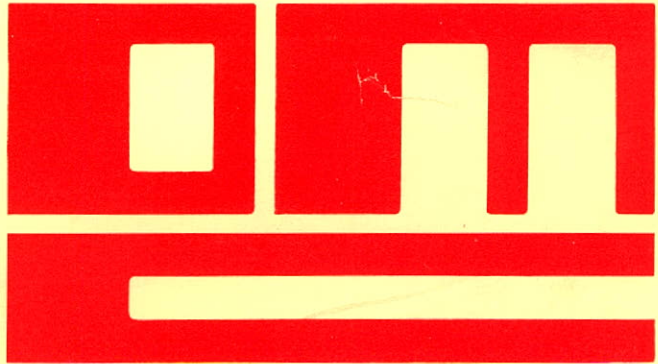


Drummond McCall Inc.

Annual Report 1980



HOWARD ROSS LIBRARY
OF MANAGEMENT
JUN 5 1981
MCGILL UNIVERSITY

Drummond McCall Inc.





Financial Highlights

(In thousands of dollars except where noted by asterisk)

ANNUAL RESULTS

	1980	1979
Sales	\$223,478	\$210,827
Earnings	3,924	8,173
Earnings per Share*	1.15	2.82
Return on Sales	1.8%	3.9%

QUARTERLY RESULTS

Quarter	Sales		Earnings After Tax		Earnings Per Share*	
	1980	1979	1980	1979	1980	1979
First	\$ 60,256	\$ 51,321	\$2,138	\$2,497	\$0.63	\$0.88
Second	58,604	57,375	364	2,498	0.11	0.88
Third	51,143	49,949	390	1,450	0.11	0.51
Fourth	53,475	52,182	1,032	1,728	0.30	0.55
Total	\$223,478	\$210,827	\$3,924	\$8,173	\$1.15	\$2.82

Stock Market Trading Information

Common Shares

1980	High	Low	Close	Shares Traded
	\$	\$	\$	
First quarter	12¼	10	10¾	60,956
Second quarter	11¾	10	10½	29,034
Third quarter	11½	10⅙	11	77,009
Fourth quarter	12	10½	11¾	88,702
Year 1980	12¼	10	11¾	255,701
Year 1979	14¾	9½	11¾	228,206

Note: The Common Shares are listed for trading on the Toronto and Montreal Stock Exchanges.

Service is our business. A large fleet of trucks, operating around the clock and from coast to coast, assures that our customers receive their metal as they need it and when they need it.

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétaire de la Société, case postale 219, Succursale A, Montréal, Québec H3C 2S4.

Drummond McCall Inc.

Head Office

5205 Fairway Street,
Lachine, Quebec

Mailing Address

P.O. Box 219, Station A,
Montreal, Quebec H3C 2S4

Offices and Plants

St. John's	Halifax	Saint John
Edmundston	Saguenay	Quebec
Thetford Mines	Montreal	Kingston
Toronto	Hamilton	Sudbury
Thunder Bay	Winnipeg	Saskatoon
Calgary	Edmonton	Kelowna
Prince George	Vancouver	Victoria
Nanaimo	Campbell River	Kitimat
Whitehorse		
Portland, Maine		

Incorporation

Under the laws of Canada

Auditors

Price Waterhouse & Co.
Montreal, Quebec

Legal Counsel

Ogilvy, Renault
Montreal, Quebec

Share Transfer Agent and Registrar

The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina,
Calgary, Vancouver



Directors

Douglas T. Bourke
President and Chief Executive Officer,
Drummond McCall Inc.

Pierre Côté (1)
Chairman of the Board,
Celanese Canada Inc.

Robert Després (1)
Chairman of the Board,
Atomic Energy of Canada Limited

Derek A. Drummond
Associate Professor of Architecture and Director,
School of Architecture, McGill University

Alex D. Hamilton
President and Chief Executive Officer,
Domtar Inc.

Kenneth S. Howard, Q.C.
Partner, Ogilvy, Renault

Roderick M. Hungerford
President, Flex-Lox Industries Ltd.

Howard J. Lang
Chairman of the Board, Cannon Inc.

