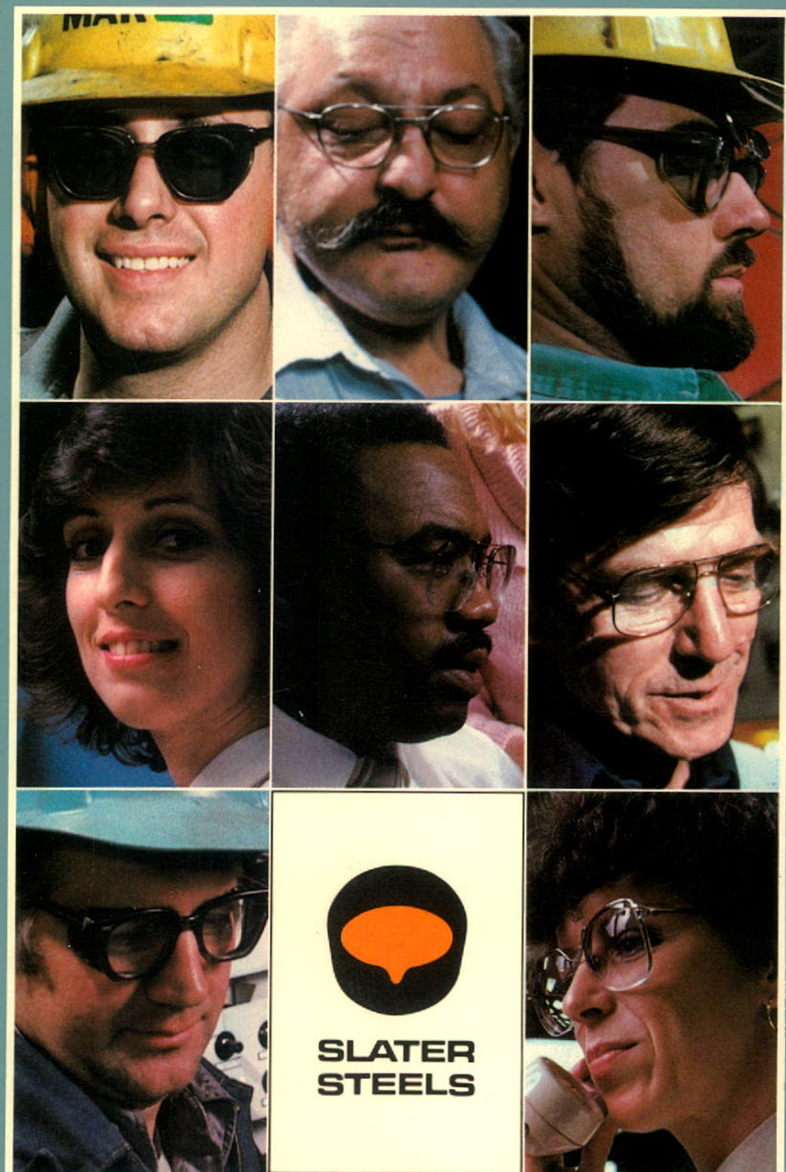
Slater Steels Corporation
1985 Annual Report



Profile

Slater Steels Corporation was originally incorporated as Slater Steel Industries Limited in 1962 and now has four operating units: Hamilton Specialty Bar and SLACAN® located in Hamilton, Ontario, Fort Wayne Specialty Alloys in Fort Wayne, Indiana, and Sorel Forge in Sorel, Quebec.

Hamilton Specialty Bar is a specialty mill producing several grades of carbon and alloy steel products in bar form and in various shapes and sizes for the automotive, agricultural, construction and utility markets in Canada and the United States.

SLACAN is the largest pole line hardware manufacturer in Canada, producing more than 3,000 different items for the electrical transmission and communications markets, predominantly in North America.

Fort Wayne Specialty Alloys is a stainless steel mill which produces a broad range of stainless and high temperature alloy grades in bar and billet form with end uses in the aircraft, energy, forging and service centre markets in the United States.

Sorel Forge is a specialty forge shop, with its own steelmaking facility, which produces tool and mould die steels and custom open die forgings in alloy and stainless steel grades, weighing as much as 50,000 lbs. Its markets include capital goods requirements for shipbuilding, plant machinery, aircraft and nuclear and hydro-electric power plants as well as for moulds and die blocks used in the forming of plastics and metals for automotive and consumer goods. Servicing of the tool and die steel products is supported through a warehouse facility in Brampton, Ontario.

Annual Meeting

The Annual Meeting of Shareholders will be held at 11:00 a.m. on Thursday, July 25, 1985 in the Connaught Square, Royal Connaught Hotel, 112 King Street East, Hamilton, Ontario.

Cover Photography

Left to right; top to bottom
Mario D'Antimo, Drop Hammer Operator, SLACAN Division.
Edward Giovinazzo, Wireforming Machine Operator, SLACAN Division.
Edward Kumfer, E.S.R. Helper, Fort Wayne Specialty Alloys Division.
Louise Cedri, Secretary, Human Resources Department, Hamilton Specialty Bar Division.
Jesse Booker, Financial Accounting Manager, Fort Wayne Specialty Alloys Division.
Bill Drake, Roller, Hamilton Speciality Bar Division.
Erhard Grotmann, Electrician, Hamilton Specialty Bar Division.
Marti McCoy, Sales Correspondent, Fort Wayne Specialty Alloys Division.

Statement of Corporate Purpose

Our Corporation is a metal manufacturing company with facilities located in Canada and the United States. Our operations focus on the production of quality specialty steels and other related added-value activities. We are committed to a long term, regular pattern of growth through internal expansion and acquisitions in the North American market.

Our Corporation will concentrate its activities in the steel and metal products industry, and is not expected to acquire interests outside this classification.

Corporate Business Principles

General

1. We will strive to maintain a work environment which encourages innovation and initiative. We will seek contribution and involvement from our people in the planning for each division's growth and progress. At the same time, we will conduct the operations of the Corporation with the utmost respect for employee safety, health and fulfillment.

2. As a Corporation, we will develop a "team approach" in conducting our normal business activities, building strength in skills at all levels, and ensuring effective career development for our employees. We will expect a high level of performance, individual expertise and complete support of company goals from all of our people.

3. Communications with our people will be given priority as a basis of maintaining appreciation and understanding of the actions, values and policies of the Corporation.

4. The Corporation accepts its responsibility to be a good corporate citizen, and to that end will be sensitive to its neighbours and the community-at-large, particularly in environmental controls and involvement in local public affairs.

Operational

1. We will build our Corporation to a leadership position as a selective producer of specialty steels by offering customized services to our customers and providing responsiveness and flexibility in the supply of quality products at competitive prices. We will emphasize our appreciation and knowledge of the end-use requirements of the market and, thereby, qualify our Corporation as a preferential source of supply.

2. The Corporation will propose and apply manufacturing practices and capital investments that support the concept of low-cost production. At the same time, priority will be directed to achieving high operating efficiencies and consistent superior quality in all products.

3. As a basis of attaining optimum operating efficiencies we will expand, modify or obsolete existing equipment in relation to its performance contribution and capability.

4. We will broaden our market base as a means of minimizing the effect of major shifts in demand for specific products and, thereby, create a counter-cyclical pattern for our overall business endeavours. In addition, we will add new ventures that do not necessarily duplicate existing operations but are a logical extension of, or synergistic with, our present divisions and are compatible with our Return on Investment (ROI) objectives.

Financial

1. We will aim for growth in earnings and will target the operating Return on Investment (ROI) (pre-interest and pre-tax to capital employed) for the Corporation and each of its divisions at the level of 20%.

