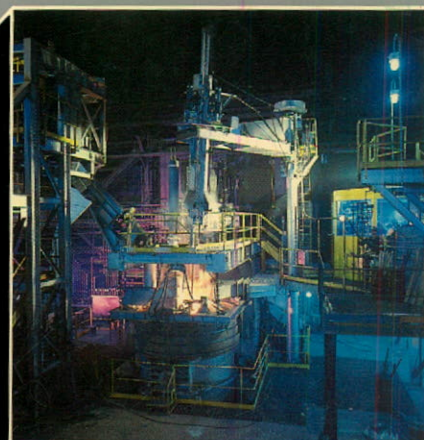
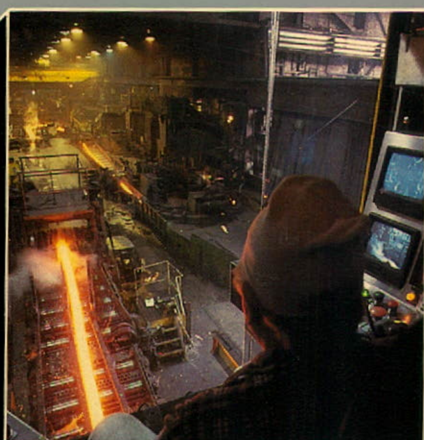
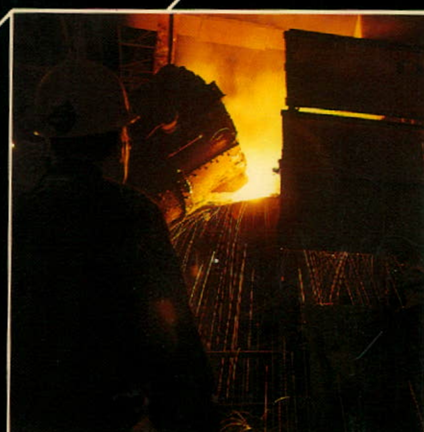
Slater Steels Corporation







Annual Report 1986

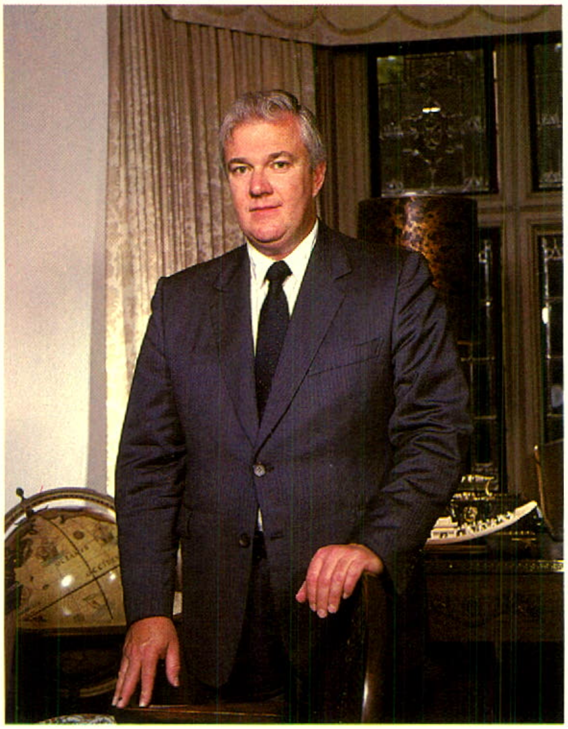
Annual Meeting
The Annual Meeting of Shareholders will be held at 4:15 P.M. on Tuesday, August 19, 1986 in the Regency East Room, Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario

Highlights

$000s except per share data	F'1986	F'1985	Change
Net sales	$231,031	$219,102	+ 5%
Earnings before extraordinary items	6,740	9,922	−32%
Capital expenditures	13,880	9,475	+46%
Depreciation and amortization	6,779	6,483	+ 5%
Working capital	51,594	54,055	− 5%
Fixed assets – net	64,363	56,629	+14%

Per common share data:			
Earnings before extraordinary items	$ 1.26	$ 1.87	−33%
Dividends declared	$ 0.60	$ 0.40	+50%
Common Shareholders' equity	$ 14.67	$ 13.89	+ 6%

Chairman's Report



Several significant events occurred subsequent to the end of this company's fiscal year, March 29th, 1986.

On May 12th, 1986, Fobasco Limited, a Fingold family holding company reacquired the control position of Slater Steels that it sold to British Steel in 1971. That same day your Board received and accepted resignations from all Directors and reappointed Mr. Wallace Rayner, your Company's Chief Financial Officer. Newly elected directors are J. Paul Fingold, David B. Fingold, Albert Gnat, Carl Ablon and Benjamin Swirsky.

While the make-up of the Board has changed dramatically, the only changes at your Company's four operating divisions involve promotions from within.

Mr. John Miles has been appointed Division President of the Hamilton Specialty Bar Division. Mr. Miles has been with the Company for 21 years. Mr. David Smart has been appointed Division President of the SLACAN™ Division. Mr. Smart's previous position was General Manager of SLACAN. Mr. Douglas K. Pinner continues as Division President of the Fort Wayne Specialty Alloys Division and Mr. Raymond Pallen continues as Division President of the Sorel Forge Division.

I have the utmost confidence in the Division Presidents and together with the team at Corporate Head Office, we will be directing divisional activities to ensure that corporate objectives are met.

Your Company is on very sound financial footing having completed the fiscal year ended March 29th, 1986 with shareholders' equity of 79.8 million dollars and long term debt of 27.9 million dollars. This puts us in the position to initiate capital spending programs that will enhance our competitiveness in the selected market niches which will enable us to earn satisfactory returns on investments. This sound financial footing also enables us to consider acquisitions if deemed prudent. In addition, Slater is in the process of privately placing through First Marathon Securities approximately 2.5 million Class "B" non-voting shares.

Your Board has reviewed and approved capital expenditures for the four divisions for Fiscal 1987 in the amount of approximately 16 million dollars. These expenditures are designed to increase production efficiencies and to establish even tighter quality control in order to better service our customers. We are reviewing the feasibility of several additional projects and it is most likely that capital expenditures will be in excess of 16 million dollars.

Your Board and management are committed to Slater growing and prospering as a diversified industrial corporation to ensure that the Company will remain profitable and competitive through all phases of a business cycle. To that end an agreement in principle has been reached to purchase the business and assets of Renown Steel and Melburn Truck Lines, two unincorporated divisions of Fobasco Limited. An independent committee of directors negotiated on behalf of Slater. The purchase price agreed upon was $36 million, for which bank financing is available. We are also considering different forms of equity issues in order that the funding of the purchase will be done in the most beneficial manner for the Company. Should the entire purchase price be bank financed it is expected that this transaction will have an immediate positive impact on earnings.

