IVACO Inc. C

DEDICATED TO INCREASING SHAREHOLDER VALUE

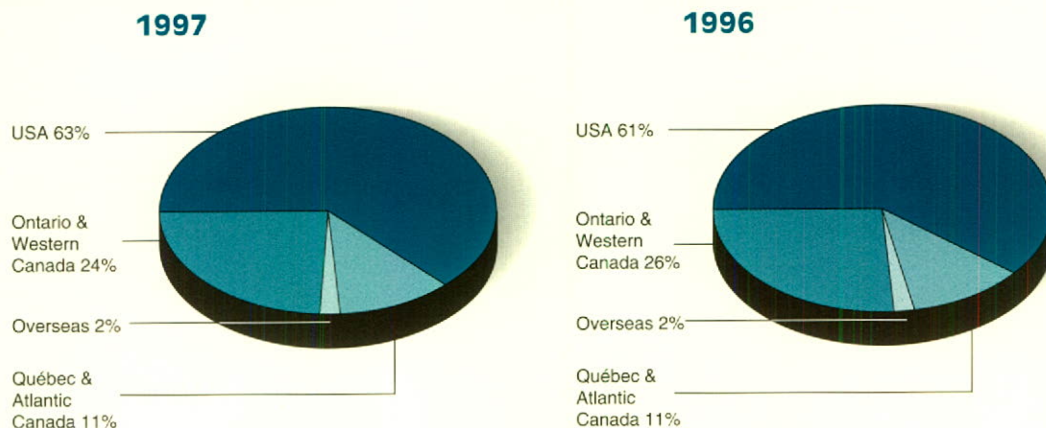
IVACO

1997 ANNUAL REPORT

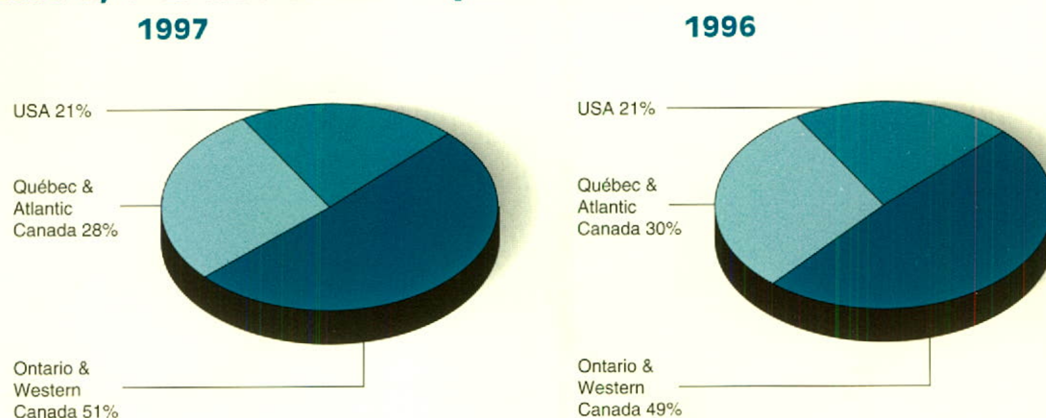
COMPANY PROFILE

Ivaco is a Canadian corporation and is a leading North American producer of steel, fabricated steel products and other diversified fabricated products. Ivaco has operations in Canada and the United States.

SALES DISTRIBUTION



PROPERTY, PLANT AND EQUIPMENT DISTRIBUTION



SHARES LISTED

The Montréal Exchange
The Toronto Stock Exchange

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company in Montréal, Toronto, Calgary, Winnipeg, Regina, Vancouver and Halifax.

ANNUAL MEETING

The annual meeting of the Company will be held on May 28, 1998 at 10:00 am at the Ritz-Carlton Hotel, Montréal, Québec.

HEAD OFFICE

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Pour recevoir un exemplaire de la version française de ce rapport, veuillez écrire à Ivaco Inc., Place Mercantile 770, rue Sherbrooke ouest, Montréal (Québec) Canada H3A 1G1.

FINANCIAL HIGHLIGHTS

(Thousands of dollars except per share amounts)

	1997	1996
Sales	$1,193,244	$1,222,054
Operating earnings (EBITDA)[1]	$ 139,976	$ 122,828
Earnings from continuing operations before income taxes	$ 64,602	$ 25,332
Net earnings from continuing operations	$ 31,681	$ 2,580
Net earnings (loss)	$ 31,104	$ (15,527)
Net earnings (loss) per common share[2]		
Continuing operations	$ 0.53	$ (0.46)
Discontinued operations	$ (0.02)	$ (0.63)
Net earnings (loss) per share	$ 0.51	$ (1.09)
Working capital	$ 253,325	$ 260,841
Net additions to property, plant and equipment	$ 110,987	$ 43,320

[1] Earnings before interest, taxes and amortization.

[2] Per share amounts are calculated after deducting preferred share dividends.

EBITDA[1]

(in millions)

[1] Earnings before interest, taxes and amortization.

[2] 1996 excludes $12.2 million gains on sale of businesses.

[3] 1996 excludes $2.6 million gain on sale of mesh business.

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To Our Shareholders:

April 2, 1998

Paul Ivanier, President and Chief Executive Officer

In 1997, your Company's dedication to increasing shareholder value was further advanced. During this positive year, net earnings showed a significant improvement compared with 1996 and substantial investment in capital improvements were made. They will contribute beneficially to operations well into the future.

1997 was a good year for Ivaco, and there is every reason to expect this trend will continue in 1998, with further improvement thereafter.

All of Ivaco's operating segments reported improved performance in 1997. Our core businesses comprising steel, fabricated steel products and other diversified fabricated products segments collectively delivered $140 million of earnings before interest, taxes and amortization (EBITDA), and each of the groups enjoyed profitable operations. This was a substantial increase over 1996.

Revenues in 1997 were $1.19 billion, only marginally lower than the $1.22 billion achieved in 1996. A reduction in revenue of $124.5 million was related to businesses sold during 1996. After taking this into consideration, sales from ongoing businesses were actually up by $95.7 million or 8.7% from the previous year.

The Steel Group performed well in 1997. Sales were up slightly and EBITDA of $20.2 million was substantially higher than the $7.7 million achieved in 1996.

Given the fundamental importance of hot rolled wire rods to Ivaco, it is a pleasure to report that the first phase of the comprehensive upgrade project at Ivaco Rolling Mills (IRM) has been completed successfully. IRM is the largest wire rod producer in Canada. When phase two of the project is completed at the end of 1998, IRM will be one of the world's premier rolling mills for the manufacture of wire rods. It will be a remarkable facility not only in terms of productivity but also in terms of cost efficiency, operating flexibility, and range of very high quality product. Its sophisticated technologies, automated monitoring of dimensional and surface qualities, combined with its computerized controls will permit finishing speeds of up to 23,000 feet per minute, the fastest in the industry. Equally important, the mill will be able to achieve high new standards for the most demanding levels of consistent quality for all grades of steel rolled and, most particularly, for those higher margin grades — including special chemistry steels.

In 1997, Ivaco invested $52 million to complete the first phase of the IRM upgrade. When the second phase is completed later this year, this mill will have become one of the most modern, highest quality, and lowest cost rod producers in North America. We also believe that our rod mill will be one of the very few that will combine all these features in one facility.

Another significant part of this project is the long term billet supply agreement which Ivaco has with QIT-Fer et Titane. This arrangement provides that IRM can receive substantial quantities of high quality steel billets produced from virgin iron ore, thus eliminating the need for significant capital spending to put in our own facilities to make feedstock of equivalent quality.

While on the subject of L'Orignal, note should also be made of the excellent performance achieved by the steelmaking unit. It delivered record tonnage again in 1997, for the fourth consecutive year. In addition, it also increased its proportional production of special grades of steel to new levels.

Elsewhere within the Steel Group, the rod mill at Atlanta has increased its rod production by some 14% compared with the previous year. The 13-inch bar mill at the same Atlanta plant also had a good year in 1997. It produced for Birmingham Southeast, on a tolling basis, some 180,000 tons of special bar quality steel with billets supplied by Birmingham. Production at Atlanta will cease during the next twelve months to permit preparation of the site for the scheduled closing and the sale of the 138 acre property which is expected to take place in 1999.

Ivaco is exploring the merits of a joint venture rolling mill project in the southeast U.S., utilizing the equipment now operational in Atlanta. This project will only be undertaken

under a partnering type arrangement in which Ivaco's contribution would be Atlantic Steel's existing rod facility and related business.

Ivaco's downstream manufacturing operations comprise a huge customer demand for wire rods for production of quality fasteners and wire products.

The Fabricated Steel Products group comprising the Ifastgroupe and the Sivaco Wire Group also delivered excellent results in 1997. EBITDA for the group increased by a healthy 20% to $79.7 million.

The Ifastgroupe's consistently superior performance has continued through 1997. One very important step taken during the year was the move to begin manufacturing fasteners in the U.S. This is a major strategic step and this new facility, with boltmakers specifically configured to supply the heavy construction, transportation, and heavy equipment markets, offers a strongly positive approach to growth.

Elsewhere within Ifastgroupe, substantial capital expenditures were made to upgrade, expand and increase efficiency. In all, Ifastgroupe's capital spending in 1997 was $20.7 million. An important objective of this expansion program is to maintain a continual increase in the proportion of output represented by higher grade products.

At the Marieville, Québec complex, one of the notable additions was the installation of what is believed to be the world's largest capacity boltmaker. This new machine can produce an enormous quantity of very large bolts.

Other units in the group, Ingersoll Fasteners, Infasco Nut, and Galvano also reported positive performance for 1997.

The Sivaco Wire Group (SWG) delivered improved performance in 1997 and devoted $11.8 million to capital projects.

SWG has improved its operations during the past three years. It has been in a concerted campaign to change its production from commodity grade products to premium grades. In doing so, it has been able to maintain high tonnage volumes even while the proportion of output increasingly becomes more sophisticated and higher margin product. At the same time, SWG's wire plant at Newnan, Georgia is undergoing expansion and modernization designed to establish this state-of-the-art facility as the foremost wire manufacturing plant in the U.S. Southeast.

