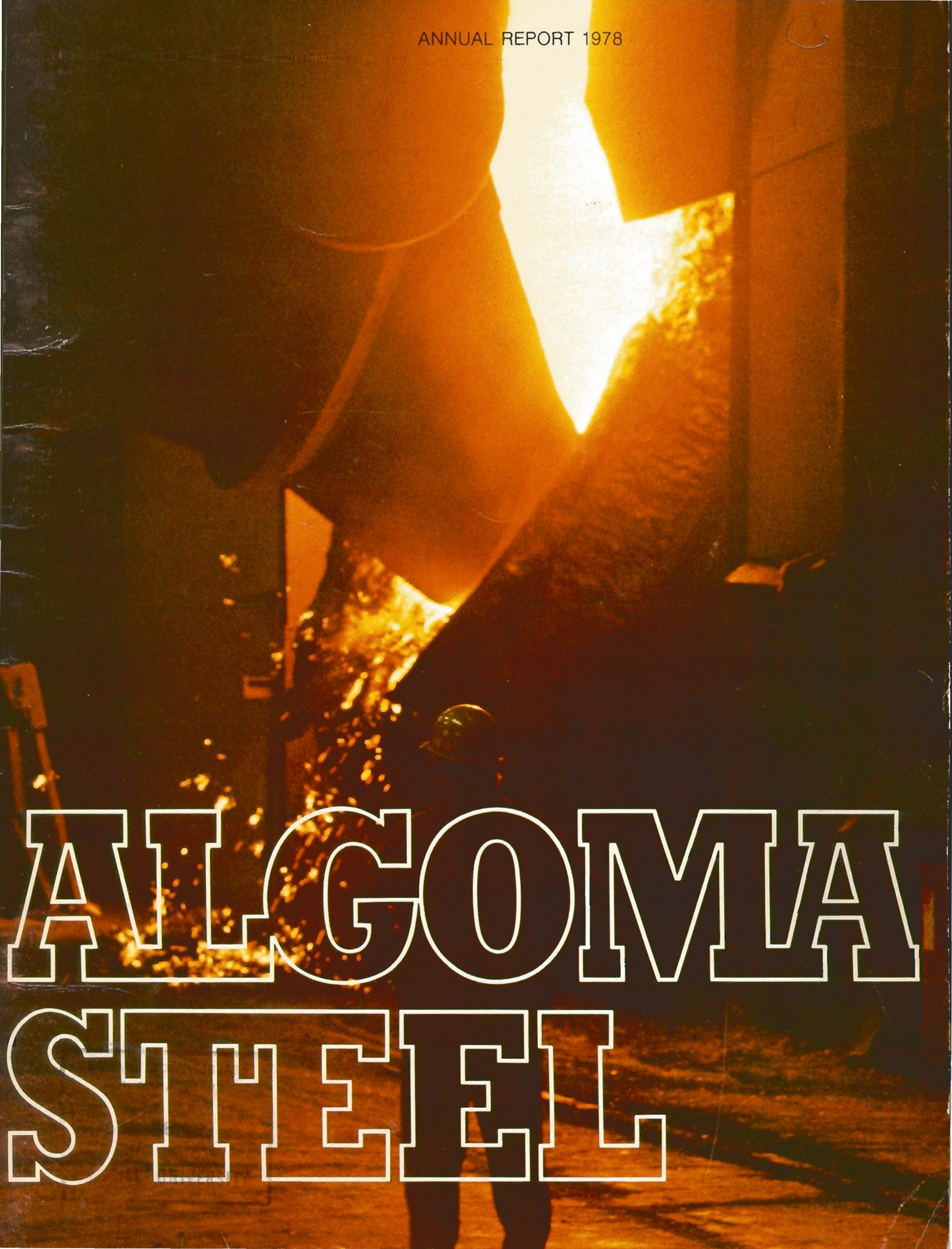
ANNUAL REPORT 1978



ALGOMA STEEL

Contents

Annual Meeting

The Annual Meeting of Shareholders will be held at the Windsor Park Hotel, Sault Ste. Marie, Ontario, Wednesday, April 18, 1979 at 2:15 p.m. Eastern Standard Time. Notice of Meeting, an Information Circular and Proxy will be mailed separately to each Shareholder.

Les actionnaires qui désirent recevoir ce rapport en français sont priés d'en faire la demande au Secrétaire, The Algoma Steel Corporation, Limited, Sault-Sainte-Marie, Ontario.

Executive Offices

503 Queen Street East
Sault Ste. Marie, Ontario
P6A 5P2
(705) 945-2762

Highlights 1978

	1978	1977	Percent Change
	(tons and dollars in millions except per share data)		
Shipments of steel products (tons)	**2.456**	2.201	+ 12
Sales	**$ 864.2**	$ 687.8	+ 26
Funds from operations	**$ 109.5**	$ 41.2	+ 166
Depreciation and amortization	**$ 35.7**	$ 33.6	
Earnings before equity in earnings of Dominion Bridge and income taxes	**$ 57.7**	$ 5.5	
Net earnings	**$ 77.1***	$ 37.5	+ 106
—from integrated steel operations	**$ 54.5***	$ 21.3	+ 156
—from Dominion Bridge	**$ 22.6**	$ 16.2	+ 40
Per common share data			
Net earnings	**$ 5.79***	$ 2.62	+ 121
Dividends paid	**$ —**	$ 0.20	
Book value	**$ 41.72**	$ 35.93	+ 16
Long term debt as a percent of capitalization	**28%**	31%	
Return on average total investment	**10.6%**	6.3%	
Return on common shareholders' equity	**14.9%**	7.5%	
Utilization of raw steel production capability	**94.2%**	87.6%	+ 8
Closing market price—8% tax deferred preference share	**$28.25**	$26.63	
—common share	**$26.88**	$15.00	

*Includes extraordinary credit of $7.5 million (64 cents per share)

Report to Shareholders

Algoma's sales, production, shipments and earnings improved materially over 1977 and reached record levels in 1978. Pre-tax earnings from integrated steel operations were $57.7 million compared with $5.5 million in 1977 and equity in earnings of Dominion Bridge Company, Limited increased to $22.6 million from $16.2 million. An extraordinary income tax credit of $7.5 million increased net earnings to $77.1 million from $37.5 million resulting in earnings per common share of $5.79 compared to $2.62 in the previous year. Net earnings before the extraordinary credit were $5.15 per share. Earnings were adversely affected in the year by a 110 day strike in the coal mines in the United States which commenced in late 1977 and extended through the first quarter of 1978 and by a 10 day strike at the Steelworks Division in August. New three year labour agreements were concluded in each case.

The improved results in 1978 are encouraging but still fall short of providing an adequate return on capital invested in the Corporation's integrated steel business. Continued emphasis on control of costs, productivity improvement, increased utilization of steelmaking capacity and, where necessary, higher steel product selling prices will be essential to ensure a reasonable return to shareholders and permit Algoma to meet investment requirements while maintaining a sound financial condition.

Capital expenditures increased to $39.2 million from $29.6 million in 1977. The No. 9 coke oven battery rebuild was completed and this battery was placed in service in late 1978. Construction progressed on the continuous slab casting plant at the Steelworks Division and the Stage IV underground development at the Algoma Ore Division. Both of these projects will begin operating in mid 1979. Operation of the continuous slab caster will permit a larger tonnage of raw steel to be processed into rolled steel products and greater utilization of existing raw steel capacity. This will impact favourably on total shipments and future earnings.