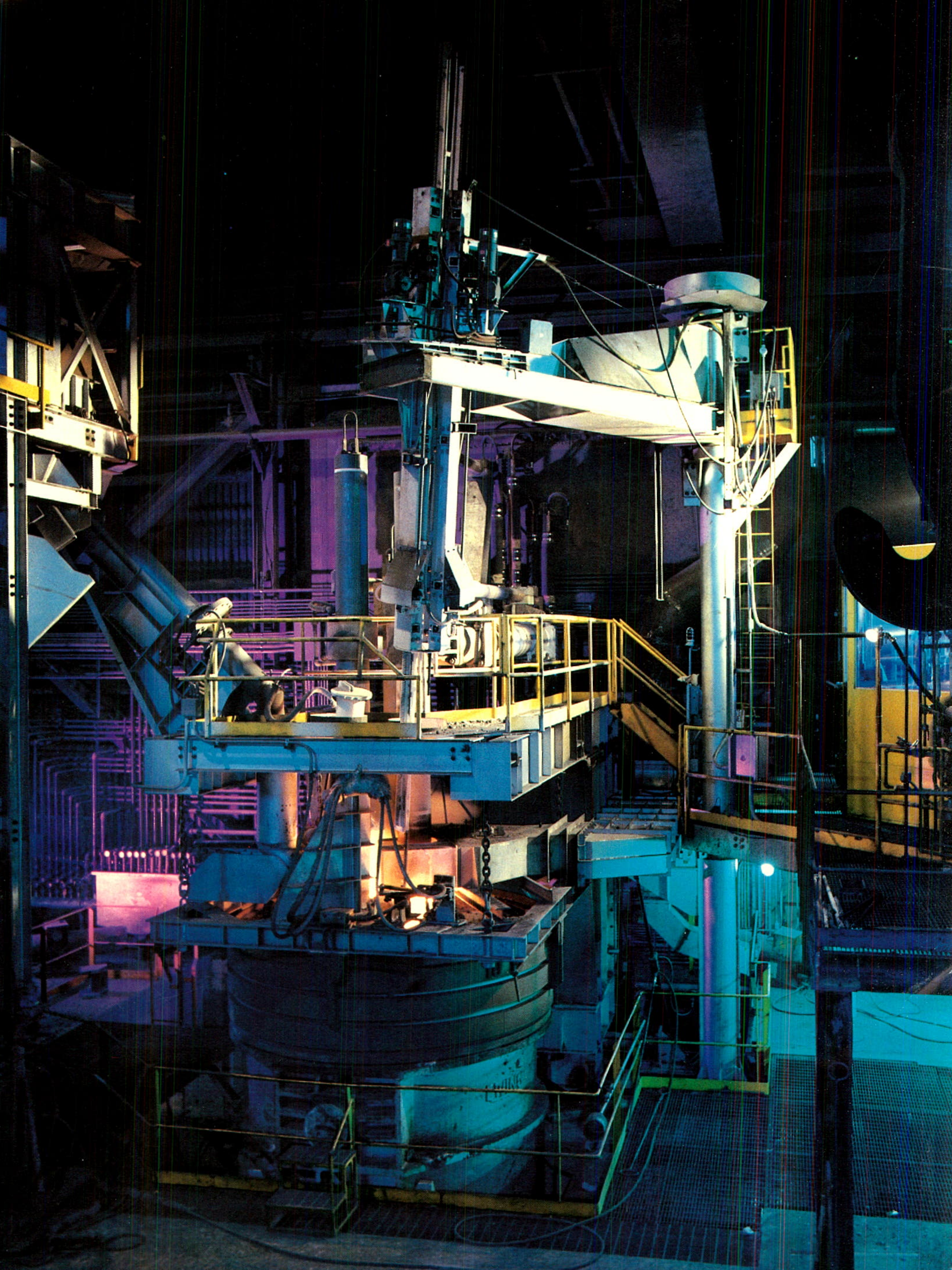
In keeping with the Corporation's new policy to diversify further its lines of business, at the Annual Meeting shareholders will be asked to approve a name change from Slater Steels Corporation to Slater Industries Inc.

I would like to thank all the retiring Officers and Directors for their contributions to the Company.

My family's return to an active involvement in this Company gives me great pride and a sense of accomplishment. As long-time shareholders may remember, Slater was created and guided throughout the sixties by my father, Samuel Fingold.

The challenge ahead of us is to grow selectively and to that end, we look forward to continuing support from our customers, employees, management and shareholders.

J. Paul Fingold
Chairman and Chief Executive Officer
Date: July 8, 1986



Hamilton Specialty Bar Division

Sales from this division were at a record high for fiscal 1986. We achieved a modest increase in the average selling price for this fiscal year due largely to our success in achieving a richer product mix. Sales of alloy and special bar quality (SBQ) grades totalled 90.0% of all shipments.

Earnings showed a significant improvement due to the increased sales and our continuing commitment to cost reduction programs which resulted in exceptional productivity increases and an upgrading of our steel making processes.

We added new accounts to our customer base and further broadened our product line with additional and new grades of steel and specialized sections. We remain committed to the highest standard of service to our customers with particular emphasis on the quality of product, reliability of delivery and technical liaison.

Of particular importance to our operations was the installation and commissioning of a Ladle Furnace. This unit provides the latest "state-of-the-art" technique to electric furnace steelmaking and enables the Hamilton Specialty Bar Division to achieve high standards of metallurgical quality for both the carbon and low alloy grades that it supplies.

Of the several capital projects that were undertaken during the fiscal year, special mention should be made of the "laser beam" roll setting system that enables the mill to achieve reproducible set-ups on the mill stands as a means of providing consistent product from one production rolling to the next.

Recognizing that people are our greatest asset, we made significant progress in the overall communications program with all employees that we have identified as total involvement concept (T.I.C.). This program was designed to enhance two-way communications at all levels within the organization as a means of achieving both understanding and participative excellence. Information on all elements of the business is provided so that everyone can appreciate the goals, plans and requirements of our Company's operation.