2. We will apply a cash dividend policy that is geared to an average payout, based upon a two-year moving average, of 30% of after-tax consolidated earnings from all integrated operations and including cash dividend payments from investments.

Highlights

$000s except per share data	1985	1984	Change
Net sales	**$219,102**	$163,834	+34%
Earnings before extraordinary items	**9,922**	4,825	+106%
Capital expenditures	**9,475**	5,570	+70%
Depreciation and amortization	**6,483**	6,286	+ 3%
Working capital	**54,055**	40,104	+35%
Fixed assets — net	**56,629**	53,345	+ 6%
Per common share data:			
Earnings before extraordinary items	**$ 1.87**	$ 0.88	+113%
Dividends declared	**$ 0.40**	$ 0.25	+60%
Shareholders' equity	**$ 13.89**	$ 15.87	−12%

Left to right standing: Wallace H. Rayner, V.P. Finance and Secretary, Corporate. Raymond Pallen, Division President, Sorel Forge Division. Ron Haine, Director, Engineering Services, Corporate. *Left to right seated:* Douglas K. Pinner, Division President, Fort Wayne Specialty Alloys Division. Gordon W. Meldrum, Division President, SLACAN Division. Bruce M. Hamilton, President and Chief Executive Officer. James R. Powers, Division President, Hamilton Specialty Bar Division. Wayne D. McCraney, V.P. Human Resources & Communications, Corporate.

President's Commentary

Fiscal '85 was "a good year" for Slater Steels Corporation during which many favourable conditions occurred that enhanced growth in both Sales and Earnings. Our name change and new logo were successfully implemented and projected Slater Steels' identity even further as a reputable specialty metals manufacturing company with a major focus on the production of specialty steels and other related added value products. Sales reached a new peak at $219,102,000 resulting from positive input from each of our operating divisions. Capital expenditures were an historic high at $9.5 million, representing a growing pattern of spending which we hope to sustain in order that we can continue to upgrade or add facilities, improve production practices and enhance the standard of operations considering elements of safety, quality and work environment.

Some significant improvements were made in operating practices that increased effective utilization of certain facilities, made gains in productivity, achieved better yields at various stages of operation and provided a greater consistency of product quality. Finally, the broadened application of computer programming to various operating procedures, as well as to scheduling and material control, brought about major strides in operating efficiencies, reproducibility of procedure and reliability of shipped product.

The general improvement in the North American economy during the past year contributed to the overall strengthening of our sales level. This favourable trend did not benefit all manufacturing businesses to the same extent, although the automotive market remained buoyant, the steel service industry reached a record level of activity and many other markets, both conventional and specialty, showed both stability and periods of strong demand. Some commercial endeavours fell upon hard times which, for the most part, resulted from imported product pressures or changing consumer buying patterns. Even though there were varying trends in business performance, the marketplace remained highly competitive and any improvement in profit margins that was achieved was largely the result of manufacturing efficiencies, astute capital management and emphasis on cost reduction. The steel industry itself continued to be vulnerable, if not fragile, especially in certain areas, as brought about by lower usage, over capacities, deterioration from major variations in exchange rates and a growing pattern of unfair trade practices. In an overall assessment, this industry saw only a modest improvement in results during the year which could be attributed to the varying range in demand for specific steel grades and the absence of any price strengthening for the majority of product lines.

Our decision to place emphasis on the specialty steel segment of the industry has proven both timely and beneficial. While market deterioration has occurred with certain segments of steel due to replacement by other materials, reduction in usage and price erosion, the specialty products have been less affected by this unfavourable trend and have, in fact, held and even grown in their demand and application. Finding the most appropriate strategy and product mix by the various producers of specialty steels has been essential to their successful performance in a highly competitive and demanding marketplace. We believe that we have structured our emphasis and direction to markets and requirements that we can best serve and have benefited accordingly.

As a company, our performance is only as good as the people who perform the many jobs required in each of our operations. We have focused attention toward the interests of the men and women who make up our employee team by giving emphasis to matters of safety, communication, participation and quality of work life. We believe we can do even more in each of these areas by keeping each person well informed of our Company's business needs and principles, by seeking opinions and ideas and by expanding opportunities for job enrichment. We will be giving greater attention fo training, discussion and information, each element being related to what our business is all about. We have highlighted the "people element" in this year's report to emphasize the importance and value with which we hold each member of our work team and to recognize the contribution that they have made and can make in our successes, now and in the future.

We are fully aware that to remain a viable and profitable company we must concentrate our manufacturing on products that represent a real need in the marketplace and establish our role as being a reliable source to the ultimate buyer or user. Our mandate is to excel in

1. Frank Zadravec, First Helper, Hamilton Specialty Bar Division, Operating the control panel for 65 ton melting furnace.
2. *Left:* Erhard Grotmann, Electrician. *Right:* David Smith, Instrument Repairman, Hamilton Specialty Bar Division, Adjusting programmable controller for "C" furnace.
3. Chester Farbotko, Main Pulpit Operator, Hamilton Specialty Bar Division, Operating the control panel of the main pulpit for the rolling mill.
4. Bill Rainey, Roll Turner, Hamilton Specialty Bar Division, Gauging machined roll for conformance to specifications.
5. Louise Cedri, Secretary, Human Resources Department, Hamilton Specialty Bar Division, Operating word processor.

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areas of quality, service and flexibility. Our responsiveness to the needs of the marketplace has been one of our major strengths and we intend to upgrade our capability even further by ensuring that we can be adaptable, consistent and dependable to all of our customers. While S.P.C. (Statistical Process Control) has become a byword to manufacturing industries, we have taken a leadership position in this practice of total process control. This has been demonstrated not only by application within our operations but also by presentation and teaching of the system to others. Our Company is dedicated to the principles of building quality into its products and each element of training, facility upgrade, processing and inspection places emphasis on this critical fundamental.

At mid year, we disposed of our investment in IPSCO INC., thereby concluding the equity accounting that had been provided from our 20.2% shareholding in this company. The particular details covering the handling of this action and the impact on the financial performance of the Company are covered in the Financial Commentary of this report.

On behalf of the Board of Directors I would like to thank our shareholders, customers and suppliers for their continued support and confidence in our Company during F'85. At the same time our improved performance, especially in a most difficult and demanding business period, is largely the result of the dedication and contribution from our people for which we are especially grateful.

Hamilton Specialty Bar Division
(Formerly Burlington Steel)
Sales exceeded that of last year although the tonnage level of shipments was somewhat below plan due to our intentional cut back on production of reinforcing bar and some merchant bar items based upon major price deterioration for these product lines. Emphasis was placed upon an enriched product mix from alloy and SBQ grades which attained 86.7% of total shipments against 72.2% in the previous year. This favourable product mix increased our average selling price by 7% over last year which helped to offset the fact that little if any price strengthening was realized in any one product category. We continued to make progress in our production of special rolled sections, including the development of additional items in this unique product category. This division has taken a leadership position in the rolling of these difficult shapes in bar form.

During the year, the Hamilton Specialty Bar Division received the "Vendor of the Year" award from an important automotive parts manufacturer, citing our Company for both quality and service excellence. A similar form of recognition was given to our sales representative for this account.

Earnings from this division were off 19% from last year primarily due to a cost price squeeze resulting from higher than anticipated scrap costs and no improvement in our selling prices. Operating efficiencies tended to drift in the first half of the year but showed a major improvement in the latter half, commensurate with the installation of a new high powered 40 MVA transformer on our larger 65 ton melting furnace.

