable by monthly instalments, maturing in the year 2000 and secured by a first specific charge of $15,000,000 on the Longueuil plant	**$26,270**
Current portion	**1,270**
	$25,000

Future minimum lease payments under this capital lease are as follows:

(in thousands of dollars)	
1988	**$ 3,382**
1989	**3,382**
1990	**3,382**
1991	**3,382**
1992	**3,382**
1993 to 2000	**24,809**
Total future minimum lease payments	**41,719**
Interest, at the implicit rate of 8.23%, and taxes included in future minimum lease payments	**15,449**
	$26,270

7 – Loans from the parent company

(in thousands of dollars)	1987	1986
Loans bearing interest at prime rate and having no predetermined repayment terms	$ 2,058	$ –
Advances without interest and having no predetermined repayment terms	–	400,957
Loans from the parent company including the following maturities:		
Loan at 9¼%, maturing on December 15, 1990	7,750	–
Loan at 8¾%, maturing on June 15, 1991	8,000	–
Loan at 9%, maturing on September 1, 1991	8,000	–
Loan at 10¾%, maturing on October 1, 1989	10,000	–
Loan at 10¼%, maturing on May 15, 1995	26,000	–
Loan at 10¾%, maturing on February 16, 1996	29,000	–
Loans bearing interest at bank prime rate, repayable in four instalments as follows: $13,306,416 on March 19, 1988; $31,713,399 on June 4, 1988; $7,365,723 on October 15, 1988; and $20,319,105 on March 18, 1989	72,705	–
	163,513	400,957
Current portion	8,750	–
	$154,763	$400,957

During the year, the Company converted $246,514,053 of its loans from the parent company into Class A shares.

Payments on the loans from the parent company during the next five years are as follows:

(in thousands of dollars)	
1988	$ 8,750
1989	9,250
1990	9,250
1991	14,500
1992	$ 9,000

The loans maturing in 1988 have not been recorded as current liabilities since the Company does not plan to repay these loans from working capital.

8 – Capital stock

During the year, the following transactions relating to capital stock were concluded:

- The Company's authorized capital stock was changed following the issuance of a continuance certificate and now consists of an unlimited number of Class A and Class B shares, all with no par value.
- The Company converted $246,514,053 of its loans from the parent company into 246,514,053 Class A shares, Series 1.
- The Company converted 2,960,086 common shares of a stated value of $43,381,000 into 2,960,086 Class B shares.
- The Company issued 1 Class B share of a stated value of $1, as consideration for assets transferred by the parent company. (Note 4)
- The Company issued 2 Class B shares of a stated value of $2, as consideration for the acquisition of subsidiaries. (Note 12)
- The Company transferred to contributed surplus an amount of $42,381,000 representing the reduction of its Class B capital stock.

The Company's capital stock is as follows:

Authorized:

Class A shares, Series 1, for which the number is restricted to 246,514,053 senior non-voting shares, with no par value, redeemable and retractable at an amount not exceeding paid amount and convertible into Class B shares

Unlimited number of voting and participating Class B shares, with no par value

(in thousands of dollars)	**1987**	1986
Issued and paid up:		
246,514,053 Class A shares, Series 1	**$246,514**	$ –
2,960,089 Class B shares	**1,000**	43,381
	$247,514	$43,381

9 – Transfer from contributed surplus to deficit

Following a directors' resolution, the deficit has been reduced by $205,726,000 by the contributed surplus as at December 31, 1987.

10 – Pension plans

An actuarial valuation was carried out to determine the present value of accrued pension benefits. As at December 31, 1987, the pension plans recorded the following deficit:

(in thousands of dollars)	**1987**
Pension fund assets	**$87,887**
Present value of accrued pension benefits	**(105,021)**
Deficit	**$17,134**

For the year ended December 31, 1987, pension expense totalled $3,754,000.

11 – Related party transactions

In addition to the transactions recorded separately in the financial statements, the Company has completed the following transactions with related companies:

(in thousands of dollars)	**1987**	1986
Product purchases from an affiliated company	**$24,646**	$22,847
Product purchases from the limited partnership	**469**	–
Contribution from an affiliated company	**755**	611
Rental cost of property, plant and equipment from the parent company	**16,325**	16,315
Net interest charged by the parent company	**$18,926**	$18,976

In addition, as at December 31, 1987, accounts payable and accrued liabilities include an amount of $190,000 payable to the limited partnership.

12 – Acquisition of subsidiaries
On December 31, 1987, the Company acquired all outstanding shares of Sidbec-Feruni Inc., a company whose operations mainly consist in supplying scrap iron to Sidbec-Dosco Inc. The Company also acquired all outstanding shares of Sidbec International Inc., a dormant company. These two acquisitions from Sidbec, the parent company, have been accounted for using the purchase method. Net assets acquired are as follows:

(in thousands of dollars)

Assets	$17,930
Liabilities	12,180
Net assets acquired	$ 5,750

In addition, the Company acquired from its parent company an advance of $3,684,468 to Sidbec-Feruni Inc. and assumed $1,000,000 in liabilities to Sidbec International Inc. As consideration, the Company issued 2 Class B shares of a stated value of $2. The excess, that is $8,434,473, being recorded as contributed surplus.

The consolidated financial statements for the year ended December 31, 1987 do not include operating results of companies acquired for the year then ended.

Increase in consolidated cash resulting from these acquisitions is as follows:

(in thousands of dollars)

Non-cash assets acquired:	
Property, plant and equipment	$ 5,422

13 – Income taxes
The Company is exempt from federal and Quebec income taxes. As at December 31, 1987, the Company had accumulated, for Ontario income tax purposes, timing differences totalling $390,000,000 for which it had not recorded deferred income taxes. In addition, the Company has tax losses of $57,000,000 which could be used to reduce future taxable income for Ontario income tax purposes. These losses will expire as follows:

1990	$21,500,000
1991	$28,000,000
1992	$ 7,500,000

14 – Commitments
The Company has commitments for construction projects and machinery and equipment acquisitions amounting to approximately $27,500,000.

15 – Comparative figures
Certain comparative figures for the preceding year have been reclassified to conform with the presentation adopted for the current year.

Board of Directors of Sidbec-Dosco Inc.

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National Optics Institute

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President,
Placements DRM Inc.

Paul E. Dion[4]
Lawyer

Michel Goulet[1]
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Armand Turpin[4]
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Verval Ltd

[1] Member of the executive and planning committee

[2] Member of the audit committee

[3] Member of the human resources and compensation committee

[4] Member of the retirement plans committee

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Chairman of the Board

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J.-Pierre Picard
Vice-President, Marketing and Sales

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Dominique Poulin-Gouin
Assistant Secretary

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