A. David McCall
Research Manager, Drummond McCall Inc.

R. Kenneth Robertson
Executive Vice-President, Drummond McCall Inc.

Hugh G. Seybold (2)
Director, Drummond McCall Inc.

William H. Young
President, The Hamilton Group Limited

Executive Officers

Douglas T. Bourke
President and Chief Executive Officer

R. Kenneth Robertson
Executive Vice-President

John H. Harrison
Vice-President

George W. Tolhurst (3)
Vice-President

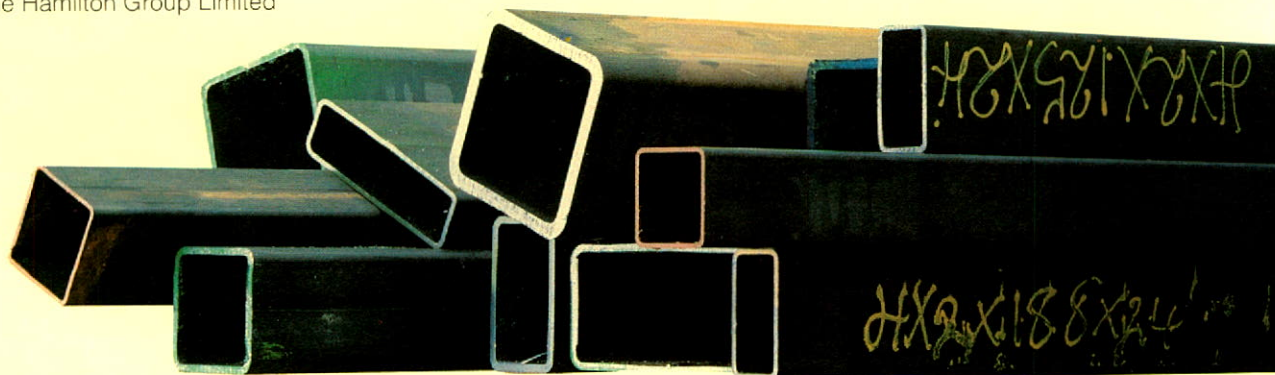
Bruce H. Wepler
Vice-President and Secretary-Treasurer

Robin J. Mayes
Controller and Assistant Secretary-Treasurer

(1) Elected November 5, 1980

(2) Retired August 5, 1980

(3) Appointed February 18, 1981





Bruce H. Wepler, Vice-President and Secretary-Treasurer (left), Douglas T. Bourke, President and Chief Executive Officer (centre) and R. Kenneth Robertson, Executive Vice-President (right).

Directors' Report To Shareholders

Consolidated sales of the Corporation during 1980 amounted to \$223.5 million. While this was the highest level of dollar sales achieved in the 99 years throughout which Drummond McCall has served the metal consuming industries of Canada, the tonnage shipped was down approximately 7% from the previous year.

The market for the Corporation's products in the year past was mixed, but in spite of the overall weak economy, some sectors of industry and some geographical regions showed reasonable strength. The most dominant factor affecting sales, however, was the significant decline in activity in the automotive, housing and consumer product sectors. High interest rates contributed to the sluggishness of demand in these markets.

Among those industries which maintained reasonable strength throughout the year were aerospace manufacturers and a broad spectrum of capital goods producers.

Due to the depressed state of the market, very competitive business conditions prevailed and profit margins were well below the Corporation's objectives. Net earnings for the year amounted to \$3.9 million or \$1.15 per share. This represented a rate of return of 1.8% on sales and 8.1% on average shareholders' equity.

The Corporation was able to improve its relative position in the Canadian market as a result of the expansions undertaken in 1979 and continued throughout 1980. Specifically, new plants were opened during the year in Quebec City and in Kitimat, British Columbia. Both of these plants were in full operation by mid year and a modern shot blast and paint line which was installed in the Vancouver plant



commenced operation during the second quarter. In addition, new sales offices were opened in St. John's, Newfoundland and Edmundston, New Brunswick. Expansions of several other existing plants were commenced and will be completed in 1981. Among these was the installation of an outside storage facility at the Calgary plant. Also, work progressed on the further expansion of the Winnipeg plant and the installation in it of major plate and sheet processing equipment. This project is proceeding on schedule and is expected to be in operation during the second quarter 1981.