Major accomplishments were obtained during the year in areas of quality enhancement, stabilized process control and effective cost reduction measures with each of these factors contributing to


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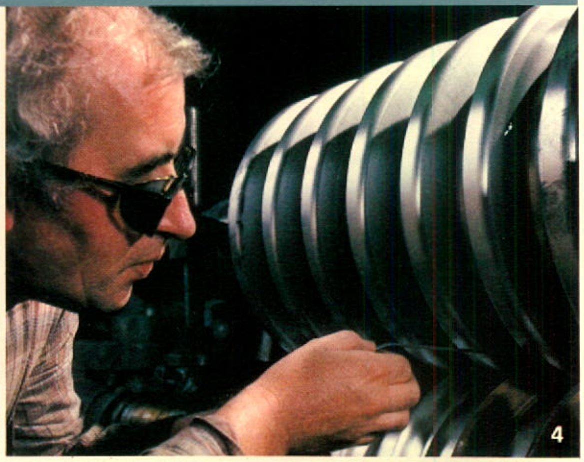
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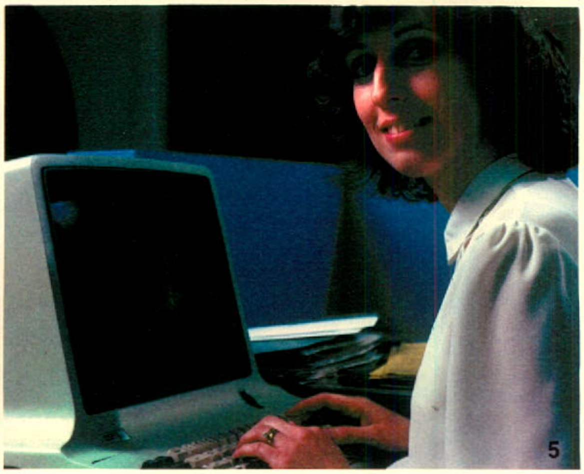
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a favourable upward trend in operating results.

There has been a growing competitive pressure from increased interest on the part of several mini mills to upgrade their product mix with the more highly specialized alloy and SBQ grades. Because we have been in the specialty steel business for several years, we realize the importance and responsibility of providing a high standard of quality assurance, service and technical support in the production and sale of these higher valued grades. Our Company has achieved recognition and experience in the supply of such products and we intend to take additional steps to upgrade our product lines even further in areas of quality, consistency and application.

An effective capital program was implemented during the year with the highlight being a ladle steelmaking furnace in our melt shop which will enhance quality and productivity; both factors being necessary to support our ongoing goal to upgrade the product lines we produce. This unit will become operative during the coming fiscal year. At the same time, investments are being made in other areas of our operation to provide a broader use of computer controlled systems, improved utilization of specific facilities and better means of achieving reproducibility from one production lot to another. It is our intention to continue with an aggressive capital spending program at this division to enable it to maintain its unique role as a custom mill, in supplying specialty steel bar products with particular emphasis on flexibility, responsiveness and service.

A new labour agreement was finalized at fiscal year end with our union employees which will extend for a 3-year period and is deemed to be both fair and equitable. It should also be pointed out that we have continued to make headway in our communications with both the salary and hourly paid work teams. We are pleased with the positive results that have occurred through a real increase in Suggestion Plan participation and ongoing commendable performances in accident prevention and housekeeping. We recognize this to be an area that requires continued application and attention; therefore, we will continue to strive for further involvement and improvement in communications and training of all our people as a means of expanding their understanding and appreciation of their role on the division's team.

The stronger final quarter of F'85 should be a forerunner of an overall improvement in performance during the coming fiscal year. Both sales and earnings should increase over F'85 and, at the same time, we look for ongoing improvements in all areas of our operations as a result of past capital investments, better operating methods and control and ongoing contribution from our own people at all levels in the organization.

Fort Wayne Specialty Alloys Division
(Formerly Joslyn Stainless Steels)
This division showed a continuance of the improved trend that took place in the latter half of the previous year with both sales and operating earnings being approximately 50% ahead of the F'84 results. The market demand for stainless bar products held up reasonably well which provided the basis for this favourable performance. While the real strengthening in sales was achieved through our service centre accounts, benefits were also gained from a growing customer base, additional markets and introduction of new product lines. The

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control of imports of specialty steels did have a positive influence but not to the extent anticipated because certain products that we manufacture were not included under the government import restriction. At the same time, the domestic producers of these high valued steels were extremely competitive in seeking a share in this business. This trend reduced the average selling price for our stainless steel product sales even though the product mix itself remained unchanged.

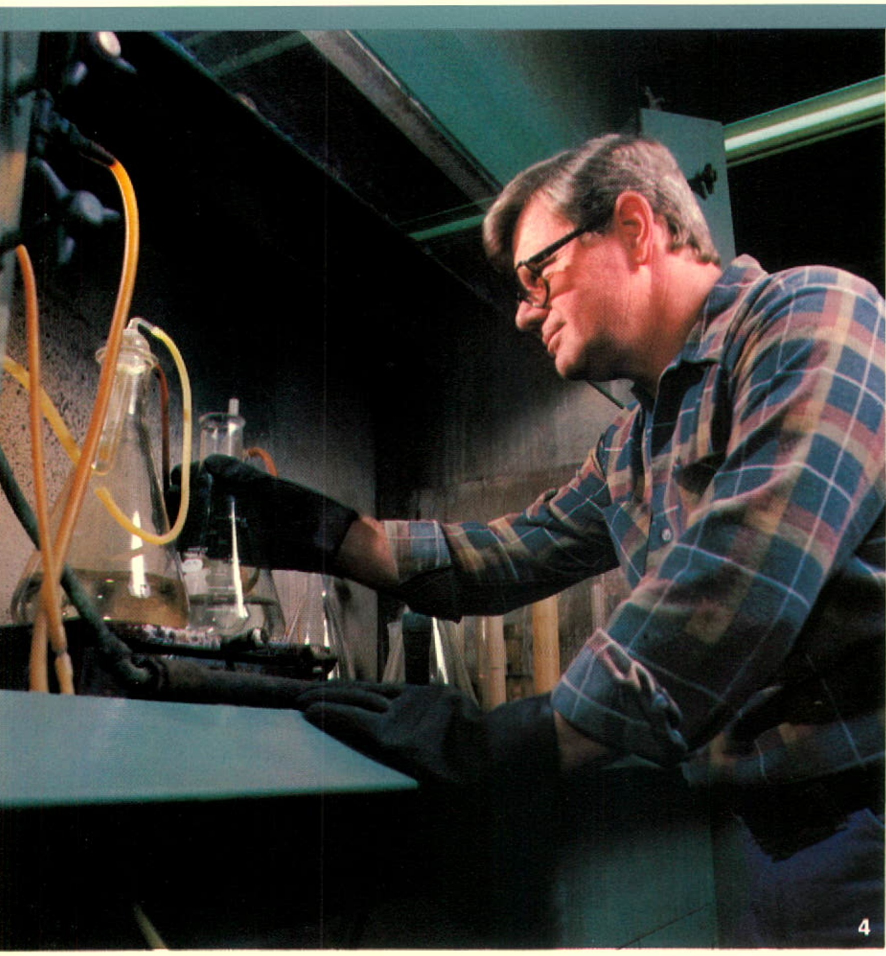
Major strides in sales activity were made with the E.S.R. (Electro Slag Remelt) high temperature alloys and notable progress was achieved in preproduction qualification of these highly alloyed, application demanding grades as a forerunner for future growth opportunities in the sale of these products.