Last year's report indicated that a number of capital projects were being evaluated which would benefit Algoma's market position and improve profitability. As a result of these studies the Board of Directors approved an expenditure of $19 million to increase heat treat capacity at the Tube Division. This new facility which is expected to be completed by the end of 1979 will increase Algoma's capability to produce high strength seamless tubes to meet increasing demands from the oil and gas industry. Also approved was the installation of plate heat treating equipment at an estimated cost of $24 million which will permit the Corporation to enter the growing market for quenched and tempered and normalized plate. This project is expected to be completed in the fourth quarter of 1980.

During the current year, Board approval will be sought on further new facilities essential to the Corporation's future growth and prosperity. These facilities will provide increased employment opportunities throughout the Corporation's operations. Total capital expenditures in 1979 for new facilities and to complete projects begun in prior years are estimated at $100 million.

Throughout 1978 the market for sheet, plate and seamless tubes remained strong and demand for rails and structurals improved significantly. At year end order backlog for rolled steel products was at a record level.

The decline in exchange value of the Canadian dollar had a positive effect on demand for Canadian steel products both in the domestic market and in the United States and at the same time made foreign steel considerably less attractive to Canadian consumers. The Canadian steel fabricating and metalworking industries enjoyed particularly strong export markets resulting in higher demand for structural sections and plate from Canadian mills.

The "bench mark" system implemented by the Federal Government to monitor steel imports has been effective in ensuring that foreign steel is not being sold in Canada at dumped prices in contravention of Canadian laws. This government action is commended and helps to ensure that Canadian industry and employment will not be adversely affected by unfair trade practices.

Although the Corporation's financial position improved materially in 1978, in the interest of re-establishing a satisfactory debt/equity relationship and to ensure a sound base for future growth, no dividend was paid on the Corporation's common shares in 1978. Prior to year end, the Corporation agreed to sell $100 million of income debentures by private placement with several major buyers. The first $60 million of this financing was completed in early 1979 and the balance is expected to be completed during the first half of the current year. This financing will eliminate the Corporation's short term debt and further strengthen working capital.

The three vacancies on the Board of Directors that occurred during 1977 were filled at the annual meeting in 1978 by the election of James W. Kerr, Chairman and Chief Executive Officer of TransCanada PipeLines, Arthur H. Mingay, Chairman and Chief Executive Officer of Canada Trustco Mortgage Company and The Canada Trust Company, and John D. Taylor, President of Simpsons-Sears Limited.

In accordance with the Corporation's increased emphasis on its marketing and service-to-customer programs, R. N. Robertson was promoted in June to Group Vice President—Marketing and Sales.

The current level of economic activity and strong demand for rolled steel products should ensure capacity operations in the first half of the year. The prospects for the second half are less certain principally due to the forecast decline in economic activity in the United States. The Corporation is well placed to make further advances in 1979 and this should materialize unless a reduction in steel demand of significant proportion occurs by mid year.

The record production and earnings achieved by the Corporation in 1978 were largely due to the participation of all employees in solving marketing, operating and financial problems. The Board of Directors expresses its deep appreciation to all employees for their efforts and accomplishments. Algoma enters 1979 with the expectation and opportunity of further improving performance, recognizing that this can only be realized through increased utilization of facilities and the continued efforts of its employees and support of shareholders, customers and suppliers.

Walter G. Ward

Chairman

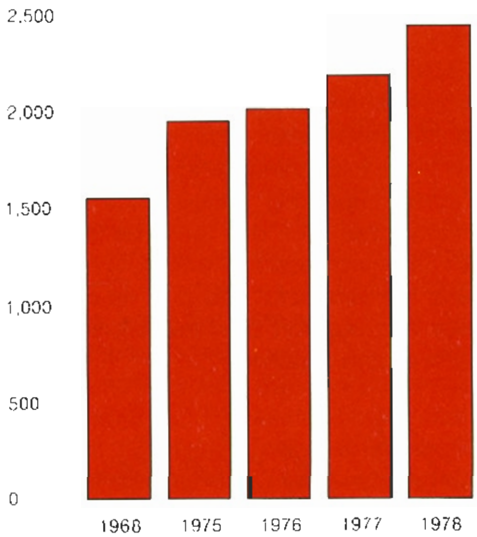
President and Chief Executive Officer

Sault Ste. Marie, Ontario
February 15, 1979.

Review of 1978

Algoma shipments

THOUSANDS OF TONS



Marketing and Sales

The demand for sheet, plate and seamless tubes remained strong throughout 1978 and demand for rails and structurals strengthened as the year progressed. As a result, demand for Algoma's major product lines was buoyant at year end and the Corporation entered 1979 with a record order backlog.

Algoma's sales in 1978 were a record $864.2 million, a 25.6% increase over 1977. Steel product shipments increased to 2.46 million tons which was an 11.6% increase over 1977. Three of the most significant market sectors to contribute to this strength, were non-residential construction, automotive and oil and gas exploration.

Algoma's Steel Product Shipments by Product Classification

	1968 %	1975 %	1976 %	1977 %	1978 %
Plate and Sheet	46	56	56	57	59
Structurals	21	20	18	17	19
Rails and Fastenings	5	8	9	8	6
Bars and Grinding Media	6	6	6	5	3
Seamless Tubes and Skelp	15*	10	7	8	10
Semi-finished	7	—	4	5	3

*Represents shipments of tube rounds to a seamless tube producer

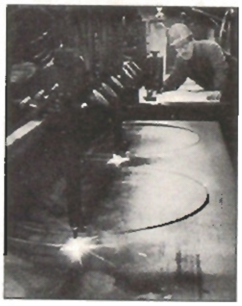
While overall domestic construction markets showed only slight improvement in 1978 over 1977, exports by Canada's steel fabricating and metalworking industries increased substantially. The domestic construction market in 1979 is expected to improve as Canada's industries return to better levels of profitability and capacity utilization, which should help stimulate capital spending.

Planning is underway to increase capacity of the structural mill to meet the growth in demand for Algoma's range of shape products.

The recently announced construction of a plate heat treating facility which will complement Algoma's present 166" plate mill is a first for a Canadian steel mill. Initial production is expected in late 1980 and will permit Algoma to participate in the growing markets for normalized and quenched and tempered plate. These products are used extensively in the manufacture of heavy equipment and machinery, and have a number of applications in energy related projects. The start-up of the continuous slab casting plant in mid 1979 will provide additional flexibility and capacity for shipments of sheet and plate products from the flat rolled mills.

Algoma's wide range of steel products.

Tailors in Steel



When you need steel tailored to your end use, call a Steel Service Centre.

They can do it. In fact, their pre-production processing services include slitting, shearing, cutting to length, re-squaring, sawing, levelling, sheet and coil pickling and even flame-cutting parts and shapes.

You get what you need, when you need it, with a minimum of scrap and a maximum of speed – without having to carry a heavy inventory of steel or invest in expensive steel processing equipment.

And, from a production and a financial point of view, that's a good deal.

The Steel Service Centres. They can do a lot for you.

ALGOMA STEEL
The Algoma Steel Corporation, Limited
Sault Ste. Marie, Ontario

Member Canadian Steel Service Centre Institute

The straight goods – every time

Algoma Steel is this country's prime supplier of structural steel and for good reasons.

First and foremost: product quality. Over the past 5 years we've invested some $400 million in our facilities. We now operate one of the most modern steel mills on the continent. And we take our quality control very seriously.

Supply is another factor we take seriously. Even though the demand for structural steel varies with the economy, we are not standing still.

We are looking ahead and planning how we can help satisfy future demand for structural steel. And our concerns and interest are national in scope.