In the United States, the Corporation's subsidiary, DMC Metals Inc., commenced shipping from its new plant in Portland, Maine during the month of April. Demand in the market served was very weak during the past year and as yet the performance of this plant has not been up to expectations.

The total cost of capital expenditures in 1980 was \$6.7 million.

Work continued on the extension of the on-line computer which links the major plants of the Corporation. This system now stretches from coast to coast and has significantly improved internal operations and communications. Major benefits have already been realized from this installation and further improvements are planned.

In the month of June the Corporation issued and placed privately \$10.0 million of Sinking Fund Debentures Series D. These Debentures, due in 1995, bear interest at a floating rate of one quarter of one per cent less than the prime rate of a Canadian chartered bank, and the interest is payable semi-annually.

At December 31, 1980 working capital was \$50.0 million compared to \$42.7 million a year earlier. Due largely to a planned reduction in inventories during the year total assets declined from \$120.8 million to \$112.5 million.

Dividends totalling \$0.80 per share were paid in 1980. All four quarterly dividends were \$0.20 per share. In 1979 regular dividends totalled \$0.68 per share and an extra dividend

of \$0.12 per share paid in the fourth quarter brought total dividends for that year to \$0.80 per share.

Mr. Hugh G. Seybold retired from the Board of Directors in August after having reached the age of 70. Mr. Seybold had been an employee of the Corporation for 38 years and was a Director for 23 years. At the time of his retirement from active employment in 1975 he was Chairman of the Board. His contribution to the progress of the Corporation over the years was significant and we will miss his wise and friendly counsel. During the month of November Messrs. Pierre Côté and Robert Després were elected to the Board and we extend a warm welcome to these two gentlemen. Mr. George W. Tolhurst, formerly Quebec Region Manager, has been appointed a Vice-President of the Corporation.

A Special and Annual Meeting of Shareholders will be held at Le Château Champlain hotel, Place du Canada, Montreal on Tuesday, April 14, 1981 at 4:00 p.m.

In 1981 the Corporation will be celebrating its Centennial. The original partnership of Drummond and McCall commenced operations with a staff of three. Today the staff in Canada and the United States totals approximately 1,000. Much of the success of the Corporation in its first hundred years has been due to the unstinting efforts of its employees and the Board of Directors extends its appreciation to both present and former employees for their efforts. We would also recognize with thanks the support which has been given to the Corporation by our customers and suppliers during the past year.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read 'D. T. Bourke', is positioned above the printed name.

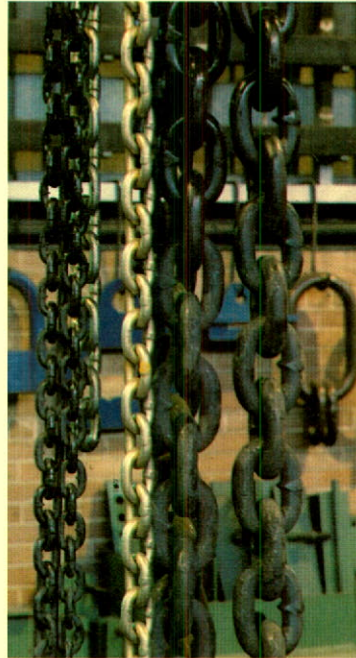
D. T. Bourke
President and Chief Executive Officer

February 18, 1981

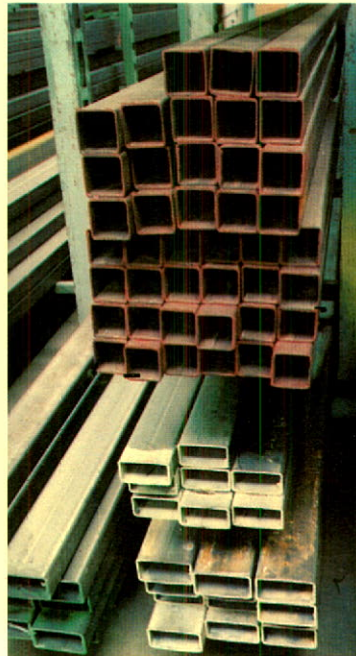


1

1 Steel beams used in a multitude of applications from bridge construction to shopping centres. Supplied in any required length up to 80 feet.