A review of the third group within Ivaco is equally positive. The Other Diversified Fabricated products group consisting of IPEX and Ingersoll Machine and Tool generated $40.1 million of EBITDA from operations in 1997, up 18% from the year before. The group spent $17.8 million on capital expenditures, most of which was at IPEX.

IPEX, which is 50%-owned, operates your Company's plastic pipe business. It delivered record sales and record earnings in 1997 and the prospects for the current year remain very positive. Ingersoll Machine and Tool also reported an excellent year across all of its major product lines and is currently investigating expansion opportunities.

While significant capital investment activity was underway at each of your Company's major operations during 1997 to upgrade manufacturing capacity and enhance productivity, several very far reaching and important steps were also being taken to strengthen the financial position of your Company. These included:

- Agreement for the sale of the 138 acre property in downtown Atlanta for US$76 million (Cdn$108 million). Closing is expected in 1999.
- Redemption of $95.2 million of Exchangeable Debentures, following the sale of one-half of Ivaco's investment in Dofasco Inc., which eliminated related annual interest costs of $4.7 million.
- Sale of one-half of the Company's investment in Laclede Steel for US$14.9 million (Cdn$20.7 million).
- Redemption of $7.7 million, Series E Preferred Shares which carried a dividend rate of 9.6%.
- Conversion of $6.7 million of 9.5% convertible debentures into Class A Shares.
- Sale of Ivacan's (formerly Canron Inc.) fabrication of structural steel business segment closed early in 1998. This transaction will generate cash proceeds of some $35 million including the realization of working capital.

In passing, we should note that Ivaco has once again successfully defended itself following a U.S. complaint on the subject of dumping hot rolled wire rods. These allegations were made again in 1997 for the second time in recent years, and I am pleased to report that the U.S. International Trade Commission has made a final determination that wire rod imports from Canada and other countries were not causing injury to the U.S. industry. This, in effect, confirms Ivaco's consistent contention that it has not injured U.S. rod producers.

The outlook for 1998 is for satisfactory results. 1998 is expected to be the final transition year which will see completion of the projects started during 1997 and 1998 and which form an integral part of your Company's long term strategic plan. Completion of these projects is expected to make a significant contribution to earnings in 1999 and beyond.

In summary, I am convinced that all the steps that we have already taken together with those which we are undertaking will result in our prime objective, which is to create enhanced value for our shareholders.

We once again would like to express our appreciation to all of the Company's employees for their continued dedication and efforts.

On behalf of the Board of Directors,

Paul Ivanier
President and Chief Executive Officer

THE IVACO GROUP

STEEL

(wire rod)

	1997	1996
	($ in millions)	
Sales[1]	*$480.9*	*$470.1*
EBITDA	*$20.2*	*$7.7*
Capital expenditures	*$60.7*	*$9.2*
Tons shipped[1]	*895,100*	*952,100*

[1] *Includes shipments to downstream affiliates.*

IVACO ROLLING MILLS

In 1997, Ivaco Rolling Mills completed the first phase of a major, two phase modernization program designed to make this facility, which is located in the Ottawa River Valley, one of the most technologically advanced wire rod mills in the world. This first phase resulted in improved rolling capability for premium grade cold heading quality and superior process cooling control to allow product performance to be tailored to individual customer needs. Accomplishing these goals required the replacement of the prefinishing section of the rolling mill, the overall mill automation system, the Stelmor® cooling lines, and the finished coil handling equipment. All new equipment has been designed to handle the larger coils which will be produced after the second phase of the program is completed.

The radical upgrade of the mill's facilities was accomplished in only three weeks of plant outage, and prudent production planning allowed the mill to continue to ship to customers during the entire period, although shipments were at a reduced level from 1996. Within weeks of start-up the new mill performed at 80% of target production levels. The influence of the new cooling line was immediately evident in the quality of rod produced after the changeover, and customers were very complimentary about the product. Ivaco Rolling Mills is the largest wire rod producer in Canada with capacity of close to 800,000 tons per year.

The second phase of this modernization program will occur toward the end of the fourth quarter of 1998. Product quality is again the focus, with emphasis on superior steel quality and higher quality rolling capabilities. This involves increasing the cross section of the steel billet feeding the rolling mill by 78% to 160 mm square. To support the new billet size, the Company is installing a new state-of-the-art energy efficient and environmentally superior billet reheat furnace capable of controlled heating of the larger billets. This will be followed by a four stand breakdown mill which, in turn, will feed the existing upgraded rolling mill. To deal with the larger package at the finishing end, a new Sund/Birsta twist tie automatic coil compactor will also be installed in 1998. When completed, this upgrade program will make the L'Orignal mill one of the largest most advanced mills in North America devoted exclusively to the production of hot rolled wire rods. Furthermore, in 1999 Morgan Tekisun® reducing-sizing mills will be installed after the existing finishing mills. This will increase mill finishing speed to 120 meters per second, one of the fastest in the world.

This program is also supported by improvements at the steelmaking end. Improvements made in the steel plant in 1996 have performed as planned, allowing the steel plant to melt and produce record billet tonnage in 1997 in spite of the interference created by the construction at the adjacent rod mill.

In addition, the higher tonnage for high quality virgin iron ore billet supply from QIT-Fer et Titane begins to kick in this year. The superior quality and consistency of this steel supply will enhance the performance of the Company's rod products in the market.

The outlook for 1998 is for another good year for Ivaco Rolling Mills.

ATLANTIC STEEL

Following the 1996 sale of Atlantic Steel's Cartersville steelmaking facility, 1997 became the first of two years of significantly changed operations for Atlantic.

In selling the Cartersville facility, Atlantic also entered into two contracts whereby it would purchase billets to supply the Atlanta rod mill and also convert billets on the Atlanta bar mill on a toll basis utilizing billets supplied by Birmingham Southeast, under contracts expiring at the end of 1998.

The result has been a good operating year for Atlantic. Wire rod production exceeded 242,000 tons and billet conversion exceeded 182,000 tons.

Atlantic has retained Morgan Construction Company to assist in the planning and basic mill design for a state-of-the-art 400,000 ton per year rod mill, which would be undertaken in conjunction with a joint venture partner. Morgan has successfully built and assisted in the start-ups of virtually all of the world class rod mills for the last 109 years.

Newly upgraded Ivaco Rolling Mills is one of the most advanced mills in North America devoted exclusively to hot rolled wire rods.

FABRICATED STEEL PRODUCTS

(fasteners, wire and wire products)

	1997	*1996*
	($ in millions)	
Sales	*$587.6*	*$611.4*
EBITDA[1]	*$79.7*	*$66.3*
Capital expenditures	*$32.5*	*$30.0*
Tons shipped[1]	*575,800*	*636,800*

[1] *1996 excludes $2.6 million gain on sale of mesh business.*

FASTENERS

Ifastgroupe's fastener manufacturing operations again delivered superior performance in 1997 and this trend is expected to continue in 1998.

Vermont Fasteners, the newest production unit in the group, commenced production in the spring of 1997 in a 75,000 sq. ft. plant set up specifically to manufacture structural bolts. The ability to access U.S. markets from within the U.S. is expected to have a positive effect for sales to the heavy construction, transportation and heavy equipment industries.

At Marieville, Québec, which is believed to be one of the largest fastener production and inventory storage facilities in the world, production levels remained high and continued progress was achieved in producing an ever increasing proportion of higher grade standard bolts.

Several important improvements were made to enhance both quality and productive capacity during the year.

Phase two was completed for the ongoing pot annealing furnace expansion program. This consisted of production start-up for six new pot annealing furnaces. Another significant move to increase production was the installation of the BV 10, believed to be the largest capacity boltmaker in the world. This huge and totally automated unit can produce bolts and cold formed parts as large as 1 1/4" by 14". Other expansion projects completed during the year included installation and production start-up for two additional new heat treating furnaces which use state-of-the-art process control technology. In addition, the quality assurance department received a second 400,000 pound tensile testing machine which is used for the testing of the mechanical properties of bolts.

At Galvano, which is Ifastgroupe's unit for the application of coatings, such as galvanizing, electroplating and phosphating, additional testing capacity was installed along with a new acid cadmium plating line.

Ingersoll Fasteners, which specializes in value-added specialty fasteners, had record sales in 1997 and delivered respectable earnings even though severe customer pressure on pricing resulted in somewhat lower earnings than had been achieved in earlier years. In 1998, sales are expected to reach new highs and earnings should show improvement due to productivity gains and other successful internal cost cutting activity.

An enhanced product line and customer rationalization program, begun earlier, is being continued and this should positively affect production economies through the year.

The continuing program to upgrade production equipment was maintained in 1997, the principal activity being rebuilding and modernization of a thread roller and a high speed boltmaker. During the year, Ingersoll obtained NVLAP (National Voluntary Laboratory Accreditation Program) accreditation well in advance of the U.S. Fastener Quality Act, which comes into effect in May of 1998.

Infasco Nut continued its consistent pattern of sales and earnings growth during 1997. This unit specializes in the design and manufacture of upscale, value-added nuts and locknuts for the automotive and similar industries which demand very high standards for quality and precision.

Sales to the auto manufacturing industry continued to rise satisfactorily during the year and, equally importantly sales to other industries, which were up some 20% in 1996, increased an additional 14% in 1997.

Among innovations of consequence now in the works, Infasco Nut is designing and building a new generation of machines which will automatically assemble steel locknuts and washers.

A skilled technician makes adjustments to this modern boltmaker at the Infasco manufacturing complex at Marieville, Québec.

WIRE AND WIRE PRODUCTS

The Sivaco Wire Group (SWG) embarked on several significant capital investment projects at Marieville, Québec; Newnan, Georgia; and Ingersoll, Ontario during the year, all directed toward enhancing capacity for quality sensitive, value-added products. Also, it moved forward within its multi year sustained program to replace commodity grade products with higher value and more technologically complex products.

SWG has successfully evolved both its manufacturing and marketing operations to become a dynamic enterprise now well established as a responsible user of leading edge technology for the production and sale of quality and value-added wire and wire products.