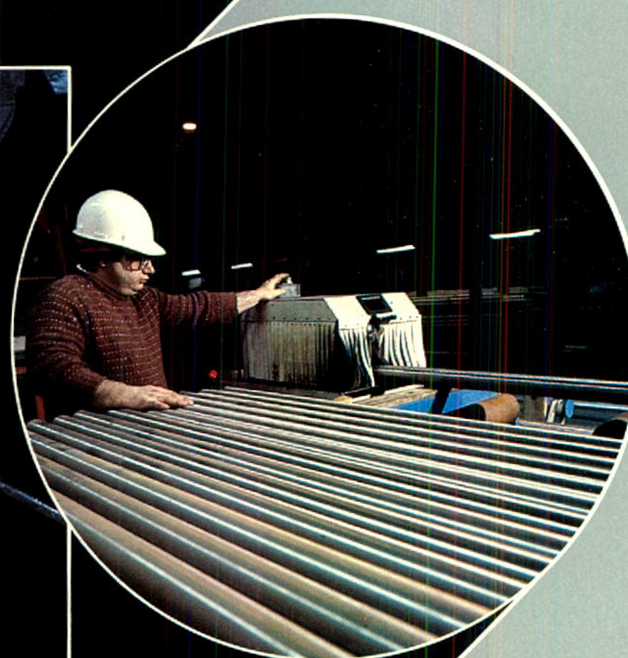
The Statistical Process Control (SPC) system is now well established at this division and has become an effective tool in maintaining control of operations and providing a means for correlating data to achieve solutions to problems as they arise. Most important of all, however, is the involvement of all operating personnel who participate in the program thus bringing their ideas and interest into the day-to-day events in the various production units.

We achieved an excellent safety performance for the year based upon accident frequency. The Hamilton Specialty Bar Division is amongst the top performers in accident prevention according to IAPA statistics.

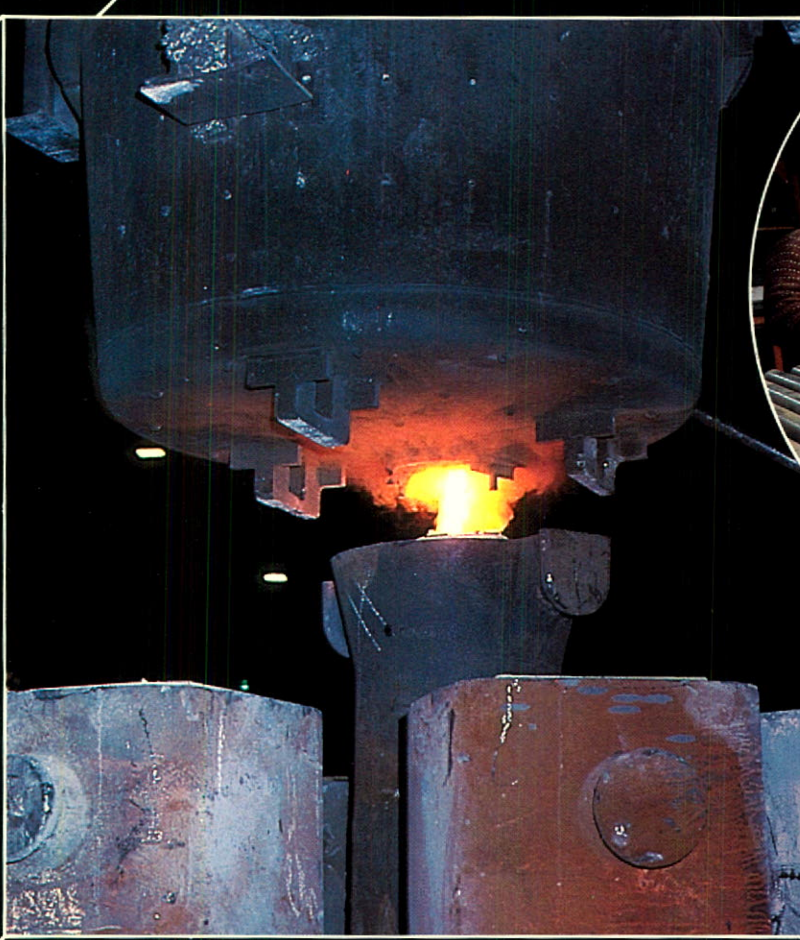
While we are very pleased with the performance of the Hamilton Specialty Bar Division in fiscal 1986 we are continuing to invest in new programs that will further improve our service to customers and further reduce costs of production.

The Hamilton Specialty Bar Division's "state-of-the-art" Ladle Furnace which was commissioned in November 1985.

Oxygen lancing for decarburization and productivity improvement during the electric arc melting of stainless steel.



Final inspection of ground and polished round bars for critical quality application.



Bottom pouring of ingots in order to optimize both surface and internal product quality.

Fort Wayne Specialty Alloys Division

Sales and earnings declined from last year as product pricing came under pressure especially during the second half of fiscal 1986. While the American government's quota restrictions on specialty steel imports has reduced the amount of low priced foreign product, the domestic producers have caused the price of stainless bar product to move at lower levels as each mill reacts to maintain its market share. Simply stated, the overall market for specialty steel is currently in a very competitive phase.

While producers of the higher alloyed stainless and high temperature grades have traditionally enjoyed a strong pricing posture based upon their "tiffany" image, and sometimes exotic applications of their product, this position of commercial comfort has greatly changed in more recent times. While productivity, cost reduction and manufacturing efficiencies are terms that have been associated primarily with the production of tonnage steels, they are now equally applicable to these more sophisticated grades. In today's market, the specialty steel producer must not only maintain vigilance and control of quality and provide the metallurgical skills required for producing these complex alloys, but must also recognize the globally competitive environment in which this industry must function. A trend toward lower prices which is commensurate with the reduced costs of certain of the alloys applied in the making of these steels is inevitable. Therefore, techniques, facilities and practices must continually be improved upon in order to produce quality products in a competitive market and to remain profitable.