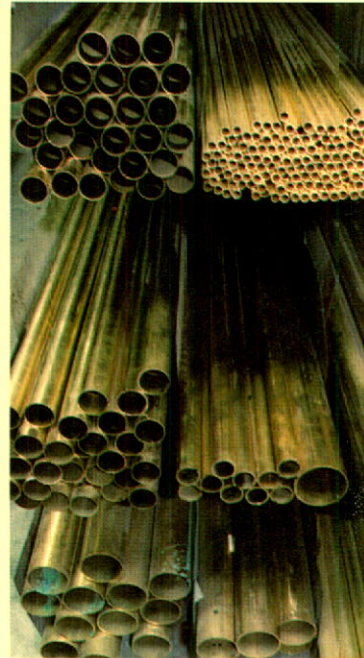
2



3

2 Chain — sold by the barrel or in shorter lengths. Heavy chain for ship anchors to small chain for light loads. Special fittings are also stocked and forged.

3 Hollow Structural Steel — Used for structural applications where improved strength to weight ratios and appearance are important.



4



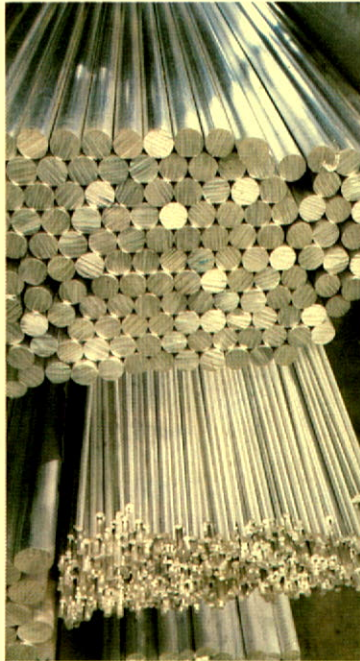
5

4 Brass tubing — The pleasing appearance of brass keeps it popular in lighting fixtures and brass beds.

5 Stainless steel tubing — Stocked in a variety of grades for use in applications demanding good corrosion resistance and attractive appearance.



6



8



7



9



10

6 Steel, aluminum, stainless and brass strip in coil slit to customer's desired width.

7 Because of their light weight and excellent corrosion resistance, aluminum structural shapes are used in many applications.

8 Having good machining properties, aluminum rod can be further processed into nuts, bolts and fasteners.

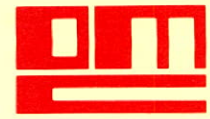
9 Copper bars are used wherever high electrical conductivity and corrosion resistance are required.

10 Steel plate stocked in a multitude of grades and thicknesses are sold 'as received' or cut to desired shapes.

Ten Year Financial Review

Thousands except where noted by asterisk

	1980	1979	1978	1977
Income and Related Data				
Sales	\$223,478	\$210,827	\$149,181	\$102,299
Cost of Sales and Expenses	209,652	191,515	138,428	95,231
Depreciation	1,877	1,494	1,191	969
Interest	5,755	3,649	2,444	1,251
Income Taxes	2,270	5,996	2,923	1,814
Extraordinary Item	—	—	526	—
Net Earnings	3,924	8,173	4,721	3,034
Dividends	2,727	2,281	2,483	1,414
Earnings Reinvested in the Business	1,197	5,892	2,238	1,620
Net Earnings per Share*	1.15	2.82	1.66	1.08
Dividends per Share — Regular*	.80	.68	.525	.50
— Special or Extra*	—	.12	.35	—
Other Financial Data				
Capital Expenditures	6,686	6,130	1,393	510
Fixed Assets — Net	26,002	21,194	16,557	16,356
Working Capital	50,018	42,727	34,409	23,743
Long-Term Debt	25,138	15,231	14,925	6,450
Deferred Income Taxes	2,632	2,110	1,819	1,538
Shareholders' Equity	48,785	46,820	34,452	32,214
Shareholders' Equity per Share*	14.12	13.84	12.15	11.35
Total Assets	112,536	120,835	82,948	68,022
Return on Sales	1.8%	3.9%	3.2%	3.0%
Return on Average Shareholders' Equity	8.1%	21.1%	13.9%	9.7%
Return on Average Total Assets	3.4%	8.0%	6.3%	5.2%
Average Number of Shares Outstanding	3,413	2,893	2,837	2,828