In 1997, SWG shipped a larger than ever proportion of high quality, high margin, value-added and special chemistry steels. Among these premium products were cold heading wire for the fastener manufacturing industries, high carbon wire for the spring manufacturing industries, specialty high carbon wire for the wire rope industry and, of course, a substantial volume of galvanized high carbon wire for a host of other industrial operations. 1996 shipments included 93,000 tons related to mesh produced in the U.S. which business was disposed of during 1996.

Market response was excellent for SWG's internally developed premium quality high carbon wire at its largest facility at Marieville, Québec. This product, called Sivaco 9000, is achieving highly positive acceptance from those customers who received trial shipments during the year and production of this product is scheduled to increase significantly.

Among other highlights at Marieville, the Company installed two additional advanced technology wire drawing systems to provide a substantial enhancement to capacity to produce quality high carbon wire products.

The most significant expansion of the year was the commencement of a major upgrade at Newnan, Georgia. These changes include installation of state-of-the-art acid cleaning and annealing facilities which, along with other improvements, are designed to make Newnan a state-of-the-art wire plant.

The new rod cleaning operation began preliminary production testing in March 1998 and commercial production is expected shortly thereafter. The first phase of a new state-of-the-art hydrogen bell-annealing system was also completed.

Elsewhere within the SWG operations, planning is underway for expansion of shot blasting and annealing at the Ingersoll, Ontario facility, which had another successful year in 1997. Productivity improvements have been implemented at the Sivaco New York plant. The Bel-Air Fence unit continued to perform well during 1997.

The outlook for the Sivaco Wire Group for 1998 is for slightly improved operating results.

The finished product take-up at the end of the wire galvanizing process.

These new high speed wire drawing systems enhance SWG's capacity to produce premium products.

OTHER DIVERSIFIED FABRICATED PRODUCTS

(precision machined components and plastic pipe and fittings)

	1997	*1996*
	($ in millions)	
Sales	*$299.2*	*$327.2*
EBITDA[1]	*$40.1*	*$34.0*
Capital expenditures	*$17.8*	*$4.1*

[1] 1996 excludes $12.2 million gains on sale of businesses.

INGERSOLL MACHINE AND TOOL

Ingersoll Machine and Tool (IMT) delivered both record sales and earnings, and entered the new year with substantial order books for each of its three main product areas.

IMT is a technology leader for the design and manufacture of trailer axles. It has what is believed to be the lightest axle in the world. It also builds an advanced-design steering axle for trailers used in mountainous areas. By combining high levels of product quality with customer service sensitivity, such as pre-assembling hubs and drums, IMT has built a wide ranging export business which is strong in U.S., Australia, Latin America, Asia, Africa and increasingly in Europe.

Defense product activity remained robust during the year and is expected to become even better when production on a second substantial contract commences later this year.

The Company's commercial forgings unit also recorded major growth. In fact, it operated at or near capacity throughout the year. As a result, studies are underway to analyze the potential to expand the operation by adding pre-programmed forging hammers – a major new level in forging technology. The North American oil and gas industry has become a large customer for Ingersoll's forged products. The industry's announced multi billion dollar expansion plans suggest that demand will remain strong for several years into the future.

The outlook for 1998 is for another good year.

IPEX

IPEX, 50%-owned by Ivaco, entered 1997 with strong momentum and maintained high levels of activity throughout the year. As a result, IPEX again delivered record sales and record earnings.

Demand for plastic pipe products reflected the increased buoyancy of the residential building industry in both Canada and the United States and current evidence, reflected by building permit applications, suggests that this industry continues to offer promising potential for the current year.

The Company's plastic fittings operations also performed above expectations during the year. The successful acquisition of Multi-Fittings in 1995 significantly expanded both production capacity and market reach, including substantial activity in the U.S. market.

The combination of broadened product lines, stable resin costs, and strong economies in both the U.S. and Canada should result in another successful year in 1998.

DOCAP

Docap, a significant distributor of automotive and industrial products, reported a satisfactory year for 1997.

The Company's smartly-designed new general merchandise catalogue, introduced during the year, has been such a resounding success that many of the design elements used so effectively will be used to generate additional sales in 1998.

Newly manufactured plastic pipe awaits shipment at an IPEX facility.

EQUITY INVESTMENTS

(includes 50%-interest in Amercord Inc. and 50%-interest in Bakermet Inc.)

AMERCORD

Amercord faced increasingly challenging markets in 1997 as the relationships between capacity and demand approached parity for cord products and surpassed it for beadwire products. As a result, there was strong downward pressure on domestic prices.

Notwithstanding the pricing pressures, Amercord continues to pivot on its efficiency, cost advantages and very low debt costs to build its profitability and enhance its status as a dependable supplier.

A state-of-the-art 40-wire brass-plating line was commissioned early in the year and the Company has received the first development model of its new generation of highly efficient and flexible bunching machines. Amercord is also applying simple but effective modifications to its existing equipment and achieving further significant productivity and quality gains at modest cost.

BAKERMET

Bakermet is a successful regional metals recycler which processes recyclable metals which are drawn from eastern Ontario, western Québec, and upstate New York at its facility in Ottawa. The Company is the primary supplier of shredded steel scrap to nearby Ivaco Rolling Mills.

Bakermet also trades in recyclable non-ferrous metals, including copper, brass, aluminum, as well as stainless steel.

It fulfills an important strategic purpose for Ivaco by providing a realistic window on the North American scrap market while also contributing to earnings.

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 27, 1998

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. 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 19 to the Consolidated Financial Statements appearing elsewhere in this Annual Report.

Operating Results — 1997 compared to 1996: Ivaco divides its operations into three business segments (i) Steel (wire rod); (ii) Fabricated Steel Products (fasteners, wire and wire products); and (iii) Other Diversified Fabricated Products (precision machined components and plastic pipe and fittings).

During the fourth quarter, the Company adopted a formal plan to dispose of certain assets and operations of its Fabrication of Structural Steel segment, which sale was completed in February 1998, at an amount approximating carrying value. Accordingly, net earnings from this segment for 1997 and 1996 of $0.4 million and $1.5 million respectively, have been disclosed separately as discontinued operations.

Consolidated sales in 1997 were $1.19 billion, a decrease of 2.5% from $1.22 billion achieved in 1996, although 1996 sales included approximately $124.5 million related to businesses sold during 1996 and therefore, on a comparable basis, sales in 1997 actually increased by $95.7 million or some 8.7%.

Cost of sales and operating expenses, excluding those of discontinued operations, decreased 4.2% to $1.05 billion for 1997 from $1.10 billion in 1996. As a percentage of sales, cost of sales before amortization decreased by 1.7% to 88.3% for the year ended December 31, 1997. Operating margins were favourably impacted by lower scrap costs, higher average selling prices for most of the Company's products, improved product mix in the Fabricated Steel Products segment and favourable foreign exchange rates.

The Company's consolidated amortization expense for 1997 was $46.9 million or $4.6 million higher than the corresponding period in 1996, due to additional amortization resulting from capital expenditures and amortization of the deferred translation adjustment. As a percentage of sales, amortization was 3.9%, up from 3.5% in 1996.

The Company's share in losses of equity accounted investments was $0.6 million for 1997, an improvement from the 1996 loss of $4.6 million. The improved results of Laclede Steel Company for the nine months ended September 30, 1997 was the principal factor affecting the improvement. In September 1997, the Company sold one-half of its investment in Laclede and granted the voting rights on its remaining investment to the purchaser, subject to certain limitations. As a result, the Company no longer carries its investment in Laclede using the equity method of accounting.

Net interest expense in 1997 was $39.5 million, $6.6 million below the 1996 amount of $46.1 million. This reduction was due to the redemption in 1997 of $95.2 million Exchangeable Debentures due 2010 using the proceeds from the sale of 2,971,846 common shares of Dofasco Inc., and the purchase by the Company in late 1996 of $37.7 million (US$27.5 million) 11 $^{1}/_{2}$% Senior Notes due in 2005.

The Company's provision for income taxes in 1997 was $32.9 million as compared with $22.8 million in 1996, reflecting an effective rate of 51.0% and 89.8%, respectively. In 1997, reduced operating losses of the United States subsidiaries 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, 1997, certain U.S. subsidiaries have accumulated tax losses, the benefits of which have not been recognized in the accounts, of approximately $135 million (US$94.3 million) which may be applied against such subsidiaries' future years' taxable income.

For the year ended December 31, 1997, the Company recorded net earnings of $31.1 million, or earnings per share of $0.51 versus a net loss of $15.5 million, or a loss per share of $1.09 in 1996. Net earnings from continuing operations were $31.7 million, or earnings per share of $0.53 versus net earnings from continuing operations of $2.6 million, or a loss per share of $0.46 in 1996. The 1997 net earnings from continuing operations include a non-recurring after-tax gain of $7.7 million, or earnings per share of $0.26, on the disposal of one-half of the Company's investment in Dofasco Inc. and the disposal of one-half of its investment in Laclede Steel. Similarly, 1996 net earnings from continuing operations include non-recurring after-tax gains of $11.2 million, or earnings per share of $0.39, on the disposal of businesses.

Loss from discontinued operations was $0.6 million, or $0.02 per share versus a loss from discontinued operations of $18.1 million, or $0.63 per share in 1996. The 1996 amounts resulted from the sale of the Company's segment comprising the manufacture and sale of bar products in the United States.

Steel: The Company's steel operations are comprised of its wire rod manufacturing segment at Ivaco Rolling Mills and at Atlantic Steel.

Rod Manufacturing: Through Ivaco Rolling Mills (IRM) in L'Orignal, Ontario and Atlantic Steel in Atlanta, Georgia, the Company produces hot rolled wire rods for sale to customers in Canada and the United States, and for further processing

by the Company's other subsidiaries. At IRM, approximately 73% of the products sold are value-added, special chemistry wire rods for demanding applications such as cold-heading 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 products such as wire, fencing and welded wire fabric.

Sales in this segment were up 2.3% over 1996. In the fourth quarter of 1997, Ivaco Rolling Mills completed the installation of phase one of its upgrade program at L'Orignal, Ontario. During the run-in period, IRM produced approximately 134,000 tons of wire rod as compared to 174,000 tons during the same 1996 period. As a result, overall shipments of wire rod from IRM in 1997 decreased 10.3% over shipments in 1996. Tons shipped from Atlantic Steel increased 8.7% versus the preceding year.