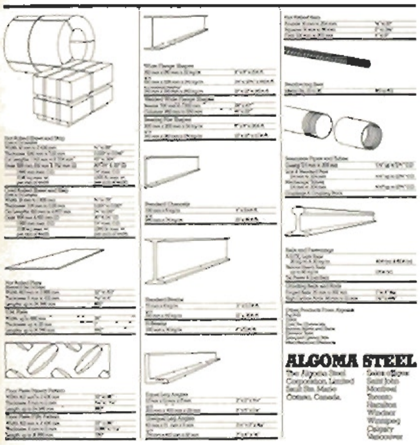
The price of our product is also important – to you and to us. In the face of fluctuating import prices, we have maintained a stable pricing policy with continued sales engineering and customer service support. It is that kind of stability and local service that are Algoma's strengths.

We also have a reputation for dealing straight ... very straight. We understand the construction industry, its needs, its pressures, its constraints and its problems. We also know construction people. And our rapport is built on confidence, trust and experience.

We look at our relationship with the construction industry on a long-term basis. Long after the current economic doldrums have passed, we'll still be here. Because steel is our business.

ALGOMA STEEL
The Algoma Steel Corporation, Limited
Sault Ste. Marie, Ontario

ALGOMA
STEEL IS OUR BUSINESS



ALGOMA STEEL
The Algoma Steel Corporation, Limited
Sault Ste. Marie
Ontario, Canada.

Sales offices:
Saint John
Montreal
Toronto
Hamilton
Windsor
Winnipeg
Calgary
Vancouver

"I christen this ship Algobay.

May God guide her and guard and keep all who sail in her."

Collingwood, Ontario, June 19, 1978. With those words, the traditional bottle of champagne was broken on her bow and the 730-foot Algobay slipped down the ways and into the water.

This is the twelfth vessel in the Algoma Central Railways Marine Division and the ninth built for them by Collingwood Shipyards Limited. She is a 34,200 dwt self-unloader with a specially designed hull to permit an extended operating season on the Great Lakes and service to Halifax and Argentina.

Much of the steel used in the construction of the Algobay came from Algoma Steel, in Sault Ste. Marie. The actual

steel requirements were not unusual, however, the size of the vessel and the modular system of construction demanded close liaison between the shipyard and the steel mill. Steel plate had to be rolled and shipped to meet very specific delivery dates so that construction could proceed on schedule.

Most important for the shipyard was the knowledge that there was a reliable Canadian source of supply for the steel they needed: Algoma Steel. And that the price of that steel could be projected with reasonable accuracy over the life of the project.

Collingwood Shipyard has been an Algoma customer for many years now. And our relationship is built on mutual need and understanding. We know what they need and when they need it.

Because steel is our business.

ALGOMA STEEL
The Algoma Steel Corporation, Limited
Sault Ste. Marie, Ontario

"Add a pinch of Columbium and roll carefully"

In a nutshell, that's Algoma Steel's specially developed recipe for a new kind of high-strength steel.

We developed it for an old customer of ours, Houdaille Industries of Canada Ltd., in Oshawa. Their problem was to produce very strong but light bumpers for Chrysler's Volaré and Aspen models. But the shape was complex. The steel had to form easily, without breakage and the surface quality had to be high. A softer steel could have solved the forming problem, but it could not meet the need for strength, impact resistance and light weight.

We discussed the problem at length with the Houdaille people and then went to work.

Algoma's metallurgists quickly decided that a new kind of steel was needed. So they developed a high-strength, low-alloy steel utilizing small amounts of Columbium. That gave us our basic ingot of the right kind of steel. And with a little experimenting, Algoma came up with the right rolling technique to turn that ingot into sheets of very strong, but very formable steel.

Problem solved.

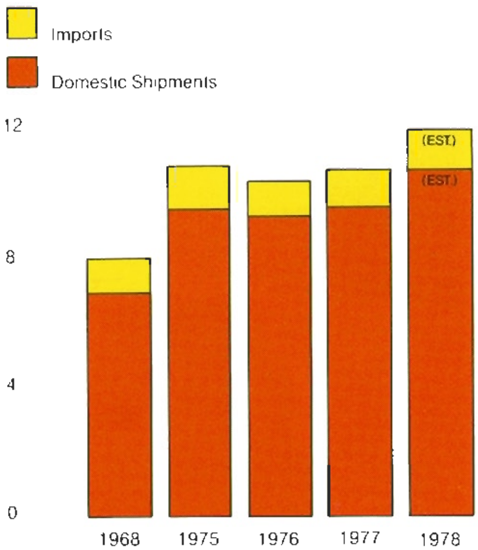
What is really important in this short tale, is not so much the specifics of the case, but the responsiveness of a giant steel mill to the needs of one customer.

But then, that's always been Algoma's way – because steel is our business.

ALGOMA STEEL
The Algoma Steel Corporation, Limited
Sault Ste. Marie, Ontario

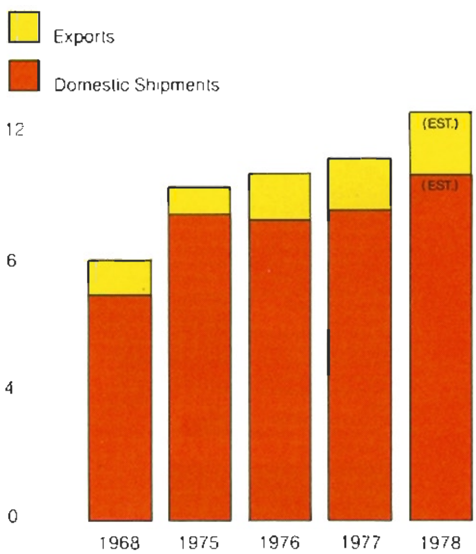
Canadian steel consumption: domestic shipments and imports

THOUSANDS OF TONS



Canadian steel markets: domestic shipments and exports

THOUSANDS OF TONS



The continued strength of the North American automotive market in 1978 allowed Algoma to ship record levels of hot rolled and cold rolled sheet products, and this trend is expected to continue in 1979. Work by Algoma's technical staff in the development of high strength steels for automotive applications continues to keep Algoma in the forefront of this particular market.

Oil and gas exploration in both Canada and the United States continued in 1978 at record levels. The total number of drilling rigs operational in 1978 was the highest level in recent years and 1979 drilling activity is expected to remain strong. As drilling activity moves to deeper holes and harsh environments, the demand for Algoma high strength and corrosion resistant casing is expected to further strengthen. The expansion of seamless tube heat treatment capacity at the Tube Division complex, currently underway, will be completed in late 1979 and will permit increased supply of high strength casing and other tubular products to this market.

The increased emphasis on marketing and long term planning resulted in development of strategies for growth within major product categories and facilitated rationalization in some product lines.

Although it is unlikely that Algoma will participate directly in the supply of plate for line pipe for the Arctic gas line, the project will open up many additional opportunities for use of Algoma's broad range of products.

