

Ivaco Inc.



IVACO

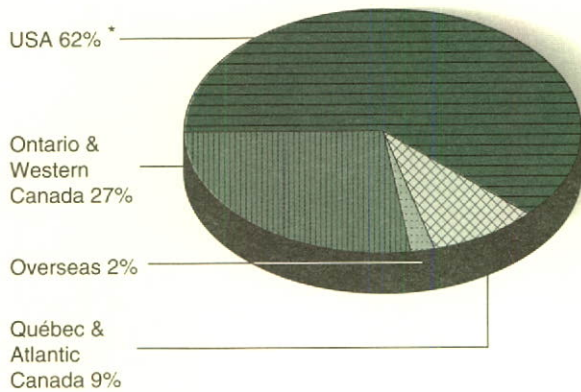
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A N N U A L
R E P O R T

COMPANY PROFILE

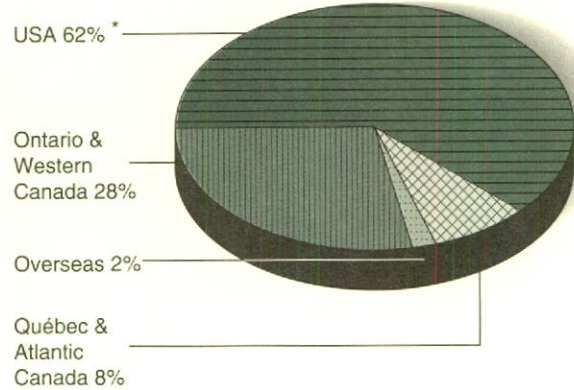
Ivaco is a leading North American producer of steel, fabricated steel products and other diversified fabricated products. It also fabricates structural steel. Ivaco has operations in Canada and the United States.

SALES DISTRIBUTION

1996



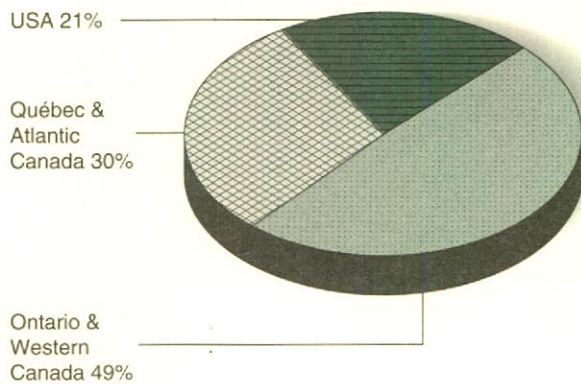
1995



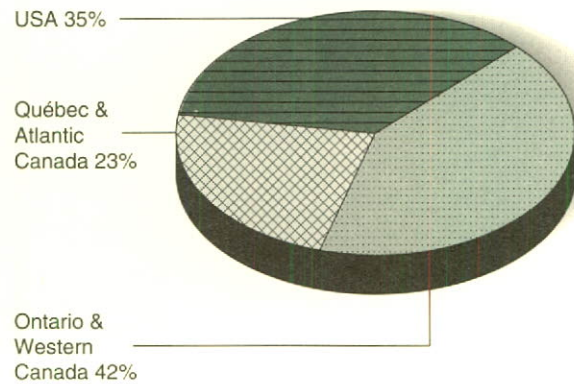
* Includes sales of U.S. operations and exports into the U.S. from Canadian operations.

PROPERTY, PLANT AND EQUIPMENT DISTRIBUTION

1996



1995



FINANCIAL HIGHLIGHTS

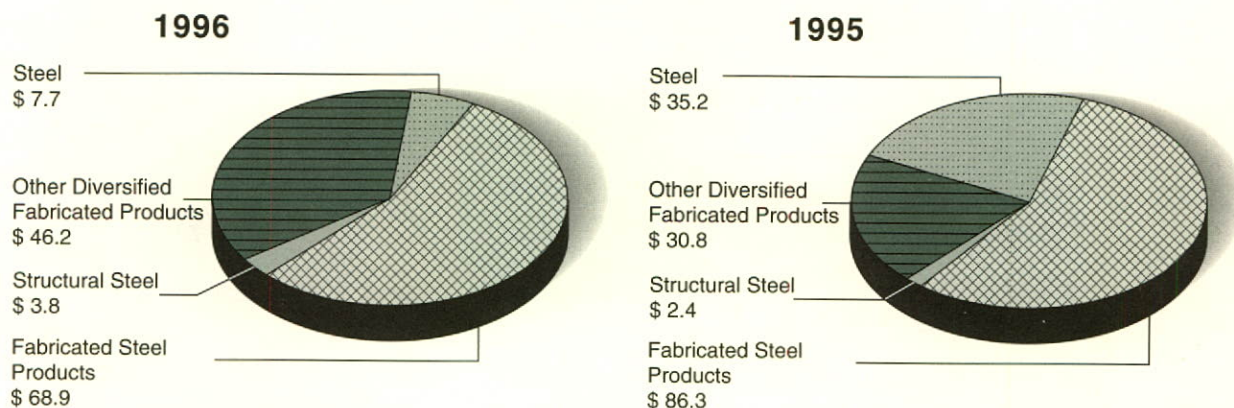
Thousands of dollars except per share amounts

	1996	1995
Sales	\$1,366,752	\$1,416,591
Operating earnings (EBITDA) ¹	\$ 126,659	\$ 154,580
Earnings from continuing operations before income taxes	\$ 27,742	\$ 68,460
Earnings from continuing operations	\$ 4,027	\$ 37,563
Net earnings (loss)	\$ (15,527)	\$ 28,925
Earnings (loss) per share ²		
Continuing operations	\$ (0.41)	\$ 0.77
Net earnings (loss) per share	\$ (1.09)	\$ 0.47
Working capital	\$ 260,841	\$ 336,992
Net additions to property, plant and equipment	\$ 43,320	\$ 43,851

¹ Earnings before interest, taxes and amortization.

² Declared and undeclared preferred share dividends have been deducted in calculating per share amounts.

EBITDA¹ (in millions)



¹ Earnings before interest, taxes and amortization.

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To Our Shareholders:

April 2, 1997

In one sense, 1996 was satisfactory for Ivaco because your Company successfully completed a complex and extensive divestiture program that will have positive benefits in the years ahead. In another sense, however, the year was a major disappointment in terms of operating results.

Perhaps the year is best characterized by the classical question: is our glass half full – or half empty. Clearly, because of the strengthening and sharpening of focus within the core businesses, the answer is: half full – by a wide measure.

Ivaco came off the banner year of 1995 expecting difficult conditions, at least for the first part of the year. Your Company entered 1996 knowing that the first quarter of the year was going to be very weak. Selling prices dipped and so did demand for steel and fabricated steel products. To make matters worse, scrap prices, although reduced towards year end, remained high throughout the year thus penalizing the cost of making steel.

The adverse market conditions encountered in the first part of 1996 continued well beyond the first quarter. In fact, at no point did the anticipated recovery reach the proportions everyone expected.

Among the positive notes relative to operations is that the Company's revenues held up remarkably well despite the adverse selling conditions. Given the circumstances, revenues of \$1.37 billion, which reflect an estimated decrease of \$116.8 million relating to businesses divested during the year, compare favorably with the \$1.42 billion reached in the buoyant year of 1995.

In each of the recent years, your Company has stated a long term strategy having two main thrusts. The first of these was to plan a selective divestiture program to convert non-core assets into cash. These are assets which logically could be worth more to others and thus generate cash resources for your Company earmarked

for the reduction of debt. The second was to reinforce emphasis within the core businesses for programs to evolve the product mix so as to include an increasing proportion of higher margin, more sophisticated and higher quality products.

Each of these strategies was successfully advanced in 1996.

In terms of divestiture, Ivaco achieved four significant transactions during the year which resulted in improvements to the Company's financial condition of some \$183.9 million, including \$156.4 million cash. The four disposal transactions were:

(i) Late in the year, Ivaco addressed a long standing problem arising from the history of continuing losses at its Atlantic Steel operations in Georgia. The Company entered into a mutually beneficial agreement with Birmingham Steel Corporation of Birmingham, Alabama, whereby Atlantic contributed its Cartersville steelmaking facility and related assets to a newly created entity called Birmingham Southeast LLC, which also included Birmingham's steel mill at Jackson, Mississippi. In return, Atlantic received cash and a 15% interest in the new entity. Atlantic and Birmingham also entered into agreements whereby Birmingham would supply billets to Atlantic's rod mill in Atlanta and Atlantic would roll Birmingham owned billets into bar products, on a fee per ton basis, at its Atlanta 13" mill. A loss of \$19.6 million or \$0.68 per share from the Cartersville discontinued operations have been reported separately in your Company's Consolidated Statement of Earnings. These amounts have not been tax effected, therefore their full impact significantly reduced earnings for the year.

(ii) In September, Canron sold the assets and business of its steel joists fabricating plant consisting of a small operation in western Canada servicing the local market. The sale was made because the open web steel joists business no longer fit the Company's core business strategy. Canron recorded a pre-tax gain of \$4.6 million from this transaction.

(iii) In July, the Sivaco Wire Group took a further step toward refining its product lines toward a high proportion of special chemistry and other technically sophisticated products. It did this by divesting its U.S. mesh operations, which produced relatively low margin, commodity grade products, and realized a pre-tax gain of \$2.6 million.

(iv) Also in July, Canron sold the assets and business of its construction services division which erects structural steel into bridges, high-rise buildings and large-scale industrial plants. It recorded a pre-tax gain of \$7.6 million on the transaction. Canron continues to own and operate its four structural steel fabrication plants in Canada and the U.S.

The following briefly reviews the main operating businesses with emphasis on their commitment to increase the proportion of value-added products:

Ivaco Rolling Mills (IRM), which is the Steel segment's principal player, has already achieved a high proportion of its production in high quality value-added special chemistry wire rods. Currently, this proportion is running at about two-thirds of total production. These are products made for demanding applications such as cold headed fasteners and other steel parts, welding wire and high carbon wire. Among the new special chemistry steels introduced during the past year were: low carbon aluminum killed, low alloy high carbon, chromium and boron steels.

IRM has begun a two phased program designed to upgrade production of wire rod. In the first phase, some \$35 million will be spent during 1997 to install advanced equipment at the rolling mill, which is expected to have the immediate effect of improving the quality of a broad range of products. In the second half of 1998 phase two of the rod mill upgrade is expected to be completed at a cost of some \$30 million. As part of quality upgrades there will be an improvement in running speeds which, it is expected, will enable IRM to produce up to 950,000 tons in 1999.

The improvements to the steelmaking and rod mill facilities are designed to make IRM one of the most modern, highest quality and lowest cost rod producers in North America and will enable IRM to compete with imports from offshore sources, such as

Japan and other countries, in the highest quality market segments. One important adjunct to this upgrade is a long-term billet supply arrangement which provides for supply of high quality steel billets, produced from iron ore. These billets will help expand the quality range of products from the rolling mill and is expected to bring the proportion of purchased and internally produced billets to a ratio of approximately 50/50.

Notwithstanding pricing pressures that occurred in 1996, IRM generated good performance. Shipments increased, productivity remained high and the proportion of special chemistry products continued to rise.

The substantially slimmed down Atlantic Steel will have as its principal objective the production of some 240,000 tons of wire rods combined with contract revenue from the tolling of billets for Birmingham Southeast. At the Atlanta rod mill, emphasis will be on production of premium quality rod, including high carbon product.

Within the Fabricated Steel Products business, both the fastener and wire products groups completed important steps toward achieving a higher proportion of value-added products.

Ifastgroupe, which makes both standard and specialty bolts and nuts, delivered strong results in 1996.

Among the highlights of the year for Ifastgroupe was commencement of construction for its first manufacturing plant in the United States. Vermont Fasteners is expected to become a significant manufacturer of structural bolts. Production is expected to begin about mid year.

Another highlight was installation at the Marieville, Québec plant of what is believed to be the world's largest boltmaker. Enhanced attention to the continuing program to increase the volume of value-added products included additional rod annealing and heat treating resources at Marieville. Each of these contribute important steps in helping to meet increasing quality standards.

Elsewhere within Ifastgroupe, specialty fastener producer Ingersoll Fasteners, Infasco Nut and the Galvano plating operation each increased capacity and

reinforced its continuing drive for a higher proportion of value-added products.

The Sivaco Wire Group (SWG) also made good progress in 1996. As noted earlier, it disposed of its U.S. mesh business. It also completed planning and ordering of new equipment to launch a new era of heightened emphasis on value-added products.

The move to higher grade products is not new for SWG. For several years it has been moving into an expanding range of quality and special chemistry products. Currently, its anticipated production of some 325,000 tons of wire and wire products will be heavily oriented to such premium grades as cold heading and spring wire.

Each of SWG's manufacturing units will install additional equipment to expand production. The most extensive of the expansions will occur at the Newnan, Georgia facility.

Canron's structural steel business reported good results from its four fabricating plants. Operations in both Canada and the U.S. remained at high levels throughout most of 1996 and a strong volume of construction opportunities is expected to remain in the current year. However, competitive conditions are keeping significant pressure on bid and award prices.

Your Company's Other Diversified Fabricated Products business, which incorporates Canron's, Ingersoll Machine and Tool, 50%-owned IPEX and Docap, reported strongly improved results for the year.

The Ingersoll division generated improved activity in each of its axle, forgings and defense products businesses. It has achieved notable success with its design improvements which permit manufacture of improved and lighter axles.

IPEX, 50%-owned, delivered record sales and earnings in 1996 from its plastic pipe and fittings business. The high level of demand for IPEX products is expected to continue in the current year.

The three businesses that comprise Ivaco's Equity Investment portfolio had widely divergent results last year.

Laclede Steel, 49.8%-owned, completed a radical modernization program which included conversion to 100% continuous cast and implementing a sweeping cost containment program aimed at cutting some US \$12 million from overhead costs. Although the financial results were a disappointment, significant improvement is expected for the current year.

50%-owned Amercord has grown to become one of the top three producers of high carbon steel tire reinforcement products in the United States. With its attractive cost structure, combined with some well established new product development expertise, Amercord has a bright future. Results in 1996 were very favorable and Amercord is looking for continued high capacity utilization in the current year, however, current pricing pressures will not enable Amercord to approach these favorable results in 1997.

The third unit in the Equity Investments category is Bakermat, a 50%-owned regional metals recycler. Bakermat is both a profit center and Ivaco's window into the complex world of scrap prices. It continues to function well in both areas.

Your Company enters 1997 in a substantially improved financial condition compared with the beginning of 1996. During the year just past, the divestiture program, as previously mentioned, resulted in total proceeds of approximately \$183.9 million without in any way impinging on the Company's core operations.

During the year just past, Ivaco was able to make substantial headway in meeting one of its prime objectives, by reducing total long-term liabilities by some \$80.5 million. At the same time it increased its cash position at year end by \$33.6 million.

The stronger financial position has permitted the Company to take three significant steps.

One is the fulfillment, a year in advance, of its commitment to pay in full the dividend arrears on the Series 1 to 4 Second Preferred Shares. The final payment of the arrears was made in cash on April 1, 1997.

A second was the purchase of \$37.7 million of the Company's 11¹/₂% Senior Notes due 2005, which trade on the New York Stock Exchange.

A third was the allocation of significant capital spending for 1997. It is a clear indication of the Company's optimistic view of the future. As already mentioned, approximately \$35 million of this commitment will go towards the major activity at L'Original where a world class hot rolled wire rod manufacturing facility is being created. Also included is the extensive upgrade within the fastener and wire groups, as well as capital spending at IPEX.