1976	1975	1974	1973	1972	1971
\$92,539	\$90,956	\$103,441	\$75,545	\$54,980	\$49,142
86,513	80,303	85,918	65,871	50,681	45,056
905	859	628	590	566	578
1,120	827	285	426	456	456
1,782	4,281	8,383	4,320	1,594	1,547
—	—	—	—	—	—
2,219	4,686	8,227	4,338	1,683	1,505
1,408	1,406	1,404	1,009	710	1,555
811	3,280	6,823	3,329	973	(50)
.79	1.66	2.93	1.55	.60	.54
.50	.50	.415	.315	.254	.215
—	—	.085	.045	—	.357
799	4,786	1,841	654	286	466
13,122	13,228	9,301	8,088	8,025	8,304
26,734	26,861	18,828	12,754	11,531	10,363
7,975	9,400	1,000	600	2,700	2,800
1,504	1,147	760	717	690	674
30,488	29,662	26,370	19,525	16,165	15,193
10.83	10.55	9.38	6.96	5.78	5.43
49,477	50,250	43,809	33,759	27,639	26,821
2.4%	5.2%	8.0%	5.7%	3.1%	3.1%
7.4%	16.7%	35.9%	24.3%	10.7%	9.9%
4.4%	10.0%	21.2%	14.1%	6.2%	5.6%
2,815	2,812	2,808	2,803	2,800	2,800

Auditors' Report

To the Shareholders of
Drummond McCall Inc.:

We have examined the consolidated balance sheet of Drummond McCall Inc. as at December 31, 1980 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 and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1980 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.

Price Waterhouse & Co.
Chartered Accountants

Montreal, Quebec
February 18, 1981



Consolidated Statement of Earnings

For the year ended December 31, 1980

	1980	1979
Sales	<u>\$223,477,419</u>	<u>\$210,826,899</u>
Cost and Expenses		
Cost of sales and expenses before the undernoted	209,651,659	191,515,072
Depreciation	1,877,342	1,493,510
Interest on long-term debt	2,414,162	1,633,202
Other interest	3,340,571	2,016,247
	<u>217,283,734</u>	<u>196,658,031</u>
Earnings Before Income Taxes	6,193,685	14,168,868
Income Taxes		
Current	1,747,034	5,705,379
Deferred	522,804	290,910
	<u>2,269,838</u>	<u>5,996,289</u>
Net Earnings	<u>\$ 3,923,847</u>	<u>\$ 8,172,579</u>
Earnings per common share	<u>\$1.15</u>	<u>\$2.82</u>

Consolidated Statement of Retained Earnings

For the year ended December 31, 1980

	1980	1979
Retained Earnings at beginning of year	\$ 39,957,342	\$ 34,065,775
Net Earnings	<u>3,923,847</u>	<u>8,172,579</u>
	43,881,189	42,238,354
Dividends on Common Shares		
\$0.80 per share (1979 — \$0.80)	2,727,085	2,281,012
Retained Earnings at end of year	<u>\$ 41,154,104</u>	<u>\$ 39,957,342</u>

Drummond McCall Inc.

Consolidated Balance Sheet

December 31, 1980

	1980	1979
Assets		
Current		
Cash	\$ 41,890	\$ 30,297
Accounts receivable	33,405,471	33,745,428
Inventories	52,253,773	65,495,953
Prepaid expenses	297,818	129,937
	<u>85,998,952</u>	<u>99,401,615</u>
Fixed Assets , at cost less accumulated depreciation	26,002,446	21,194,009
Share Purchase Plan Loans	258,596	—
Unamortized Long-Term Debt Issue Expense	275,993	239,498
	<u>\$112,535,987</u>	<u>\$120,835,122</u>
 Liabilities and Shareholders' Equity		
Current		
Bank indebtedness	\$ 16,977,243	\$ 30,803,463
Accounts payable and accrued liabilities	15,842,986	21,337,516
Income and other taxes	2,186,189	4,009,079
Long-term debt maturing within one year	975,000	525,000
	<u>35,981,418</u>	<u>56,675,058</u>
Long-Term Debt	<u>25,137,509</u>	<u>15,230,559</u>
Deferred Income Taxes	<u>2,632,310</u>	<u>2,109,506</u>
Shareholders' Equity		
Stated capital		
Common shares	7,630,646	6,862,657
Retained earnings	41,154,104	39,957,342
	<u>48,784,750</u>	<u>46,819,999</u>
	<u>\$112,535,987</u>	<u>\$120,835,122</u>