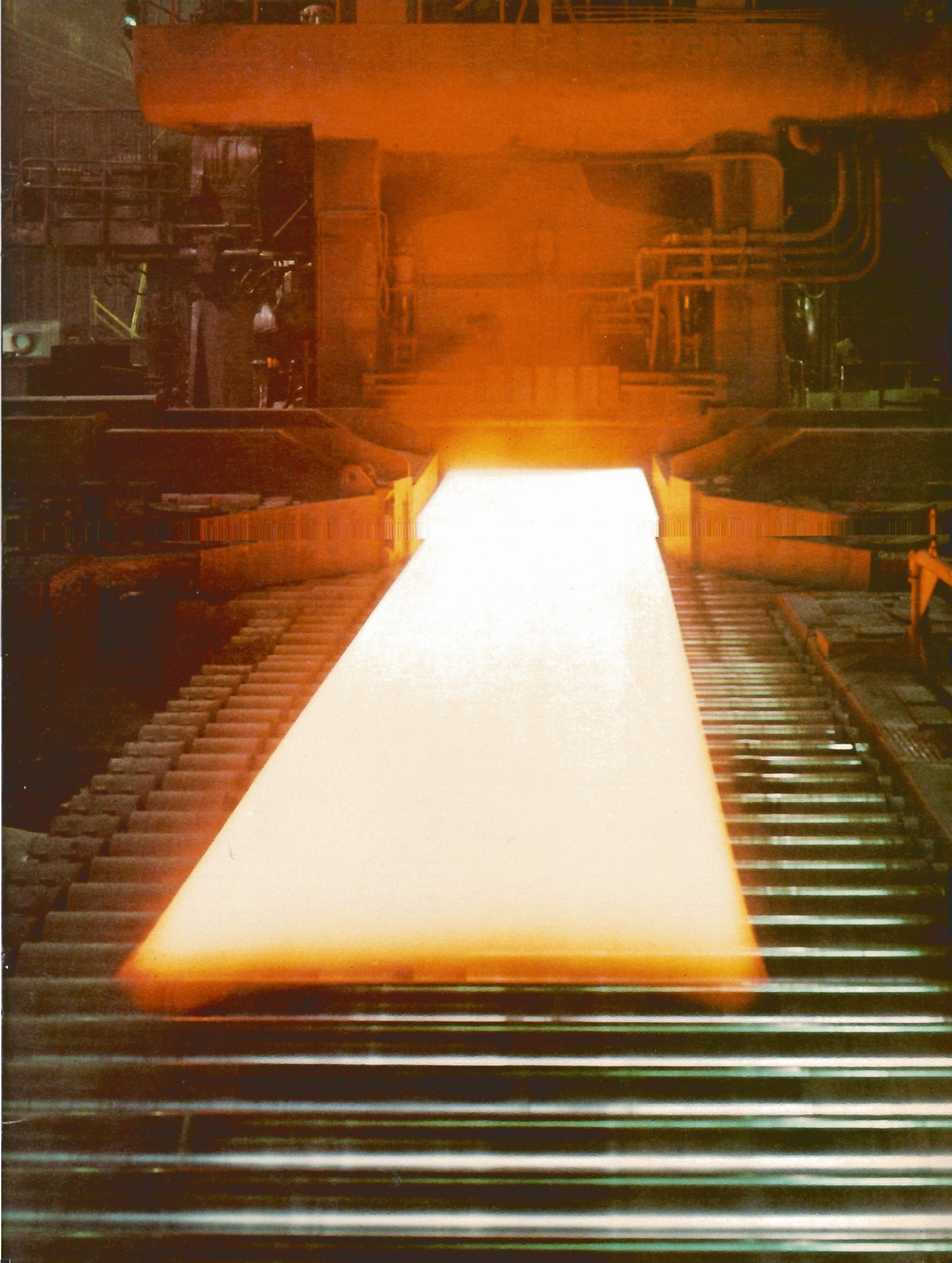
The advertising campaign emphasizing Algoma's diverse product range and sophisticated product facilities, begun in 1978, will continue. Emphasis will also continue on accelerating the total service-to-customer policy which encompasses the Corporation's policy of equitable distribution of product during periods of tight supply.

Algoma's tonnage of export shipments decreased slightly from 1977 although total Canadian steel exports increased in 1978.

Steel prices in the international market, as related in Canadian currency to domestic steel prices, increased substantially in 1978, primarily as a result of the realignment in exchange value of important world currencies. Algoma's steel product price increases in 1978 resulted in an average increase of 8.5% in sales revenue, however domestic steel provided Canadian industries with some of the most competitively priced steel available in the world.

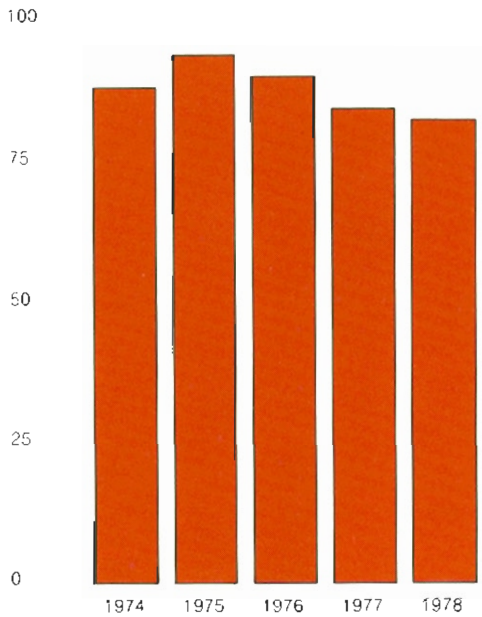
In 1979, further price increases will be necessary to recover costs which will rise as a consequence of continuing increases in costs for raw materials, energy, labour and supplies. The industrial selling price index of iron and steel mill products has increased by less than either the wholesale price index or average hourly earnings in Canada since 1974.

Algoma's 166" plate mill is Canada's widest.



Index of man hours per ton of finished steel product

1972 = 100



Production and Operations

Iron and raw steel production at 3.15 and 3.32 million tons, respectively, were approximately 12% higher than the previous record levels attained in 1977.

Shipment of total steel products from the Steelworks and Tube Divisions at 2.46 million tons also exceeded the previous 1977 record by 11.6%. Shipping reliability, as measured by the percent of items and tons ordered by customers shipped within specified delivery date, declined during the summer months and was particularly adversely affected by the 10 day strike at the Steelworks in August, but by year end, reliability was brought back to levels comparable to the satisfactory results achieved by the end of 1977.

No. 9 coke oven battery resumed production on November 25th after being rebuilt and acceptance tests of the ovens were in progress at year end. Furnace coke produced during the year amounted to 1.42 million tons, 3.9% higher than 1977 production.

The production of merchant pig iron at the Steelworks continued until No. 4 blast furnace was taken off for relining in October. In 1978, only 78,000 tons of merchant pig iron were shipped. The Canadian Furnace Division blast furnace remains shut down due to continuing weak markets for pig iron.

Production of continuously cast blooms and blanks increased to a record level of 455,000 tons, a large proportion of which was used for rails and seamless tubes, resulting in substantial yield saving and improved product quality. This increased production of concast blooms, together with improved yields in many of the rolling mills, resulted in a further improvement in the raw steel to finished product yield compared to that obtained in 1977.