Operating margins at Ivaco Rolling Mills increased as a result of an improved product mix, higher selling prices for its products and lower scrap costs, while at Atlantic Steel, operating margins increased primarily as a result of higher selling prices and improved productivity.

Fabricated Steel Products: The Company's Fabricated Steel Products operations are comprised of its Fastener Operations at Ifastgroupe and Wire Operations at the Sivaco Wire Group.

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. Shipments at Ifastgroupe for 1997 were 6% higher than 1996. Pricing for the Company's products was competitive, yet Ifastgroupe was able to increase revenues by 7.7% due to higher volume and the shipment of more value-added products.

Shipments at Ifastgroupe's Infasco division were 4.7% higher than those recorded for the corresponding period in 1996. Operating margins were favourably impacted by higher average selling prices achieved through a better product mix and favourable foreign exchange rates. Sales revenue at Ingersoll Fasteners was up 15.5% compared to 1996 due to higher shipments. Operating margins were positively impacted by the higher volumes and lower production costs through better machine utilization. Infasco Nut division recorded slightly better results than those achieved for the same period in 1996. Shipments at IFC (Fasteners) Inc. were 6% lower than 1996 although operating margins increased due to favourable foreign exchange rates.

Wire Operations: Sivaco Wire Group (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 and processed wire rods. SWG's sales decreased in 1997 by 14.2% or $46.2 million. 1996 sales included approximately $59.9 million related to the U.S. mesh business which was sold during 1996, therefore, on a comparable basis, sales in 1997 increased by some 5.2%. The overall profitability of SWG improved over 1996 mainly due to improved pricing and lower selling and general administration expenses and as a result of the U.S. mesh business divestiture coupled with favourable lower interest and foreign exchange rates.

At Sivaco Québec, Sivaco Ontario and Sivaco New York, sales revenues increased by 2.7%, 2.9%, and 4.0%, respectively in 1997 compared to 1996. Operating profits were positively impacted by higher selling prices, higher volumes and favourable foreign exchange and interest rates, offset by higher raw material, conversion, and selling costs.

Sivaco Georgia recorded improved operating earnings following the divestiture of the U.S. mesh business in 1996.

Other Diversified Fabricated Products: The Other Diversified Fabricated Products business is carried out through the Company's wholly-owned subsidiary Ivacan Inc. (formerly Canron Inc.) and is comprised of Ivacan's Ingersoll Machine and Tool Division and 50%-owned IPEX Inc.

The sales of this segment were down 8.6% over the corresponding period in 1996, although 1996 sales included approximately $64.6 million related to Ivacan's construction services and open web steel joist businesses which were sold during 1996, therefore, on a comparable basis, sales in 1997 actually increased by some 13.9%.

Fabrication of Steel Forgings and Precision Machined Components: Ivacan's Ingersoll Machine and Tool division fabricates steel forgings and precision machined components. 1997 was a record year for Ingersoll Machine and Tool as sales increased 22.1% over the previous year due, in large part, to stronger axle and forging sales, and operating profit margins increased over 1996.

Manufacture and Sale of Plastic Pipe and Fittings: Ivacan's 50%-owned IPEX Inc. manufactures and distributes plastic pipe and fittings. Sales were 9.3% above the 1996 level reflecting improved fittings sales particularly in the U.S., resulting from the business and assets acquired in 1995 of the Multi-Fittings Group, along with strong demand for pipe products from improving housing starts in Canada and the United States.

Operating Results — 1996 Compared to 1995: The financial information for 1995 in this section has been adjusted to reflect, as discontinued operations, the Company's Fabrication of Structural Steel segment which was sold in 1998.

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. 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 $1.22 billion, a decrease of 6.2% from $1.30 billion achieved in 1995, reflecting the impact of businesses divested during 1996. These amounts exclude sales related to the discontinued operations of Atlantic Steel and the fabrication of structural steel which together were $336.0 million in 1996 versus $311.1 million in 1995.

Cost of sales and operating expenses, excluding those of discontinued operations, decreased 4.3% to $1.10 billion for 1996 from $1.15 billion in 1995. As a percentage of sales, cost of sales before depreciation and amortization increased by 1.7% to 90.2% for the year ended December 31, 1996 reflecting increased raw material costs.

The Company's consolidated amortization expense for 1996 was $42.4 million or $4.4 million higher than the corresponding period in 1995 mainly due to higher depreciation resulting from the acquisition of the Multi-Fittings Group in 1995, and other capital expenditures. As a percentage of sales, amortization was 3.5%, up from 2.9% in 1995.

The Company's share of loss of equity accounted investments was $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 an overall industry decline in steel selling prices, more than offset the favourable 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's provision for income taxes in 1996 was $22.8 million, reflecting an effective rate of 89.8%. This 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, the benefits of which have not been recognized in the accounts of approximately $125 million (US$91.5 million), which may be applied against such subsidiaries future years' taxable 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 $2.6 million, or a loss per share of $0.46 versus earnings from continuing operations of $36.9 million, or earnings per share of $0.75 in 1995. The 1996 amounts 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 (SWG) and Ivacan's sale of its construction services and open web steel joist businesses. These divestitures resulted in a reduction in sales of 8.3% or $116.9 million.

Loss from discontinued operations was $18.1 million, or $0.63 per share versus a loss from discontinued operations of $8.0 million, or $0.28 per share in 1995.

Rod Manufacturing: 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 operations at Atlantic Steel decreased 2.7% versus 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 steelmaking facility upon completion of the furnace upgrade project, and increased costs of many of the other materials used in the steelmaking process, which were partially offset by lower scrap costs which, although reduced, remained at high levels.

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 of Atlantic Steel, the operating results of Atlantic Steel's Cartersville facility were reclassified to discontinued operations for the year ended December 31, 1996. Concurrently, the operations of the Atlantic Steel bar mill in Atlanta were exclusively dedicated to the conversion of billets for Birmingham Southeast, LLC on a fee per ton basis. The Cartersville operations consisted of the manufacture of billets and 12" 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. 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 at Ifastgroupe and Wire Operations at SWG.

Fastener Operations: Shipments at Ifastgroupe for 1996 were at the same level as 1995. Pricing for the Company's products was competitive, yet Ifastgroupe was able to increase revenues by 21.2% despite a strong Canadian dollar and shipment of more value-added products.

Sales revenue at Ifastgroupe's Infasco division were 2.2% lower 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, offset by 2.3% higher average selling prices achieved through a better product mix. Sales revenue at Ingersoll Fasteners was down 5.5% compared to 1995, as shipments in 1996 were 7.4% lower than 1995 due to the slowdown in the heavy truck business and reduced demand in other markets. Operating margins were negatively impacted by the lower volumes and higher production costs through lower machine utilization.

Infasco Nut division recorded slightly better results than those achieved for the same period in 1995.

Wire Operations: 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 Sivaco Québec, sales revenues were down due to lower shipments of both nails and mesh products, and together with lower overall selling prices for these products resulted in lower margins. Sivaco Ontario recorded 9% higher revenue in 1996 compared to 1995, despite the General Motors strike in early 1996. Sivaco New York recorded increased sales and operating margins for 1996 primarily due to the continued improvement in value-added products.

Structural Steel: During the fourth quarter of 1997, the Company adopted a formal plan to dispose of certain assets and operations of its Fabrication of Structural Steel segment, which sale was completed in February 1998, and therefore, operating results have been disclosed separately as discontinued operations.

Other Diversified Fabricated Products: The Other Diversified Fabricated Products business is carried out through Ivacan Inc. During 1996, Ivacan divested its construction services and open web steel joist businesses resulting in pre-tax gains totaling $12.2 million.

Sales in 1996 decreased by an estimated $73.3 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: Ivacan'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: Ivacan'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.

Financial Condition and Liquidity:

Operations: For the year ended December 31, 1997, working capital provided from operations was $72.7 million, an increase of $28.4 million from the $44.3 million generated in the prior year. The increase in 1997 is due in large part to the improvement in earnings from continuing operations.

Cash of $16.2 million was used in operating activities in 1997, while in 1996 $19.1 million was provided by operating activities. This increased usage of cash in 1997 is attributable to increased levels of business resulting in higher levels of investments in non-cash working capital, higher preproduction and development costs incurred during phase one of the upgrade at Ivaco Rolling Mills in L'Orignal, Ontario, and additional funding of some of the Company's pension plans.

Dividends: Regular dividends on Preferred Shares and Second Preferred Shares included in both the statement of earnings and the statement of retained earnings totaled $21.5 million in 1997 compared to $20.1 million in 1996. Of the $21.5 million dividends paid in 1997, $10.6 million was paid in cash and $10.9 million was paid in Series 5, Second Preferred Shares. The final payment of the arrears on the Series 1 to 4, Second Preferred Shares of $3.7 million was made in cash on April 1, 1997.

In addition, on July 1, 1997, the Company paid $1.7 million of dividends on its Class A Subordinate Voting and Class B Voting Shares.

Investments: Net additions to Property, Plant and Equipment during 1997 of $111.0 million were significantly above the 1996 level of $43.3 million.

The most significant components of spending in 1997 were the completion of the first phase of a major two phase upgrade program at Ivaco Rolling Mills, the completion of the new boltmaking facility in the U.S., the installation of state-of-the-art acid cleaning and annealing facilities at Sivaco Georgia, and additional capacity and improved distribution facilities at IPEX Inc.

Capital Structure: At December 31, 1997, Shareholders' Equity was $438.0 million as compared to $415.6 million in 1996. This increase is due to net earnings of $31.1 million, the conversion during the year of $6.7 million of 9.5% Convertible Subordinated Debentures into 2,046,149 Class A Shares at a conversion price of $3.25 per Class A Share, the reclassification from current liabilities of $1.9 million of $2.40 Series E Cumulative Redeemable Preferred Shares which are no longer retractable, and a $4.7 million increase in the Cumulative Translation Adjustment account offset by dividends declared for the year of $21.5 million.