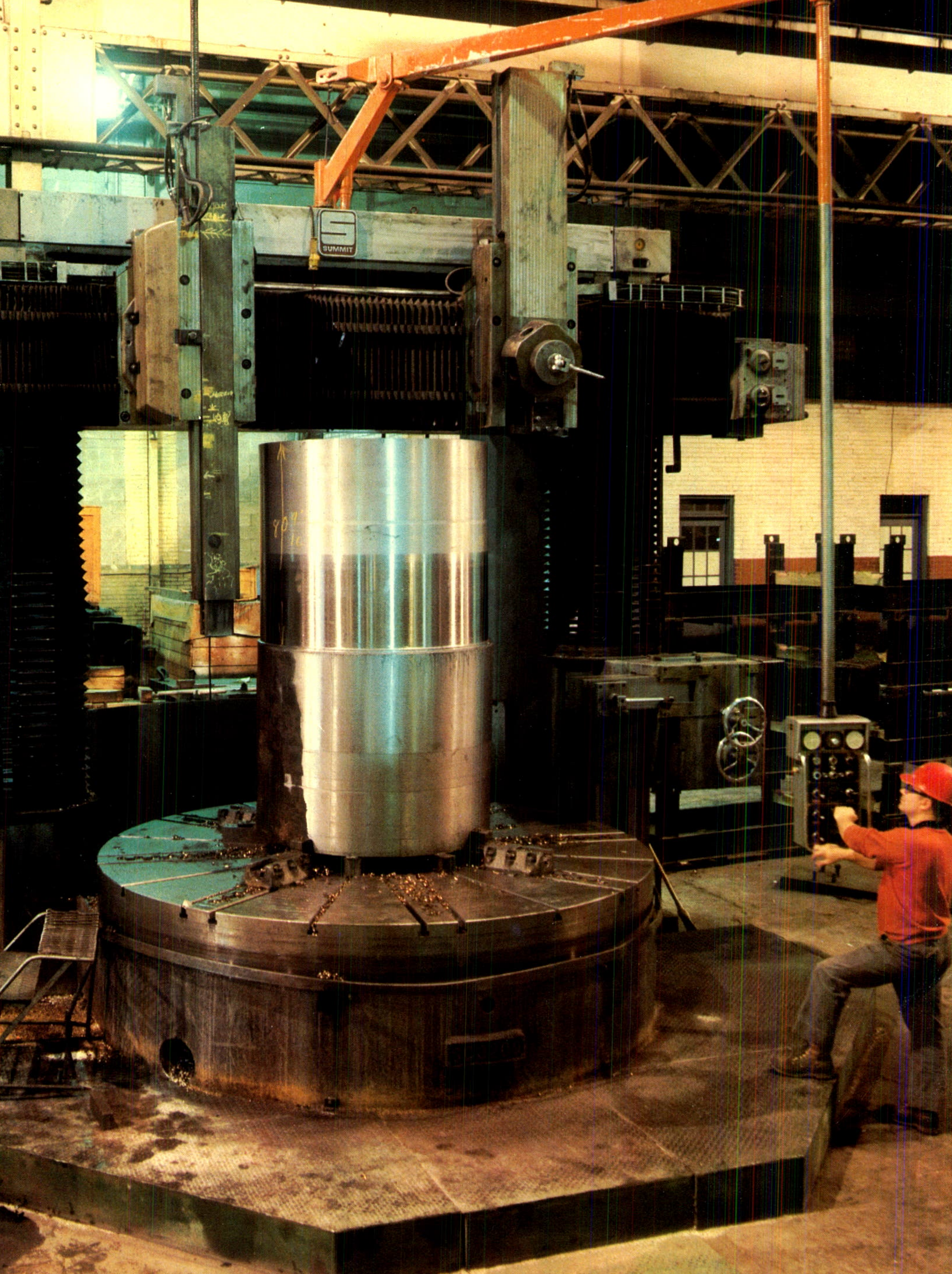
We have been able to make major improvements in various areas of our Fort Wayne operation that have contributed to a more consistent standard of quality and with more efficient operating costs. While increased productivity was achieved in steelmaking, the introduction of a bottom pour ingot system was successfully implemented with 100% of our heats being cast by this practice at fiscal year end. This procedure provided real strides in product quality, hot workability and yield of the majority of the various grades that are being produced. The application of computer control to raw material charges, AOD refining and teeming procedures has brought considerable value and reliability to our overall melt shop practices.

Capital spending at this division was $3.0 million and included changes in layout and additions of specific modern processing equipment that have enhanced the efficiencies in the processing of our various products both in primary rolling and in the various phases of finishing operations.

As a result of marketing emphasis and approvals by specific accounts, we increased our activity in ESR products by more than double that of last year. This unit is now operating at close to capacity and the output makes available several new grades of super alloy content to this critical and demanding market.

Our quality control organization established an extensive Statistical Process Control (SPC) program during the fiscal year that was invaluable in correlating various factors of steelmaking with the ultimate performance of the product. At the same time, this process included a monitoring of key variables throughout the operation and has been used as a procedure for greater involvement of our people.

Our continuing commitment to cost reductions and our sales of additional specialty products should enable us to compete effectively in this particular market place.


SUMMIT

Sorel Forge Division

This division had a very satisfactory year with both Sales and Earnings exceeding the previous year. The sales level was a record high for Sorel Forge with all product lines contributing to the improvement. The sales of tool and die steels were particularly strong in both the Canadian and U.S. markets.

Our marketing liaison with the Crucible Specialty Metals Group in Syracuse, New York continues to provide effective and cooperative liaison for marketing of tool and die steels into the United States. During this past year, improved volume of sales with these steel grades was obtained and specific new grades and specialized commodities were added to the established product lines that have been sold through this relationship during the past several years. We consider our association with Crucible to be extremely valuable to the Sorel Forge division and considerable time and effort is expended in both the commercial and technical aspects of our working agreement.

Our sales of custom forgings did improve during the year in spite of relatively soft and highly competitive market conditions. Sales of both ingots and large forged bars in low alloy stock were pursued aggressively with fair success.

Further improvements and additions were made in various parts of our operation through capital investments. Melt shop productivity achieved further gains and a bottom pour system for ingot casting was implemented as a means of improving the quality, yield and hot workability of our various alloy steels. A new heating furnace was installed in the press department to provide better flexibility and efficiency in the processing of our large ingots. Actual productivity on the large 5000 ton press increased by 10% over the previous year through better material handling and process control. Various upgrading of facilities and processes were implemented in the heat treat and machine shop areas as a means of improving the consistency and reliability of these processes. Such modifications provided specific improvements in delivery performance and in the overall standard of quality of the shipped product.

During the year we established a new collective agreement with the local union which runs until 1989. As an adjunct to our ongoing programs to enhance standards of communication and better interrelationship amongst our people we received from the Association of Human Resources Professionals of Quebec the IRIS Award of the year for excellence in management of personnel relations. Our people are to be commended for this recognition which is the result of mutual cooperation and a responsible approach in dealing with human resource matters.