The outlook for 1997 is generally favorable. Each of the Company's business segments is expected to report positive earnings. Current conditions suggest that the US \$15 per ton price increase for wire rod which became effective April 1 is holding and that some downstream products made from rod are also in an upward trend. Also scrap price reductions which occurred late last year, seem to be maintaining their lower level. This is good news for Ivaco. One potential area of concern is the risk that ultra-protectionists in the United States have sought to reopen their campaign to accuse Canada of dumping wire rod into the U.S. Ivaco went through this several years ago and was exonerated totally, just as it expects to be again.


During the past year or so, your Company has carried out a successful restructuring of its non-core businesses. These include asset sales at Atlantic Steel, the

Sivaco Wire Group and Canron, all of which resulted in substantial cash proceeds. These disposals have been achieved while your Company embarked on a program for major capital investment committed to improve productivity and value-added capacity. During this time, debt has been reduced substantially and remaining debt restructured to enhance the Company's financial position. As your Company enters 1997, it is well positioned to concentrate its efforts on its core businesses and to make substantial improvements through the reduction of debt and other changes, which will further enhance its financial position.

We would like to take this opportunity to express our appreciation for his valuable service to Donald G. Lawson on his retirement from the Board of Directors late in 1996.

We would also like to express our thanks to all of the Company's employees for their continued dedication and efforts. It is very much appreciated.

On behalf of the Board of Directors,



Paul Ivanier

President and Chief Executive Officer

The Ivaco Group

The Ivaco Group consists of four separate business segments (i) Steel; (ii) Fabricated Steel Products; (iii) Structural Steel; and (iv) Other Diversified Fabricated Products. The Company also has investments which are accounted for using the equity method. These include 49.8%-owned Laclede Steel Company; 50%-owned Amercord Inc., and 50%-owned Bakermet Inc.

STEEL

(wire rod)

	1996	1995
	(\$ in millions)	
Sales ¹	\$468.1	\$471.2
EBITDA	\$7.7	\$35.2
Capital expenditures	\$9.2	\$19.1
Tons shipped ¹	952,100	916,400

¹ Includes shipments to downstream affiliates.

1996 was an eventful year for Ivaco Rolling Mills and Atlantic Steel. Both had to deal with the operational complexities resulting from relatively high scrap costs combined with severe pricing pressures for end products.

At Ivaco Rolling Mills, shipments were higher than those of the previous year, production efficiency standards remained high, and the proportion of special chemistry, value-added products continued to rise.

Atlantic Steel divested its Cartersville steelmaking and bar operations during 1996 and as a result strengthened its financial condition through the elimination of future losses associated with the Cartersville operations.

During the year, these two operating units began a dramatic program of change that has positioned the Company to be one of North America's leaders for quality and cost in the production of hot rolled wire rods.

The two key factors of change were:

- The commitment for a major upgrade of Ivaco Rolling Mills (IRM). Immediately following a program to increase productivity and enhance product quality at the steelmaking operation at IRM, which was completed in 1996, the Company began implementing a two year \$65 million project designed to make this mill one of the most modern, high quality, lowest cost wire rod producers in North America. The first phase of this project should be completed in the third quarter of 1997. The second phase is expected to be completed in the second half of 1998. This upgrade will enable IRM to compete in the North American market with imports from offshore sources, such as Japan and other countries, in the highest quality market segments.
- The contribution of Atlantic Steel's meltshop and rolling mill at Cartersville, Georgia to a newly created company, Birmingham Southeast, LLC which is 15%-owned by Ivaco and 85%-owned by Birmingham Steel Corporation of Birmingham, Alabama. As part of this transaction, Atlantic will purchase steel billets under a supply agreement with Birmingham to feed its hot rolled wire rod rolling mill at Atlanta. A further agreement provides for Atlantic to roll billets owned by Birmingham Southeast, LLC on a tolling basis at Atlantic's 13" mill in Atlanta, Georgia.

IVACO ROLLING MILLS

	1996	1995
	(\$ in millions)	
Sales ¹	\$375.5	\$368.1
EBITDA	\$27.0	\$37.3
Capital expenditures	\$9.0	\$10.1
Tons shipped ¹	734,100	692,500

¹ Includes shipments to downstream affiliates

Ivaco Rolling Mills, at L'Original, Ontario is a vital element in the Company's strategy to maintain vertical integration of steelmaking to support its

downstream manufacturing of quality products with special chemistry hot rolled wire rods. This strategy has been in place successfully for many years. It has four key components. The first is the deliberate decision to create a rolling mill operation exclusively for hot rolled wire rods; another is the continuous effort to increase the proportion of special chemistry steel produced; a third is to ensure availability of a substantial volume of purchased billets which have valuable metallurgical qualities that would be difficult to make in a steel scrap-fed furnace; and the fourth is to upgrade continuously the rolling mill with the most advanced, state-of-the-art equipment and quality control instrumentation known to the industry.

The rolling mill was designed from the start to have greater tonnage capacity than the steel plant. Strategically, this allowed the mill to purchase billets that have different quality and chemistry characteristics than those produced in-house, as well as reducing dependency on the volatile steel scrap market. This disparity, which makes excellent sense from a capital cost point of view, will be increased further at the end of the program now in progress to a ratio of approximately 50/50. Of course, the availability of purchased billets is guaranteed through long-term supply agreements.

Currently, approximately two-thirds of IRM's production consists of high quality value-added, special chemistry wire rod for demanding applications such as cold headed fasteners, welding wire and high carbon wire.

This focus on upscale rod products, both for Ivaco's downstream manufacturing plants and for other, equally demanding, outside customers, results in vertical integration which generates supply efficiency, mill flexibility, and a successful manufacturing culture based on high standards of quality.

In the year just past, IRM completed a major program to upgrade the steel plant. In addition to the tapping turret and electromagnetic stirring projects completed over the past few years, 1996 saw major modifications to the principal electric furnace and fine tuning of the continuous caster. The changes to the furnace included replacing the electro-mechanical controls with hydraulic controls that are substantially faster, resulting

in the better slag control required for higher quality products. Another move that increased productivity by shortening melt times was the installation of an improved design for the current conducting electrode arms to increase the efficiency of power delivery to the electrodes. Overall, cycle times were reduced resulting in a modest improvement in cost of production.

The steelmaking unit at L'Orignal continued to stress new product development during 1996 and, as in previous years, the emphasis was on consolidating expertise for the production of special chemistry grades of steel. The effect of these positive changes was offset by the general reduction in selling prices for much of 1996, while scrap prices, although reduced towards year end, remained at a high level throughout the year. Among the product development successes of the year were new and/or improved versions of such grades of steel as low carbon aluminum killed, low alloy high carbon, chromium and boron steels. Production of these grades of steel in large quantities and with consistently high quality requires considerable experience and expertise.

Production at the rolling mill was maintained at a high level during 1996. Product quality remained a priority and customer response to improvements in coil presentation continued to be positive.

The Company has announced a \$65 million project for the upgrading of facilities at IRM which will take place primarily in the rolling mill. Firm orders for all of the major equipment for this continuing modernization have been placed.

The first phase of this project is expected to come on-line in September 1997. Capital spending for this phase will approximate \$35 million and will include replacement of the intermediate rolling stands with Morgan mini blocks; installation of a new Stelmor[®] rod cooling line; replacement of the coil handling equipment; and installation of a new automation system which controls mill operations. These changes will have the immediate effect of improving the quality of a broad range of products by enhancing rolling, cooling and handling processes as well as the metallurgical structure of the rod.

In the second phase, which is expected to be concluded in mid 1998 at a further capital cost of some \$30 million, the mill will increase the cross sectional area of the billet feedstock by 78% from 120 mm square to 160 mm square, resulting in an immediate improvement in steelmaking productivity and quality. A new walking beam reheat furnace will be installed to accommodate the much larger sized billets, which, when heated to appropriate rolling temperature, will pass through a Morgan housingless stand breakdown mill to the existing continuous mill. A rod Tekisun™ reducing-sizing mill will be installed after the continuous mill, allowing for the production of a broad range of rod sizes with the closest tolerances available. The increased size of the billets will permit production of coils up to 6,000 pounds. These heavier coils can be a major productivity benefit to IRM's customers.

By the end of the upgrade program, each of the twin lines at IRM will be capable of producing superior quality wire rods at speeds in excess of 23,000 feet per minute.

To the best of the Company's knowledge, no other existing rod mill combines all the features of this modernization.

Historically, IRM has always worked on the principle that a portion of its rolling mill feedstock should come from purchased billets. These high quality billets are produced from iron ore, which contributes the metallurgical qualities required for grades of special chemistry steels. IRM intends to enhance the benefits of iron ore billets by obtaining the billets from a single continuous North American source. With the current upgrading of the mill, IRM will produce an even higher proportion of special chemistry wire rods to be utilized in various applications, such as high carbon rod for the manufacturers of tire cord, tire bead, high grade cold heading products and value-added welding products. This single continuous supply of iron ore billets will enable IRM to compete in the North American market with imports from offshore sources, such as Japan and other countries, in the highest quality segments of the market.

Meanwhile, during this period of intensive planning for the future, IRM maintained disciplined hands-on management of operations. Energy costs were held to the level of the previous year, the positive labor relations climate was reinforced by the signing of a six year agreement – the longest ever in Company history, the safety record remained highly positive with the result that there was a substantial rebate from the Workers' Compensation Board, and the prestigious ISO 9002 certification was received.

ATLANTIC STEEL

	1996 ²	1995 ²
	(\$ in millions)	
<i>Sales</i> ¹	\$92.6	\$103.1
<i>EBITDA</i>	\$(19.3)	\$(2.1)
<i>Capital expenditures</i>	\$0.2	\$9.0
<i>Tons shipped</i> ¹	218,000	223,900

¹ Includes shipments to downstream affiliates

² Excludes discontinued operations

The pricing for steel products in the markets served by Atlantic Steel was depressed in the first part of 1996 and remained relatively poor for most of the year. Combined with high scrap and other raw material costs, unfavorable financial results clearly required vigorous action.

In early December 1996, Atlantic completed the sale of its Cartersville, Georgia steelmaking and rolling mill operations and fulfilled all of its obligations to customers, suppliers and employees.

Atlantic continues to operate its 13" mill and hot rolled wire rod mill located on a valuable 125 acre site in mid-town Atlanta and both are continuing to run at near capacity.

Atlantic receives billets produced by 15%-owned Birmingham Southeast, LLC, which it converts on its 13" mill into finished products and receives a tolling fee from Birmingham for its services. This arrangement provides favorable economic benefits for Atlantic by increasing the scale of its operations. It is in place for a two year term and such an arrangement may continue after that.

In addition to the tolling arrangement, the rod mill at Atlanta is expected to produce at the rate of approximately 240,000 tons per year with quality billets purchased from Birmingham Southeast, LLC under a mutually beneficial supply agreement.

For several years, Atlantic has been making incremental increases to the proportion of value-added products within the manufacturing mix. In 1997, this

process will be accelerated through the pursuit of the higher margin high carbon rod market.

One of the important consequences for Atlantic of the Cartersville transaction is that Atlantic could undertake significant overhead cost reductions and, as a result of these changes, 1997 is expected to show improved operating results.

FABRICATED STEEL PRODUCTS

(fasteners and wire products)

	1996	1995
	(\$ in millions)	
Sales	\$611.4	\$660.2
EBITDA ¹	\$68.9	\$86.3
Capital expenditures	\$30.0	\$18.8
Tons shipped	636,800	729,800

¹ 1996 includes gain on sale of mesh business of \$2.6 million.

The Fabricated Steel Products operations are an integral part of the Company's strategy to combine the vertical integration of hot rolled wire rod production with the large scale downstream manufacture of quality fasteners and wire products. This segment is comprised of Ifastgroupe, which makes hot and cold forged standard and specialty bolts and nuts, and the Sivaco Wire Group (SWG), a large scale manufacturer of wire and wire products. Both Ifastgroupe and SWG are leading North American manufacturers in their respective businesses.

FASTENERS

In spite of reduced earnings performance compared to the record level of the previous year, the Company's fastener operations continued to deliver excellent results in 1996. Significant expansion was also underway to fuel strong future growth. One of the more important steps toward future growth was the organization of facilities and equipment for Ifastgroupe's newly created Vermont Fasteners operation.

Vermont Fasteners is Ifastgroupe's first manufacturing plant in the United States. When it commences production late in the first half of 1997, Vermont Fasteners expects to become a significant U.S. producer of structural bolts for use in bridges, buildings, highways, transportation and other heavy equipment, and for structural fabricators. Vermont Fasteners anticipates that during 1998 it will expand to include the manufacture of structural nuts.

The acquisition and modification of a 75,000 square foot building was completed during 1996 and the installation of boltmakers and a heat treating line was well advanced by year end.

Vermont Fasteners is a logical addition to Ifastgroupe's other large, efficient manufacturing facilities which are designed to provide high volume, high quality production of standard fasteners, custom designed specialty fasteners, cold formed standard and specialty nuts, and specialized finishing and plating of fasteners. Ifastgroupe is believed to be the largest manufacturer of standard forged bolts and nuts in North America.

Ifastgroupe's Marieville, Québec operation is believed to be one of the world's largest fastener manufacturing facilities. In addition, Ifastgroupe comprises a plating and coating operation at Beloeil, Québec, a custom designed and specialty bolt manufacturing operation at Ingersoll, Ontario and nut manufacturing at Mississauga, Ontario.

The Company's continuous modernization and capacity expansion at Marieville involved installation and commissioning of two new heat treat furnaces, commencement of installation of the second phase of its wire rod annealing program, and the installation of two major additions to boltmaking capacity. One of these is believed to be the world's largest capacity boltmaker, capable of producing bolts and other cold formed parts as large as 1¹/₄" x 14³/₄". The Company has established that there is a world wide demand for cold formed bolts, spindles, axles, and other types of cold forged long length products which this large machine can produce in quantity at extremely attractive price and quality criteria.

The rod annealing process helps to soften the steel prior to working higher grade products and the heat treat process hardens and strengthens the product after it has been formed. The expansion of heat treat and wire rod annealing capacity is an important step in meeting the demanding quality requirements of the Company's automobile, machinery, transportation, and processing industry customers.

The Galvano division is a value-added unit which specializes in applying surface coatings to fasteners via electroplating, phosphating, and hot dip galvanizing. Refinements to the major electroplating line control system during 1996 have increased productivity and, as a result, have also increased overall capacity.

Ingersoll Fasteners is the Ifastgroupe unit specializing in value-added special fasteners. It has been on a rapid growth curve in recent years, which was halted temporarily in 1996 partly because of a downturn in demand from manufacturers of large trucks and by labor disputes in the automotive sector. However, volumes are expected to increase to previously anticipated levels during 1997.

Late in the year, as part of its continuing commitment to upgrade production equipment, Ingersoll Fasteners took delivery of two high speed four die boltmakers equipped with quick changeover features in addition to the ongoing process of upgrading existing production machines as required.

A major step has been taken by Ingersoll Fasteners toward achievement of the QS 9000 accreditation, a requirement to remain an automotive supplier. The system has been implemented and a formal audit will take place in the second quarter of 1997.

Ifastgroupe's Infasco Nut unit achieved a fair year in 1996 despite major labor disruptions at the plants of one of its large automotive customers which temporarily delayed shipments and adversely affected revenues.

Infasco Nut is a successful highly specialized producer of cold forged nuts and its customers typically demand and receive what are among the highest known standards for both quality product and quality service. Its products are in the upper end of the quality spectrum for steel nuts and include flange locknuts, flange nuts, wheel nuts, connecting rod nuts and a special quality torque locknut. Because of their physical characteristics, locknuts are the nuts of the future, at least as far as manufacturers of steel products are concerned. Not only can they deliver improved performance, when compared with standard nuts, but because of their shape, they can eliminate the need for washers.