Progress was also made in the development of low alloy steels in billet and large bar form through emphasizing our attention to specific application demands. We have produced square cornered squares and aircraft quality grades in large sections on our facilities which represents areas in which a particular need exists and for which we have achieved good sales volumes. We intend to expand upon the development of these items and other similar type products, including remelt processing, as a means of increasing the sale of these alloy grades. This division again received an award from the Steel Service Center Institute for the most outstanding advertisement in the specialty steel manufacturing classification in 1984.

The operations for the year showed many improvements in various areas, including modification and upgrading of certain operating practices. The application of process control systems to steelmaking was developed in order to provide a significant improvement in productivity, quality and product consistency. Bottom pouring of ingots was introduced and applied to over half our production at year end, providing major gains in yield, surface quality and product integrity.

Our capital spending programs were expanded to include a realignment and extension to the primary mill to enhance material handling, modifications to melt shop practices to achieve greater efficiencies and control and specific

1. Deloris Fiandt, Production Planning & Control Clerk, 12" Mill. Lyle Culbertson, Induction Heater Operator, 12" Mill, Fort Wayne Specialty Alloys Division. Discussing mill schedule.
2. Ralph Longardner, Cold Shearman, 12" Mill, Fort Wayne Specialty Alloys Division, Operating 800-ton shear.
3. Stanley Dilley, Inspector, Fort Wayne Specialty Alloys Division, Visually inspecting stainless Type 316 hexagon bar.
4. Fred Daniels, Senior Chemical Technician, Fort Wayne Specialty Alloys Division, Conducting "Huey" Test to determine corrosion resistance properties of stainless steel product.
5. Marti McCoy, Sales Correspondent, Fort Wayne Specialty Alloys Division. Taking another order.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1. Robert Cournoyer, Open Die Press Operator, Sorel Forge Division, Operating 5000-ton press.
2. Sorel Forge Division Warehouse in Brampton, Ontario.
3. Murielle Paul, Cost Accounting Clerk. Gaston Deguise, Cost Accounting Clerk, Sorel Forge Division, Entering production data into computer.
4. Joseph Lemoine, Machinist, Sorel Forge Division, Removing finished forging from lathe following machining.
5. Edward Giovinazzo, Wireforming Machine Operator, SLACAN Division, Checking the pitch of wire formed product.

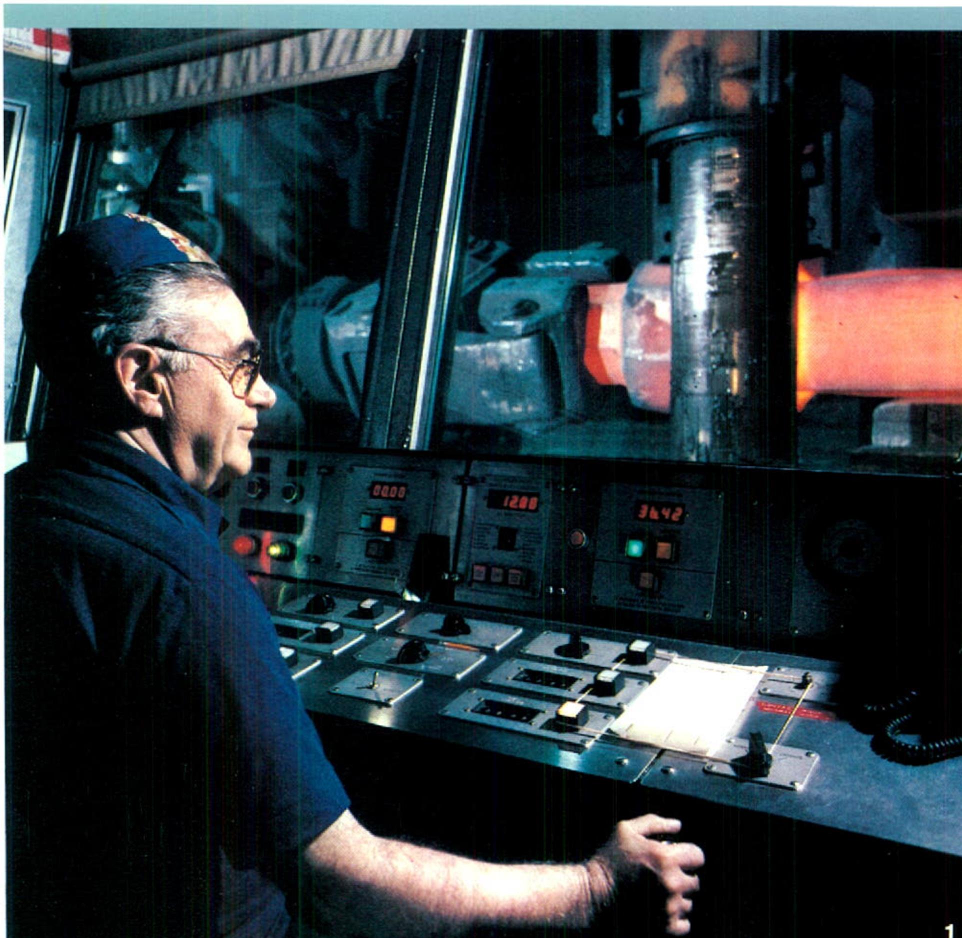
improvements to finishing facilities including a new bar turner to increase flexibility in processing of our finished bar stock.

Of particular note was the favourable sign of events reflecting the input and contribution from the people of this division. While several material improvements were made during the year, the application of change, the innovation of ideas and the interest in making progress represented the major input of our people in contributing to a successful year. Cost reductions were at a new high, productivity showed real progress, customer service was superior, safety performances set a new record in reduced accidents and our plant housekeeping was exceptional. These are meaningful factors and have resulted from a growing attention to communication, to understanding and to recognitiion. Real strides have been made in these areas and will be further enhanced in the coming year as a major building block for creating a strong team spirit throughout the division.

It is expected that F'86 will show comparable if not stronger results than F'85. The markets for our product lines should remain firm and at the same time we will seek additional sales both through new products and new markets. Our capital spending will continue and is expected to be at a growing level, tailored to requirements that will enhance product reliability, service to our accounts and the overall workplace environment of our facility.

Sorel Forge Division (Formerly Crucan)
This division achieved major increases in sales and earnings from the previous poor year which had been severely impacted by a 4½ month labour dispute and failure of the 5000-ton press. Many changes and moves were implemented to correct the specific shortcomings that had brought about these serious events. A program of communications with the entire workforce was implemented giving particular attention to safety, provision for a better work environment and information on operating performances. A preventive maintenance program was installed to monitor and correct deficiencies in key operating equipment.

Sales were relatively strong, especially with tool and die steel products for mould applications in both the Canadian and U.S. markets. The Brampton Warehouse provided increased participation in the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market by having additional stocks and installing extra processing equipment for more efficient cutting and handling of the large blocks and bars of tool and die steels. At the same time the division sought requirements for large bar sections, forging bars and a broader range of custom forgings in a full range of specialty steel grades as a means of increasing sales volume.

Improvement in productivity was achieved in the various operations, particularly steelmaking, press forging and in the machine shop. These gains were brought about by method changes, new tooling and better material handling. Of particular note was the application of a maintenance planning and control system utilizing a computer program to provide assurance of "operations reliability".

Capital spending increased over previous levels with particular attention being directed to employee facilities and a new Personnel Office. Specific items of improvement were made as required to key equipment to support reliability and flexibility. A program was initiated in the melt shop to convert the teeming operations to bottom pouring. This change will provide improvement in yield, workability of the ingot during press forging and consistency of quality. Attention is also being given to upgrading and modifying certain facilities to adapt our production capabilities for processing and handling a broader range and diversification of product.