Long-term debt and exchangeable debentures were $436.7 million in 1997, a decrease of $17.5 million from the 1996 amount of $454.2 million. The decrease in long-term debt is attributable to the redemption of $95.2 million of Exchangeable Debentures from the proceeds of the previously mentioned sale of common shares of Dofasco Inc., offset by additional long-term debt incurred principally for capital projects. At December 31, 1997, the ratio of long-term debt of $436.7 million to Shareholders' Equity of $438.0 million increased to 50:50 compared to 48:52 at December 31, 1996.

Liquidity: Bank indebtedness, net of cash was $21.3 million in 1997, an increase of $59.4 million over the 1996 level.

This increase is due to the reduced cash flow from operating activities of $16.2 million, financing activities of $39.9 million and investing activities of $3.3 million. Although operations provided $72.7 million of working capital it was offset by an increase in non-cash working capital items of $59.0 million attributable mainly to higher inventories, lower accounts receivable, lower accounts payable and accrued liabilities, and an increase in deferred preproduction and development costs of $16.5 million and deferred pension assets of $14.2 million. The ratio of current assets to current liabilities decreased to 1.8:1 in 1997 compared to 1.9:1 in 1996.

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, 1997, 75% of Ifastgroupe's and 75% of Ivaco Rolling Mills' pre-tax earnings 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, 1997, Ivaco Inc., the parent company, generated $54.4 million of EBITDA, all of which came from Ifastgroupe and Ivaco Rolling Mills whose distributions to Ivaco are restricted. These distributions are used in part to service the parent company's interest costs of $23.6 million and the cash portion of dividends on Preferred and Second Preferred Shares.

It is anticipated that Ivaco's 1998 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 over periods of five years.

Risks:

Ivaco is subject to some risk associated with currency and interest rate fluctuations. The Company's long-term debt is principally at fixed interest rates and therefore its exposure to interest rate risks is minimal.

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 1997, the Company's export sales were $573 million ($531 million in 1996), 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.

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 payments on U.S. dollar denominated debt. The extent of such hedging varies from time to time and there can be no assurance that such strategy will be successful in the future in materially reducing the Company's exposure to currency fluctuations.

Year 2000 Compliance: The Company conducted a review of all information technology used by the Company to assess the extent of potential year 2000 problems and developed a strategy to ensure that all computer systems supporting its business activities would be year 2000 compliant well before the millennium deadline.

During the first quarter of 1998, all significant in-house business applications were converted to year 2000 compliant status and the company had received a written assurance from all vendors that year 2000 compliant versions of software operated under licensing agreements would be available before the end of 1998.

The Company has initiated reviews of its electronically controlled industrial and manufacturing equipment to determine their degree of year 2000 compliance, and expects to complete this work by the end of 1998 to insure that the year 2000 issue will not impact manufacturing operations.

Based on current information and on progress achieved to date, the Company does not anticipate any significant issues related to the year 2000 compliance that would have an adverse effect on the Company's systems and operations.

Outlook: The outlook for 1998 is for satisfactory operating results. The continuation of the recent drop in scrap prices, to the extent sustained, is expected to benefit operating results. Also, 1998 is expected to be the final transition year which will see completion of the projects started during 1997 and 1998. These projects are expected to contribute to earnings during 1999 when the benefits of these expansions should be realized.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31	(Thousands of dollars)	1997	1996
Current assets	Cash and short-term investments	$ 26,983	$ 42,724
	Accounts receivable		
	Trade and other	183,468	211,519
	Officers (Note 15)	—	7,473
	Inventories (Note 1)	340,518	298,102
	Prepaid expenses	8,856	6,947
	Total current assets	559,825	566,765
Current liabilities	Bank indebtedness, partly secured	48,236	4,542
	Accounts payable and accrued liabilities		
	Trade and other	193,354	228,950
	Officers (Note 15)	4,872	4,171
	Dividends payable	5,327	8,735
	Income taxes payable	20,212	15,722
	Series E, Preferred Shares (Note 10)	—	9,610
	Convertible debentures (Note 7)	—	6,850
	Current maturities of long-term debt (Note 8)	34,499	27,344
	Total current liabilities	306,500	305,924
Working capital		253,325	260,841
	Investments, at cost (Note 2)	116,860	154,089
	Investments, at equity (Note 3)	22,909	72,983
	Property, plant and equipment (Note 4)	485,598	412,689
	Other assets (Note 5)	109,627	71,830
Total investment		988,319	972,432
	Deduct:		
	Long-term debt and exchangeable debentures (Note 8)	436,713	454,167
	Series 5, Second Preferred Shares (Note 6)	44,027	33,266
	Deferred income taxes	69,572	69,432
	Total long-term liabilities	550,312	556,865
Shareholders' equity		$ 438,007	$ 415,567
Represented by	Capital stock (Note 10)	$ 461,402	$ 453,080
	Retained earnings (deficit)	(38,168)	(47,622)
	Cumulative translation adjustment	14,773	10,109
Shareholders' equity		$ 438,007	$ 415,567

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(Thousands of dollars except per share amounts)

YEARS ENDED DECEMBER 31	1997	1996
Net sales	**$1,193,244**	$1,222,054
Cost of sales and operating expenses	**1,053,268**	1,099,226
Operating earnings (EBITDA) before:	**139,976**	122,828
Amortization	**(46,939)**	(42,387)
Share of loss of equity accounted investments (Note 3)	**(571)**	(4,576)
Earnings from operations before interest and other items	**92,466**	75,865
Net interest expense	**(39,532)**	(46,127)
Dividends on Series E, Preferred Shares and Series 5, Second Preferred Shares (Notes 6 & 10)	**(5,116)**	(4,406)
Earnings from continuing operations before income taxes and other items	**47,818**	25,332
Gain on disposal of investments (Note 13)	**16,784**	—
Earnings from continuing operations before income taxes	**64,602**	25,332
Income taxes (Note 11)	**32,921**	22,752
Net earnings from continuing operations	**31,681**	2,580
Net loss from discontinued operations (Note 14)	**(577)**	(18,107)
Net earnings (loss)	**$ 31,104**	$ (15,527)
Net earnings (loss) per common share		
Continuing operations	**$ 0.53**	$ (0.46)
Discontinued operations	**$ (0.02)**	$ (0.63)
Net earnings (loss) per share	**$ 0.51**	$ (1.09)
Fully diluted net earnings (loss) per share		
Continuing operations	**$ 0.50**	N/A
Discontinued operations	**$ (0.02)**	N/A
Net earnings (loss) per share	**$ 0.48**	N/A

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Thousands of dollars)

YEARS ENDED DECEMBER 31		1997	1996
Operating activities	Operations		
	Net earnings from continuing operations	$ 31,681	$ 2,580
	Amortization	46,939	42,387
	Deferred income taxes	998	5,771
	Share of loss of equity accounted investments	571	4,576
	Gains on disposals (Note 13)	(7,663)	(11,188)
	Other non-cash items	129	183
	Working capital provided from operations	72,655	44,309
	Increase in non-cash working capital items	(58,982)	(16,007)
	Deferred preproduction and development costs	(16,494)	(3,811)
	Deferred pension asset	(14,153)	(2,050)
	Other items	731	(3,311)
	Cash (used in) provided by operating activities	(16,243)	19,130
Financing activities	Dividends	(7,103)	(9,633)
	Dividends - arrears	(3,672)	(7,344)
	Additional long-term liabilities	125,331	30,578
	Repayment of long-term liabilities	(136,317)	(81,618)
	Redemption of Preferred Shares, Series E	(7,733)	—
	Deferred translation adjustment	(13,860)	(1,649)
	Other items	3,439	(2,695)
	Cash used in financing activities	(39,915)	(72,361)
Investing activities	Net additions to property, plant and equipment	(110,987)	(43,320)
	Proceeds from disposals of investments and businesses (Notes 13 & 14)	107,098	156,433
	Discontinued operations (Note 14)	812	(19,599)
	Other items	(200)	(6,648)
	Cash (used in) provided by investing activities	(3,277)	86,866
Bank indebtedness, net of cash	Increase (decrease) in cash	(59,435)	33,635
	Balance at beginning of year	38,182	4,547
	Balance at end of year	$ (21,253)	$ 38,182

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

(Thousands of dollars)

YEARS ENDED DECEMBER 31	1997	1996
Balance at beginning of year	**$ (47,622)**	$ (9,042)
Add:		
Net earnings (loss)	**31,104**	(15,527)
Net gain on purchase of preferred shares	**26**	—
	(16,492)	(24,569)
Deduct:		
Preferred dividends	**5,446**	9,633
Preferred dividends — paid in stock	**10,901**	6,076
Preferred dividends — arrears	**3,672**	7,344
Common dividends	**1,657**	—
	21,676	23,053
Balance at end of year	**$ (38,168)**	$ (47,622)

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, 1997 and 1996, 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, 1997 and 1996, 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.

Montréal, Québec
February 27, 1998

Deloitte & Touche
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND 1996

(all dollar amounts in tables and notes are presented in thousands, unless noted otherwise)

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 in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense 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 over which the Company has significant influence. 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.

Other Investments are carried at cost.

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. Gains and losses arising from financial instruments used to hedge future transactions are carried forward and accounted for when the transactions occur.

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.

Significant Accounting Policies *(Continued)*

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

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 expected levels 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 operations or commercial production over appropriate future periods.

Deferred Financing Costs

Costs relating to financings are deferred and amortized over the term of the related financing agreements.

Earnings (loss) per Common Share

Earnings (loss) per Class A and Class B share are calculated after providing for 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 28,897,153 (1996 — 28,660,887).

1. Inventories

	1997	1996
Finished and semi-finished*	**$ 151,544**	$ 127,973
Raw materials and supplies	**188,974**	170,129
Total inventories	**$ 340,518**	$ 298,102

* Includes costs to date of uncompleted contracts for the fabrication of structural steel of $56,649 (1996 - $25,365) less progress billings of $58,829 (1996 - $34,687).