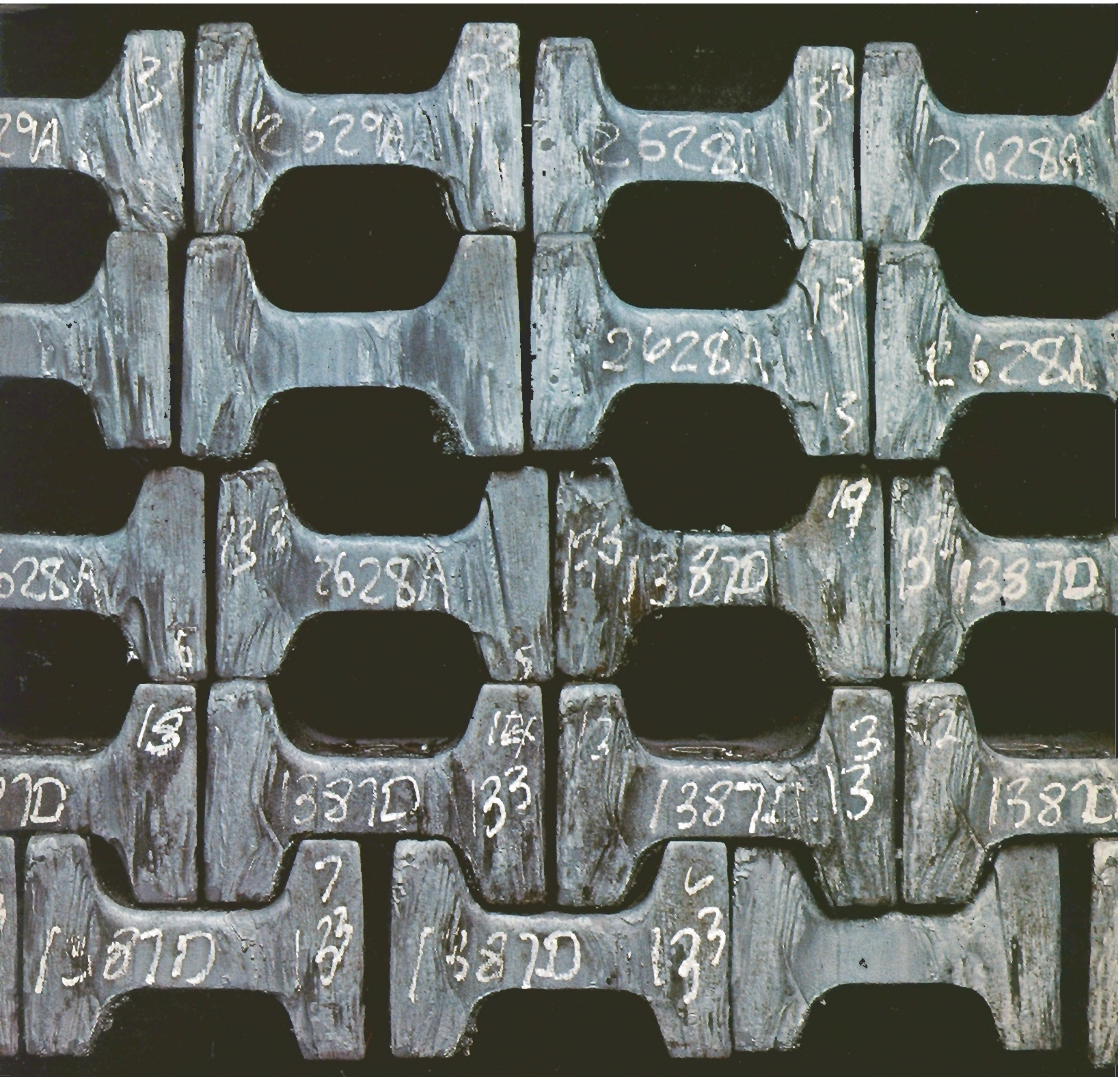
In the rolling mills, a number of annual production records were achieved as the result of strong demand and good operating performance. The production "bottleneck" was at the soaking pits and improvement in throughput in this area was important in achieving these higher production levels in the rolling mills.

A further reduction in the total man hours worked per ton of finished product was made in 1978. In the past four years, labour productivity gains have made a major contribution towards controlling this important cost element. These gains have been achieved while worker safety performance has improved.

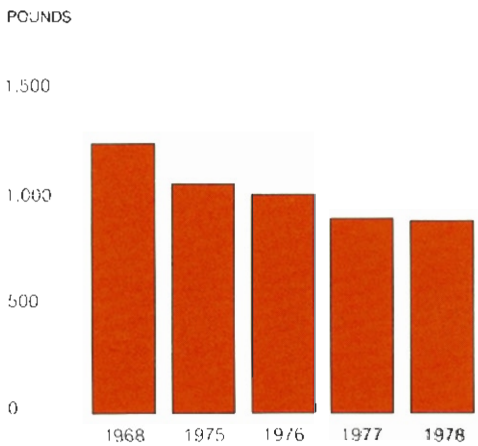
Top left: Algoma is a major producer of rails.

Top right: Oil country goods come from Algoma's unique seamless mill.

Right: Semi-finished, concast beam blanks.



Coke consumption per ton of hot metal used in steel making



Continued efforts by all concerned has resulted in a reduction of 11% in the combined Steelworks and Tube Division lost time accident frequency index compared with 1977. The rate of 21.23 lost time accidents per million man hours worked is lower than the average for the Canadian integrated steel industry.

During the year, a Director of Energy was appointed to give leadership to the formulation and implementation of practices and policies designed to make efficient use of all energy sources.

Blast furnace coke rates and total fuel rates were further reduced in 1978. Vessel lining life in No. 2 basic oxygen steelmaking plant, at an average of 2103 heats, was 16% improved over the previous year.

Stabilization of the BTU value of the blast furnace gas by controlled addition of natural gas in certain areas of the plant (soaking pits and Nos. 6, 7, 8 and 9 coke oven batteries) resulted in improved operation of combustion control equipment and fuel savings. Considerable fuel savings were also made at the soaking pits by improved deliveries of hot ingots from the steelmaking department.

Steam consumption was reduced as the result of a better insulation program. Improved insulation also resulted in fuel savings in rolling mill reheating furnaces.

Immediately following the strike in August, repairs to No. 7 blast furnace top and hot blast main and the 45" mill, originally scheduled for September, were carried out before these units were returned to operation. The strike and these repairs resulted in sharply reduced production for the month of August.

A new 600 ton ingot stripping crane was placed into service in December, 1978 and the new 106" mill roll grinder began operations in the same month.

The installation of a second coil processor on the 100" pickler was completed in late 1978 and has resulted in improved production rates.

The new slab casting plant is due to start production in mid 1979 and this will permit the processing of additional tonnages of raw steel to steel products permitting greater utilization of raw steel capacity.

The installation of a new coke oven battery to replace the existing No. 6 battery is under review. Construction of a new "in line" battery partially on the site of an existing older battery is being considered. The ultimate decision will depend in part on the timing of removal from service of two older batteries, Nos. 5 and 6, now in operation.

Research and development work continues to be concentrated on maintaining and improving product quality and expanding the use of high strength steels in major product lines.

In 1979, a significant portion of Algoma's raw steel production will be continuously cast.

Environment Control

The protection of the environment continues to be a major concern and expense to the Canadian integrated steel industry. In Ontario, the Ministry of Environment is responsible for administration of air and water quality standards. The Ontario approach has been to develop guidelines and standards and a compliance program is put into effect after consultation with the company concerned.

In the years 1960-1978, Algoma has spent approximately $43 million on pollution control facilities. Under its current control program, Algoma will spend an estimated $16 million over the next three years. These funds will be utilized primarily to reduce emissions to the atmosphere from charging and pushing of coke ovens, sinter plant operation and fugitive emissions from No. 1 basic oxygen steelmaking plant. The principal water quality improvement project to be undertaken during this period is the treatment of effluents from the basic oxygen steelmaking plants and the blast furnaces.

Wherever possible, Algoma has attempted to install adequate pollution control devices. Many of the older production units, however, were installed prior to the present environmental standards being established and the development of technology to meet these standards. This, together with very high costs in some instances, delays bringing these older units into immediate compliance with today's standards. The practical approach demonstrated by the Ontario Ministry of Environment in overseeing control of these facilities has permitted development of a realistic program to improve air and water quality associated with older steel plant equipment.

Algoma's Environment Control Department has been in existence since 1969 and has the necessary facilities, professional and technical staff to work with the regulatory agencies in maintaining environmental standards.

Raw Materials Supply

Supply of iron ore and coking coal in the Great Lakes region of North America exceeded demand in spite of strikes in the Quebec-Labrador iron ore region of Canada and in most metallurgical coal mining operations in the United States. Surplus mining capacity forced closure of several iron ore and coal mines and reduced operations at others. The oversupply of iron ore is expected to continue until the early to mid 1980's and coking coal supply will exceed demand until there is an upturn in world steel markets.