Approved by the board:

D. T. Bourke, Director

W. H. Young, Director



Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1980

	1980	1979
Source of Funds		
Net earnings	\$ 3,923,847	\$ 8,172,579
Depreciation	1,877,342	1,493,510
Amortization of long-term debt issue expense	20,805	17,622
Deferred income taxes	522,804	290,910
Funds from operations	<u>6,344,798</u>	<u>9,974,621</u>
Issue of long-term debt	10,881,950	830,559
Issue of shares		
Public offering	—	5,887,500
Payment of dividends	502,731	588,657
Share purchase plan	265,258	—
	<u>17,994,737</u>	<u>17,281,337</u>
Application of Funds		
Fixed assets	6,685,779	6,130,431
Reduction of long-term debt	975,000	525,000
Long-term debt issue expense	57,300	26,959
Dividends	2,727,085	2,281,012
Share purchase plan loans	258,596	—
	<u>10,703,760</u>	<u>8,963,402</u>
Increase in Working Capital	<u>7,290,977</u>	<u>8,317,935</u>
Working Capital at beginning of year	<u>42,726,557</u>	<u>34,408,622</u>
Working Capital at end of year	<u>\$50,017,534</u>	<u>\$42,726,557</u>
Changes in Components of Working Capital		
Increases (decreases) in current assets		
Cash	\$ 11,593	\$ 2,601
Accounts receivable	(339,957)	5,724,518
Inventories	(13,242,180)	27,530,406
Prepaid expenses	167,881	(16,501)
	<u>(13,402,663)</u>	<u>33,241,024</u>
Increases (decreases) in current liabilities		
Bank indebtedness	(13,826,220)	17,324,519
Accounts payable and accrued liabilities	(5,494,530)	4,053,586
Income and other taxes	(1,822,890)	3,544,984
Long-term debt maturing within one year	450,000	—
	<u>(20,693,640)</u>	<u>24,923,089</u>
Increase in Working Capital	<u>\$ 7,290,977</u>	<u>\$ 8,317,935</u>

Notes to Consolidated Financial Statements

December 31, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying financial statements include the accounts of Drummond McCall Inc. and its wholly-owned subsidiary, DMC Metals Inc.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation is provided by the straight-line method at varying rates (ranging from 2½% on buildings to 20% on mobile equipment) which are designed to amortize the cost of the assets over their estimated useful lives.

Income taxes

Income taxes include full provision for amounts currently payable and for those which have been deferred because of timing differences between depreciation for accounting purposes and capital cost allowances claimed for income tax purposes. Deferred income taxes on the balance sheet represent the accumulated amount of such deferrals.

Long-term debt issue expense

Expenses on the issue of long-term debt are amortized on a straight-line basis over the term of the related obligations.

Translation of foreign currencies

Amounts in foreign currencies are translated into Canadian dollars as follows: current assets, other than inventories, and current liabilities at the rate of exchange in effect at the balance sheet date; inventories, non-current assets, including related depreciation and amortization, and non-current liabilities at historical rates; income and expenses except depreciation and amortization at average rates for the period. The gains or losses resulting from these translations are included in the statement of earnings.

2. FIXED ASSETS

	1980	1979
Land	\$ 2,270,510	\$ 2,217,634
Buildings and leasehold improvements	20,942,027	18,170,760
Equipment	17,925,698	14,141,324
	41,138,235	34,529,718
Less: Accumulated depreciation	15,135,789	13,335,709
	<u>\$26,002,446</u>	<u>\$21,194,009</u>



3. LONG-TERM DEBT

	1980	1979
11½% Sinking Fund Debentures Series A due July 31, 1990	\$ 5,400,000	\$ 5,925,000
10¼% Sinking Fund Debentures Series C due October 15, 1993	9,000,000	9,000,000
Floating Rate Sinking Fund Debentures Series D due June 10, 1995	10,000,000	—
Industrial Building Revenue Installment Note due to September 26, 1994 (US\$1,466,561)	1,712,509	830,559
	26,112,509	15,755,559
Less: Amounts due within one year	975,000	525,000
	<u>\$25,137,509</u>	<u>\$15,230,559</u>

The Series A, C and D Debentures are secured by a floating charge on assets.