Infasco Nut was established initially to serve the automotive manufacturing industry and it has achieved significant status as a major and premier quality supplier to the North American industry. During the past two years, however, Infasco Nut has conscientiously been developing a much wider customer base. It is now selling successfully through the services of distributors to a number of end users and has increased its non-auto industry sales by some 20% in 1996. To accommodate the increased sales volume, a new high speed nut deflection press has been added to its Toronto area manufacturing plant late in the year and demand is such that an additional press is now required.

Infasco Nut was awarded the ISO 9002 and QS 9000 Quality System Certificates of Compliance in December 1996. These two prestigious awards are good marketing tools which will be used extensively.

For 1997, Ifastgroupe is expected to report another good year.

WIRE AND WIRE PRODUCTS

The Sivaco Wire Group (SWG) completed some of the last remaining steps in 1996 in its program to convert the organization from being substantially dependent on the production and sale of commodity grade products to become a technology leader for value-added premium wire products.

Among the key moves:

- Divestiture of its U.S. welded wire fabric (mesh) business which generated cash proceeds of \$23 million, including the realization of working capital, and a gain of \$2.6 million and, perhaps most importantly, freed management's attention to concentrate on value-added products.
- Completion of planning, and placement of initial orders for new equipment and plant extension which will total approximately \$13 million. This investment plan is specifically directed to further increase production of premium grades of wire at the Company's plants in both Canada and the U.S.

SWG has been in the process of gradually moving from being principally a manufacturer of commodity grade wire products toward being a producer of premium value-added wire products. The sale of the mesh operations was one of the last necessary steps in the process. One major indication of this success is that, even after disposal of the mesh business, SWG continues to process more than 325,000 tons of wire products per year, of which a high percentage is in the upper ranges of quality and special chemistry steels.

The transition from commodity grade production to premium quality production tends to require a relatively lengthy period of several years of market development, selection and ordering of equipment and a strong level of customer service. This is because the users of premium products tend to be hesitant to change suppliers as long as an existing supplier's price, quality and delivery have not deteriorated and, frequently require supplier certification procedures. The process can involve repetitive test shipments for small quantities

of product, in-plant audits by customers, reviews of technical documentation, etc. SWG has given these procedures a very high priority in recent years and, as a result, it continues to gain market acceptance for a large number of premium products. These products include cold heading wire products primarily used to manufacture fasteners for the automotive and appliance industries, and wire which is used for high carbon wire springs, roping wire for the wire rope industry, and galvanized high carbon wire.

One new product which was introduced to the market in 1996 has the potential to become a large volume special quality product in the foreseeable future. It is called Sivaco 9000 and is an internally developed premium high carbon quality wire. The product was developed at SWG's Marieville facility and is presently used for products such as springs, overhead garage doors, aggregate screens and for other similar applications. Sivaco engineers developed the process which changes the mechanical properties of the steel rod in ways such that the Sivaco product is cleaner and safer for the spring manufacturers and installers to use, while also offering economic benefits to the customer.

The Marieville plant is the largest wire producing facility within the SWG operation and its production capability will be increased further in 1997 by the addition of two new high speed wire drawing machines designed to produce additional sophisticated upper end high carbon products. It is expected that they will be up and running in the third quarter.

SWG's facility at Ingersoll, Ontario produces drawn and annealed wire and cleans and coats a variety of wire rods for sale to other wire drawing and fastener customers. Ingersoll is being expanded this year through the addition of new annealing furnaces to increase processing of cold heading quality rod. It is also adding a shot blasting unit to expand its rod cleaning facility.

At Buffalo, New York new annealing capacity has been installed to facilitate additional processing of cold heading quality wire.

The largest and most significant expansion of SWG underway this year is at the Newnan, Georgia plant. This large and modern facility will receive a major quality upgrade through the addition of, among other things, state-of-the-art acid cleaning and coating, and an advanced technology hydrogen annealing furnace. The new annealing furnace will have capacity to treat some 25,000 tons of wire per year and plans for future expansion envision a capacity increase in stages, to the 60,000 ton range. The Newnan plant will also add additional wire drawing equipment this year and expand its building. While all or most of this expansion is scheduled for completion toward the end of 1997, additional enhancements to quality, productivity and volume are in the planning stage as part of a cohesive three year program.

One of the principal objectives at Newnan is to make this facility a leading producer of premium

quality cold heading wire in North America. The new facility, for example, is being specifically designed to permit production of wire for customers who routinely perform severe deformation of the wire such as the manufacture of recessed-head fasteners and similar products.

SWG's Bel-Air Fence unit is a distributor of fencing products and accessories in eastern Canada. In 1996, Bel-Air had an excellent year and it anticipates similar positive performance in 1997.

For SWG, 1996 was an eventful year. It completed the most significant portion of its gradual evolution in quality wire production so that the highest proportion of output will be in the special quality grades. The outlook for 1997 is for profitable operations.

STRUCTURAL STEEL

(fabrication of structural steel)

	<u>1996</u>	<u>1995</u>
	<i>(\$ in millions)</i>	
<i>Sales</i>	\$144.7	\$117.4
<i>EBITDA</i>	\$3.8	\$2.4
<i>Capital expenditures</i>	\$0.4	\$1.2

Canon's Structural Steel business delivered improved results in 1996. Fabricating plant capacity received good utilization with construction activity remaining strong throughout the year in the principal markets of eastern Canada and the western United States.

A large number of high profile contracts were underway during the year. These included: Terminal One at JFK Airport and renovation work at the Grand Central Terminal, both in New York; the Blue Water Bridge at Sarnia, Ontario; and the Hawaii Convention Center, at Honolulu.

The level of construction activity provided the foundation for a profitable year. However, competitive conditions in the marketplace were extremely aggressive and they remain so into 1997. While new construction contracts are expected to remain plentiful, bid and award prices remain extremely tight.

OTHER DIVERSIFIED FABRICATED PRODUCTS

(precision machined components and plastic pipe and fittings)

	1996	1995
	<i>(\$ in millions)</i>	
Sales	\$327.2	\$385.8
EBITDA ¹	\$46.2	\$30.8
Capital expenditures	\$3.7	\$4.8

¹ 1996 includes gains on sale of the construction services and joists businesses totaling \$12.2 million.

The Other Diversified Fabricated Products business, which is operated through Canron Inc., consists of Ingersoll Machine and Tool, which produces precision machined components, axles and steel forgings and, 50%-owned IPEX, which manufactures plastic pipe and fittings. The Other Diversified Fabricated Products business also includes Docap, which distributes automotive and industrial products, and Canron's construction services and open web steel joist businesses, both of which were divested during 1996.

INGERSOLL MACHINE AND TOOL

The Ingersoll division reported buoyant operations by both of its units with the result that sales were up by 12% for the year and operating income was significantly higher.

The defense products business achieved two important contract awards during the year and fulfillment for each of these will commence in 1997.

Demand in the axle business was considerably stronger than expected and, in fact, equaled the record sales performance of 1995. Continuing product design successes have resulted in availability of improved and lighter models of existing axles. These product improvements are expected to enhance both sales and margins.

The OEM forgings and forged machined components businesses also reported positive results. Among the major triumphs of the year was the award of a five year contract to supply components to an automotive customer and provide a springboard from which to seek additional business.

The outlook for 1997 is positive as continued economic growth in Canada and the U.S. should ensure good demand for both axles and forgings.

IPEX

Despite a relatively slow start in the first quarter, caused principally by severe winter weather, IPEX delivered a record year for both sales and earnings. Market demand remained buoyant from the second quarter onward.

These excellent results were achieved in the face of cutbacks in spending by federal, provincial and municipal governments but were assisted by strong export sales of fittings and by improving levels of housing starts.

The price of PVC resins, a major raw material for IPEX, trended upwards as the year progressed. It is expected that resin prices will remain stable at least for the first half of 1997.

The outlook for 1997 is positive. A high level of demand is forecast for pipe and fittings products and it should be another very good year for IPEX.

DOCAP

Docap is a distributor of automotive and industrial products which it sells to a diverse range of markets across Canada.

The Company had a reasonably good year in 1996 and the number of products handled by Docap increased, as it has in each of the past several years, and now exceeds 28,000 items.

Currently, a new catalogue concept is being developed to highlight the availability of low profile/high margin products which Docap imports from off-shore suppliers and, when co-ordinated with the implementation of a new computer system at mid year, is expected to be an extremely valuable sales tool.

The outlook for 1997 is for increased sales and improved profitability.

EQUITY INVESTMENTS

(includes 49.8%-interest in Laclede Steel Company, 50%-interest in Amercord Inc. and 50%-interest in Bakermet Inc.)

LACLEDE

Laclede Steel Company, a midwest U.S. steel producer, is one of the largest U.S. steel pipe manufacturers and a substantial producer of hot rolled products. Laclede also has substantial wire and chain operations. It is 49.8%-owned by Ivaco.

Laclede increased its total tonnage shipped in 1996 but selling price declines reduced operating margins substantially. As a result, financial results were a disappointment.

During the year Laclede completed a major mill modernization. A ladle furnace was installed moving the balance of steel production to the modern continuous cast method. As part of the restructuring, Laclede shut its rod mill and began purchasing rod on the open market. It also established a cost containment program which identified savings of approximately US \$12 million per year, some of which occurred immediately, and the remainder are expected to be realized in 1997.

Because of these moves, lower steel costs became evident in the third quarter and this favorable trend has continued.

Among product line changes in 1996, the oil tempered spring wire line was upgraded utilizing technology Laclede developed for the production of suspension springs and the relatively small scale electric weld structural and mechanical tubing lines were discontinued following the sale of the Benwood, West Virginia plant.

In 1997, Laclede anticipates that operating results will be considerably better than in 1996 because: the steelmaking plant at Alton, Illinois should deliver improved performance; the successful implementation of the Company-wide cost reduction program; prices are expected to firm for the continuous weld pipe product line; recent reductions in inventory and long-term debt levels; expected improved margins for oil tempered wire products; and, expected continued growth for the chain business.

AMERCORD

Amercord is one of the top three manufacturers of steel tire reinforcement products in North America and is 50%-owned by Ivaco. It had one of its best years ever in 1996 despite extremely competitive conditions brought about by escalating raw material costs, increased

supply capacity, conditions favorable for imports, and heavy price discounting by competitors. The Company operated at close to capacity throughout the year and anticipates continued high plant utilization during 1997.

Applying new technology and the management disciplines of its ISO 9001 certified Total Quality Assurance system have helped Amercord remain among the lowest-cost producers while consistently receiving among the highest customer satisfaction ratings. Having already more than doubled productivity since 1990, Amercord has just commissioned the second of two recently installed new technology 20-wire brass-plating lines designed to produce premium quality high-tensile cord at low cost. Working with an experienced equipment designer, Amercord engineers are developing and industrializing a high-speed, extremely flexible bunching machine that will further improve cord quality at reduced cost compared with available models.

These projects, plus several others, underscore Amercord's focus on ultimate cost and quality leadership among steel reinforcement producers.

The outlook for 1997 is for continued service to a large customer base, high capacity utilization, further significant reduction in fixed and variable costs, but in a market whose prices will not permit Amercord to approach the favorable results achieved in 1996.

BAKERMET

Bakermet is a successful regional metals recycler which is 50%-owned by Ivaco. It fulfills an important strategic purpose for Ivaco by providing a realistic window on the North American scrap market while also contributing to earnings. Bakermet was profitable in 1996, though not to the same extent as in the two previous years.

Bakermet draws recyclable metals from upstate New York, eastern Ontario and western Québec and is the primary supplier of shredded steel scrap to nearby Ivaco Rolling Mills.

During the year, Bakermet completed installation of a heavy duty hydraulic baling press. It is working up to expectations and is contributing to improved productivity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview: The Company's products are used by a broad spectrum of industries, and demand for most of its products is sensitive to general economic conditions, including, as applicable, trends in commercial and residential construction, investment in new plant and facilities, automobile production, consumer spending, and government spending on infrastructure projects and public sector buildings. The Company believes that, as a result, its operations are influenced more by general economic conditions than the economic conditions of any one specific end-user industry group.

The following discussion and analysis is a review of the Company's operating results and financial position based upon accounting principles generally accepted in Canada ("GAAP"). These principles conform in all material respects with GAAP in the United States, except as described in Note 22 to the Consolidated Financial Statements appearing elsewhere in this Annual Report.

Operating Results – 1996 compared to 1995: Ivaco divides its operations into four business segments (i) Steel (wire rod); (ii) Fabricated Steel Products (fasteners, wire and wire products); (iii) Structural Steel (fabrication of structural steel); and (iv) Other Diversified Fabricated Products (precision machined components and plastic pipe and fittings).

During the third quarter of 1996, the Company adopted a formal plan to dispose of certain assets and operations of Atlantic Steel, which constituted the Company's segment comprising the manufacture and sale of billets and bar products in the United States and as a result, the Company is no longer in the business of manufacturing and selling billets and bar products in the United States. Pursuant to an agreement with Birmingham Steel Corporation, Atlantic Steel contributed its steelmaking facility and rolling mill operation in Cartersville, Georgia and certain related assets to Birmingham Southeast, LLC for a total consideration of \$141.6 million (US \$103.3 million), comprising a 15%-interest in Birmingham

Southeast, LLC valued at \$27.5 million (US \$20.1 million) and \$114.1 million (US \$83.2 million) cash, of which \$16.3 million (US \$11.9 million) was received in January 1997.

Consolidated sales in 1996 were \$1.37 billion, a decrease of 3.5% from \$1.42 billion achieved in 1995, reflecting the impact of businesses divested during 1996. These amounts exclude sales related to the discontinued operations of Atlantic Steel which were \$191.3 million in 1996 versus \$213.7 million in 1995, while the disposal of the U.S. mesh business of the Sivaco Wire Group ("SWG") and Canron's sale of its construction services and open web steel joist businesses resulted in a reduction in sales of 8.3% or \$116.9 million.

Cost of sales and operating expenses, excluding those of discontinued operations, decreased 1.7% to \$1.24 billion for 1996 from \$1.26 billion in 1995. As a percentage of sales, cost of sales before amortization, increased by 1.7% to 90.7% for the year ended December 31, 1996 reflecting increased raw material costs.

The Company's consolidated amortization expense for 1996 was \$43.8 million or \$4.3 million higher than the corresponding period in 1995 mainly due to higher amortization resulting from the acquisition of the Multi-Fittings Group in 1995, and other capital expenditures. As a percentage of sales, amortization was 3.2%, up from 2.8% in 1995.

The Company's share of earnings (loss) of equity accounted investments was a loss of \$4.6 million for 1996 an increase of \$0.9 million over the 1995 loss. Negative operating results of 49.8%-owned Laclede Steel Company, which suffered from the overall industry decline in steel selling prices, more than offset the favorable operating results of 50%-owned Amercord Inc. and 50%-owned Bakermet Inc.

Net interest expense increased by 15.5% to \$46.1 million in 1996 from \$39.9 million in 1995 due to increased costs relating principally to the US \$150 million Senior Notes issued in September 1995.

The Company has changed its financial reporting by adopting, retroactively, changes recommended

by the Canadian Institute of Chartered Accountants which became effective January 1, 1996. Accordingly, the Series E, Preferred Shares, which are redeemable October 1, 1997, and the Series 5, Second Preferred Shares are disclosed separately, as Current Liabilities and Long-term Liabilities as appropriate, in the Consolidated Statements of Financial Position and dividends thereon are included in the Consolidated Statements of Earnings as an expense.

The Company's provision for income taxes in 1996 was \$23.7 million, as compared with \$30.9 million in 1995, reflecting an effective rate of 85.5% and 45.1%, respectively. The 1996 rate was high, largely because operating losses of U.S. subsidiaries could not be offset against income of the Company's profitable Canadian operations and were not tax effected. At December 31, 1996, certain U.S. subsidiaries had accumulated losses which have not been tax effected of approximately \$91.1 million (US \$66.5 million), which may be applied against such subsidiaries future years' income.