The strike by United Mineworkers at the coal mines of Cannelton Industries, Inc. which began December 6, 1977 continued until March 27, 1978 when the mines resumed operation. Subsequent strikes in the United States railway industry and in the Canadian Great Lakes shipping industry disrupted coal shipments through much of the shipping season but sufficient coal was moved to the Steelworks to meet requirements and provide the necessary inventory for the non-navigation winter season.

Productivity at Cannelton's mines showed continual improvement following the strike and metallurgical coal production during the nine months of operations totalled almost 2 million tons. Improvements at the Maple Meadow Mine were particularly encouraging with production almost double the 1977 tonnage.

No. 7 blast furnace can produce over 5,000 tons of hot metal a day


ALGOMA

A co-ordinated safety program initiated in 1977 showed dramatic results in 1978. Lost time accidents at Cannelton operations were reduced to less than half the 1977 level and overall accident frequency at 21.3 lost time injuries per million man hours worked compares very favourably with the State of West Virginia average of 46.3. The improvement was evident at each of Cannelton's coal mining operations and a general reduction in the severity of accidents was experienced.

During 1978, Cannelton implemented formal communication and training programs designed to improve work force stability, increase productivity and reduce costs. Evaluation of various capital projects designed to improve Cannelton's product quality and profitability is also in progress. Construction will commence in 1979 on the first of these—a new coal preparation plant facility at Indian Creek Division.

The Corporation's United States coal mining operations produced 1,987,000 tons of metallurgical coal, approximately 139,000 tons in excess of the amount mined in 1977. Low volatile coal production was in excess of requirements for cokemaking at Algoma and 206,000 tons were sold to a third party under a long term sales contract. High volatile coal mined did not fully meet Algoma's requirements, and 317,000 tons were purchased on the open market. Cannelton continued to market a modest amount of steam coal produced in its operation.

Sinter production at the Algoma Ore Division was somewhat hampered by ore supply and grade control problems relating to final mining in Stage III of the MacLeod Mine. Development of Stage IV and construction of the related new conveyor hoisting system progressed well and production from this $36 million project will begin in 1979. The generally improved corporate safety record was also apparent at the Algoma Ore Division.

Steep Rock Iron Mines Limited concluded its last full year of iron ore mining and pelletizing for Algoma and good production was achieved in spite of some open pit mining problems. Pellet production will conclude at Steep Rock in mid 1979 when ore reserves will be exhausted.

The Corporation's equity interest in the Tilden Mine in Michigan provided 1.1 million tons of iron ore pellets in 1978. Process problems are still being experienced but an intensive research program is in progress to improve Tilden production and efficiency to satisfactory levels. Construction of facilities to double Tilden production capacity to 8 million tons per annum was well advanced at year end and production from the expanded facilities will begin in 1979 in time to provide Algoma with pellets required to replace tonnage that will no longer be available from Steep Rock.

Algoma continues to participate in joint studies of Northwestern Ontario iron ore reserves as a potential future iron ore source of supply for Ontario steel producers. Mining of these remote, relatively low-grade deposits will require continuation of favourable tax treatment for processing Canadian ores and timing will depend on market demand. Efforts will be continued to promote the eventual development of a Northwestern Ontario iron ore project as long as it can be economically and competitively justified.

Latest technology assures quality from raw materials to finished steel.

Employee Relations

Continuing progress in maintenance of good labour relations with various local unions representing employees at the Steelworks in Sault Ste. Marie was marred by the 10 day strike of production and maintenance employees in August. The strike occurred when employees in the largest bargaining unit failed to ratify a memorandum of agreement which had been signed by Company and Union negotiators. Operations returned to prior levels without further incident after the work stoppage.

Negotiations were concluded in 1978 for three year labour agreements with seven local unions representing over 8,500 employees of the Steelworks, Ore and Canadian Furnace divisions. Negotiations were continuing at year end to renew the contract for 800 employees of the Tube Division whose agreement expired on November 15, 1978. Production continued at this operation pending settlement of the new contract which was concluded on February 19, 1979.

Among the projects that have been established to promote harmonious relations with employees is a communications program to keep employees well informed about Algoma Steel. Various media are used, according to the subject and the audience, including a monthly employee paper, posting of weekly notices, special newsletters, audio-visual presentations for use at meetings, an employee suggestion program, and joint Company-Union production committees. The overall purpose of the employee communications program is a better understanding of the total environment in which Algoma operates and the mutual interests shared by the Company and its employees.

The Industrial Hygiene section of the Employee Relations Department which was established in 1976 has continued working on the major areas of concern to identify health hazards and to develop feasible means of either eliminating them or providing protection to employees. A joint Company-Union committee is operating effectively to study work areas and make recommendations for improvements. This committee has sponsored an Epidemiological Study of Foundry Workers which is being carried out by Algoma's Medical Department with the support and assistance of personnel from the Occupational Health Program of McMaster University. The results of this study should be known in 1979.

Added emphasis has been given to improvement of employee welfare facilities by establishment of a Welfare Services section with responsibility to ensure an improved standard for existing welfare facilities. Major new welfare facilities are near completion for cokemaking employees and a continuing program of upgrading and maintenance for all facilities is planned for 1979.

A comprehensive succession planning and personnel development program is in progress throughout the Corporation. The initial three elements of this program are now in place. The first consists of a series of pre-supervisory courses which select and prepare employees to be promoted to supervisory positions. Participants and course contents are carefully monitored as the training progresses.

The second part is designed to improve the supervisory skills of new first line supervisors and deals specifically with Algoma's organization policies and practices and develops leadership skills. This program is conducted by members of Algoma's own staff and runs for approximately 12 days. The third element is a more broadly based program to identify and develop managerial talent to ensure continuity of effective management. The program involves completion of selected courses and studies designed to round out the individual's skills. These programs have been extremely well received by employees and the number of participants being processed through the program on a successful basis is very gratifying.

Various recruiting programs were successful in meeting Algoma's needs for employees with specific skills and educational qualifications as required by operating, service and staff areas.

Again in 1978, a number of worthwhile charitable and educational organizations and recreational projects were supported in the communities in which Algoma operates. In addition to the direct support by way of goods, services and financial involvement with these endeavours, the contribution of the many employees who volunteer their personal support and active involvement in these and other organizations is acknowledged with appreciation.

A particularly noteworthy achievement during 1978 was the performance of Algoma's Steelworks and Tube Division employees in the campaign to raise funds for the 1979 United Way operations. Employees at these divisions increased their giving over the previous year by 22%, and employee contributions reached a record level of $220,000. The success and leadership of the Algoma campaign contributed to a large degree to a highly successful United Way campaign in Sault Ste. Marie.

A cultural exchange involving 10 sons and daughters of Algoma employees and retirees with fellow students from Quebec was sponsored by the Corporation in 1978. Participants were selected on the basis of essays on National Unity and the project was an enriching experience for all involved.

Algoma employs approximately 13,000 people at its various locations in Canada and the United States and employment costs are the largest single cost component with a total payroll of $283 million. The table which follows shows the main elements of employment costs:

	1978 (Millions of Dollars)
Wages and salaries	
for time worked	210
for vacation and statutory holidays	23
Supplementary employment costs	
pensions	26
group insurance plans and other benefits	14
unemployment insurance	3
workmen's compensation	7
Total	283

Profitability and Finance

Net earnings of $77.1 million or $5.79 per common share were the highest experienced in the company's history. Net earnings included an extraordinary income tax credit of $7.5 million and earnings per share before this item amounted to $5.15 per share. The return on sales was 8.9%, on average total investment 10.6% and on average common shareholders' equity 14.9%. These returns represent substantial progress towards the minimum financial performance objectives which Algoma has established.