2. Investments, at Cost

	1997	1996
Dofasco Inc. - common shares (Note 13)	**$ 58,623**	$ 116,979
Laclede Steel Company - common shares - 24.9% interest (Notes 3 & 13)	**24,908**	—
Laclede Steel Company - preferred shares (US$2.75 million) (Note 13)	**3,780**	7,561
Birmingham Southeast, LLC - 15% interest (US$20.1 million) (Note 14)	**27,549**	27,549
Wire Rope Industries Ltd. - common shares - 15% interest	**2,000**	2,000
Total investments, at cost	**$116,860**	$ 154,089

Pursuant to the terms of a Trust Agreement, 2,986,500 common shares of Dofasco Inc. have been pledged to secure the exchange privilege attached to the Exchangeable Second Preferred Shares, Series 4.

The Dofasco Inc. shares are carried at a cost of $19.63 per share and have a market value of $23.00 per share at December 31, 1997 (1996 - $25.90).

2. Investments, at Cost *(Continued)*

The investment in Laclede Steel Company is carried at a cost of $15.35 per common share (after giving effect to the conversion of the preferred shares into 859,834 common shares) and have a market value of $5.72 (US$4.00) per share at December 31, 1997. During 1997, the Company sold 1,009,325 common shares and 183,334 Series A Preferred Shares. The preferred shares were convertible into 859,834 common shares. The transaction price was based on Cdn $11.07 (US$8.00) per Laclede common share and similarly, on an as if converted basis, with respect to the preferred shares.

3. Investments, at Equity

	Laclede Steel Company	Others	Total
Carrying value, December 31, 1995	$ 58,091	$ 20,589	$ 78,680
Share of earnings (loss)	(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 earnings (loss)	(772)	201	(571)
Disposal of investment (Note 13)	(24,908)	—	(24,908)
Transferred to Investments, at cost	(24,908)	—	(24,908)
Other		313	313
Carrying value, December 31, 1997	$ —	$ 22,909	$ 22,909
Share of equity, December 31, 1997		$ 22,962	$ 22,962

4. Property, Plant and Equipment

	1997			1996		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Land	**$ 22,585**	**$ —**	**$ 22,585**	$ 24,096	$ —	$ 24,096
Buildings	**160,553**	**58,709**	**101,844**	159,099	57,011	102,088
Machinery and equipment	**672,034**	**349,857**	**322,177**	596,474	323,628	272,846
Machinery and equipment under capital leases	**41,279**	**2,287**	**38,992**	14,555	896	13,659
Total property, plant and equipment	**$896,451**	**$410,853**	**$485,598**	$794,224	$381,535	$412,689

Amortization of property, plant and equipment for 1997 amounted to $37,905 of which $1,389 is included in discontinued operations (1996 - $38,845 of which $5,235 is included in discontinued operations).

5. Other Assets

	1997	1996
Net assets of discontinued operations, primarily real estate	**$ 36,277**	$32,472
Deferred preproduction and development costs and other deferred charges, less amortization	**19,990**	10,090
Deferred financing costs, less amortization	**10,619**	14,931
Deferred translation adjustment, less amortization	**20,513**	9,685
Loans to officers at prime interest rates, due March 1, 2000	**7,781**	—
Deferred pension asset	**16,324**	2,171
Deferred income	**(4,165)**	—
Other items	**2,288**	2,481
Total other assets	**$109,627**	$71,830

Amortization of other assets for 1997 amounted to $10,423 (1996 - $8,907 of which $130 is included in discontinued operations).

6. $2.625, Second Preferred Shares, Series 5

An unlimited number of Second Preferred Shares, Series 5 are authorized of which 1,843,915 (1996 - 1,379,328) shares were issued and outstanding with a stated capital of $44,027 (1996 - $33,266).

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 1997, 464,587 (1996 - 226,069) shares with a stated capital of $10,761 (1996 - $4,969) were issued to satisfy, in part, regular dividends on Second Preferred Shares, other than on Series 5, Second Preferred Shares which were paid in cash.

7. Convertible Subordinated Debentures

The 9.5% Convertible Subordinated Debentures were converted, during the year, into 2,046,149 Class A shares at a conversion price of $3.25 per Class A share.

8. Long-Term Debt and Exchangeable Debentures

	1997	1996
Secured		
Term Bank Loans at variable rates averaging 6.6% at December 31, 1997 (1996 - 5.0%) maturing to 2004 of which $3.3 million (1996 - nil) are in US funds	$ 35,071	$ 15,625
Senior Notes at 7.29% maturing to 2004 (US$56.9 million; 1996 - US$62.1 million)	81,360	85,143
Mortgages averaging 8.2% maturing to 2011 of which $1.5 million (1996 - $1.5 million) are in US funds	8,650	9,414
Obligations under capital leases averaging 7.4% maturing to 2005 of which $16.4 million (1996 - $1.2 million) are in US funds	34,724	10,903
Others averaging 7.8% maturing to 2009 of which $11.7 million (1996 - $7.7 million) are in US funds	33,980	15,937
Unsecured		
Exchangeable Debentures due 2010 (Note 13)	—	95,223
Revolving Bank Loans at variable rates averaging 5.5% at December 31, 1997	17,044	—
Term Bank Loans at variable rates averaging 4.9% at December 31, 1997 (1996 - 4.9%) maturing in 2003	8,500	1,000
Senior Notes at 11.5% maturing in 2005 (US$122.5 million; 1996 - US$122.5 million)	175,236	167,898
Senior Notes at 8.44% maturing to 2004 (US$41.4 million; 1996 - US$45 million)	59,223	61,677
Others averaging 5.4% maturing to 2002 of which $10.4 million (1996 - $11.0 million) are in US funds	17,424	18,691
	471,212	481,511
Less: current maturities	34,499	27,344
Total long-term debt and exchangeable debentures	$436,713	$454,167

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

$34.5 million in 1998; $41.1 million in 1999; $47.1 million in 2000; $36.3 million in 2001; and $32.7 million in 2002.

8. Long-Term Debt *(Continued)*

The Exchangeable Debentures were redeemed during the year from the proceeds of the sale of 2,971,846 common shares of Dofasco Inc. The debentures were interest bearing at a semi-annual rate equal to (i) the cash dividends paid by Dofasco Inc. per Dofasco Inc. common share during the six calendar months immediately preceding the interest payment date divided by $32, expressed as a percentage, plus (ii) 2.5%.

Interest expense on long-term debt, convertible debentures and exchangeable debentures amounted to $39,861 in 1997 (1996 - $50,210).

9. Pension Plans

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

	1997	1996
Actuarial present value of accrued pension obligations	**$352,675**	$ 322,146
Market value of pension fund assets	**$336,927**	$ 262,082

Pension expense for 1997 was $13,153 (1996 - $20,008)

10. 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			
	1997	1996	**1997**	1996
Preferred Shares				
$4.425 Series C	**161,650**	161,650	**$ 8,083**	$ 8,083
$2.50 Series D	**34,443**	34,443	**861**	861
$2.40 Series E	**75,081**	—	**1,877**	—
			10,821	8,944
Second Preferred Shares				
$2.00 Series 1	**1,349,973**	1,353,473	**33,749**	33,837
$2.00 Series 2	**1,866,839**	1,871,839	**46,670**	46,796
$2.25 Series 3	**997,152**	997,752	**24,929**	24,944
			105,348	105,577
Exchangeable Second Preferred Shares Series 4 (Note 2)	**2,986,500**	2,986,500	**95,568**	95,568
Class A Shares	**24,132,444**	22,007,396	**232,511**	225,595
Class B Shares	**6,582,578**	6,654,477	**17,154**	17,396
			249,665	242,991
Total capital stock			**$461,402**	$453,080

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 1997 and 1996, no such shares were purchased.

10. Capital Stock
(Continued)

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 1997 and 1996, no such shares were purchased.

Series E
The $2.40 Series E Cumulative Redeemable Preferred Shares may be purchased by the Company on the open market at $25 per share. On October 1, 1997, in accordance with the terms of the issue, the Company purchased 309,304 shares tendered for redemption at $25 per share, and the remaining 75,081 shares were reclassified to capital stock as the shares are no longer retractable. Prior to such redemption, dividends paid on the Series E Preferred Shares were included in the consolidated statement of earnings. The Company will make all reasonable efforts to purchase 8,500 shares for cancellation on the open market in each calendar quarter. During 1997 and 1996, no shares were purchased pursuant to the purchase obligation.

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.

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. During the year, 3,500 (1996 - NIL) such shares were purchased and cancelled.

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. During the year, 5,000 (1996 - NIL) such shares were purchased and cancelled.

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. During the year, 600 (1996 - NIL) such shares were purchased and cancelled.

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 Inc. 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 Inc. per common share of Dofasco Inc. during the three calendar months immediately preceding the dividend payment date divided by $32 expressed as a percentage, plus (ii) 1%.

The Company may redeem Series 4 Exchangeable Second Preferred Shares at any time at $32 per share. During 1997 and 1996, no shares were redeemed or exchanged for common shares of Dofasco Inc.

10. Capital Stock *(Continued)*

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 1996 and 1997 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, 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
Conversion from:				
Class B to Class A	71,899	(71,899)	242	(242)
Shares issued during 1997:				
Employees' Stock Option Plan	7,000	—	24	—
Convertible Subordinated Debentures (Note 7)	2,046,149	—	6,650	—
Balance at December 31, 1997	24,132,444	6,582,578	$ 232,511	$ 17,154

Stock Options

At December 31, 1997, options for 2,690,840 (1996 - 2,610,340) Class A Shares granted under the Employees' Stock Option Plan were outstanding, including 1,389,700 options exercisable to 2004 at $7.50 per share, 10,000 options exercisable to 2004 at $7.19 per share, 1,198,640 options exercisable to 2002 at $3.40 per share, and 92,500 options exercisable to 2007 at $3.11 per share.

During the year, 7,000 options were exercised at $3.40 per share and 5,000 options were returned to the Plan.