For the year ended December 31, 1996, the Company recorded a net loss of \$15.5 million, or a loss per share of \$1.09, versus net earnings of \$28.9 million, or earnings per share of \$0.47 in 1995. Earnings from continuing operations were \$4.0 million, or a loss per share of \$0.41 versus earnings from continuing operations of \$37.6 million, or earnings per share of \$0.77 in 1995. The 1996 earnings from continuing operations include a non-recurring after-tax gain of \$11.2 million or \$0.39 per share on the disposal of the U.S. wire mesh business of the Sivaco Wire Group and Canron's sale of its construction services and open web steel joist businesses.

Loss from discontinued operations was \$19.6 million, or \$0.68 per share versus a loss from discontinued operations of \$8.6 million, or \$0.30 per share in 1995.

The Company's steel operations are comprised of its wire rod manufacturing segment at Ivaco Rolling Mills and at Atlantic Steel, and prior to December 31, 1996 its steel billet and bar manufacturing and sales segment at Atlantic Steel in Cartersville, Georgia.

Rod Manufacturing: Through Ivaco Rolling Mills in L'Original, Ontario and Atlantic Steel in Atlanta, Georgia, the Company produces hot rolled wire rod for sale to customers in Canada and the United States and for further processing by the Company's

other subsidiaries. At Ivaco Rolling Mills, approximately 67% of the products sold are value-added, special chemistry wire rods for demanding applications such as cold headed fasteners, welding wire, high carbon wire and for automotive and general industrial parts. The balance of its rod production, together with Atlantic Steel's rod production, is sold to a diverse group of customers which manufacture wire, fencing and welded wire fabric products.

At Ivaco Rolling Mills, total shipments of wire rods in 1996 increased by 6.1% over the same period in 1995, while pricing remained competitive. Of the total tons shipped, 46.8% were to the Company's downstream operations. Tons shipped from the continuing rod operations at Atlantic Steel decreased 2.7% versus the corresponding period in 1995. Sales in this segment were up 12% or \$30.4 million over the corresponding period in 1995.

Operating margins at Ivaco Rolling Mills decreased as a result of competitive pricing pressures, higher commissioning costs due to a slower start up at the steel-making facility upon completion of the furnace upgrade project, and increased costs of many of the materials used in the steelmaking process. The increased costs of materials were partially offset by lower scrap costs which, although reduced towards year end, remained at high levels throughout the year.

At Atlantic Steel, the operating margins decreased primarily as a result of the decline in selling prices and volumes and an increase in raw material billet costs.

Manufacture and Sale of Billets and Bars in the United States: As a result of the sale of certain assets and termination of certain operations of Atlantic Steel, the operating results of Atlantic Steel's Cartersville facility have been reclassified to discontinued operations for the year ended December 31, 1996. The Cartersville operations consisted of the manufacture of billets and 12" mill bar products for sale to steel service centers and the automotive and construction industries and special quality bars for producers of fasteners, machinery and cold finished bar products. The operations of the Atlantic Steel 13" mill in Atlanta were exclusively dedicated to the conversion of billets for Birmingham Southeast, LLC on a fee per ton basis. For the year ended December 31, 1996, sales revenues of operations that were discontinued decreased by 10% as a result of lower volumes and lower selling prices. Operating margins were also negatively impacted by higher manufacturing costs.

Fabricated Steel Products: The Company's Fabricated Steel Products operations are comprised of its fastener operations segment at Ifastgroupe and wire operations segment at SWG.

Fastener Operations: Ifastgroupe manufactures hot and cold forged standard nuts and bolts and is a major producer of specialty fasteners. Ifastgroupe's products are sold primarily through a broad-based network of distributors to numerous markets, including the automotive, construction, heavy machinery, transportation and oil and gas industries in most regions of Canada and the United States. Volumes shipped at Ifastgroupe for 1996 were at the same level as 1995. Pricing for the Company's products was competitive, yet Ifastgroupe was able to maintain the same revenues due to the shipment of more value-added products.

Sales at Ifastgroupe's Infasco division were 2.8% higher than those recorded for the corresponding period in 1995. Operating margins were negatively impacted by the reduction in volume and higher cost of sales and operating expenses as a result of slightly lower production, offset by 1.8% higher average selling prices achieved through a better product mix. Sales revenues at Ingersoll Fasteners were down 5.5% compared to 1995 as volumes shipped in 1996 were 6.7% lower than 1995 due to the slowdown in the heavy truck business and reduced demand in other markets. Operating margins were negatively impacted by higher production costs through lower machine utilization as a result of lower sales volumes.

Wire Operations: SWG manufactures and distributes a wide variety of wire products including bright and galvanized high carbon and low carbon wire, cold heading wire and welded wire fabric, nails, processed wire rods and other fabricated wire products. SWG's sales decreased in 1996 by 13.9% or \$52.5 million, of which \$43.5 million is estimated to be due to the divestiture of the U.S. mesh business which was effective July 31, 1996. In addition, shipments of nails and wire products were lower than 1995 and when coupled with lower overall selling prices for these products, operating margins were lower than in 1995. The divestiture of the U.S. mesh business resulted in a pre-tax gain of \$2.6 million.

At SWG's Sivaco Québec division, sales revenues were down due to lower shipments of both nails and mesh products, which together with lower over-

all selling prices for these products, resulted in lower margins. SWG's Sivaco Ontario division recorded 9% higher revenue in 1996 compared to 1995 despite the General Motors strike in early 1996. SWG's Sivaco New York division recorded increased sales and operating margins for 1996 primarily due to the continued improvement in value-added products.

Structural Steel: Canron's Structural Steel Fabrication business delivered improved results in 1996. Fabricating plant capacity was high with construction activity remaining strong throughout the year in the principal markets of eastern Canada and the western United States.

A large number of high profile contracts were underway during the year while conditions in the marketplace were extremely competitive.

Other Diversified Fabricated Products: The Other Diversified Fabricated Products business is carried out through the Company's wholly owned subsidiary Canron Inc. and is comprised of Canron's Ingersoll Machine and Tool Division and IPEX Inc. During 1996, Canron divested its construction services and open web steel joist businesses resulting in pre-tax gains totalling \$12.2 million.

Sales of Other Diversified Fabricated Products in 1996 decreased by an estimated \$58.6 million as a result of these divestitures which were effective July 31, 1996 for the construction services business and September 30, 1996 for the open web steel joist business.

Fabrication of Steel Forgings and Precision Machined Components: Canron's Ingersoll Machine and Tool division fabricates steel forgings and precision machined components. Sales at Ingersoll Machine and Tool division increased 12.2% over the previous year due in large part to stronger defense sales. Operating margins were higher than those achieved in 1995.

Manufacture and Sale of Plastic Pipe and Fittings: Canron's 50%-owned IPEX Inc. manufactures and distributes plastic pipe and fittings. 1996 was a record year for IPEX Inc. as sales were 10.5% above the 1995 level reflecting the acquisition of the business and assets of the Multi-Fittings Group in 1995, and the improved demand for pipe products from some recovery in housing starts in Canada and the United States.

Operating Results – 1995 compared to 1994: The financial information for 1994 in this section has been adjusted to reflect certain operations of Atlantic

been adjusted to reflect certain operations of Atlantic Steel as discontinued.

Consolidated sales in 1995 were \$1.42 billion, up 16.4% from \$1.22 billion achieved in 1994.

Cost of sales and operating expenses increased by 15.6% to \$1.26 billion in 1995 from \$1.09 billion in 1994. As a percentage of sales, cost of sales before amortization decreased by 0.5% to 89.1% for the year ended December 31, 1995.

Ivaco's consolidated amortization expense as a percentage of sales was 2.8%, down from 3.1% experienced in 1994. In absolute terms, amortization expense increased to \$39.5 million, up \$1.5 million over 1994.

The Company's share of equity in earnings (loss) of affiliated companies was a loss of \$3.7 million in 1995, a decrease of \$9.2 million from earnings of \$5.5 million in 1994, largely due to the lower operating results of Laclede Steel Company which were offset by improved earnings from 50%-owned Amercord Inc. In addition to lower operating earnings, Laclede recorded a non-cash net of tax special charge, relating to the restructuring of its steelmaking facility at Alton, Illinois. Ivaco recorded a \$6.2 million charge in 1995, as its 49.8% share of this special charge, net of tax.

Net interest expense increased by 12.4% to \$39.9 million in 1995 from \$35.5 million in the previous year due to increases in bank indebtedness incurred in connection with higher inventories and accounts receivable as well as higher interest rates on the Company's floating rate indebtedness, and interest costs relating to additional long-term liabilities, including the US \$150 million Senior Notes issued in September 1995.

The Company's provision for income taxes in 1995 was \$30.9 million reflecting an effective tax rate of 45.1% versus \$26.6 million or an effective tax rate of 47.3% in 1994. Reduced 1995 operating losses in the United States were the principal reason for the reduction in the effective tax rate. These losses are not tax effected for financial reporting purposes. At December 31, 1995, certain U.S. subsidiaries have accumulated losses which have not been tax effected of approximately \$128 million (US \$93.9 million) which may be applied against future years' income.

During 1995, the Company reported a net of tax loss associated with discontinued operations of

\$8.6 million, as compared to a loss of \$22.6 million in 1994. The 1995 charge includes the restatement of \$3.2 million of losses of Atlantic Steel to conform to the presentation adopted in 1996. The 1994 amount includes \$6.0 million relating to the Company's share of environmental remediation costs from the divestiture of Florida Wire and Cable in 1992 and \$12.3 million of losses of Atlantic Steel.

Rod Manufacturing: Sales for this segment were up 12.3% over the previous period. Ivaco Rolling Mills increased sales by 16.5% due to increased sales volumes and improved selling prices. Total tons shipped increased by 9%. Of total tons shipped, 55% were to the Company's downstream operations. Value-added sales to both trade and affiliates increased 18% over the same period in 1994 and accounted for 67% of total sales volume as compared with 61% in 1994.

Atlantic Steel's shipments were down 9.9% over the similar period in 1994 although this was offset by increased pricing for its products and a better product mix. Increased productivity and the benefits of Atlantic's cost reduction program helped reduce manufacturing and overhead costs.

Both Ivaco Rolling Mills and Atlantic Steel incurred higher scrap and consumable costs during 1995 compared to the previous year.

Manufacture and Sale of Billets and Bars in the United States: The operations of Atlantic Steel's Cartersville facility were divested in 1996, as previously mentioned, and therefore operating results have been reclassified to discontinued operations.

Fabricated Steel Products

Fastener Operations: Shipments at Ifastgroupe for 1995 remained level with those attained in 1994. The Infasco division experienced 3% higher sales revenues on similar volume. Volumes shipped at Ingersoll Fasteners remained flat while sales revenues increased by 4% due to price increases.

The fastener operations experienced higher costs of wire rod and other raw materials over 1994. However, as a result of increased pricing and productivity improvements, operating margins for the fasteners operations improved.

Wire Operations: SWG sales increased by 7% due to increased shipments of wire in Canada and the

United States, although nail shipments declined slightly, and selling prices for nail and wire products declined in the fourth quarter in both markets.

Selling prices increased for wire products in Canada and the United States. However, in some areas the increases were not sufficient to fully recover the increased cost of purchasing wire rod and, as a result, operating margins for the wire operations were lower.

Structural Steel: On a comparative basis with 1994, this segment reported 97% improved revenues in 1995. Construction activity recovered strongly in both Canada and the United States in 1995, particularly in the infrastructure, industrial, sports and municipal sectors.

Although prices of purchased steel were higher in 1995, the adverse effect was offset by the Company's achievement of improved margins as a result of good contract performance.

Other Diversified Fabricated Products: During 1996, as previously mentioned, Canron divested its construction services and open web steel joist businesses.

Fabrication of Steel Forgings and Precision Machined Components: Sales at Canron's Ingersoll Machine and Tool division increased by 15% in 1995 versus the 1994 period. This increase was due to stronger broad based demand in the earlier part of the year for axles and forgings.

Manufacture and Sale of Plastic Pipe and Fittings: IPEX's sales in 1995 improved over 1994 despite a decrease in housing starts throughout the year, and deferred infrastructure spending by provincial governments.

PVC resin prices which fell progressively through 1995, and under absorption of manufacturing overhead due to lower plant operating rates, negatively impacted IPEX's operating margins.

Liquidity and Capital Resources: For the year ended December 31, 1996, working capital provided from operations was \$47.2 million, a decline of \$46.9 million or 50% from \$94.1 million generated in the prior year. Working capital as at December 31, 1996 decreased by 22.6% to \$260.8 million from \$337.0 million as at December 31, 1995.

The decrease in working capital is primarily attributed to decreases in inventories resulting from the disposal of the U.S. wire mesh business of SWG,

Canron's sale of its construction services and open web steel joist businesses, and the disposal of Atlantic Steel's steelmaking facility and rolling mill operation in Cartersville, Georgia, partially offset by an increase in accounts receivable. An investment of \$7.6 million (US \$5.5 million) in preferred shares of Laclede Steel also contributed to this reduction in working capital in 1996.

Net additions to Property, Plant and Equipment during 1996 were \$43.3 million, approximating the amount spent in 1995. The most significant components of spending in 1996 were the completion of the furnace upgrade started in 1995 at Ivaco Rolling Mills, the building of a new boltmaking facility in the U.S. and additional boltmaking equipment and furnaces at Ifastgroupe, the addition of wire drawing equipment at SWG, and welding and lathe equipment at the Ingersoll Machine and Tool division.

The Company has announced a \$65 million project for the upgrading of facilities at Ivaco Rolling Mills which will take place primarily in the rolling mill and is expected to be completed in the second half of 1998. Firm orders for all of the major equipment for this continuing modernization have been placed. Additionally, a \$13 million investment plan for SWG to continue the move towards more value-added products within the wire business has been announced.

In December 1996, Atlantic Steel contributed its steelmaking facility and rolling mill operation in Cartersville, Georgia and certain related assets to Birmingham Southeast, LLC for a total consideration of \$141.6 million (US \$103.3 million) comprising a 15%-interest in Birmingham Southeast, LLC valued at \$27.5 million (US \$20.1 million) and \$114.1 million (US \$83.2 million) cash of which \$16.3 million (US \$11.9 million) was received in January 1997.

On March 31, 1995, the Company paid \$33.1 million in respect of dividend arrears on its Second Preferred Shares, comprised of \$8.5 million in cash, and \$24.6 million in Series 5, Second Preferred Shares. On each of February 9, 1996 and January 1, 1997, the Company paid \$3.7 million in cash in respect of such arrears and on April 1, 1997, the final instalment of arrears in the amount of \$3.7 million was paid in cash.

Regular dividends paid on Preferred and Second Preferred Shares totaled \$15.7 million in 1996 compared to \$15.4 million in 1995. Of the dividends paid in 1996, \$9.6 million was paid in cash and \$6.1 million was paid in Series 5, Second Preferred Shares.

The Company's cash position (net of bank indebtedness) improved by \$33.6 million in 1996 versus the previous year, primarily due to the disposal of Atlantic Steel's Cartersville operations, Canron's disposal of its construction services and open web steel joist businesses, and the disposal by SWG of its U.S. mesh operations.

The ratio of current assets to current liabilities decreased to 1.9:1 in 1996 compared to 2.2:1 in 1995.

At December 31, 1996, the ratio of long-term debt of \$358.9 million to shareholders' equity of \$415.6 million was 46:54 which is similar to the December 31, 1995 level.