The Series D Debentures bear interest at a floating rate of ¼ of 1% less than the prime rate of a Canadian chartered bank.

The Industrial Building Revenue Installment Note, in the maximum principal amount of US\$1,650,000, is guaranteed by the Corporation and repayable by the subsidiary commencing in 1982. The Note bears interest at 7% to 1984, then at 7¼% to 1989 and thereafter at 75% of the lending bank's base rate and is secured by specific property, plant and equipment. Up to December 31, 1980 the subsidiary had drawn down US\$1,466,561 of the available funds.

Sinking fund and other repayment requirements in the next five years are: 1981 — \$975,000; 1982 — \$1,015,140; 1983 — \$1,135,559; 1984 — \$1,135,559; 1985 — \$1,135,559.

4. SHAREHOLDERS' EQUITY

(a) Stated capital

	<u>Authorized</u>	<u>Shares outstanding December 31</u>	
		1980	1979
Preferred Shares	Unlimited	—	—
Common Shares	Unlimited		
Series A		2,931,393	2,516,443
Series B		523,720	867,398
		<u>3,455,113</u>	<u>3,383,841</u>

Under a Certificate of Amendment dated April 30, 1980, the Corporation's Articles of Continuance were amended to authorize it to issue an unlimited number of Preferred Shares.

The Series A and Series B Common Shares are interconvertible at any time at the option of the holders on a one-for-one basis and rank equally in all respects. Payment of dividends on the Series B Common Shares may be in the form of stock dividends.

During 1980 the Corporation adopted an employee share purchase plan. Under the plan, 90,000 Series A Common Shares have been reserved for allotment during the period ending December 31, 1982. Employees, designated by the Board, may purchase their shares in the year of allotment at a price, also established by the Board, of not less than 90% of the market price on the date of acquisition.

Drummond McCall Inc.

Following is a summary of the changes in Common Shares for the years ended December 31, 1980 and 1979:

	1980		1979	
	Number	\$	Number	\$
Total outstanding at beginning of year	3,383,841	6,862,657	1,418,650	386,500
Increase due to two-for-one subdivision of shares	—	—	1,418,650	—
Shares issued				
Public offering	—	—	500,000	5,887,500
Payment of dividends	44,322	502,731	46,541	588,657
Share purchase plan	26,950	265,258	—	—
	<u>71,272</u>	<u>767,989</u>	<u>546,541</u>	<u>6,476,157</u>
Total outstanding at end of year	<u>3,455,113</u>	<u>7,630,646</u>	<u>3,383,841</u>	<u>6,862,657</u>

(b) Dividend restrictions

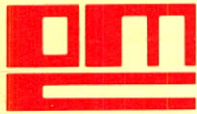
The trust indentures securing the Series A, C and D Sinking Fund Debentures, and the covenants in connection with the Industrial Building Revenue Installment Note, place certain restrictions on the payment of dividends. The most restrictive of these requires that total dividend payments subsequent to December 31, 1977 be limited to the aggregate of \$5,000,000 and the consolidated net earnings and the consideration received by the Corporation for shares of its capital stock subsequent to December 31, 1977. In addition, as long as the Industrial Building Revenue Installment Note is outstanding, the Corporation is required to maintain its consolidated net worth at at least \$28,000,000 plus 40% of the consolidated net earnings exclusive of any losses subsequent to December 31, 1978.

5. PENSION PLAN

The Corporation has a trustee contributory pension plan. Based on the latest actuarial report, the value of the assets in the fund exceeds the value of pension benefits earned in respect of service up to December 31, 1980.

6. BUSINESS OF THE CORPORATION

The business of the Corporation is the processing and distribution of a wide range of ferrous and non-ferrous metal products.



Products

Aluminum
Brass and Copper
Nickel
Alloy Steel
Carbon Steel
Stainless Steel