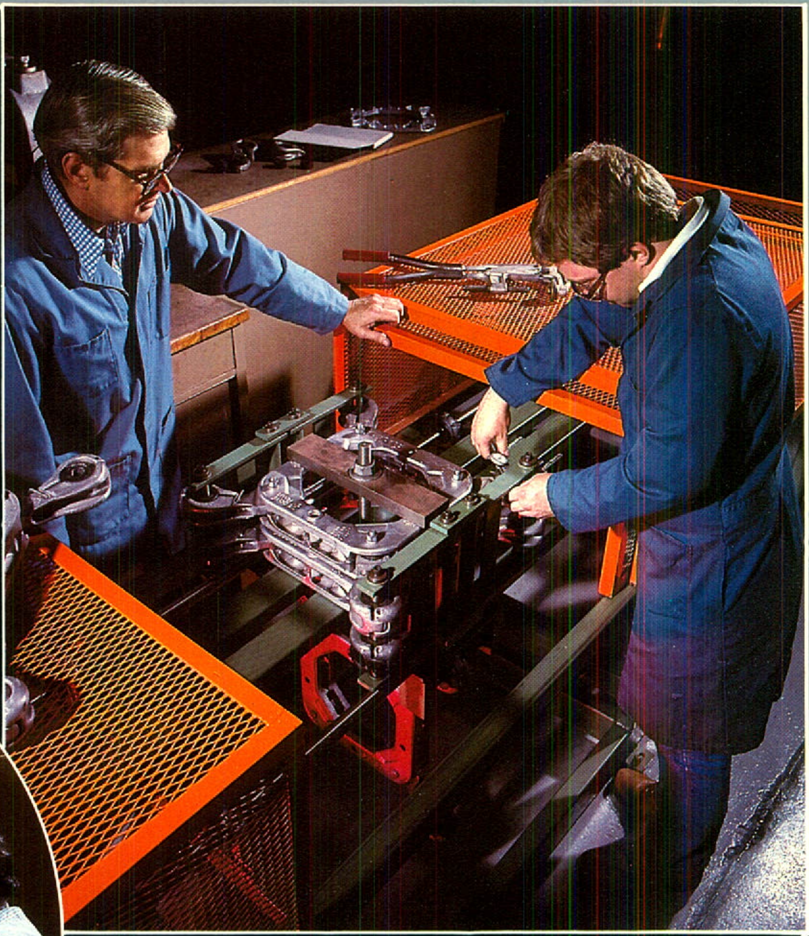
The major area of achievement in Fiscal 86 was tied to matters of training and communications. These elements were pursued through particular courses that are structured as part of the Five Star Program which includes subjects on loss control and the management process. As a means of keeping all of our people current on the happenings of the operations and business, a plant tabloid was introduced which is edited by an employee staff committee and distributed on a quarterly basis.

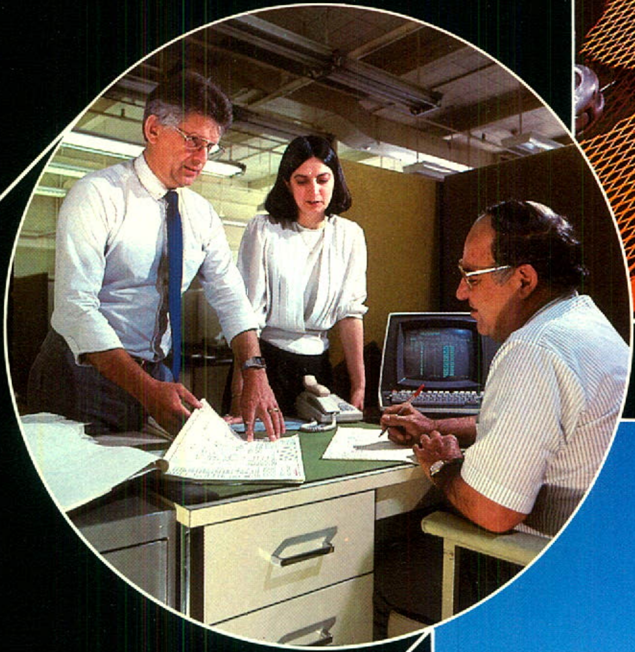
The division made good progress in implementing the first elements of a Statistical Process Control Program (S.P.C.) which will continue to be built upon over the upcoming year.

We expect that our continuing capital expenditure program together with new products will further improve performance in this specialty market.

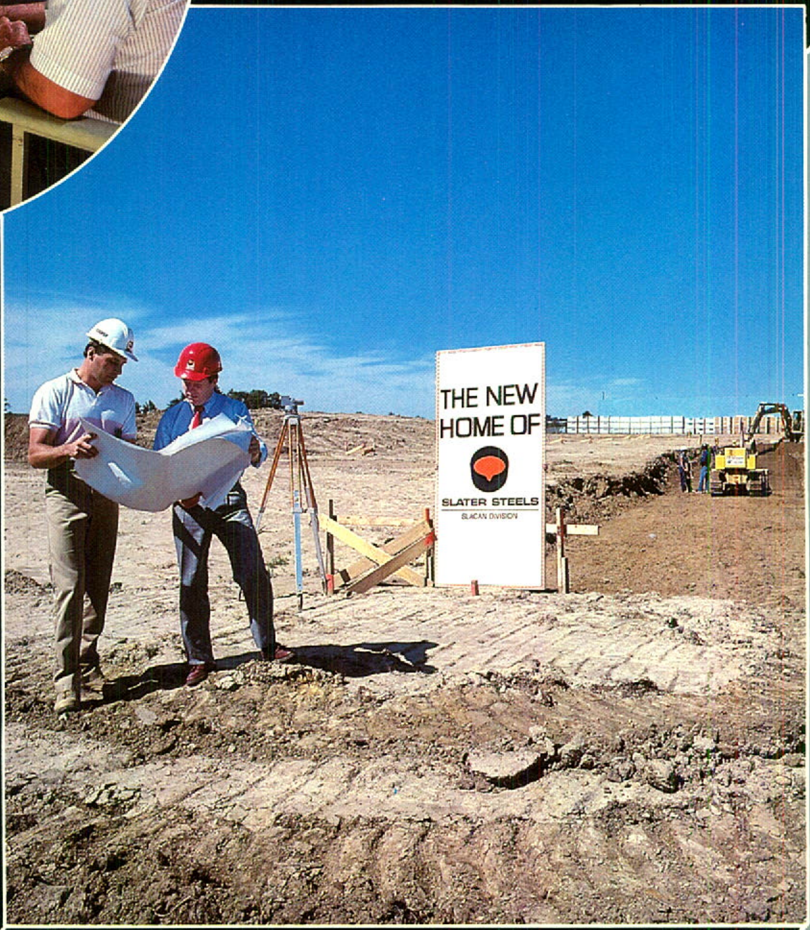
Machining of large open die alloy forging to meet dimensional specification and permit non-destructive testing prior to shipping.

Process control testing for Spacer Dampers.





Master Scheduler and staff reviewing M.R.P. production scheduling.



Reviewing plans for the new factory currently under construction in Brantford, Ontario.

SLACAN™ Division

Fiscal 1986 was a good year for the SLACAN Division. Profitability increased over the previous year and plans were finalized for a new plant in Brantford, Ontario.