Total long-term liabilities, including long-term debt of \$358.9 million, exchangeable debentures of \$95.2 million, Series 5, Second Preferred Shares of \$33.3 million, and deferred income taxes of \$69.5 million, were \$556.9 million in 1996 down \$80.5 million from \$637.4 million in 1995. This reduction was primarily as a result of mandatory repayments and the previously mentioned divestitures including the purchase by the Company at par of \$37.7 million (US \$27.5 million) 11¹/₂% Senior Notes due in 2005.

Certain financial restrictions are contained in lending agreements of Ifastgroupe and Ivaco Rolling Mills which limit their ability to make cash distributions to the parent company, Ivaco Inc. Under the terms of these lending agreements, each of these companies is permitted to distribute up to 75% of its pre-tax earnings to Ivaco Inc. based upon their maintenance of certain financial ratios. As at December 31, 1996, 75% of Ifastgroupe's and 75% of Ivaco Rolling Mills' pre-tax earnings in future years is available for such distribution. However, there are no assurances that either or both of these companies will be able to maintain such levels of distribution. For the year ended December 31, 1996, Ivaco Inc., the parent company, generated \$64.9 million of EBITDA, including \$58.4 million from companies whose distributions to Ivaco are restricted. These distributions are used in part to service the parent company's

interest costs of \$25.4 million and the cash portion of dividends on Preferred and Second Preferred Shares.

It is anticipated that Ivaco's 1997 cash requirements within the ordinary course of business, including debt repayments and other capital repayments, will be met through internally generated funds and existing lines of credit. Capital expenditures will be financed by internally generated funds and other financings spread over five years.

Financial Risk Management: Ivaco is subject to some risk associated with currency and interest rate fluctuations.

The Canadian operations of the Company generate substantial revenues in U.S. dollars, primarily through exports to the United States of products manufactured in Canada. For 1996, the Company's export sales were \$564 million (\$510 million in 1995), substantially all of which were to United States customers.

The Company's Canadian operations also incur substantial costs in U.S. dollars related to materials used in the manufacturing process, and for principal and interest payments on its U.S. dollar denominated debt. Any increase in the Canadian dollar relative to the U.S. dollar adversely affects the Company's consolidated earnings, whereas any decrease in the Canadian dollar relative to the U.S. dollar has a positive effect on earnings.

The Company enters into forward exchange contracts to hedge accounts receivable and future revenues denominated in U.S. dollars, net of specific expected U.S. dollar outlays such as principal and interest payments on U.S. dollar denominated debt. There can be no assurance that such strategy will be successful in the future in materially reducing the Company's exposure to currency fluctuations.

The Company's exposure to interest rate fluctuations arises primarily from increases in interest rates, and from floating rate debt, if any. The Company has available substantial undrawn committed bank lines which if drawn would bear interest at a floating rate.

Outlook: For 1997, each of the Company's business segments are expected to report positive earnings. The benefits of scrap price reductions in late 1996 and recently announced selling price increases for wire rod, which are expected to take effect starting in the second quarter are expected, to the extent sustained, to contribute to positive earnings for 1997.

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Ivaco Inc. and its subsidiaries are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include, where appropriate, estimates based on the judgment of management. A reconciliation with accounting principles generally accepted in the United States is also presented. Financial and operating data elsewhere in the annual report are consistent with those contained in the accompanying consolidated financial statements.

In fulfilling its responsibilities, management of Ivaco and its subsidiaries has developed and continues to maintain systems of internal accounting controls, including policies and procedures, and segregation of duties and responsibilities. While no system of internal control can detect and prevent all errors and irregularities, management believes that the systems in place provide an acceptable balance between benefits to be gained and the related cost.

The Board of Directors carries out its responsibility for review and approval of the consolidated financial statements principally through its Audit Committee. The Audit Committee of the Board of Directors has three members, all of whom are independent directors. They meet periodically with management and with external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls, and to review and discuss the financial statements and financial reporting matters.

The consolidated financial statements have been audited on behalf of the shareholders by Deloitte & Touche in accordance with generally accepted auditing standards. Their report contains the nature of their audit and expresses their opinion on the consolidated financial statements of the Company. Deloitte & Touche have full access to the Audit Committee.

Paul Ivanier
President and
Chief Executive Officer

Albert A. Kassab
Senior Vice-President and
Chief Financial Officer

Hugh W. Blakely
Vice-President and Controller

February 28, 1997

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		Thousands of dollars	
AS AT DECEMBER 31		1996	1995
Current assets	Cash and short-term investments	\$ 42,724	\$ 19,367
	Accounts receivable		
	Trade and other	211,519	201,340
	Officers (Notes 6 & 18)	7,473	—
	Inventories (Note 2)	298,102	399,877
	Prepaid expenses	6,947	7,740
	Total current assets	566,765	628,324
Current liabilities	Bank indebtedness, secured	4,542	14,820
	Accounts payable and accrued liabilities		
	Trade and other	231,869	234,225
	Officers (Note 18)	1,252	556
	Dividends payable	8,735	4,914
	Income taxes payable	15,722	15,074
	Series E, Preferred Shares (Note 7)	9,610	—
	Convertible debentures (Note 8)	6,850	—
	Current maturities of long-term debt (Note 9)	27,344	21,743
	Total current liabilities	305,924	291,332
Working capital		260,841	336,992
	Investments, at cost (Note 3)	154,089	118,979
	Investments, at equity (Note 4)	72,983	78,680
	Property, plant and equipment (Note 5)	412,689	481,545
	Other assets (Note 6)	71,830	73,913
Total investment		972,432	1,090,109
	Deduct:		
	Long-term debt (Note 9)	358,944	408,838
	Convertible debentures (Note 8)	—	15,000
	Exchangeable debentures (Notes 3 & 10)	95,223	95,223
	Series E, Preferred Shares and Series 5, Second Preferred Shares (Note 7)	33,266	37,906
	Accrued costs of pension plans	—	15,818
	Deferred income taxes	69,432	64,632
	Total long-term liabilities	556,865	637,417
Shareholders' equity		\$ 415,567	\$ 452,692
Represented by	Capital stock (Note 12)	\$ 453,080	\$ 453,063
	Retained earnings (deficit)	(47,622)	(9,042)
	Cumulative translation adjustment	10,109	8,671
		\$ 415,567	\$ 452,692

See accompanying notes to consolidated financial statements.

On behalf of the Board

PAUL IVANIER, Director

ALBERT A. KASSAB, Director

CONSOLIDATED STATEMENTS OF EARNINGS

Thousands of dollars except per share amounts

YEARS ENDED DECEMBER 31	1996	1995
Net sales	\$1,366,752	\$1,416,591
Cost of sales and operating expenses	1,240,093	1,262,011
Operating earnings (EBITDA) before:	126,659	154,580
Amortization	(43,808)	(39,482)
Share of earnings (loss) of equity accounted investments (Note 4)	(4,576)	(3,722)
Earnings from operations before interest and other items	78,275	111,376
Net interest expense (Note 9)	(46,127)	(39,889)
Dividends on Series E, Preferred Shares and Series 5, Second Preferred Shares (Note 7)	(4,406)	(3,027)
Earnings from continuing operations before income taxes	27,742	68,460
Provision for income taxes (Note 13)	23,715	30,897
Earnings from continuing operations	4,027	37,563
Loss from discontinued operations (Note 16)	(19,554)	(8,638)
Net earnings (loss)	\$ (15,527)	\$ 28,925
Earnings (loss) per share		
Continuing operations	\$ (0.41)	\$ 0.77
Net earnings (loss) per share	\$ (1.09)	\$ 0.47
Fully diluted earnings per share		
Continuing operations	\$ —	\$ 0.66
Net earnings per share	\$ —	\$ 0.42

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31		Thousands of dollars	
		1996	1995
Operating activities	Operations		
	Earnings from continuing operations	\$ 4,027	\$ 37,563
	Amortization	43,808	39,482
	Deferred income taxes	5,771	13,126
	Share of (earnings) loss of equity accounted investments	4,576	3,722
	Gain on disposal of businesses (Note 15)	(11,188)	—
	Other items	183	255
	Working capital provided from operations	47,177	94,148
	Increase in non-cash working capital items	(16,007)	(45,321)
	Other items	(9,508)	(3,465)
	Cash provided by operating activities	21,662	45,362
	Cumulative translation adjustment	336	2,828
Financing activities	Dividends	(9,633)	(9,824)
	Dividends - arrears	(7,344)	(8,515)
	Additional long-term liabilities	30,578	253,391
	Repayment of long-term liabilities	(81,618)	(195,906)
	Other items	(4,344)	(12,377)
	Cash (used in) provided by financing activities	(72,361)	26,769
Investing activities	Net additions to property, plant and equipment	(43,320)	(43,851)
	Proceeds from disposal of businesses (Notes 15 & 16)	156,433	—
	Business acquisition (Note 17)	—	(16,638)
	Discontinued operations (Note 16)	(22,467)	(2,230)
	Other items	(6,648)	(2,758)
	Cash provided by (used in) investing activities	83,998	(65,477)
Cash, net of	Increase in cash	33,635	9,482
Bank indebtedness	Balance at beginning of year	4,547	(4,935)
	Balance at end of year	\$ 38,182	\$ 4,547

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

YEARS ENDED DECEMBER 31	Thousands of dollars	
	1996	1995
Balance at beginning of year	\$ (9,042)	\$ 11,878
Add:		
Net earnings (loss)	(15,527)	28,925
	(24,569)	40,803
Deduct:		
Preferred dividends	9,633	9,824
Preferred dividends - paid in stock	6,076	5,584
Preferred dividends - arrears	7,344	8,515
Preferred dividends - arrears paid in stock	—	24,574
Flow through of Dofasco Inc. common dividend to Series 4, exchangeable second preferred shareholders (Note 12)	—	300
Costs relating to issue of capital stock net of income taxes of \$580	—	1,048
	23,053	49,845
Balance at end of year	\$(47,622)	\$ (9,042)

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
Ivaco Inc.

We have audited the consolidated statements of financial position of Ivaco Inc. as at December 31, 1996 and 1995, and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996 AND 1995

(all dollar amounts in tables are presented in thousands)

1. Significant Accounting Policies

The Company follows accounting principles generally accepted in Canada, in the preparation of its consolidated financial statements. The preparation of financial statements under generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation

The consolidated financial statements include the accounts of Ivaco Inc. and its subsidiaries. The excess of cost over the fair value of net assets at the dates of acquisition is allocated to property, plant and equipment and is being amortized over the estimated useful lives of the respective assets.

The proportionate consolidation method of accounting is used to account for the Company's interest in joint venture operations. This method of accounting brings into the consolidated financial statements, the Company's share of the specific assets, liabilities, sales and expenses of joint venture operations.

The equity method of accounting is used to account for investments in businesses in which the Company has a 20% to 50% ownership interest. The differences between the underlying book value of net assets at the dates of acquisition and the purchase price are being amortized over the estimated useful lives of the investees' property, plant and equipment.

Foreign Exchange Translation

Foreign Operations

Assets and liabilities of foreign operations are translated into Canadian dollars at year-end exchange rates. Cumulative gains and losses on translation are deferred and included as a separate component of shareholders' equity. Income and expenses are translated at average exchange rates prevailing during the year.

Canadian Operations

Foreign monetary assets and liabilities of Canadian operations are translated into Canadian dollars at year-end exchange rates. Gains and losses are included in the determination of net earnings except for unrealized translation gains and losses on long-term liabilities which are deferred and are amortized over the remaining lives of the related long-term liabilities. Income and expenses are translated at average exchange rates prevailing during the year.

Inventories

Inventories are stated at the lower of cost (determined substantially on the first-in, first-out method) and net realizable value. Work-in-progress related to contracts for the fabrication of structural steel is valued at costs incurred to date less progress billings and is included as a component of semi-finished inventories.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated amortization. Interest costs related to major capital expenditures are capitalized during the period of construction. Amortization is provided principally on the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	40 years
Steelmaking and rolling mill equipment	25 years
Manufacturing equipment	15 years

1. Significant Accounting Policies
(Continued)

Deferred Preproduction and Development Costs

Certain costs relating to the start-up of new facilities and major plant additions, incurred prior to the commencement of commercial production, are deferred and amortized over periods of up to five years.

Research and development expenditures are expensed as incurred with the exception of costs related to the development of new products, processes and systems to the extent that their recovery can be reasonably assured. Such costs are amortized on commencement of operation or commercial production over appropriate future periods.

Deferred Financing Costs

Certain costs relating to new financings are deferred and amortized over the term of the related financing agreements.

Earnings (loss) per Share

Earnings (loss) per Class A and Class B share are calculated after providing for declared and undeclared dividends on preferred shares and second preferred shares and dividing the total by the weighted average number of shares outstanding during the year. The weighted average number of shares outstanding during the year was 28,660,887 (1995 - 28,650,096).

2. Inventories	1996	1995
Finished and semi-finished*	\$127,973	\$188,468
Raw materials and supplies	170,129	211,409
Total inventories	\$298,102	\$399,877

* Includes costs to date of uncompleted contracts for the fabrication of structural steel of \$25,365 (1995 - \$10,581) less progress billings of \$34,687 (1995 - \$1,558).

3. Investments, at Cost	1996	1995
Dofasco Inc. - common shares	\$116,979	\$116,979
Birmingham Southeast, LLC-15% interest (U.S. \$20.1 million) (Note 16)	27,549	—
Laclede Steel Company-preferred shares (U.S. \$5.5 million)	7,561	—
Wire Rope Industries Ltd.-15% interest in common shares	2,000	2,000
	\$154,089	\$118,979

Pursuant to the terms of Trust Agreements, 2,975,721 common shares of Dofasco Inc. ("Dofasco") have been pledged to secure the exchange privileges attached to the Exchangeable Debentures and 2,986,500 common shares of Dofasco have been pledged to secure the exchange privileges attached to the Exchangeable Second Preferred Shares, Series 4.

The Dofasco shares are carried at a cost of \$19.62 per share and have a market value of \$25.90 per share at December 31, 1996 (1995 - \$17.50).

4. Investments, at Equity	Laclede Steel Company ¹	Others	Total
Carrying value, December 31, 1994	\$63,335	\$18,963	\$82,298
Share of earnings (loss) of equity accounted investments	(5,277)	1,555	(3,722)
Dividends received	—	(500)	(500)
Other	33	571	604
Carrying value, December 31, 1995	\$58,091	\$20,589	\$78,680
Share of earnings (loss) of equity accounted investments	(7,462)	2,886	(4,576)
Other	(41)	(1,080)	(1,121)
Carrying value, December 31, 1996	\$50,588	\$22,395	\$72,983
Share of equity, December 31, 1996	\$51,038	\$22,389	\$73,427

¹49.8% interest.

5. Property, Plant and Equipment	1996			1995		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 24,096	\$ —	\$ 24,096	\$ 30,799	\$ —	\$ 30,799
Buildings	159,099	57,011	102,088	167,791	62,116	105,675
Machinery and equipment	611,029	324,524	286,505	746,277	401,206	345,071
Total property, plant and equipment	\$794,224	\$381,535	\$412,689	\$944,867	\$463,322	\$481,545

Amortization of property, plant and equipment for 1996 amounted to \$38,845 (1995 - \$39,523) of which \$3,814 is included in discontinued operations (1995 - \$6,367).

6. Other Assets	1996	1995
Net assets of discontinued operations, primarily real estate	\$ 32,472	\$ 33,208
Deferred preproduction and development costs and other deferred charges, less amortization	10,090	7,258
Deferred financing costs, less amortization	14,931	15,537
Deferred translation adjustment, less amortization	9,685	8,244
Loans to officers at prime interest rates, due in 1997	—	7,106
Deferred pension asset	2,171	—
Other items	2,481	2,560
Total other assets	\$ 71,830	\$ 73,913

Amortization of other assets for 1996 amounted to \$8,907 (1995 - \$7,523) of which \$130 is included in discontinued operations (1995 - \$1,197).