Good progress was made in various personnel matters including a much improved labour relations climate through more open communications and related actions to demonstrate the sincerity of concern by management to the best interests of all of our people. Improvement in accident prevention has been obtained with the introduction of a formal "five star" program. Various training programs are underway and will be expanded to include all members of the Sorel Forge team.

We anticipate a continuing favourable trend in the performance of this division by increasing sales of specific tool steel products, through a closer liaison and service with accounts and by broadening the range and availability of our specialty press forgings. We recognize the growing competitiveness of our particular product line and intend to maintain our position as a preferred source of supply to the North American market through emphasis on quality, value and delivery.

SLACAN Division

Following the action during 1984 to dispose of SLACAN it was decided that it would be in our best interest to retain this division, and F'85 was approached with the intent of returning this operation to profitability. The objective was met by achieving significant cost reductions and trimming the operations and organization structure to new standards of efficiency. With an aggressive selling stance, sales were increased by 12.6% over the previous year with gains being achieved in both pole line hardware and E.H.V. transmission project categories. The communications related products improved over F'84 with this segment of our business representing one third of total sales.

The overall market for utility hardware showed a modest level of strengthening during the year although conditions were extremely competitive. Export sales were increased but primarily through specific contractual opportunities in offshore

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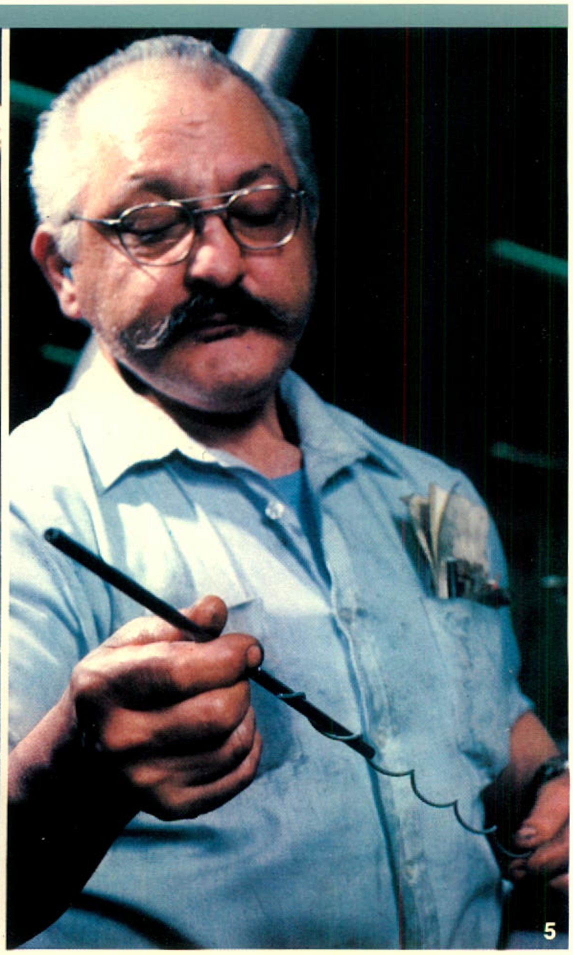

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business and not so much in the U.S. market.

Several of the manufacturing operations were modified to achieve better efficiencies and quality of service. This included specific "make or buy" decisions and changes in various areas related to material handling and process control to ensure production continuity. These moves necessitated a reduction in the number of employees, both staff and hourly, as a means of lowering operating overheads.

During the year, the SLACAN property and buildings were sold with an agreement for a leaseback for three (3) years or until an alternative plant site was selected. We are actively looking for a suitable new location, within reasonable proximity of the present plant site, to which we can move this facility as a means of obtaining a more efficient and less costly operation.

While the many changes and trimmings that were implemented during F'85 contributed to the turnaround performance of this division, a major factor for this improvement was the aggressive team effort from the entire organization. Much tribute must be given to our people for their splendid support and initiative that were provided during a difficult and demanding period.

An early collective agreement with the union was ratified in July 1984 and will be in effect until January 31, 1987.

SLACAN has an established reputation as a reliable manufacturer and supplier of utility hardware and it is our intention to continue to concentrate on this element of our business. We recognize the changing patterns of demand and design of these products and we have the capability of responding to such changes through service, technical liaison expertise and production flexibility. SLACAN is structured to be an effective leader in producing pole line hardware and we will enhance this position by further expansion of export markets and adding complementary product lines.

Bruce M. Hamilton

Bruce M. Hamilton, President

1. Joe Childs, Laboratory Supervisor, SLACAN Division, Performing a dimensional check on a truck clutch bracket for an O.E.M. customer.
2. Wayne Silver, Assembler, SLACAN Division, Performing sub-assembly of clevis bracket.


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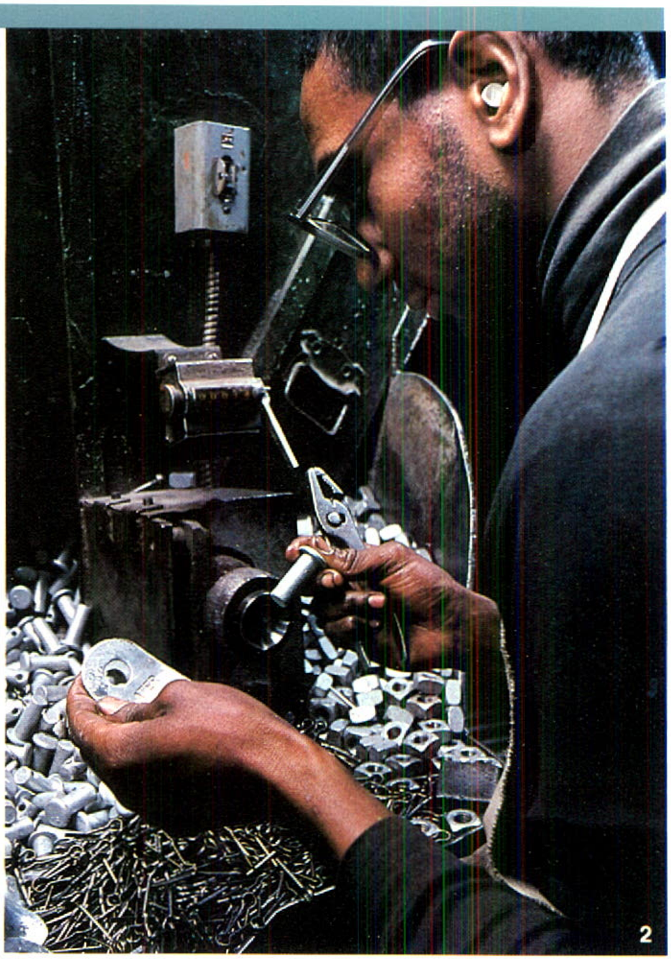
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Sales and Earnings

Consolidated net sales for the year ended March 30, 1985 were $219,102,000, an increase of 34% over sales of $163,834,000 in the comparable prior year. All of the Company's divisions contributed to the higher sales levels with the biggest increases taking place at the Sorel Forge Division where sales were adversely impacted last year by a labour dispute and at the Fort Wayne Specialty Alloys Division. Earnings for the year were $9,922,000, or $1.87 per share, an increase of 106% over the $4,825,000 or $0.88 per share earned last year. An extraordinary item reflecting the loss on the sale of the investment in IPSCO INC. resulted in a net loss for the year of $6,328,000 or $1.27 per share. In the previous year an extraordinary item reflecting the Company's equity in the gain on the sale of assets of an associated company of IPSCO INC. increased net earnings for the year to $5,023,000 or $0.92 per share. Earnings from integrated operations before equity in earnings of IPSCO INC. amounted to $7,847,000 in Fiscal '85 representing a 3.6% return on sales compared to $3,179,000 or 2% in the previous year.