Gross margin improved to 15.9% compared with 11.9% in 1977. Improvements in productivity, continued emphasis on cost reduction programs, operating efficiencies and strong customer demand resulting in increased volumes, together with a market environment which permitted steel product selling price adjustments sufficient to recover cost increases during the year, all contributed to this improvement in margins. During the strike at the Steelworks and at the coal mines $6.8 million in fixed costs was absorbed against earnings.

The steep decline in exchange value of the Canadian dollar resulted in exchange gains on steel product sales to the United States, however, these were substantially offset by coal, iron ore and other supplies purchased in that country. Net earnings for the year include a net exchange gain of $3.8 million. Iron ore purchases in the United States will increase commencing in 1979 with the start-up of the expanded Tilden Mine facilities.

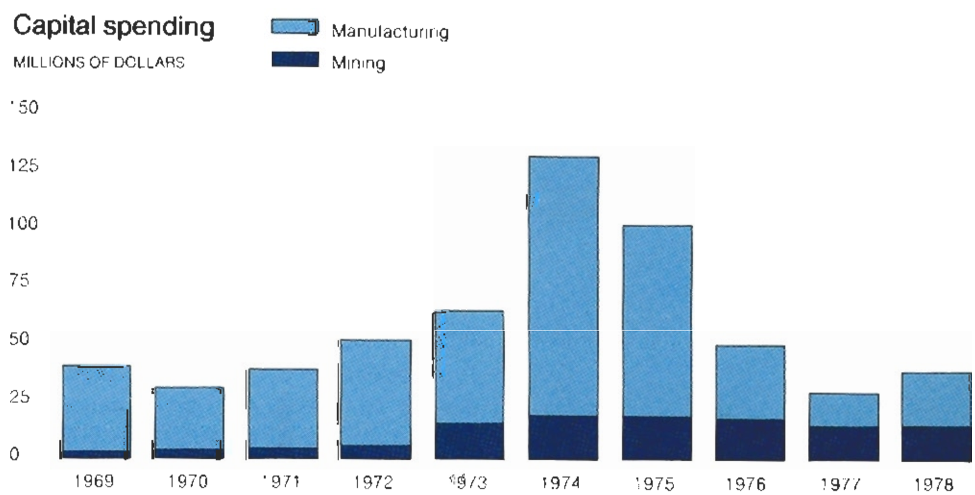
In 1978, as in past years, the financial statements of the Corporation's United States subsidiaries have been included in the consolidated figures on the basis of the United States and Canadian dollars being of equal exchange value. Translation of these subsidiaries' financial statements into Canadian dollars would not have had a material effect on either the consolidated earnings or financial position of the Corporation in past years under applicable accounting rules. Foreign currency translation accounting rules, recently adopted by the Canadian Institute of Chartered Accountants, which must be implemented in 1979, may result in significant exchange losses having to be recorded in future years if the Canadian dollar remains at its currently depressed exchange value. This would result principally from the translation of U.S. dollar denominated, long term debt of these subsidiaries using year end rates of exchange rather than rates of exchange in effect at the date the debt was incurred, which has heretofore been widely accepted practice.

The following are pre-tax quarterly earnings before equity in the earnings of Dominion Bridge Company, Limited with comparative information for 1977:

Quarter	**1978**	1977
	(Millions of Dollars)	
1	**$ 7.7**	$(2.7)
2	**21.5**	5.2
3	**7.3**	(2.9)
4	**21.2**	5.9
	$57.7	$ 5.5

In addition to the above earnings, Algoma's 43.1% interest in Dominion Bridge contributed $22.6 million in 1978 compared with $16.2 million in 1977 which is shown below by quarter:

Quarter	**1978**	1977
	(Millions of Dollars)	
1	**$ 4.9**	$ 3.0
2	**4.1**	5.1
3	**7.2**	3.6
4	**6.4**	4.5
	$22.6	$16.2



The improved level of operations and profits at Algoma resulted in a return of the income tax provision toward a more normal level for a resource based manufacturing company of Algoma's size and complexity. Resource, depletion and inventory allowances reduced taxes $16.4 million. The extraordinary $7.5 million income tax credit resulted from the utilization of provincial losses for tax purposes incurred in prior years on which tax reductions were not recorded. A change in provincial tax legislation has permitted the utilization of these losses in 1978 and the tax reduction was accordingly recorded.

Cash flow from operations increased to $109.5 million or $8.57 per common share after provision for preference share dividends. During the year, arrangements were made to issue $100 million of income debentures to a number of institutional purchasers; $60 million of this financing was completed in February, 1979 and the balance is expected to be completed in the first half of the year. Proceeds of this private placement will eliminate short term indebtedness and create a modest cash position.

Capital expenditures during the year amounted to $39.2 million compared with $29.6 million in 1977. Algoma's investment in the Tilden Mine joint venture increased during the year by $9.1 million.

Capital expenditures for 1979 are expected to approximate $100 million. Included in these capital expenditures will be $16 million for the completion of heat treat expansion at the Tube Division, $10 million toward the new facility to heat treat plate at the 166″ plate mill and $8 million to complete the No. 1 continuous slab caster. The estimated cost of capital expenditures authorized by the Board and not expended at the end of 1978 totalled $67 million.

Dividends paid in the year amounted to $9.5 million on preference shares. No common share dividend was paid during the year in order to conserve cash. Working capital at the end of 1978 amounted to $206.9 million, an increase of $53.7 million over year end 1977. As a result of increased levels of activity and price and cost changes in the year, accounts receivable and inventories increased $35 million and $25 million, respectively, which was partially offset in the ordinary course of business by an increase in accounts payable of $26.7 million.

Long term debt at the end of 1978 was $248.7 million and represented 28% of capitalization at year end. After giving effect to the $100 million income debenture issue, long term debt as a percent of capitalization will approximate 32%.

The price of Algoma's common shares increased from $15 at December 31, 1977 to $26⅞ at December 31, 1978. The following table shows the quarterly high and low prices for the common shares on The Toronto Stock Exchange during 1978:

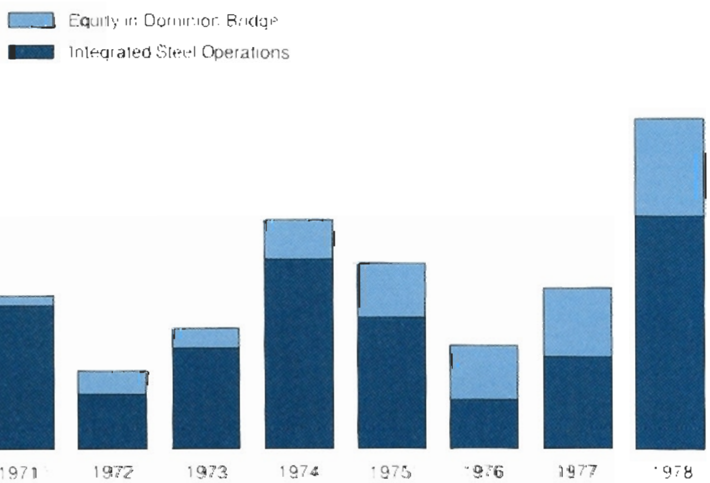
Quarter	High	Low
1	$18⅜	$14⅛
2	22	18
3	24¾	20
4	27½	23½

A chart summarizing the common share price movements in the past 10 years is contained in the fold-out section at the back of this annual report. Statistical data covering the 10 years of operation 1969 to 1978 are contained in the same fold-out.

Canadian Pacific Investments Limited of Montreal owned at year end 6,349,410 shares, or 54.4% of Algoma's outstanding common shares.

Net earnings

MILLIONS OF DOLLARS



*Earnings in 1971, 1975 and 1978 include extraordinary gains of $21.5 million and $3.5 million and an extraordinary credit of $7.5 million, respectively.