7. **Series E, Preferred Shares and Series 5, Second Preferred Shares** The Company has changed its financial reporting by adopting retroactively changes recommended by the Canadian Institute of Chartered Accountants which became effective January 1, 1996. Accordingly, the Series E, Preferred Shares and Series 5, Second Preferred Shares are disclosed separately as Current Liabilities and Long-term Liabilities as appropriate, in the Consolidated Statements of Financial Position and dividends thereon are included in the Consolidated Statements of Earnings as an expense.

Authorized

An unlimited number of Preferred Shares, Series E issuable in series and Second Preferred Shares, Series 5 issuable in series.

Issued and Outstanding

	Number of shares			
	1996	1995	1996	1995
Preferred Shares \$2.40 Series E	384,385	384,385	\$ 9,610	\$ 9,610
Second Preferred Shares \$2.625 Series 5	1,379,328	1,153,259	33,266	28,296
			42,876	37,906
Less: current maturities			9,610	—
			\$33,266	\$37,906

Series E, Preferred Shares

The \$2.40 Series E Cumulative Redeemable Preferred Shares may be purchased by the Company on the open market at prices not exceeding the applicable redemption price. The Company may redeem Series E Preferred Shares at \$25.25 per share to September 30, 1997; and thereafter at \$25 per share. On October 1, 1997, the Company will purchase for redemption, at \$25 per share, all shares tendered at the option of each holder. The Company will make all reasonable efforts to purchase 8,500 shares for cancellation on the open market in each calendar quarter at prices not exceeding \$25 per share. During 1996 and 1995 no such shares were purchased and cancelled.

7. **Series E, Preferred Shares and Series 5, Second Preferred Shares** *Series 5, Second Preferred Shares*
 (Continued) The \$2.625 Series 5 Cumulative Redeemable Retractable Second Preferred Shares may be purchased by the Company on the open market at prices not exceeding the applicable redemption price of \$25 per share. On March 31 in each of the years indicated hereafter, the Company will purchase shares for redemption, at \$25 per share, provided however that the number of shares that may be so redeemed may not exceed the following percentages outstanding in each such year: 10% in 2001; 15% in 2002; 15% in 2003; 20% in 2004; and 100% in 2005. During 1996, 226,069 shares with a stated capital of \$4.9 million were issued to satisfy, in part, regular dividends on Second Preferred Shares, other than Series 5, Second Preferred Shares. During 1995, 982,942 shares were issued to satisfy dividend arrears with a stated capital of \$24.6 million and 170,317 shares with a stated capital of \$3.7 million were issued to satisfy, in part, regular dividends on Second Preferred Shares.

8. **Convertible Subordinated Debentures** The 9.5% Convertible Subordinated Debentures, maturing on November 24, 1997, are convertible at the option of the holders at any time prior to maturity, into 2,107,692 Class A subordinate voting shares being a conversion price of \$3.25 per Class A share. The Debentures are redeemable and retractable by the Company in specified circumstances.

9. Long-Term Debt	1996	1995
Secured		
Bank Term Loans at variable rates averaging 5% at December 31, 1996 (1995 - 7.75%) maturing to 2000	\$ 15,625	\$ 20,753
Senior Notes at 7.29% maturing to 2004 (\$62.1 million U.S.; 1995 - \$67.4 million U.S.)	85,143	91,947
Industrial Revenue Bonds at 4.8% maturing to 2009 (\$3.9 million U.S.; 1995 - \$4.3 million U.S.)	5,393	5,886
Mortgages averaging 8.6% maturing to 2011 of which \$1.5 million are in U.S. funds	9,414	13,358
Others averaging 9.3% maturing to 2002 of which \$4.1 million (1995 - \$8.1 million) are in U.S. funds	14,919	17,877
Unsecured		
Senior Notes at 11.5% maturing in 2005 (\$122.5 million U.S.; 1995 - \$150 million U.S.)	167,898	204,600
Senior Notes at 8.44% maturing to 2004 (\$45 million U.S.; 1995 - \$45 million U.S.)	61,677	61,380
Others averaging 6.0% maturing to 2001 of which \$11.9 million (1995 - \$5.9 million) are in U.S. funds	26,219	14,780
	386,288	430,581
Less: current maturities	27,344	21,743
Total long-term debt	\$358,944	\$408,838

Required payments of long-term debt over the next five years are:

\$27.3 million in 1997; \$30.4 million in 1998; \$35.4 million in 1999; \$30.0 million in 2000; and \$26.4 million in 2001.

Interest expense on long-term debt, convertible debentures and exchangeable debentures amounted to \$50,210 in 1996 (1995 - \$42,851)

10. **Exchangeable Debentures** The Exchangeable Debentures maturing in 2010, are exchangeable at the option of the holders for 2,975,721 common shares of Dofasco and bear interest at a semi-annual rate equal to (i) the cash dividends paid by Dofasco per Dofasco common share during the six calendar months immediately preceding the interest payment date divided by \$32.00, expressed as a percentage, plus (ii) 2.5%. The Dofasco shares are carried at a cost of \$19.62 per share, have a market value of \$25.90 per share at December 31, 1996 (1995 - \$17.50), and are included in Investments, at cost on the Consolidated Statements of Financial Position.

**11. Accrued
Costs of
Pension Plans**

The Company and its subsidiaries have pension plans covering substantially all employees. The majority of the plans are defined benefit plans. The following is based on information at December 31:

	1996	1995
Actuarial present value of accrued pension obligations	\$322,146	\$311,417
Market value of pension fund assets	\$262,082	\$233,911

Pension expense for 1996 was \$20.0 million (1995 - \$18.1 million)

12. Capital Stock

Authorized

An unlimited number of Preferred Shares issuable in series, Second Preferred Shares issuable in series, Subordinated Non-Voting Preferred Shares, Class A Subordinate Voting Shares (Class A Shares) and Class B Voting Shares (Class B Shares) - all without par value.

Issued and Outstanding

	Number of shares			
	1996	1995	1996	1995
Preferred Shares				
\$4.425 Series C	161,650	161,650	\$ 8,083	\$ 8,083
\$2.50 Series D	34,443	34,443	861	861
			8,944	8,944
Second Preferred Shares				
\$2.00 Series 1	1,353,473	1,353,473	33,837	33,837
\$2.00 Series 2	1,871,839	1,871,839	46,796	46,796
\$2.25 Series 3	997,752	997,752	24,944	24,944
			105,577	105,577
Exchangeable Second Preferred Shares Series 4 (Note 3)	2,986,500	2,986,500	95,568	95,568
Class A Shares	22,007,396	21,986,345	225,595	225,524
Class B Shares	6,654,477	6,670,528	17,396	17,450
			242,991	242,974
Total capital stock			\$453,080	\$453,063

Preferred Shares

The Preferred Shares are non-voting and each series of Preferred Shares ranks equally with all other series of Preferred Shares and ahead of the Second Preferred Shares, Subordinated Non-Voting Preferred Shares and Class A and Class B Shares.

Series C

The \$4.425 Series C Cumulative Redeemable Preferred Shares may be purchased by the Company on the open market at prices not exceeding the applicable redemption price of \$50 per share. The Company will make all reasonable efforts to purchase 3,000 shares for cancellation on the open market in each calendar quarter. During 1996 and 1995 no such shares were purchased and cancelled.

Series D

The \$2.50 Series D Cumulative Redeemable Preferred Shares may be purchased by the Company on the open market at prices not exceeding the applicable redemption price of \$25 per share. The Company will make all reasonable efforts to purchase 7,200 shares for cancellation on the open market in each calendar quarter. During 1996 and 1995 no such shares were purchased and cancelled.

12. Capital Stock (Continued)

Second Preferred Shares

The Second Preferred Shares rank equally with all other series of Second Preferred Shares and after the Preferred Shares and ahead of the Subordinated Non-Voting Preferred Shares and the Class A and Class B Shares.

On September 4, 1991, the Company announced that it had temporarily omitted payment of dividends on the Second Preferred Shares. As a result thereof, and for so long as the dividends on the Second Preferred Shares remain in arrears in the aggregate of eight calendar quarters, holders of Second Preferred Shares are entitled to attend and vote at all meetings of shareholders of the Company. In addition, the Company will not pay any dividends on the Class A or Class B Shares unless all accrued and unpaid dividends on the Second Preferred Shares have been declared and paid or provided for.

On March 31, 1995, the Company paid \$33.1 million in respect of the dividend arrears on its existing Second Preferred Shares, comprised of \$8.5 million in cash and \$24.6 million in Series 5 Second Preferred Shares. On each of February 9, 1996 and January 1, 1997, the Company paid \$3.7 million in cash in respect of dividends in arrears.

On February 28, 1997, the final instalment of arrears in the amount of \$3.7 million was declared payable in cash on April 1, 1997.

Series 1

The \$2.00 Series 1 Cumulative Redeemable Second Preferred Shares may be purchased by the Company on the open market at prices not exceeding the applicable redemption price of \$25 per share. The Company will make all reasonable efforts to purchase 13,538 shares for cancellation on the open market in each calendar quarter. No purchases or redemptions can be made while dividends are in arrears. Dividends of \$0.8 million are in arrears at December 31, 1996.

Series 2

The \$2.00 Series 2 Cumulative Redeemable Second Preferred Shares may be purchased by the Company on the open market at prices not exceeding the applicable redemption price of \$25 per share. The Company will make all reasonable efforts to purchase 18,719 shares for cancellation on the open market in each calendar quarter. No purchases or redemptions can be made while dividends are in arrears. Dividends of \$1.1 million are in arrears at December 31, 1996.

Series 3

The \$2.25 Series 3 Cumulative Redeemable Second Preferred Shares may be purchased by the Company on the open market at prices not exceeding the applicable redemption price of \$25 per share. The Company will make all reasonable efforts to purchase 9,977 shares for cancellation on the open market in each calendar quarter, at prices not exceeding \$25 per share. No purchases or redemptions can be made while dividends are in arrears. Dividends of \$0.7 million are in arrears at December 31, 1996.

Series 4, Exchangeable Second Preferred Shares

The Series 4 Cumulative Redeemable Exchangeable Second Preferred Shares are exchangeable, at the option of the holder, into one common share of Dofasco for each Series 4 Second Preferred Share. Dividends are determined by applying to \$32 a quarterly rate equal to: (i) the cash dividends paid by Dofasco per common share of Dofasco during the three calendar months immediately preceding the dividend payment date divided by \$32 expressed as a percentage, plus (ii) 1%.

On September 4, 1991, the Company announced that it had temporarily omitted payment of dividends on its Second Preferred Shares including the Series 4 Exchangeable Second Preferred Shares. Pursuant to the trust agreement, established at the time of issuance of the Series 4 Exchangeable Second Preferred Shares, the trustee is required to pay, on a pro rata basis to the holders, the cash amount of any dividends received on the Dofasco common shares as soon as practical after receipt thereof. The amount of this payment is credited against any future amounts to be declared by Ivaco Inc. For so long as the dividends on the

12. Capital Stock (Continued)

Exchangeable Second Preferred Shares remain in arrears in the aggregate of eight calendar quarters, holders of Exchangeable Second Preferred Shares are entitled to attend and vote at all meetings of shareholders of the Company. Dividends of \$1.1 million are in arrears at December 31, 1996.

The Company may redeem Series 4 Exchangeable Second Preferred Shares at \$32 per share. No such redemption will be made while dividends are in arrears. During 1996 and 1995, no such shares were exchanged for common shares of Dofasco.

Class A Subordinate Voting and Class B Voting Shares

The Class A Subordinate Voting Shares (Class A Shares) carry one vote per share and the Class B Voting Shares (Class B Shares) carry ten votes per share. The Class A Shares have a dividend rate equal to 120% of any dividend declared on the Class B Shares.

The Class A Shares and the Class B Shares are treated equally in the event of liquidation or in any subdivision or consolidation of either class. In the event an acquisition offer is made to holders of Class B Shares and at least 50% of the Class B Shares are tendered in acceptance of the offer and a similar offer is not made to holders of Class A Shares then each Class A Share will for purposes of the offer only be deemed to have been converted into a Class B Share in order that the Class A Shares will be treated equally with the Class B Shares.

The Class B Shares may be converted into an equal number of Class A Shares at any time.

The following transactions occurred during 1995 and 1996 in the Class A Shares and the Class B Shares:

	Number of shares			
	Class A	Class B	Class A	Class B
Balance at December 31, 1994	21,962,230	6,680,111	\$225,441	\$17,482
Conversion from:				
Class B to Class A	9,583	(9,583)	32	(32)
Shares issued during 1995:				
Employees' Stock Option Plan	13,550	—	46	—
Dividend Reinvestment Plan	982	—	5	—
Balance at December 31, 1995	21,986,345	6,670,528	\$225,524	\$17,450
Conversion from:				
Class B to Class A	16,051	(16,051)	54	(54)
Shares issued during 1996:				
Employees' Stock Option Plan	5,000	—	17	—
Balance at December 31, 1996	22,007,396	6,654,477	\$225,595	\$17,396

Stock Options

At December 31, 1996, options for 2,610,340 (1995 - 2,648,340) Class A Shares granted under the Employees' Stock Option Plan were outstanding, including 1,394,700 options exercisable to 2004 at \$7.50 per share, 10,000 options exercisable to 2004 at \$7.19 per share and 1,205,640 options exercisable to 2002 at \$3.40 per share.

13. Income Taxes

The provision for income taxes is comprised of:

	1996	1995
Current	\$19,239	\$17,771
Deferred	4,476	13,126
	\$23,715	\$30,897

The effective rate of income taxes is as follows:

	1996	1995
Combined basic federal and provincial income tax rate	36.9%	36.7 %
Large Corporation Tax	5.2	2.1
Income tax adjustments resulting from:		
Losses not tax effected	28.6	3.5
Items not subject to tax:		
Share of (earnings) loss of equity accounted investments	6.1	2.0
Dividends on Series E, Preferred shares and Series 5, Second Preferred shares	5.9	1.6
Dividend income	(6.7)	(2.6)
Various non-deductible items	5.5	2.0
Other items	4.0	(0.2)
	85.5%	45.1 %

Certain U.S. subsidiaries have accumulated losses, which have not been recognized in the accounts, of approximately \$91.1 million (US \$66.5 million) which may be applied against future years' taxable income. These losses expire from 1998 to 2010.

14. Joint Venture Operations

The Company's 50% proportionate share of the joint venture operations included in the Consolidated Financial Statements before provision for income taxes is summarized below:

	1996	1995
Consolidated Statements of Financial Position		
Current assets	\$ 56,931	\$ 52,423
Non-current assets	\$ 53,870	\$ 58,189
Current liabilities	\$ 15,790	\$ 25,194
Non-current liabilities	\$ 10,625	\$ 18,435
Consolidated Statements of Earnings		
Net sales	\$165,326	\$ 149,595
Expenses	\$139,790	\$ 130,394
Earnings from continuing operations	\$ 25,536	\$ 19,201
Consolidated Statements of Changes in Financial Position		
Cash provided by (used in):		
Operating activities	\$ 16,294	\$ 20,937
Financing activities	\$ (9,461)	\$ 11,813
Investing activities	\$ (1,147)	\$ (21,710)

**15. Disposal of
Businesses**

During 1996, the Company disposed of the following businesses:

The business and assets of its construction services division, including the erection of structural steel. This transaction generated cash proceeds of \$8,340 and resulted in a net gain of \$4,573 after deducting taxes of \$3,048 thereon.

The business and assets of its mesh operations located in the United States. This transaction generated cash proceeds of \$23,860 (US \$17,649) and resulted in a net gain of \$3,861 after a recovery of deferred income taxes of \$1,295 thereon.

The business and assets of its Calgary steel joists fabricating plant. This transaction generated cash proceeds of \$10,138 and resulted in a net gain of \$2,754 after deducting taxes of \$1,836 thereon.