Financial Position

Cash generated from operations increased to $15.7 million from $10.5 million last year, reflecting the higher level of earnings for Fiscal '85. After providing for preferred dividends, cash income per share amounted to $2.98 compared to $1.99 last year. Including the proceeds from the disposal of the investment in IPSCO INC. and the sale of fixed assets, total cashflow for the year was $46.0 million. Funds were used to purchase plant and equipment for $9.5 million, retire long term debt of $21.4 million, provide dividends of $2.3 million and increase working capital.

Working capital increased by $13.9 million to $54.1 million at year-end while the ratio of current assets to current liabilities improved to 2.6:1 from 2.3:1 a year ago. The increase in working capital was due to the higher earnings in Fiscal '85 and the sale of the IPSCO investment.

Long term debt as a percent of total capital employed declined to 23.8% from 31.9% a year ago due primarily to the retirement of $21.4 million in long term debt.

IPSCO INC.

In early Fiscal '85 Slater Steels made the decision to dispose of its investment of 2,161,984 shares of IPSCO INC. As a result the Company did not participate in the August 1984 IPSCO rights issue disposing of these rights for a consideration of $929,000. In November 1984 the Company incurred an extraordinary loss of $16,250,000 when it disposed of its entire shareholding in IPSCO. The investment was accounted for on the equity method and had built up through the Company's share of IPSCO's undistributed earnings to an amount of $42.6 million which was well in excess of market value. Slater Steels' actual cost of $18.2 million was considerably below the $29.0 million proceeds from the sale of shares and rights and hence the Company was in the unusual position of recording a loss on the sale and yet paying capital gains tax. As a result, the extraordinary loss of $16.3 million includes a provision for income tax of $2.7 million.

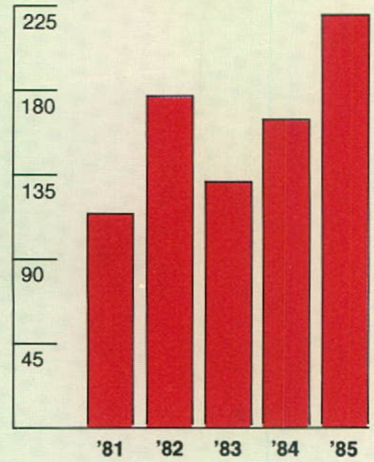
Slater Steels' equity in the earnings of IPSCO to August 1984, which is shown in the consolidated statement of earnings amounted to $1,816,000 for Fiscal '85 compared to $1,844,000 net of an extraordinary item last year. Dividends received during the year were $767,000 of which $259,000 was received between August and November 1984 and taken into income. Dividends received from IPSCO last year amounted to $995,000.

Shareholders

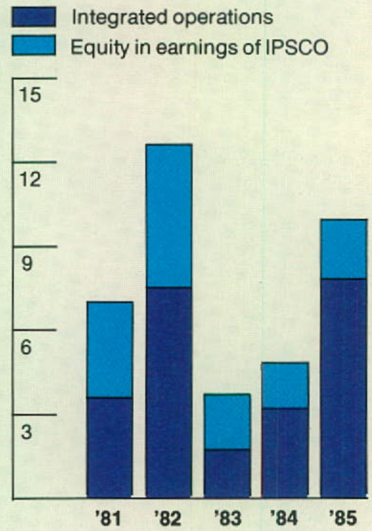
Common shareholders' equity was $13.89 per share at year-end, a decrease of 12.4% from $15.87 at the end of the previous year with the decline due to the loss on the disposal of the IPSCO shares. As a result, of the higher Fiscal '85 earnings before the extraordinary item, the return on common shareholders' equity improved substantially to 13.5% from 5.8% in the previous year.

As a result of the improved earnings during the year your Directors increased the quarterly dividend on common shares from 5¢ to 10¢ per share effective with the dividend payment at October 31, 1984. Including an extra dividend of 5¢ per share paid on July 31, 1984, total dividends declared on common shares amounted to 40¢ per share in Fiscal '85 compared to 25¢ in the previous year.

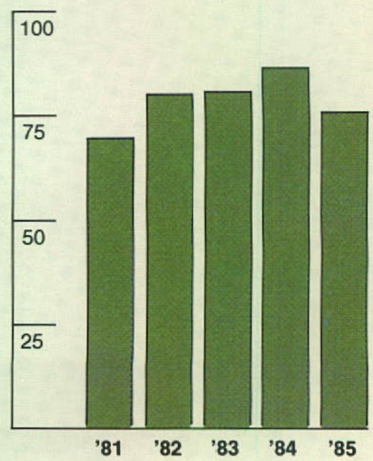
Net sales
$ millions



Net earnings
$ millions



Shareholders' Equity
$ millions



Consolidated Statement of Earnings

Thousands of dollars	Year ended March 30,1985	March 31,1984
Net sales	**$219,102**	$163,834
Earnings before the following items	**20,395**	15,222
Depreciation and amortization	**6,483**	6,286
Interest on long-term debt	**5,250**	5,641
Other interest	**45**	452
	8,617	2,843
Income taxes	**770**	(336)
Earnings before equity in earnings of IPSCO INC.	**7,847**	3,179
Equity in earnings of IPSCO INC. (Note 3)	**1,816**	1,646
Dividend income from IPSCO INC. (Note 3)	**259**	—
Earnings before extraordinary item	**9,922**	4,825
Extraordinary item — IPSCO INC. (Notes 3 & 7)	**(16,250)**	198
Net earnings (loss) for the year	**(6,328)**	5,023
Earnings (loss) per common share:		
— before extraordinary item (Note 3)	**$ 1.87**	$0.88
— net earnings (loss) (Note 3)	**$(1.27)**	$0.92

Consolidated Statement of Retained Earnings

Thousands of dollars	Year ended March 30,1985	March 31,1984
Balance — beginning of year	**67,143**	63,571
Net earnings (loss) for the year	**(6,328)**	5,023
Surplus realized on retirement of preference shares	**91**	101
	60,906	68,695
Dividends:		
Preference shares	**244**	262
Common shares	**2,065**	1,290
	2,309	1,552
Balance — end of year	**58,597**	67,143

Consolidated Balance Sheet

Thousands of dollars	As at March 30,1985	As at March 31,1984
Assets		
Current Assets		
Cash	$ 7,083	$ 349
Accounts receivable	28,914	26,252
Inventories (Note 2)	49,638	42,109
Income taxes recoverable	—	1,666
Other current assets	940	757
	86,575	71,133
Investment in IPSCO INC. (Note 3)	—	41,256
Fixed assets (Note 4)	56,629	53,345
Proprietary rights and technical know-how	3,550	3,750
Other assets	191	243
	146,945	169,727
Liabilities		
Current Liabilities		
Accounts payable and accrued charges	31,891	29,714
Dividends payable	629	374
Current portion of long-term debt	—	941
	32,520	31,029
Long-term debt (Note 5)	27,272	44,336
Deferred income taxes	11,241	7,945
Shareholders' Equity		
Preference Shares (Note 6)	4,170	4,453
Common shares (Note 6)	12,428	12,428
Cumulative currency translation adjustments	717	2,393
Retained earnings	58,597	67,143
	75,912	86,417
	146,945	169,727

Signed on behalf of the Board
G. P. Osler, Director
B. M. Hamilton, Director

Consolidated Statement of Changes in Financial Position

Thousands of dollars	Year ended March 30,1985	March 31,1984
Source of Working Capital		
Operations:		
Earnings before equity in earnings of IPSCO INC. and extraordinary items	$ 7,847	$ 3,179
Depreciation and amortization	6,483	6,286
Deferred income taxes	574	74
	14,904	9,539
Disposal of Investment in IPSCO INC. and sale of rights	29,035	—
Disposal of Fixed Assets	1,300	—
Dividends received	767	995
Decrease in other assets	31	18
Increase in working capital arising from currency translation adjustments	1,310	1,208
	47,347	11,760
Use of Working Capital		
Net additions to fixed assets	9,475	5,570
Reduction of long-term debt	21,420	941
Retirement of preference shares	192	182
Dividends	2,309	1,552
	33,396	8,245
Increase in working capital	13,951	3,515
Working capital — beginning of year	40,104	36,589
Working capital — end of year	54,055	40,104

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

(a) Principles of Consolidation
The consolidated financial statements include the accounts of Slater Steels Corporation and its subsidiaries, all of which are wholly-owned. The investment in IPSCO INC. was accounted for by the equity method and included equity in undistributed earnings to August 31, 1984. From that time until November 1984 when the investment was sold, only dividends received were taken into income.