11. Income Taxes

The provision for income taxes is comprised of:

	1997	1996
Current	$ 31,923	$18,276
Deferred	998	4,476
	$ 32,921	$22,752

The effective rate of income taxes is as follows:

	1997	1996
Combined basic federal and provincial income tax rate	36.9%	36.9%
Large Corporation Tax	2.7	5.2
Income tax adjustments resulting from:		
Losses not tax effected	4.3	28.6
Income subject to higher rates of tax	4.0	—
Items not subject to tax:		
Share of loss of equity accounted investments	0.3	6.1
Dividends on Series E, Preferred Shares and Series 5, Second Preferred Shares	2.9	5.9
Dividend income	(2.6)	(6.7)
Various non-deductible items	4.0	5.5
Other Items	(1.5)	8.3
	51.0%	89.8%

Certain U.S. subsidiaries have accumulated tax losses, the benefits of which have not been recognized in the accounts, of approximately $135 million (US$94.3 million) which may be applied against future years' taxable income. These losses expire from 1998 to 2012.

12. Joint Venture Operations

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

	1997	1996
Consolidated Statements of Financial Position		
Current assets	$ 67,490	$ 56,931
Non-current assets	$ 62,656	$ 53,870
Current liabilities	$ 41,800	$ 15,790
Non-current liabilities	$ 14,353	$ 10,625
Consolidated Statements of Earnings		
Net sales	$180,667	$165,326
Expenses	$150,269	$139,790
Earnings from continuing operations before tax	$ 30,398	$ 25,536
Consolidated Statements of Changes in Financial Position		
Cash provided by (used in):		
Operating activities	$ 15,506	$ 16,294
Financing activities	$ (8,125)	$ (9,461)
Investing activities	$ (15,725)	$ (1,147)

13. Disposals of Investments and Businesses

During 1997, the Company completed the following disposals of investments.

The sale of 2,971,846 common shares of Dofasco Inc. which generated cash proceeds of $86,408 and a net gain of $17,478 after deducting taxes of $8,616. Proceeds from the sale were used to redeem $95,223 of Exchangeable Debentures due 2010.

The sale of 1,009,325 common shares and 183,334 Series A Preferred Shares of Laclede Steel Company which generated cash proceeds of $20,690 (US$14,953) and a net loss of $9,815 after deducting taxes of $505. The transaction price was based on Cdn$11.07 (US$8.00) per Laclede common share and similarly, on an as if converted basis, with respect to the preferred shares.

13. Disposals of Investments and Businesses *(Continued)*

The voting rights on the Company's remaining 24.9% investment in Laclede Steel common stock have been granted to the purchaser, subject to certain limitations. Accordingly, this investment is now included with Investments, at cost.

During 1996, the Company completed the following disposals of businesses.

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

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

The sale of the business and assets of its steel joists fabricating plant which generated cash proceeds of $10,138 and a net gain of $2,754 after deducting taxes of $1,836.

14. Loss from Discontinued Operations

During the fourth quarter of 1997, the Company adopted a formal plan to dispose of certain assets and operations of its Fabrication of Structural Steel segment, which sale was completed in February 1998 at an amount approximating carrying value. Accordingly, net earnings from this segment for 1997 and 1996 of $431 and $1,447 respectively, have been disclosed separately as 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 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, 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
Loss from operations	$(19,964)
Gain on disposal of assets	2,055
Income taxes	(1,645)
Net gain on disposal	410
Loss from discontinued operations	$(19,554)

Also during 1997, $1,008 was expensed with respect to claims for operations previously disclosed as discontinued.

Sales of operations classified as discontinued in 1997 were $105.0 million (1996 - $336.0 million).

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

	1997	1996
Current assets	**$ 102**	$ 98
Current liabilities	**(1,235)**	(1,493)
Property, plant and equipment	**18,253**	5,419
Other assets	**36,277**	32,472
Long-term debt	**(398)**	(385)
Net assets	**$52,999**	$36,111

15. Transactions with Related Parties

Loans to officers

Loans to officers bear interest at prime rates, are due March 1, 2000 and are unsecured. Such loans to officers outstanding at December 31, 1997 amounted to $7,781 (1996 - $7,473) 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 at the Company's borrowing rate. At December 31, 1997, borrowings from officers amounting to $4,872 were outstanding (1996 - $4,171). These transactions are measured at the exchange amounts.

Affiliated companies

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

	1997	1996
Purchases of raw materials from equity accounted entities	**$22,502**	$19,776
Sales of products to equity accounted entities	**$ —**	$ 7,600

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

	1997	1996
Equity accounted entities	**$ 9,038**	$ 2,411

16. Financial Instruments and Risk Management

Foreign exchange risks

From time to time, the Company enters into forward exchange contracts for some of its Canadian operations to partially hedge accounts receivable and future revenues denominated in US dollars, net of expected US dollar outlays including principal and interest payments on US dollar denominated debt.

At December 31, 1997, the Company had forward contracts maturing in 1998 to exchange $219.2 million (1996 - $86.4 million) US dollars for Canadian dollars. The market value of such forward exchange contracts at December 31, 1997 was such that if these contracts had been closed out at such time which was not the intention since these contracts were established in order to fix the rate on sales of US dollars throughout 1998, the Company would have incurred a loss of $8.7 million. 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.

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, 1997, 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 financial instruments. 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.

16. Financial Instruments and Risk Management *(Continued)*

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

1997	Carrying Amount	Fair Value
Investments, at cost	**$116,860**	**$107,800**
Long-term Liabilities		
Senior Notes	**$315,819**	**$342,200**
Redeemable Second Preferred Shares, Series 5	**$ 44,027**	**$ 45,200**

1996	Carrying Amount	Fair Value
Investments, at cost	$154,089	$ 191,500
Long-term Liabilities		
Senior Notes	$314,718	$ 329,600
Redeemable Second Preferred Shares, Series 5	$ 33,266	$ 30,300

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.

17. Contingent Liabilities

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.

Litigation

In the normal course of operations, the Company becomes involved in various claims and legal proceedings. In management's opinion, the Consolidated Financial Statements include adequate provisions for litigation. While the final outcome with respect to claims and legal proceedings pending at December 31, 1997 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a materially adverse effect on the Company's consolidated financial position or results of operations.

18. Comparative Figures

Certain of the 1996 figures have been reclassified to conform with the presentation adopted in 1997.

19. 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:

	1997	1996
Net earnings (loss) under Canadian GAAP	**$31,104**	$(15,527)
Adjustments (net of income taxes thereon):		
Post-retirement benefits other than pensions (a)	**(2,088)**	(20,931)
Pension costs (b)	**478**	(8,902)
Deferred preproduction, development and financing costs (c)	**(6,209)**	891
Deferred translation adjustment (d)	**(6,473)**	(367)
Income taxes (e)	**(330)**	(193)
Dividends on Series E, Preferred Shares and Series 5, Second Preferred Shares (f)	**5,116**	4,406
Net earnings (loss) under U.S. GAAP	**$21,598**	$(40,623)

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

	1997		1996	
	U.S. GAAP	**Cdn GAAP**	U.S. GAAP	Cdn GAAP
Earnings (loss) per common share				
Continuing operations	**$ 0.02**	**$ 0.53**	$(0.71)	$(0.46)
Discontinued operations	**$(0.02)**	**$(0.02)**	$(1.41)	$(0.63)
Net earnings (loss) per share	**$ 0.00**	**$ 0.51**	$(2.12)	$(1.09)
Fully diluted earnings (loss) per share				
Continuing operations	**N/A**	**$ 0.50**	N/A	N/A
Discontinued operations	**N/A**	**$(0.02)**	N/A	N/A
Net earnings (loss) per share	**N/A**	**$ 0.48**	N/A	N/A

	1997	1996
Total assets under Canadian GAAP	**$1,294,819**	$1,278,356
Adjustments:		
Investments, at cost (g)	**(7,899)**	37,443
Investments, at equity (a)	**—**	(9,554)
Deferred preproduction, development and financing costs (c)	**(19,198)**	(8,849)
Deferred translation adjustment (d)	**(20,513)**	(9,724)
Share purchase loans (h)	**(6,430)**	(6,122)
Pension costs (b)	**(8,937)**	(2,171)
Total assets under U.S. GAAP	**$1,231,842**	$1,279,379
Total liabilities under Canadian GAAP	**$ 856,812**	$ 862,789
Adjustments:		
Post-retirement benefits other than pensions (a)	**50,524**	47,836
Pension costs (b)	**—**	6,776
Deferred income taxes	**(17,155)**	(336)
Income taxes (e)	**(2,992)**	(3,323)
Share issue costs (i)	**(1,048)**	(1,248)
Total liabilities under U.S. GAAP	**$ 886,141**	$ 912,494
Total shareholders' equity under Canadian GAAP	**$ 438,007**	$ 415,567
Adjustments:		
Post-retirement benefits other than pensions (a)	**(57,080)**	(54,923)
Pension costs (b)	**(8,427)**	(8,947)
Deferred preproduction, development and financing costs (c)	**(10,205)**	(3,996)
Deferred translation adjustment (d)	**(13,072)**	(6,599)
Income taxes (e)	**2,992**	3,323
Share purchase loans (h)	**(6,430)**	(6,122)
Share issue costs (i)	**1,048**	1,248
Investments, at cost (g)	**(1,132)**	27,334
Total shareholders' equity under U.S. GAAP	**$ 345,701**	$ 366,885

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

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

benefits are expensed during the years that the employees render service. The transition obligation relative to the adoption of SFAS No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions" is amortized over a 20-year period.

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

Under Canadian GAAP, income taxes are accounted for using the deferral method. For U.S. GAAP purposes, the Company accounts for income taxes using SFAS No. 109, "Accounting for Income Taxes". Under this method, 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, Preferred Shares and the Series 5, Second Preferred Shares are included in the Consolidated Statements of Earnings as an expense. Under U.S. GAAP, these dividends are included in retained earnings.

g. Investments, at Cost

Under Canadian GAAP, long-term portfolio investments are carried at cost. For U.S. GAAP purposes, these investments are classified as "Available-for-Sale" and unrealized holding gains and losses are excluded from earnings and reported as a separate component of shareholders' equity until realized.

h. 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.

i. 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.

20. Segmented Information

The Company operates principally in Canada and the United States in three business segments. The Steel Segment consists of wire rod products; the Fabricated Steel Products Segment includes fasteners, wire and wire products; 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 1997 of $573 million (1996 - $531 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 assets identifiable by business and geographic segments.