From an operations viewpoint, divisional profitability was substantially enhanced by the in-house cost reduction programs in both purchasing, design engineering and production methods. The priorities and resources directed to this critical area will be increased during fiscal 1987.

Recognizing the importance of employee communication for the Division to achieve its intermediate and long term goals, we implemented an extensive employee communications program. All key areas of the operation are reviewed and discussed in detail at quarterly meetings with both salaried and hourly employees.

In recognition of the increasing importance of export markets to SLACAN Division, we established a network of agents to market the Division's products in the United States to the power utility markets. While a selective approach to this market is required from a product point of view, the initial results are encouraging.

On March 13, 1986, the Board of Directors approved the construction of a new 120,000 sq. ft. manufacturing facility in Brantford, Ontario to replace the existing facility in Hamilton where the Division has been located since 1917. This relocation project will generate significant financial benefits to the Division which will enhance both its profitability and competitive position.

SLACAN, as Canada's largest and foremost manufacturer and supplier of pole line hardware to both the communication and power utility market, reaffirms its commitment to the industry as an innovative and quality supplier. SLACAN as a market-oriented and customer-driven organization actively solicits the input of its customer base in order to ensure that its products competitively serve the real demands of the North American and International utility markets.

Financial Commentary
Shareholders' Report

Sales and Earnings

Consolidated net sales for the year ended March 29, 1986 were $231 million, an increase of 5% over sales of $219 million in the comparable prior year. The higher sales level is due largely to increased shipments at the Hamilton Specialty Bar Division and at the Sorel Forge Division. Sales at the other two divisions, Fort Wayne Specialty Alloys and Slacan were virtually unchanged from the previous year.

Earnings for the year were $6.7 million as compared to a loss of $6.3 million in the prior year. After giving effect to preferred share dividends, earnings for Fiscal 1986 were $1.26 per share as compared to a loss of $1.27 per share in Fiscal 1985. Prior year's results included a one time charge of $16.2 million representing the Company's loss on the disposition of its investment in IPSCO INC.

Financial Position

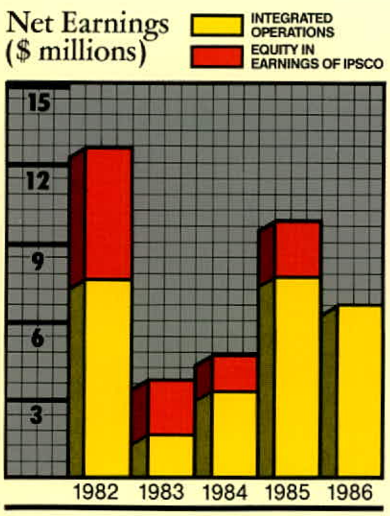
Cash flow from operations for the period ending March 29, 1986 was $14.1 million or $2.67 per share, as compared to $15.7 million or $2.98 per share in the prior period.

Capital expenditures made in the year were $13.9 million as compared to $9.5 million in the prior year. Dividends paid to shareholders increased from $2.3 million to $3.3 million as a result of the increase in the quarterly dividend on common shares from 10¢ to 15¢.

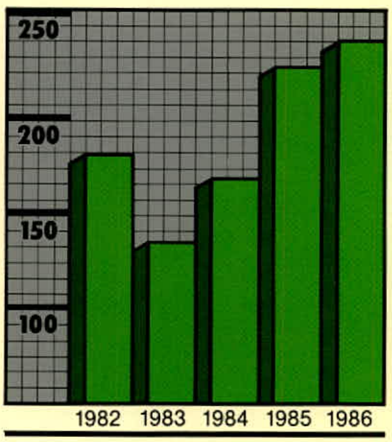
Increased levels of capital expenditures and dividends resulted in working capital decreasing by $2.5 million to $51.6 million.

Common shareholder's equity totalled $75.9 million or $14.67 per share at March 29, 1986 compared to $71.7 million or $13.89 per share at the previous year's end. Including preferred shares, total shareholder's equity stood at just under $80 million. Long term debt at year end was $27.9 million, slightly up from $27.3 million the previous year.

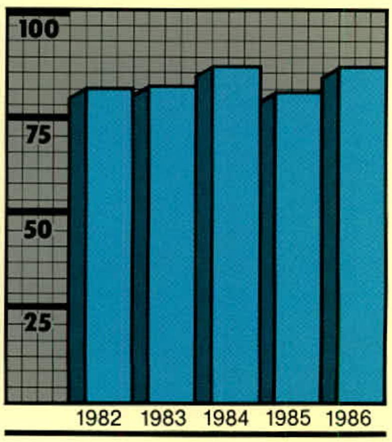
Net Earnings ($ millions)



Net Sales ($ millions)



Shareholder's Equity ($ millions)



Consolidated Statement of Earnings

(in thousands of dollars)	YEAR ENDED March 29, 1986	YEAR ENDED March 30, 1985
NET SALES	$231,031	$219,102
EARNINGS BEFORE THE FOLLOWING ITEMS	17,538	20,395
Depreciation and amortization	6,779	6,483
Interest on long-term debt	3,249	5,250
Other interest	(87)	45
	7,597	8,617
INCOME TAXES	857	770
EARNINGS BEFORE EQUITY IN EARNINGS OF IPSCO INC.	6,740	7,847
EQUITY IN EARNINGS OF IPSCO INC.	—	1,816
DIVIDEND INCOME FROM IPSCO INC.	—	259
EARNINGS BEFORE EXTRAORDINARY ITEMS	6,740	9,922
EXTRAORDINARY ITEM: - IPSCO INC. (Note 8)	—	(16,250)
NET EARNINGS (LOSS) FOR THE YEAR	6,740	(6,328)
EARNINGS (LOSS) PER COMMON SHARE:		
— before extraordinary item	$1.26	$1.87
— net earnings (loss)	$1.26	$(1.27)

Consolidated Statement of Retained Earnings

(in thousands of dollars)	YEAR ENDED March 29, 1986	YEAR ENDED March 30, 1985
BALANCE - BEGINNING OF YEAR	58,597	67,143
Net earnings (loss) for the year	6,740	(6,328)
Surplus realized on retirement of preference shares	103	91
	65,440	60,906
Dividends		
Preference shares	225	244
Common shares	3,104	2,065
	3,329	2,309
BALANCE - END OF YEAR	62,111	58,597

Consolidated Balance Sheet

(in thousands of dollars)