(b) Translation of Foreign Currencies
Assets and liabilities in foreign currencies have been translated into Canadian dollars at the exchange rate in effect at the year-end. Related gains and losses are charged to income, except for those on fully hedged long-term debt which are offset against unrealized exchange differences arising on the translation of the financial statements of foreign subsidiaries and reported in the Balance Sheet as a component of Shareholders' Equity. Revenue and expenses in foreign currencies are translated at the exchange rate in effect at the transaction date.

(c) Inventories
Inventories are valued at the lower of cost and net realizable value. Inventories of the Sorel Forge and SLACAN Divisions are recorded at first-in, first-out (FIFO) cost, Hamilton Specialty Bar Division at average cost, and Fort Wayne Specialty Alloys Division at last-in, first-out (LIFO) cost.

(d) Income Taxes
Income taxes are provided on the tax allocation method. The resultant deferred income taxes have arisen primarily due to claiming capital cost allowance for income tax purposes in excess of depreciation and amortization provided in the accounting records.

(e) Fixed Assets
Fixed Assets, including expenditures which significantly improve the usefulness or prolong the useful lives of assets, are recorded at cost. Fixed assets obtained through acquisitions are recorded at purchase cost or assigned value as of the date of acquisition.

Depreciation is charged at annual rates intended to write-off fixed assets over their estimated useful lives. The straight line method of depreciation is used on all assets, except for automotive and mobile equipment where the declining balance method is used. Depreciation rates are as follows:
Buildings — 2½% to 6-⅔%
Machinery and equipment — 4% to 10%
Automotive and mobile equipment — 30%

(f) Proprietary Rights and Technical Know-how
Proprietary Rights and Technical Know-how, which include trade secrets, processes, patents, and other technical know-how, were acquired at a cost of $4,000,000. This amount is being amortized to earnings on a straight line basis over a period of twenty years.

2. Inventories

(in thousands of dollars)	1985	1984
Raw material and supplies	10,887	10,303
Work in progess	18,553	17,039
Finished goods	20,198	14,767
	49,638	42,109

3. Investment in IPSCO INC.

The investment in 2,161,984 common shares of IPSCO INC. was sold in November 1984 for a net $13.00 per share, realizing $28,106,000. The proceeds from the sale, although substantially in excess of the original purchase price, was less than the equity carrying value. The extraordinary loss of $16,250,000 includes provision for income tax of $2,722,000.

4. Fixed Assets

(in thousands of dollars)	1985	1984
Land	2,637	2,941
Buildings, machinery and equipment	112,389	103,567
	115,026	106,508
Less: Accumulated depreciation	58,397	53,163
	56,629	53,345

5. Long-Term Debt

(in thousands of dollars)	1985	1984
Secured term bank loans (U.S. $29,000)	—	34,748
Unsecured term bank loans (1985-U.S. $20,000)	27,272	7,000
Unsecured note payable	—	3,529
	27,272	45,277
Less: current portion	—	941
	27,272	44,336

Term bank loans bear interest at the London Interbank Offered Rate (LIBOR) plus ½%, which rate may be fixed for certain periods. For U.S. $15.0 million interest rates have been fixed as follows: — at 15.9% until November 16, 1985 on $5.0 million; at 12.3% until March 10, 1986, on $10.0 million. A further $5.0 million is at a floating rate which, at March 30, 1985, was 9.6%. The loan is repayable: — U.S. $2.6 million in 1990 and thereafter U.S. $2.9 million per annum until 1996.

6. Capital Stock

(in thousands of dollars)	1985	1984
(a) Preference Shares		
Authorized and outstanding		
$1.10 Series, cumulative redeemable. 39,339 shares (1984 — 40,439)	787	809
$1.10 Second series, cumulative redeemable, 83,899 shares (1984 — 89,737)	1,678	1,794
$1.20 Series, cumulative redeemable 85,288 shares (1984 — 92,488)	1,705	1,850
208,526 Shares (1984 — 222,664)	4,170	4,453

During the year the company purchased for $192,000 the following shares for cancellation:

$1.10 Series	1,100
$1.10 Second Series	5,838
$1.20 Series	7,200
	14,138

(b) Common Shares
Authorized:
Class A Voting — unlimited number of shares
Class B Non-Voting — unlimited number of shares
Outstanding:

(in thousands of dollars)	1985	1984
Class A Voting — 2,568,332 shares (1984 — 2,582,332 shares)	6,180	6,214
Class B Non-Voting — 2,596,332 shares (1984 — 2,582,332 shares)	6,248	6,214
	12,428	12,428

Class A Voting shares may be converted into an equal number of Class B Non-Voting shares at any time. Class B Non-Voting shares are convertible into Class A Voting shares, on a one for one basis, in the event an acquisition offer is made to holders of Class A Voting shares and at least 50% of the Class A Voting shares are tendered in acceptance of the offer. Class A Voting and Class B Non-Voting shares rank equally in all distributions.

During the year 14,000 Class A Voting shares were exchanged for Class B Non-Voting shares.

(c) Stock Option Plan
During the 1985 fiscal year, the company adopted a share option plan whereby 300,000 Class B Non-Voting shares of the Corporation were reserved for key officers and employees. The Board of Directors will fix the option price, which will not be less than the then fair market price of the Class B Non-Voting shares, at the time the options are granted. All options are exercisable within ten years.

During the year options were granted for 82,000 Class B Non-Voting shares, including 70,000 shares to officers of the company, at a price of $6.75 per share. As at March 30, 1985, no options had been exercised.

7. Extraordinary Item — IPSCO INC.

(in thousands of dollars)	1985	1984
Gain on the sale of the assets of Wescan Pipe Protection Ltd.	—	198
Loss on disposal of investment in IPSCO INC. (Note 3)	(16,250)	—
	(16,250)	198

8. Income Taxes

The reconciliation between the statutory income tax rate and the Corporation's effective income tax rate is as follows:

	1985
	%
Combined basic Canadian Federal and Provincial income tax rate	51
Manufacturing and processing and inventory allowances	(4)
Investment tax credits	(10)
Effect of foreign income tax rates	(23)
Other	(5)
	9

9. Pension Plan Liability

The liability for unfunded past service pension costs at March 30, 1985, which is not reflected in the financial statements, amounted to $5,356,000 (1984 — $9,990,000). This liability is being funded by special monthly payments to trustees of the plans, and is being charged to operations over periods of fifteen to twenty years on the basis of reports of independent actuaries.