Business Segments	1997				1996			
	Steel	Fabricated Steel Products	Other Diversified Fabricated Products	Consolidated	Steel	Fabricated Steel Products	Other Diversified Fabricated Products	Consolidated
Net sales	**$306,514**	**$587,580**	**$299,150**	**$1,193,244**	$283,489	$611,404	$327,161	$1,222,054
Operating earnings (EBITDA) before:	**$ 20,188**	**$ 79,729**	**$ 40,059**	**$ 139,976**	$ 7,735	$ 66,299	$ 34,017	$ 108,051
Gains on disposals	**—**	**—**	**—**	**—**	—	2,566	12,211	14,777
	20,188	**79,729**	**40,059**	**139,976**	7,735	68,865	46,228	122,828
Amortization	**(13,264)**	**(16,735)**	**(16,940)**	**(46,939)**	(11,622)	(15,459)	(15,306)	(42,387)
	$ 6,924	**$ 62,994**	**$ 23,119**	**93,037**	$ (3,887)	$ 53,406	$ 30,922	80,441
Share of loss of equity accounted investments				**(571)**				(4,576)
Earnings from operations before interest and other items				**$ 92,466**				$ 75,865
Assets identifiable by segment	**$310,358**	**$504,490**	**$479,971**	**$1,294,819**	$257,938	$462,241	$558,177	$1,278,356
Net additions to property, plant and equipment	**$ 60,689**	**$ 32,450**	**$ 17,848**	**$ 110,987**	$ 9,163	$ 30,043	$ 4,114	$ 43,320

Geographic Segments	1997			1996		
	Canada	U.S.A.	Consolidated	Canada	U.S.A.	Consolidated
Net sales	**$ 984,300**	**$ 208,944**	**$ 1,193,244**	$ 981,938	$ 240,116	$ 1,222,054
Operating earnings (EBITDA) before:	**144,218**	**(4,242)**	**139,976**	142,435	(34,384)	108,051
Gains on disposals	**—**	**—**	**—**	2,566	12,211	14,777
	144,218	**(4,242)**	**139,976**	145,001	(22,173)	122,828
Amortization	**(41,681)**	**(5,258)**	**(46,939)**	(37,132)	(5,255)	(42,387)
	$ 102,537	**$ (9,500)**	**93,037**	$ 107,869	$ (27,428)	80,441
Share of loss of equity accounted investments			**(571)**			(4,576)
Earnings from operations before interest and other items			**$ 92,466**			$ 75,865
Assets identifiable by segment	**$ 992,241**	**$ 302,578**	**$ 1,294,819**	$ 986,206	$ 292,150	$ 1,278,356

FINANCIAL SUMMARY

Millions of dollars except per share amounts

Operating Results	1997	1996[2]	1995	1994	1993	1992	1991
Net sales	**$1,193.2**	1,222.1	1,416.6	1,418.2	1,220.9	1,094.3	1,115.8
Operating earnings (EBITDA) before:	**$ 140.0**	122.8	154.6	122.7	92.4	43.1	21.9
Amortization	**$ 46.9**	42.4	39.5	45.4	43.8	43.8	45.6
Share of earnings (loss) of equity accounted investments	**$ (0.6)**	(4.6)	(3.7)	5.6	5.8	(3.0)	(5.1)
Earnings (loss) from operations before interest and other items	**$ 92.5**	75.9	111.4	82.9	54.4	(3.7)	(28.8)
Earnings (loss) from continuing operations before income taxes	**$ 64.6**	25.3	68.5	45.0	16.7	(48.1)	(81.6)
Provision for (recovery of) income taxes	**$ 32.9**	22.8	30.9	26.6	14.0	(11.7)	(25.2)
Earnings (loss) from continuing operations	**$ 31.7**	2.6	37.6	18.4	2.7	(36.4)	(56.4)
Net earnings (loss)	**$ 31.1**	(15.5)	28.9	8.1	0.3	(19.6)	(59.4)
Earnings (loss) per share [1]							
Continuing operations	**$ 0.53**	(0.46)	0.77	0.13	(0.52)	(2.51)	(3.71)
Net earnings (loss) per share	**$ 0.51**	(1.09)	0.47	(0.25)	(0.63)	(1.71)	(3.86)
Return on sales	**% 2.6**	(1.3)	2.0	0.6	0.0	(1.8)	(5.3)

Financial Position	1997	1996[2]	1995	1994	1993	1992	1991
Current assets	**$ 559.8**	566.7	628.3	571.4	484.8	453.3	533.1
Current liabilities	**$ 306.5**	305.9	291.3	308.4	264.2	325.8	354.9
Working capital	**$ 253.3**	260.8	337.0	263.0	220.6	127.5	178.2
Net additions to property, plant and equipment	**$ 111.0**	43.3	43.9	33.6	18.1	7.0	24.7
Total assets	**$1,294.8**	1,278.4	1,381.4	1,309.2	1,203.4	1,182.6	1,296.6
Long-term debt, convertible and exchangeable debentures	**$ 436.7**	454.1	519.0	448.1	450.7	404.6	451.9
Shareholders' equity	**$ 438.0**	415.6	452.7	482.7	442.8	422.3	446.9
Dividends	**$ 21.7**	23.1	48.5	1.7	1.7	3.2	19.1
Book value per share [1]	**$ 6.89**	6.69	7.78	7.36	7.51	8.32	10.35

[1] Declared and undeclared preferred share dividends have been deducted in calculating per share amounts.

[2] The 1996 figures have been reclassified to conform with the presentation adopted in 1997.

1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
1,868.5	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
133.9	165.9	215.7	197.5	186.6	138.5	128.8	63.5	54.4	96.4	81.2	96.7	57.0
55.0	51.8	56.9	56.7	56.3	39.5	34.5	27.0	23.9	19.6	14.9	11.4	8.0
1.5	1.8	1.2	1.2	1.3	0.4	0.5	3.0	(3.3)	2.7	0.8	—	—
80.4	115.9	160.0	142.0	131.6	99.4	94.8	39.5	27.2	79.5	67.1	85.3	49.0
12.2	57.1	108.3	89.0	81.7	57.6	54.4	(0.3)	(25.7)	33.9	41.1	69.0	41.1
0.1	20.9	41.5	42.1	32.7	18.3	15.8	(5.9)	(15.3)	8.6	12.4	25.4	16.7
7.2	28.2	55.6	39.9	43.1	35.1	32.3	2.9	(9.9)	25.2	28.3	42.7	24.0
17.0	12.9	41.9	31.8	44.1	35.1	33.8	0.8	(9.9)	28.4	28.3	42.7	24.0
(0.76)	0.29	1.67	0.64	1.11	1.04	1.64	(0.17)	(1.20)	2.08	2.47	3.98	2.20
(0.25)	(0.55)	1.03	0.46	1.11	1.04	1.64	(0.34)	(1.20)	2.37	2.47	3.98	2.20
0.9	0.6	2.1	1.5	2.3	2.6	2.8	0.1	(1.5)	3.9	4.6	8.6	9.0

1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
620.7	951.8	970.2	913.4	860.1	623.1	536.0	461.8	347.6	335.5	273.7	257.3	130.2
369.3	466.1	464.3	441.8	373.0	228.1	263.2	191.0	204.7	223.3	143.8	147.0	73.1
251.4	485.7	505.9	471.6	487.1	395.0	272.8	270.8	142.9	112.2	129.9	110.3	57.1
39.6	68.0	89.8	88.5	84.4	46.3	39.5	16.6	42.6	60.8	64.2	34.3	27.6
1,411.8	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
450.9	645.8	603.4	545.0	531.2	395.8	350.8	263.4	277.6	207.3	187.5	143.2	58.4
535.5	548.2	577.3	581.7	604.1	520.6	366.9	303.3	194.9	206.3	187.8	151.7	116.8
33.0	34.0	34.1	34.2	33.7	28.4	19.4	10.3	7.0	9.3	8.4	7.9	5.3
14.65	15.76	16.91	16.48	16.64	15.01	14.29	13.22	14.25	16.23	14.46	12.61	9.49

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    - Infasco Nut
    - Galvano
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        - Vermont Fasteners Manufacturing
  - Atlantic Steel Industries, Inc.
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    - Fourteenth Land Corporation
    - Mecaslin Street Corporation
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    - Sivaco New York, Inc.
    - Ivaco Steel Mills, Ltd.
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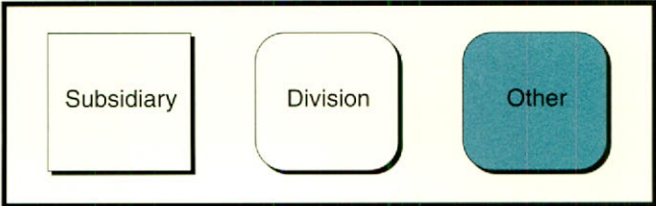

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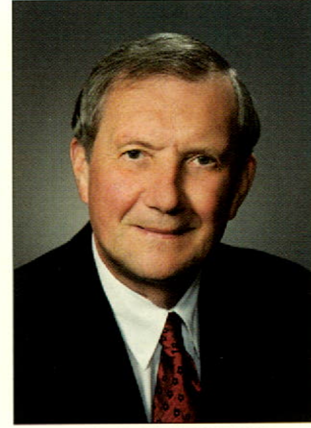
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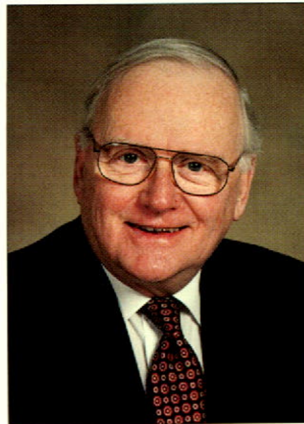
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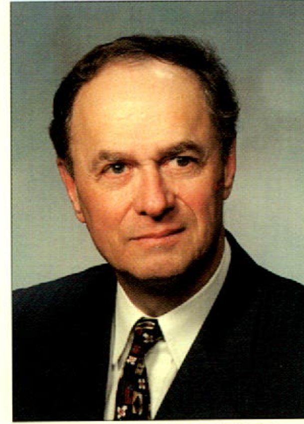
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