	AS AT	
ASSETS	March 29, 1986	March 30, 1985
CURRENT ASSETS		
Cash	$ —	$ 7,083
Accounts receivable	26,705	28,914
Inventories (Note 2)	55,685	49,638
Other current assets	1,401	940
	83,791	86,575
FIXED ASSETS (Note 3)	64,363	56,629
PROPRIETARY RIGHTS AND TECHNICAL KNOW-HOW	3,350	3,550
OTHER ASSETS	96	191
	151,600	146,945
LIABILITIES		
CURRENT LIABILITIES		
Bank advances	655	—
Accounts payable and accrued charges	30,649	31,891
Dividends payable	893	629
	32,197	32,520
LONG-TERM DEBT (Note 4)	27,940	27,272
DEFERRED INCOME TAXES & INVESTMENT TAX CREDITS	11,643	11,241
SHAREHOLDERS' EQUITY		
PREFERENCE SHARES (Note 5)	3,865	4,170
COMMON SHARES (Note 5)	12,526	12,428
CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS	1,318	717
RETAINED EARNINGS	62,111	58,597
	79,820	75,912
	151,600	146,945

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	YEAR ENDED March 29, 1986	March 30, 1985
SOURCE OF WORKING CAPITAL		
Operations		
Earnings before equity in earnings of IPSCO INC. and extraordinary items	$ 6,740	$ 7,847
Depreciation and amortization	6,779	6,483
Deferred income taxes and investment tax credits	540	574
	14,059	14,904
Disposal of investment in IPSCO INC. and sale of rights	—	29,035
Disposal of fixed assets	—	1,300
Dividends received	—	767
Decrease in other assets	74	31
Increase in working capital arising from currency translation adjustments	719	1,310
Proceeds from exercise of employee share options	98	—
	14,950	47,347
USE OF WORKING CAPITAL		
Net additions to fixed assets	13,880	9,475
Reduction of long-term debt	—	21,420
Retirement of preference shares	202	192
Dividends	3,329	2,309
	17,411	33,396
INCREASE (DECREASE) IN WORKING CAPITAL	(2,461)	13,951
WORKING CAPITAL-BEGINNING OF YEAR	54,055	40,104
WORKING CAPITAL-END OF YEAR	51,594	54,055

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 wholly owned subsidiaries.

(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) Investment Tax Credits

In accordance with the recommendations of the Canadian Institute of Chartered Accountants, effective March 31, 1985 investment tax credits relating to capital expenditures have been accounted for as deferred credits and at March 29, 1986 amounted to $550,000. These are being amortized to earnings on the same basis as the related fixed assets. This change has been applied prospectively and accordingly, no adjustments have been made to previously reported financial results.

Prior to this change, investment tax credits were accounted for under the flow through method whereby the credits were applied to reduce the provision for income taxes in the same period in which the credits were claimed for income taxes. The effect of this change has resulted in a reduction in net earnings for the year of $707,000. Earnings per share would otherwise have been $1.39. The balance of investment tax credits earned before March 30, 1985 have been accounted for using the flow through method during the year.

(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. The cost of financing major fixed asset additions during the period of construction is capitalized.

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	3¾% to 6⅔%
Machinery and equipment	5% 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)	1986	1985
Raw material and supplies	12,403	10,887
Work in progress	21,542	18,553
Finished goods	21,740	20,198
	55,685	49,638

3) FIXED ASSETS

(in thousands of dollars)	1986	1985
Land	2,643	2,637
Buildings, machinery and equipment	126,574	112,389
	129,217	115,026
Less: Accumulated depreciation	64,854	58,397
	64,363	56,629

At March 29, 1986 the company is committed to fixed asset expenditures of $12,500,000.

4) LONG-TERM DEBT

(in thousands of dollars)	1986	1985
Unsecured term bank loans (U.S. $20,000)	27,940	27,272

Term bank loans bear interest at the London Interbank Offered Rate (LIBOR) plus ½%, which rate may be fixed for certain periods. Term loans are denominated in U.S. dollars and are at floating interest rates, which at March 29, 1986 range from 8.3% to 8.5%. The loans are repayable at U.S. $2.6 million in 1990 and thereafter U.S. $2.9 million per annum until 1996.

5) CAPITAL STOCK

(in thousands of dollars)	1986	1985
(a) Preference Shares		
Authorized and outstanding		
$1.10 Series, cumulative redeemable, 37,264 shares (1985-39,364)	745	787
$1.10 Second Series, cumulative redeemable, 77,449 shares (1985-83,899)	1,549	1,678
$1.20 Series, cumulative redeemable, 78,563 shares (1985-85,263)	1,571	1,705
193,276 Shares (1985-208,526)	3,865	4,170

During the year the company purchased for $202,000 the following number of shares for cancellation:

2,100	$1.10 Series
6,450	$1.10 Second Series
6,700	$1.20 Series
15,250	

(b) Common Shares

Authorized:

Class A Voting – unlimited number of shares

Class B Non-Voting – unlimited number of shares

Outstanding:

(in thousands of dollars)	1986	1985
Class A Voting – 2,566,077 shares (1985-2,568,332 shares)	6,175	6,180
Class B Non-Voting – 2,613,087 shares (1985-2,596,332 shares)	6,351	6,248
	12,526	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 the holders of all 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 2,255 Class A Voting shares were exchanged for Class B Non-Voting shares.

(c) Share Option Plan

The company has a share option plan whereby 300,000 Class B Non-Voting shares of the Corporation are reserved for key officers and employees. The Board of Directors will determine the option price of the Class B Non-Voting shares, which will not be less than the fair market price at the time the options are granted. All options are exercisable within ten years.

During the year an option for 7,000 Class B Non-Voting shares was granted and an option for 6,750 Class B Non-Voting shares was cancelled. As well options for 14,500 Class B Non-Voting shares were exercised for total proceeds of $98,000. As at March 29, 1986 options for 67,750 Class B Non-Voting shares remain unexercised (1985-82,000).

6) INCOME TAXES

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

	1986	1985
	%	%
Combined basic Canadian Federal and Provincial income tax rate	51	51
Manufacturing and processing and inventory allowances	(7)	(4)
Investment tax credits	(3)	(10)
Effect of foreign income tax rates	(24)	(23)
Other	(6)	(5)
	11	9

7) PENSION PLAN LIABILITY

On the basis of reports of independent actuaries as at December 31, 1985 the liability for unfunded past service pension costs at March 29, 1986, which is not reflected in the financial statements, amounted to $645,000 (1985-$5,356,000). 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.

8) EXTRAORDINARY ITEM

The Corporation's investment in 2,161,984 common shares of IPSCO INC. was sold in November, 1984 for net proceeds of $28,106,000. The proceeds

Notes Continued

from the sale, although substantially in excess of the original purchase price, were less than the equity carrying value of the investment, resulting in an extraordinary loss reported in fiscal 1985 of $16,250,000, including provision for income taxes of $2,722,000.