10. Segmented Financial Information

Thousands of dollars 1985	Steel Production Canada	Steel Production U.S.	Other Manufacturing Canada	Consolidated
Total sales	117,222	87,768	15,312	220,302
Inter-segment sales	1,072	96	32	1,200
Net sales to customers	116,150	87,672	15,280	219,102
Operating profit	6,508	8,285	479	15,272
General corporate expense	—	—	—	(1,360)
Interest expense	—	—	—	(5,295)
Equity in earnings of IPSCO INC.	—	—	—	1,816
Dividend income — IPSCO INC.	—	—	—	259
Loss on Disposal of IPSCO INC.	—	—	—	(16,250)
Income taxes	—	—	—	(770)
Net earnings	—	—	—	(6,328)
Identifiable assets	70,740	57,338	7,708	135,786
Corporate assets	—	—	—	11,159
Total assets	70,740	57,338	7,708	146,945
Capital expenditures	5,840	3,635	—	9,475
Depreciation and amortization	3,679	2,610	194	6,483
Export sales	40,000	—	3,000	43,000

1984	Steel Production Canada	Steel Production U.S.	Other Manufacturing Canada	Consolidated
Total sales	91,582	59,408	13,478	164,468
Inter-segment sales	536	77	21	634
Net sales to customers	91,046	59,331	13,457	163,834
Operating profit	1,979	5,372	(1,391)	5,960
General corporate income	—	—	—	2,976
Interest expense	—	—	—	(6,093)
Equity in earnings of IPSCO INC.	—	—	—	1,844
Income taxes	—	—	—	336
Net earnings	—	—	—	5,023
Identifiable assets	64,995	47,904	9,267	122,166
Corporate assets	—	—	—	47,561
Total assets	64,995	47,904	9,267	169,727
Capital expenditures	4,020	1,534	16	5,570
Depreciation and amortization	3,668	2,345	273	6,286
Export sales	26,516	—	2,080	28,596

The "steel" segment consists of the manufacture and sale of stainless, carbon and low alloy steels, special bar quality steel shapes, tool and die steels and custom steel forgings.

The "other manufacturing" segment consists of the manufacture and sale of standard pole line and communications hardware and extra high voltage electrical transmission hardware.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Slater Steels Corporation as at March 30, 1985 and the consolidated statements of earnings, retained 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 of accounting records 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 March 30, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand, Chartered Accountants
Hamilton, Ontario
April 26, 1985

Five Year Review

	1985	1984	1983	1982	1981
Sales and Earnings ($000)					
Net sales	**$219,102**	$163,834	$130,622	$177,364	$113,728
Income taxes	**770**	(336)	(3,788)	2,208	2,924
Earnings before equity in earnings of associated company	**7,847**	3,179	1,669	7,553	3,586
Equity in earnings of IPSCO INC. (Note A)	**1,816**	1,646	2,054	5,068	3,435
Dividend Income from IPSCO INC.	**259**				
Net earnings (Note A)	**9,922**	4,825	3,723	12,621	7,021
Other Financial Data ($000s)					
Capital expenditures	**9,475**	5,570	5,019	7,809	4,252
Depreciation and amortization	**6,483**	6,286	5,287	4,739	2,981
Cash generated from operations (Note B)	**15,671**	10,534	6,273	14,557	7,650
Year End Position ($000s)					
Working capital	**54,055**	40,104	36,589	38,962	35,987
Fixed assets — net	**56,629**	53,345	52,546	47,811	44,741
Total assets	**146,945**	169,727	159,258	150,558	145,670
Long term debt	**27,272**	44,336	45,152	38,623	40,123
Common shareholders' equity	**71,742**	81,964	75,999	75,086	64,409
Per Common Share Data					
Earnings (Note A)	**$ 1.87**	$ 0.88	$ 0.67	$ 2.39	$ 1.30
Dividends declared	**.40**	.25	.40	.35	.40
Shareholders' equity	**13.89**	15.87	14.72	14.54	12.47
Other Statistics					
Number of employees	**1,684**	1,640	1,350	1,484	1,527
Number of shareholders	**4,261**	3,548	3,193	3,387	3,778

Note A: Equity in the earnings of IPSCO INC. and net earnings shown above are before the following extraordinary items:

1) A loss of $16,250,000 or $3.14 per common share, on the disposal of the investment in IPSCO INC.

2) A gain of $198,000, or $0.04 per common share, recorded in 1984 related to the sale of the assets of Wescan Pipe Protection Ltd. by IPSCO INC.

3) A loss of $612,000, or $0.12 per common share, recorded in 1983 related to the write-off of idle machinery and equipment at IPSCO INC.

Note B: Cash generated from operations consists of earnings before equity in the earnings of IPSCO INC. and extraordinary gains and losses, including dividends received, plus depreciation and amortization and deferred income taxes.

Slater Steels Corporation

Directors

Michael D. Bayne
Manager, Overseas Investments, British Steel Corporation

Bruce M. Hamilton*+
President of the Corporation

William H. Harper+
Chairman, W. H. Harper Inc.

Douglas C. Marrs*†
Former Chairman, Westinghouse Canada Inc.

Richard C. Meech, Q.C.*†+
Partner, Borden & Elliot

Gordon P. Osler*+
Chairman, TransCanada PipeLines; Chairman of the Corporation

W. Cedric R. Penry
Executive Director, British Steel Corporation (Overseas Services) Limited

Norman B. Preece*†
President, Stanton Pipes Limited

Wallace H. Rayner
Vice President — Finance & Secretary of the Corporation

**Member of Executive Committee of the Corporation*
†Member of Audit Committee of the Corporation
+Member of Compensation & Human Resources Committee of the Corporation

Officers

Gordon P. Osler, *Chairman of the Board*
Bruce M. Hamilton, *President & C.E.O.*
Wallace H. Rayner, *Vice President — Finance and Secretary*
Wayne D. McCraney, *Vice President — Human Resources & Communications*
Graham L. Desson, *Treasurer & Assistant Secretary*
Darrold A. Toner, *Comptroller*

Officers of Hamilton Specialty Bar Division
James R. Powers, *Division President*
John F. Miles, *Vice President — Manufacturing*
Brian E. Naber, *Vice President — Sales & Marketing*
David W. Albright, *Comptroller-Treasurer*

Officers of Fort Wayne Specialty Alloys Division
Douglas K. Pinner, *Division President*
Wayne K. Fair, *Director of Finance*
Thomas F. Frappier, *Vice President, Sales & Marketing*

Officers of Sorel Forge Division
Raymond Pallen, *Division President*
Jean-Louis Gendron, *Executive Vice President*
Jean Claude Raimondi, *Vice President — Sales & Marketing*
N. Reginald Plante, *Vice President — Finance*

Officers of SLACAN Division
Gordon W. Meldrum, *Division President*
Garry J. Condon, *Comptroller-Treasurer*

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Montreal Trust Company
Toronto, Montreal, Vancouver, Winnipeg, Calgary

Listed
Toronto Stock Exchange

Auditors
Coopers & Lybrand, Chartered Accountants

Standing left to right: W. Cedric R. Penry, Executive Director, British Steel Corporation (Overseas Services) Ltd. Michael D. Bayne, Manager, Overseas Investments, British Steel Corporation. Norman B. Preece, President, Stanton Pipes Limited. William H. Harper, Chairman, W. H. Harper, Inc. Douglas C. Marrs, Former Chairman, Westinghouse Canada Inc. *Seated left to right:* Richard C. Meech, Q.C., Partner, Borden & Elliot. Bruce M. Hamilton, President and Chief Executive Officer of the Corporation. Gordon P. Osler, Chairman, TransCanada PipeLines, Chairman of the Corporation. Wallace H. Rayner, Vice President, Finance and Secretary of the Corporation.

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