**16. Loss from
Discontinued
Operations**

During the third quarter of 1996, the Company adopted a formal plan to dispose of certain assets and operations of Atlantic Steel which constituted the Company's segment comprising the manufacture and sale of bar products and billets in the United States. Pursuant to an agreement dated December 3, 1996, with Birmingham Steel Corporation, Atlantic Steel contributed its steelmaking facility and rolling mill operation in Cartersville, Georgia and certain related assets to Birmingham Southeast, LLC for a total consideration of \$141.6 million (US \$103.3 million) comprising a 15% interest in Birmingham Southeast, LLC valued at \$27.5 million (US \$20.1 million) and \$114.1 million cash (US \$83.2 million) of which \$16.3 million (US \$11.9 million) was received in January 1997.

Accordingly, the operating results of certain operations of Atlantic Steel from January 1, 1996 to December 2, 1996 and the net gain on disposal of certain assets have been disclosed separately as discontinued operations, as follows:

	1996	1995
Loss from operations	\$ (19,964)	\$ (3,213)
Gain on disposal of assets	2,055	—
Provision for income taxes	(1,645)	—
Net gain on disposal	410	—
Loss from discontinued operations	\$ (19,554)	\$ (3,213)

Results of other operations which were previously discontinued are as follows:

	1995
Results of operations	\$ (6,581)
Recovery of deferred income taxes	1,156
Loss from discontinued operations	\$ (5,425)

Sales of operations which have been classified as discontinued amounted to \$191.3 million for the year ended December 31, 1996 (1995 - \$213.7 million).

Assets and liabilities relating to discontinued operations included in the Consolidated Statements of Financial Position at December 31 are as follows:

	1996	1995
Current assets	\$ 98	\$ 98
Current liabilities	(1,493)	(4,081)
Fixed assets	5,419	6,565
Other assets	32,472	33,208
Long-term debt	(385)	(4,384)
Net assets	\$36,111	\$ 31,406

17. Business Acquisition During 1995, IPEX, a 50%-owned joint venture acquired the assets and shares of the Multi-Fittings Group for a total cash consideration of \$35.6 million, including the assumption of \$10.2 million of long-term debt. The excess of the purchase price over the fair value of the net assets acquired resulted in goodwill of \$3.4 million which is being amortized over ten years. The Company's share of this goodwill is included in Other Assets.

18. Transactions with Related Parties *Loans to officers*
Loans to officers bear interest at prime rates, are due in 1997 and are unsecured. Such loans to officers outstanding at December 31, 1996 amounted to \$7.5 million (1995 - \$7.1 million) and were made predominantly in connection with the purchase of shares of the Company.

Loans from officers
From time to time, the Company borrows short-term funds from senior officers of the Company and makes drawings available to them, all at rates equal to the Company's borrowing rate. At December 31, 1996, borrowings from officers amounting to \$1.3 million were outstanding (1995-\$0.6 million). These transactions are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Affiliated Companies

The Company had transactions in the normal course of business with its affiliated companies. These transactions are measured at exchange amounts and are summarized below:

	1996	1995
Sales of products to equity accounted investments	\$ 7,600	\$ —
Purchases of raw materials from equity accounted investments	\$19,776	\$16,878

At December 31, amounts due to affiliated companies are as follows:

	1996	1995
Equity accounted investments	\$ 2,411	\$ 2,076

19. Financial Instruments and Risk Management In conducting its business, the Company uses various instruments including forward contracts to manage the risks arising from fluctuations in exchange rates. All instruments are used for risk management purposes only.

Foreign exchange risks

From time to time, the Company enters into forward exchange contracts to partially hedge accounts receivable and future revenues denominated in U.S. dollars, net of expected U.S. dollar outlays including principal and interest payment on its U.S. dollar denominated debt.

At December 31, 1996, the Company had forward contracts maturing in 1997 to exchange U.S. dollars for Canadian dollars, in the amount of \$86.4 million (1995 - \$123.9 million). The market value of such forward exchange contracts was such that if these contracts had been closed out at December 31, 1996, the Company would have incurred a loss of \$0.4 million. Unrealized gains and losses on outstanding forward exchange contracts are not recorded in the financial statements until realized. Counterparties to these contracts are major Canadian financial institutions. The Company does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate non-performance by the counterparties.

Interest rate risks

The Company's long-term debt is principally at fixed interest rates and therefore the Company's exposure to interest rate risks is minimal.

19. Financial Instruments and Risk Management
(Continued)

Credit risks

The Company's exposure to concentration of credit risk is limited due to the large number of customers comprising the Company's customer base and their dispersion across many different industries and geographic locations. As at December 31, 1996, there was no concentration of credit risk. The Company also maintains credit insurance with a third party insurer to further alleviate risk.

Fair value of financial instruments

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The fair value of current monetary assets and liabilities approximates their carrying value as reported in the Consolidated Statements of Financial Position due to the relatively short period to maturity of the instruments.

The Company's estimated fair values which differ from their carrying values are as follows:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments, at cost	\$154,089	\$191,500	\$118,979	\$106,300
Long-term Liabilities				
Senior Notes	\$314,718	\$329,600	\$357,927	\$376,100
Redeemable Second Preferred shares, Series 5	\$ 33,266	\$ 30,300	\$ 28,296	\$ 23,100
Redeemable Preferred shares, Series E	\$ —	\$ —	\$ 9,610	\$ 9,400

The fair value of the above items was estimated based on quoted market prices (when available), or discounted cash flows, using discount rates based on market interest rates.

20. Environmental Matters

The Company's operations are subject to numerous environmental laws, regulations and guidelines adopted by various governmental authorities in the jurisdictions in which the Company operates. Liabilities, net of probable recoveries, are recorded when environmental remediation obligations are either known or considered probable and can be reasonably estimated.

21. Comparative Figures

The 1995 figures have been reclassified to conform with the presentation adopted in 1996.

22. Summary of Material Differences Between Generally Accepted Accounting Principles (GAAP) in Canada and the United States

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which conform in all material respects with accounting principles generally accepted in the United States ("U.S. GAAP") except as set forth below (adjustments where appropriate are net of related income tax effects) for the years ended December 31:

	1996	1995
Net earnings (loss) under Canadian GAAP	\$(15,527)	\$ 28,925
<i>Adjustments (net of income taxes thereon):</i>		
Post-retirement benefits other than pensions (a)	(20,931)	(10,432)
Pension costs (b)	(8,902)	—
Deferred preproduction, development and financing costs (c)	891	(139)
Deferred translation adjustment (d)	(367)	1,101
Income taxes (e)	(193)	(138)
Dividends on Series E, Preferred shares and Series 5, Second Preferred shares (f)	4,406	3,027
Net earnings (loss) under U.S. GAAP	\$(40,623)	\$22,344

22. Summary of Material Differences Between Generally Accepted Accounting Principles (GAAP) in Canada and the United States (Continued)

	1996		1995	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Earnings (loss) per share (g)				
Continuing operations	\$(0.66)	\$(0.41)	\$0.55	\$0.77
Net earnings (loss) per share	\$(2.12)	\$(1.09)	\$0.13	\$0.47
Fully diluted earnings per share (g)				
Continuing operations	\$ —	\$ —	\$0.50	\$0.66
Net earnings per share	\$ —	\$ —	\$ —	\$0.42
			1996	1995
Total assets under Canadian GAAP			\$1,278,356	\$1,381,441
<i>Adjustments:</i>				
Investments, at cost (h)			37,443	(12,640)
Investments, at equity (a)			(9,554)	(7,277)
Deferred preproduction, development and financing costs (c)			(8,849)	(10,297)
Deferred translation adjustment (d)			(9,724)	(9,082)
Share purchase loans (i)			(6,122)	(5,756)
Pension costs (b)			(2,171)	—
Total assets under U.S. GAAP			\$1,279,379	\$1,336,389
Total liabilities under Canadian GAAP			\$ 862,789	\$ 928,749
<i>Adjustments:</i>				
Post-retirement benefits other than pensions (a)			47,836	28,492
Pension costs (b)			6,776	—
Deferred income taxes			(336)	(13,556)
Income taxes (e)			(3,323)	(3,516)
Share issue costs (j)			(1,248)	(1,248)
Total liabilities under U.S. GAAP			\$ 912,494	\$ 938,921
Total shareholders' equity under Canadian GAAP			\$ 415,567	\$ 452,692
<i>Adjustments:</i>				
Post-retirement benefits other than pensions (a)			(54,923)	(33,886)
Pension costs (b)			(8,947)	—
Deferred preproduction, development and financing costs (c)			(3,996)	(4,887)
Deferred translation adjustment (d)			(6,599)	(6,232)
Income taxes (e)			3,323	3,516
Share purchase loans (i)			(6,122)	(5,756)
Share issue costs (j)			1,248	1,248
Investments, at cost (h)			27,334	(9,227)
Total shareholders' equity under U.S. GAAP			\$ 366,885	\$ 397,468

The areas of material difference between Canadian and U.S. GAAP and their impact on the consolidated financial statements are described as follows:

a. Post-retirement Benefits Other than Pensions

Under Canadian GAAP, the Company's cost of providing group health care and life insurance benefits to its retirees is expensed when incurred. Under U.S. GAAP, the expected costs of such benefits are expensed during the years that the employees render service. For U.S. GAAP purposes, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions" effective January 1, 1993 and has elected to amortize the transition obligation over a 20 year period.

22. Summary of Material Differences Between Generally Accepted Accounting Principles (GAAP) in Canada and the United States (Continued)

b. Pension Costs

Under Canadian GAAP, the one-time charge arising from the curtailment of pension plans is determined, in part, by recording the unrecognized net amounts based on the projected benefit obligation of members affected in relation to the projected benefit obligation of all members, whereas under U.S. GAAP, the recording of unrecognized net amounts is based on the percentage of future service curtailed.

c. Deferred Preproduction, Development and Financing Costs

Under Canadian GAAP, certain preproduction, development and financing costs are deferred and amortized over the periods benefitted. Under U.S. GAAP, such costs are included in the statement of earnings as incurred.

d. Deferred Translation Adjustment

Under Canadian GAAP, exchange gains and losses arising on the translation, at exchange rates prevailing at year end, of long-term monetary items denominated in a foreign currency, are deferred and amortized over the remaining life of the related long-term monetary items. Under U.S. GAAP, such exchange gains and losses are included in the statement of earnings.

e. Income Taxes

For U.S. GAAP purposes, the Company adopted SFAS No. 109, "Accounting for Income Taxes", for all fiscal periods beginning after January 1, 1993.

SFAS 109 provides for changes to the Company's method of accounting for income taxes from the deferred method as recorded under Canadian GAAP, to an asset and liability method. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Similarly, under SFAS No. 109, the rate of taxes must be adjusted to reflect expected tax rates at which the tax liability will be discharged.

f. Dividends on Redeemable Preferred Shares.

Under Canadian GAAP, dividends on Series E, Redeemable Preferred Shares and the Series 5, Redeemable Second Preferred Shares are included in the Consolidated Statements of Earnings as an expense. Under U.S. GAAP, these dividends are disclosed in retained earnings.

g. Earnings (Loss) Per Share

Earnings (loss) per share in Canadian GAAP is based on the weighted average number of shares outstanding during each year. The weighted average number of shares outstanding under Canadian GAAP was 28,660,887 in 1996 and 28,650,096 in 1995. Primary earnings (loss) per share in U.S. GAAP is based on the weighted average number of shares outstanding during each year after giving effect to dilutive stock options using the treasury stock method. The weighted average number of shares and share equivalents under U.S. GAAP was 28,703,740 in 1996 and 29,081,691 in 1995.

Fully diluted earnings per share in Canadian GAAP is based on the weighted average number of shares outstanding during each year after giving effect to dilutive stock options and convertible debentures using the if-converted method. The weighted average number of shares outstanding under Canadian GAAP was 28,660,887 in 1996 and 35,920,595 in 1995. Fully diluted earnings per share in U.S. GAAP is based on the weighted average number of shares outstanding during each year after giving effect to dilutive stock options using the treasury stock method and after giving effect to the dilutive convertible debentures using the if-converted method. The weighted average number of shares and share equivalents under U.S. GAAP was 28,748,702 in 1996 and 33,697,076 in 1995. Fully diluted earnings per share are not disclosed for periods where the effect is antidilutive.

22. Summary of Material Differences Between Generally Accepted Accounting Principles (GAAP) in Canada and the United States (Continued)

h. Investments, at Cost

Under Canadian GAAP, long-term portfolio investments are carried at cost. For U.S. GAAP purposes, the Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which requires the reporting of changes in fair value in a separate component of shareholders' equity until realized.

i. Share Purchase Loans

Under Canadian GAAP, share purchase loans to employees are classified as assets; under U.S. GAAP, they are deducted from the stated value of Capital Stock.

j. Share Issue Costs

Under Canadian GAAP, share issue costs may be shown as a reduction of retained earnings. Under U.S. GAAP, these costs must be shown as a reduction of the stated value of Capital Stock.

23. Segmented Information

The Company operates principally in Canada and the United States in four business segments. The Steel Segment consists of wire rod products; the Fabricated Steel Products Segment includes fasteners, wire and wire products; the Structural Steel Segment consists of the fabrication of structural steel; and the Other Diversified Fabricated Products Segment includes precision machined components and plastic pipe and fittings.

Canadian sales to outside customers include export sales in 1996 of \$564 million (1995 - \$510 million) primarily to customers in the United States. Highlighted on the following page is the breakdown of net sales, earnings from operations before interest and other items, and identifiable assets by business and geographic segments.