9) LEASE COMMITMENTS

The future minimum lease payments under operating leases of the Corporation for each of the next five years are as follows:

	Thousands of Dollars
1987	1,015
1988	877
1989	852
1990	605
1991	619
	3,968

Auditors' Report To The Shareholders

We have examined the consolidated balance sheet of Slater Steels Corporation as at March 29, 1986 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 29, 1986 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 treatment of investment tax credits as explained in Note 1(d) to the financial statements, on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS
HAMILTON, ONTARIO
APRIL 25, 1986

10) SEGMENTED FINANCIAL INFORMATION

	Steel Production		Steel Production		Other Manufacturing		Consolidated	
	1986		1985		1986	1985	1986	1985
(in thousands of dollars)	Canada	U.S.	Canada	U.S.	Canada			
Total sales	131,781	87,521	117,222	87,768	14,727	15,312	234,029	220,302
Inter-segment sales	1,390	1,598	1,072	96	10	32	2,998	1,200
Net sales to customers	130,391	85,923	116,150	87,672	14,717	15,280	231,031	219,102
Operating profit	9,924	1,207	6,508	8,285	524	479	11,655	15,272
General corporate expense							(896)	(1,360)
Interest expense							(3,162)	(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							(857)	(770)
Net earnings							6,740	(6,328)
Identifiable assets	78,306	61,254	70,740	57,338	8,602	7,708	148,162	135,786
Corporate assets	—	—	—	—	—	—	3,438	11,159
Total assets	78,306	61,254	70,740	57,338	8,602	7,708	151,600	146,945
Capital expenditures	9,649	4,115	5,840	3,635	116	—	13,880	9,475
Depreciation and amortization	3,911	2,720	3,679	2,610	148	194	6,779	6,483
Export sales	55,939	—	40,000	—	1,644	3,000	57,583	43,000

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.

Five Year Review

	1986	1985	1984	1983	1982
SALES AND EARNINGS ($000s)					
Net sales	$231,031	$219,102	$163,834	$130,622	$177,364
Income taxes	857	770	(336)	(3,788)	2,208
Earnings before equity in earnings of associated company	6,740	7,847	3,179	1,669	7,553
Equity in earnings of IPSCO INC. (Note A)	—	1,816	1,646	2,054	5,068
Dividend Income from IPSCO INC.	—	259	—	—	—
Net earnings (Note A)	6,740	9,922	4,825	3,723	12,621
OTHER FINANCIAL DATA ($000s)					
Capital expenditures	13,880	9,475	5,570	5,019	7,809
Depreciation and amortization	6,779	6,483	6,286	5,287	4,739
Cash generated from operations (Note B)	14,059	15,671	10,534	6,273	14,557
YEAR END POSITION ($000s)					
Working capital	51,594	54,055	40,104	36,589	38,962
Fixed assets - net	64,363	56,629	53,345	52,546	47,811
Total assets	151,600	146,945	169,727	159,258	150,558
Long term debt	27,940	27,272	44,336	45,152	38,623
Common shareholders' equity	75,955	71,742	81,964	75,999	75,086
PER COMMON SHARE DATA					
Earnings (Note A)	$ 1.26	$ 1.87	$ 0.88	$ 0.67	$ 2.39
Dividends declared	$ .60	.40	.25	.40	.35
Shareholders' equity	$ 14.67	13.89	15.87	14.72	14.54
OTHER STATISTICS					
Number of employees	1,700	1,684	1,640	1,350	1,484
Number of shareholders	3,880	4,261	3,548	3,193	3,387

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, recorded in 1985 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.

Directors and Officers

Directors

Carl S. Ablon†
Carl S. Ablon Private Investments
Director — Several U.S. Corporations

David B. Fingold*†+
President, Fobasco Limited

J. Paul Fingold*
Chairman of the Board, Fobasco Limited

Albert Gnat*+
Partner
Lang, Michener, Lash, Johnston

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

Benjamin Swirsky†+
Vice Chairman & Chief Executive Officer
Bramalea Limited

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

Officers

J. Paul Fingold, *Chairman and Chief Executive Officer*
David B. Fingold, *Vice Chairman*
Albert Gnat, *Vice Chairman*
Wallace H. Rayner, *Vice President-Finance and Secretary*
Wayne D. McCraney, *Vice President — Human Resources and Communications*
Brian Rowley, *Vice President — Administration*
Robert Cohl, *Vice President — Special Projects*
Graham L. Desson, *Treasurer and Assistant Secretary*
Darrold A. Toner, *Comptroller*

Division Management

Hamilton Specialty Bar Division

J.F. Miles* *Division President*
B.E. Naber* *Vice President Sales & Marketing*
B.C. Bowman *Manager Quality Assurance & Technology*
A.P. Hyde *Manager Production*
J.W. Hughes *Manager Human Resources & Communications*
G.J. Condon* *Comptroller*
A.B. Loopstra *Manager Materials & Services*
B.K. Uppal *Manager Engineering Services*

Fort Wayne Specialty Alloys Division

D.K. Pinner* *Division President*
T.F. Frappier* *Vice President Sales & Marketing*
J.F. O'Hara *Vice President New Market Development*
R.L. Teders *Director Manufacturing*
M.D. Sullivan *Director Metallurgy*
J.A. Fuhrman* *Manager Financial Services*
T.H. Bower *Director Human Resources & Communications*
J.E. Reinhart *Director Purchasing*
J.M. Fallon *Director Engineering*

Sorel Forge Division

R. Pallen* *Division President*
J.L. Gendron* *Executive Vice President*
J.C. Raimondi* *Vice President Sales & Marketing*
G.W. Gendron *Works Manager*
N.R. Plante* *Vice President Finance*
J. Racicot *Chief Engineer*
M. Tellier *Chief Metallurgist*
M. Lizotte *Director Human Resources & Communications*

SLACAN Division

J.D. Smart* *Division President*
D.R. Gower *Manager Operations*
H.J. Houston *Manager Engineering & Procurement*
D.W. Griffiths *Manager Human Resources & Communications*
C.B. Condon *Manager Domestic Sales*
M.G. Duce *Manager Export Sales*
R.P. Van Wely* *Comptroller*

* *Division Officers*

Registrar and Transfer Agents

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

Listed

Toronto Stock Exchange

Auditors

Coopers & Lybrand, Chartered Accountants

Standing Left to Right: *Carl S. Ablon, Albert Gnat, Wallace H. Rayner*

Seated Left to Right: *David B. Fingold, J. Paul Fingold*

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