Business Segments	1996					1995				
	Steel	Fabricated Steel Products	Structural Steel	Other Diversified Fabricated Products	Consolidated	Steel	Fabricated Steel Products	Structural Steel	Other Diversified Fabricated Products	Consolidated
Net sales	\$283,489	\$611,404	\$144,698	\$327,161	\$1,366,752	\$253,131	\$660,222	\$117,435	\$385,803	\$1,416,591
Operating earnings (EBITDA) before:	\$ 7,735	\$ 68,865	\$ 3,831	\$ 46,228	\$ 126,659	\$ 35,178	\$ 86,266	\$ 2,377	\$ 30,759	\$ 154,580
Amortization	(11,622)	(15,459)	(1,421)	(15,306)	(43,808)	(10,258)	(15,924)	(1,393)	(11,907)	(39,482)
	\$ (3,887)	\$ 53,406	\$ 2,410	\$ 30,922	\$ 82,851	\$ 24,920	\$ 70,342	\$ 984	\$ 18,852	\$ 115,098
Share of earnings (loss) of equity accounted investments					\$ (4,576)					\$ (3,722)
Earnings from operations before interest and other items					\$ 78,275					\$ 111,376
Assets identifiable by segment	\$257,938	\$462,241	\$ 42,433	\$515,744	\$1,278,356	\$334,716	\$467,632	\$ 56,276	\$522,817	\$1,381,441
Net additions to property, plant and equipment	\$ 9,163	\$ 30,043	\$ 417	\$ 3,697	\$ 43,320	\$ 19,055	\$ 18,827	\$ 1,168	\$ 4,801	\$ 43,851

Geographic Segments	1996			1995		
	Canada	U.S.A.	Consolidated	Canada	U.S.A.	Consolidated
Net sales	\$1,058,532	\$308,220	\$1,366,752	\$1,033,535	\$383,056	\$1,416,591
Operating earnings (EBITDA) before:	\$ 146,587	\$ (19,928)	\$ 126,659	\$ 153,245	\$ 1,335	\$ 154,580
Amortization	(38,087)	(5,721)	(43,808)	(33,434)	(6,048)	(39,482)
	\$ 108,500	\$ (25,649)	\$ 82,851	\$ 119,811	\$ (4,713)	\$ 115,098
Share of earnings (loss) of equity accounted investments			\$ (4,576)			\$ (3,722)
Earnings from operations before interest and other items			\$ 78,275			\$ 111,376
Assets identifiable by segment	\$ 986,206	\$292,150	\$1,278,356	\$1,013,775	\$367,666	\$1,381,441

FINANCIAL SUMMARY

Millions of dollars except per share amounts

Operating Results	1996	1995⁽²⁾	1994	1993	1992	1991	1990
Net sales	\$1,366.8	1,416.6	1,418.2	1,220.9	1,094.3	1,115.8	1,868.5
Operating earnings (EBITDA) before:	\$ 126.7	154.6	122.7	92.4	43.1	21.9	133.9
Amortization	\$ 43.8	39.5	45.4	43.8	43.8	45.6	55.0
Share of earnings (loss) of equity accounted investments	\$ (4.6)	(3.7)	5.6	5.8	(3.0)	(5.1)	1.5
Earnings (loss) from operations before interest and other items	\$ 78.3	111.4	82.9	54.4	(3.7)	(28.8)	80.4
Earnings (loss) from continuing operations before income taxes	\$ 27.7	68.5	45.0	16.7	(48.1)	(81.6)	12.2
Provision for (recovery of) income taxes	\$ 23.7	30.9	26.6	14.0	(11.7)	(25.2)	0.1
Earnings (loss) from continuing operations	\$ 4.0	37.6	18.4	2.7	(36.4)	(56.4)	7.2
Net earnings (loss)	\$ (15.5)	28.9	8.1	0.3	(19.6)	(59.4)	17.0
Earnings (loss) per share ⁽¹⁾							
Continuing operations	\$ (0.41)	0.77	0.13	(0.52)	(2.51)	(3.71)	(0.76)
Net earnings (loss) per share	\$ (1.09)	0.47	(0.25)	(0.63)	(1.71)	(3.86)	(0.25)
Return on sales	% (1.1)	2.0	0.6	0.0	(1.8)	(5.3)	0.9
Financial Position	1996	1995⁽²⁾	1994	1993	1992	1991	1990
Current assets	\$ 566.7	628.3	571.4	484.8	453.3	533.1	620.7
Current liabilities	\$ 305.9	291.3	308.4	264.2	325.8	354.9	369.3
Working capital	\$ 260.8	337.0	263.0	220.6	127.5	178.2	251.4
Net additions to property, plant and equipment	\$ 43.3	43.9	33.6	18.1	7.0	24.7	39.6
Total assets	\$1,278.4	1,381.4	1,309.2	1,203.4	1,182.6	1,296.6	1,411.8
Long-term debt	\$ 358.9	408.8	337.9	340.5	299.4	356.7	355.7
Convertible debentures	\$ —	15.0	15.0	15.0	10.0	—	—
Exchangeable debentures	\$ 95.2	95.2	95.2	95.2	95.2	95.2	95.2
Shareholders' equity	\$ 415.6	452.7	482.7	442.8	422.3	446.9	535.5
Dividends	\$ 23.1	48.5	1.7	1.7	3.2	19.1	33.0
Book value per share ⁽¹⁾	\$ 6.69	7.78	7.36	7.51	8.32	10.35	14.65

(1) Declared and undeclared preferred share dividends have been deducted in calculating per share amounts.

(2) The 1995 figures have been reclassified to conform with the presentation adopted in 1996.

1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
2,001.1	2,013.3	2,127.8	1,944.8	1,342.7	1,193.9	754.7	681.7	718.3	621.9	495.4	265.9	166.8
165.9	215.7	197.5	186.6	138.5	128.8	63.5	54.4	96.4	81.2	96.7	57.0	28.0
51.8	56.9	56.7	56.3	39.5	34.5	27.0	23.9	19.6	14.9	11.4	8.0	6.8
1.8	1.2	1.2	1.3	0.4	0.5	3.0	(3.3)	2.7	0.8	—	—	—
115.9	160.0	142.0	131.6	99.4	94.8	39.5	27.2	79.5	67.1	85.3	49.0	21.2
57.1	108.3	89.0	81.7	57.6	54.4	(0.3)	(25.7)	33.9	41.1	69.0	41.1	14.6
20.9	41.5	42.1	32.7	18.3	15.8	(5.9)	(15.3)	8.6	12.4	25.4	16.7	4.6
28.2	55.6	39.9	43.1	35.1	32.3	2.9	(9.9)	25.2	28.3	42.7	24.0	9.8
12.9	41.9	31.8	44.1	35.1	33.8	0.8	(9.9)	28.4	28.3	42.7	24.0	9.8
0.29	1.67	0.64	1.11	1.04	1.64	(0.17)	(1.20)	2.08	2.47	3.98	2.20	0.89
(0.55)	1.03	0.46	1.11	1.04	1.64	(0.34)	(1.20)	2.37	2.47	3.98	2.20	0.89
0.6	2.1	1.5	2.3	2.6	2.8	0.1	(1.5)	3.9	4.6	8.6	9.0	5.9
1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
951.8	970.2	913.4	860.1	623.1	536.0	461.8	347.6	335.5	273.7	257.3	130.2	105.9
466.1	464.3	441.8	373.0	228.1	263.2	191.0	204.7	223.3	143.8	147.0	73.1	69.5
485.7	505.9	471.6	487.1	395.0	272.8	270.8	142.9	112.2	129.9	110.3	57.1	36.4
68.0	89.8	88.5	84.4	46.3	39.5	16.6	42.6	60.8	64.2	34.3	27.6	19.7
1,838.2	1,853.9	1,764.7	1,697.5	1,281.4	1,117.3	890.0	740.4	706.3	572.7	483.7	277.5	224.9
550.6	508.2	449.8	436.0	300.6	350.8	263.4	277.6	207.3	187.5	143.2	58.4	30.8
—	—	—	—	—	—	—	—	—	—	—	—	—
95.2	95.2	95.2	95.2	95.3	—	—	—	—	—	—	—	—
548.2	577.3	581.7	604.1	520.6	366.9	303.3	194.9	206.3	187.8	151.7	116.8	95.6
34.0	34.1	34.2	33.7	28.4	19.4	10.3	7.0	9.3	8.4	7.9	5.3	2.6
15.76	16.91	16.48	16.64	15.01	14.29	13.22	14.25	16.23	14.46	12.61	9.49	7.68

DIRECTORY OF OPERATIONS

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1300 Mecaslin St. N.W.
Atlanta, Georgia 30318
P.O. Box 1714
Atlanta, Georgia 30301
(404) 897-4500
Fax: (404) 897-4623
Hot rolled wire rods

Bel-Air Fence Division

400, rue Deslauriers
Saint-Laurent, Québec H4N 1V8
(514) 335-4455
Fax: (514) 335-4495
Distribution of fencing products
and accessories

Bel-Air Fence Division

2400, rue Chappe
Ancienne-Lorette
Québec, Québec G2E 4W6
(418) 871-1155
Fax: (418) 871-2945
Distribution of fencing products
and accessories

Canron Inc.

100 Disco Road
Rexdale, Ontario M9W 1M1
(416) 675-6400
Fax: (416) 675-0366
Corporate Office

Canron Fabrication

Eastern Division
100 Disco Road
Rexdale, Ontario M9W 1M1
(416) 675-6400
Fax: (416) 675-6522
Structural steel fabrication

Western Division
1168 Derwent Way
New Westminster, British Columbia
V3M 6E9
(604) 524-4421
Fax: (604) 524-4465
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New Westminster, British Columbia
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Canron Fabrication Corporation

Eastern Division
P.O. Box 421, Shaw Road
Conklin, New York 13748
(607) 723-4862
Fax: (607) 723-4882
Structural steel fabrication

Western Division
4600 N.E. 138th Avenue
P.O. Box 30149
Portland, Oregon 97230
(503) 255-8634
Fax: (503) 253-3907
Structural steel fabrication

Docap (1985) Corporation

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(905) 673-0000
Fax: (905) 673-1333
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Beloeil, Québec J3G 4S5
(514) 464-0547
Fax: (514) 464-8553
Electro-galvanizing and
hot dip galvanizing of fasteners
and nails

I.F.C. (Fasteners) Inc.

700, rue Ouellette
Marieville, Québec J3M 1P6
(514) 658-8741
Fax: (514) 447-0114
Bolts and nuts

Ifastgroupe and Company, Limited Partnership

700, rue Ouellette
Marieville, Québec J3M 1P6
(514) 658-8741
Fax: (514) 447-0114
Corporate Office

Infasco Division

700, rue Ouellette
Marieville, Québec J3M 1P6
(514) 658-8741
Fax: (514) 447-0114
Bolts, nuts and fastener products

Infasco Nut Division

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Mississauga, Ontario L4V 1P8
(905) 677-8920
Fax: (905) 677-6295
Nuts

Infatool Division

Ingersoll Street
P.O. Box 40
Ingersoll, Ontario N5C 3K3
(519) 485-4610
Fax: (519) 485-2435
Dies and specialty tooling

Ingersoll Fasteners Division

390 Thomas Street
 P.O. Box 40
 Ingersoll, Ontario N5C 3K3
 (519) 485-4610
 Fax: (519) 485-2435
 Bolts, nuts and fastener products

Ingersoll Machine and Tool Division

347 King Street West
 P.O. Box 250
 Ingersoll, Ontario N5C 3K6
 (519) 485-2210
 Fax: (519) 485-2163
 Precision machined components and axles

IPEX Inc.

Head Office:
 50 Valleybrook Drive
 Don Mills, Ontario M3B 2S9
 (416) 445-3400
 Fax: (416) 445-4461

Administrative Office:

1st Floor, Wing 3
 Port of Montréal Building
 Cité du Havre
 Montréal, Québec H3C 3R5
 (514) 861-7221
 Fax: (514) 861-7424

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 Plastic pipe and fittings

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 L'Orignal, Ontario K0B 1K0
 (613) 675-4671
 Fax: (613) 675-1084
 Hot rolled wire rods and steel billets

P.C. Drop Forgings Division

837 Reuter Road
 P.O. Box 100
 Port Colborne, Ontario L3K 5V7
 (905) 834-7211
 Fax: (905) 834-5094
 Steel forgings - upset and drop

Sivaco Wire Group

Head Office
 24 Herring Road
 Newnan, Georgia 30265-1006
 (770) 253-6333
 Fax: (770) 502-2639

Sivaco Georgia Division

24 Herring Road
 Newnan, Georgia 30265-1006
 (770) 253-6333
 Fax: (770) 253-3550
 Wire products

Sivaco New York, Inc.

3937 River Road
 P.O. Box 646
 Tonawanda, New York 14151-6513
 (716) 874-5681
 Fax: (716) 874-4440
 Wire products and wire rod processing

Sivaco Ontario Division

330 Thomas Street
 P.O. Box 220
 Ingersoll, Ontario N5C 3K5
 (519) 485-4150
 Fax: (519) 485-3039
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800, rue Ouellette
 Mariville, Québec J3M 1P5
 (514) 658-8741
 Fax: (514) 460-3082
 Wire, welded wire fabric, galvanized
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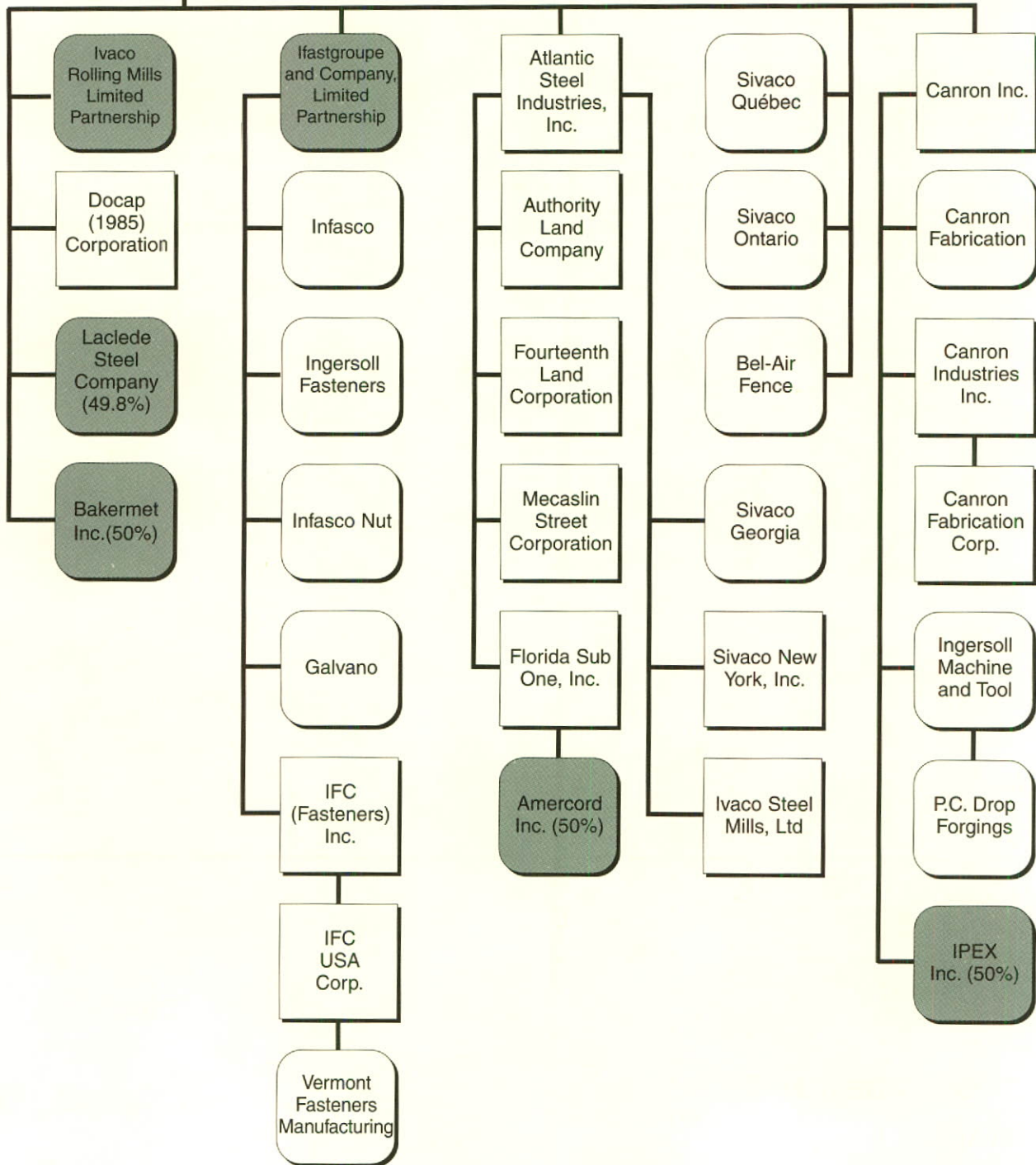
**Vermont Fasteners Manufacturing
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Senior Vice-President
and Chief Financial Officer

GEORGE GOLDSTEIN
Senior Vice-President

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Vice-President and Controller

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Vice-President, General Counsel
and Secretary

MARIE BAILLARGEON
Assistant General Counsel and
Assistant Secretary

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The R-M Trust Company in Montréal, Toronto,
Calgary, Winnipeg, Regina, Vancouver and Halifax.

HEAD OFFICE

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770, rue Sherbrooke ouest
Montréal (Québec) Canada H3A 1G1
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Fax: (514) 284-9429

ANNUAL MEETING

The annual meeting of the Company will be held
on May 29, 1997 at 10:00 a.m. at the Ritz-Carlton
Hotel, Montréal, Québec.

*Pour recevoir un exemplaire de la version française
de ce rapport, veuillez écrire à Ivaco Inc.,
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