Algoma's Yankcanuck carries steel products to customers.

Earnings and Retained Earnings

for the years ended December 31	1978	1977
	(Thousands of Dollars)	
Sales	**$864,221**	$687,839
Expenses		
Cost of products sold	**726,498**	606,302
Administrative and selling	**17,529**	14,372
Interest and expense on long term debt	**24,813**	22,512
Interest on short term loans	**2,001**	5,521
Depreciation and amortization	**35,660**	33,631
	806,501	682,338
Earnings before income taxes and equity earnings	**57,720**	5,501
Income taxes (note 2)	**10,700**	(15,800)
Earnings before equity earnings	**47,020**	21,301
Equity in earnings of associated company	**22,596**	16,229
Earnings before extraordinary item	**69,616**	37,530
Reduction in income taxes from application of loss carry-forwards	**7,500**	—
Net Earnings	**$ 77,116**	$ 37,530
Provision for dividends on preference shares	**$ 9,505**	$ 6,951
Net earnings applicable to common shares	**$ 67,611**	$ 30,579
Per common share		
Earnings before extraordinary item	**$ 5.15**	$ 2.62
Net earnings applicable to common shares	**$ 5.79**	$ 2.62
Retained Earnings		
Balance at beginning of year	**$407,944**	$379,749
Net earnings	**77,116**	37,530
Dividends (note 11)	**(9,466)**	(9,118)
Expenses relating to issue of preference shares	**—**	(217)
Balance at end of year	**$475,594**	$407,944

THE ALGOMA STEEL CORPORATION, LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

Financial Position

as at December 31	1978	1977
	(Thousands of Dollars)	
Current Assets		
Accounts receivable	**$133,586**	$ 98,625
Regional incentive grant receivable	**4,600**	—
Inventories (note 3)	**218,765**	193,784
Prepaid expenses	**5,442**	6,014
Total current assets	**362,393**	298,423
Current Liabilities		
Cheques outstanding less cash on deposit	**9,982**	5,114
Promissory notes	**16,130**	26,722
Accounts payable and accrued	**116,876**	90,186
Taxes payable	**7,040**	6,826
Long term debt due within one year	**5,450**	16,373
Total current liabilities	**155,478**	145,221
Working Capital		
Current assets less current liabilities	**206,915**	153,202
Other Assets		
Non current accounts receivable	**2,150**	6,500
Long term investments (note 4)	**136,520**	110,147
Net fixed assets (note 5)	**549,779**	557,874
Unamortized debenture expense	**2,291**	2,443
Total other assets	**690,740**	676,964
Total Investment		
Working capital plus other assets	**897,655**	830,166
Long Term Liabilities (notes 6 and 7)		
Long term debt (note 8)	**248,675**	251,275
Accrued past service pension cost (note 9)	**12,496**	13,257
Deferred income taxes	**8,807**	5,607
Total long term liabilities	**269,978**	270,139
Excess of total investment over long term liabilities	**$627,677**	$560,027
Shareholders' Equity		
Capital stock (note 10)		
Preference shares	**$140,000**	$140,000
Common shares	**12,083**	12,083
Retained earnings	**475,594**	407,944
Total shareholders' equity	**$627,677**	$560,027

Approved on behalf of the Board:

John Macnamara, Director
Robert D. Armstrong, Director

February 7, 1979.

Changes in Financial Position

For the years ended December 31	1978	1977
	(Thousands of Dollars)	
Source of Working Capital		
Cash flow from operations		
Earnings before extraordinary item	**$ 69,616**	$ 37,530
Equity in undistributed earnings of associated company	**(17,172)**	(11,931)
Other transactions not resulting in an outlay or receipt of funds including current income taxes	**57,060**	15,648
	109,504	41,247
Proceeds from sale of fixed assets	**1,043**	986
Regional incentive grant	**4,600**	—
Proceeds from long term loans	**3,500**	3,500
Proceeds from issue of preference shares	**—**	79,723
Other—net	**8**	149
	118,655	125,605
Application of Working Capital		
Additions to fixed assets		
Manufacturing plants	**24,253**	15,096
Raw material properties	**14,985**	14,500
	39,238	29,596
Increase in non current accounts receivable	**250**	150
Long term investments	**9,127**	5,524
Reduction of long term debt	**6,100**	16,463
Reduction of accrued past service pension cost	**761**	824
Dividends	**9,466**	9,118
	64,942	61,675
Working Capital		
Increase during year	**53,713**	63,930
Balance at beginning of year	**153,202**	89,272
Balance at end of year	**$206,915**	$153,202

Changes in Working Capital

Current Assets Increase (Decrease)		
Accounts receivable	**$ 34,961**	$ 14,626
Regional incentive grant receivable	**4,600**	—
Inventories	**24,981**	18,949
Prepaid expenses	**(572)**	340
	63,970	33,915
Current Liabilities Increase (Decrease)		
Cheques outstanding less cash on deposit	**4,868**	(9,201)
Bank loans	**—**	(22,500)
Promissory notes	**(10,592)**	(13,278)
Accounts payable and accrued	**26,690**	4,452
Taxes payable	**214**	33
Long term debt due within one year	**(10,923)**	10,479
	10,257	(30,015)
Working Capital		
Increase during year	**$ 53,713**	$ 63,930

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies and significant inter-company transactions are eliminated. Assets, liabilities and results of operations of United States subsidiaries are included assuming $1 Canadian equal to $1 United States; if these were translated to the actual Canadian dollar equivalent, using historical rates to translate non current assets and long term liabilities, there would be no material effect on these financial statements. The investment in the associated company, Dominion Bridge Company, Limited, and in the cost sharing Tilden Mine joint venture producing iron ore pellets are accounted for by the equity method.

INVENTORIES

Finished products and work in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

FIXED ASSETS

Property, plant and equipment are recorded at cost. Expenditures for improvements and renewals which extend economic life and for mine development are capitalized. Maintenance and repairs are charged to earnings as incurred excepting expenditures on periodic relines of blast furnaces which are accrued for in advance on a unit of production basis.

Depreciation of manufacturing plant and equipment is provided on a straight line basis at rates intended to write off these assets over their estimated economic lives. Mining equipment and mine development costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

EXPLORATION, RESEARCH, DEVELOPMENT AND START-UP EXPENSE

Expenses in exploring for raw materials, investigating and holding raw material properties and costs of research, development and start-up of new production facilities are charged to earnings as incurred.

INCOME TAXES

Income taxes are provided for on the deferred tax allocation basis. Since regulations in Canada and the United States permit the deduction of expenses in calculating taxable income which may not correspond with amounts recorded for financial reporting, income taxes charged to earnings may differ from those currently payable. Income taxes charged to earnings, in excess of those currently payable, are shown as deferred income taxes in the financial statements. Investment tax credits are accounted for by the flow-through method.

2. Income Taxes

	1978	1977
	(millions of dollars)	
Current	**$ 7.5**	$ —
Deferred	**3.2**	(15.8)
	$10.7	$(15.8)

The income tax provision includes current provincial taxes of $7.5 million which are offset by a corresponding extraordinary tax credit from the utilization of losses carried forward from prior years.

The income tax provision for 1978 was reduced by $16.4 million because depletion, resource and inventory allowances are deductions in determining income taxes, reducing the necessity to claim capital cost allowance.

Because of the level of earnings before income taxes and the availability of depletion, resource and inventory allowances to apply in the determination of taxable income, investment tax credits were not utilized to reduce 1978 income taxes. Unused investment tax credits available for reduction of income taxes in the statement of Earnings in the years 1979 to 1985 amount to $16 million.

3. Inventories

	1978	1977
	(millions of dollars)	
Finished products	**$ 36.2**	$ 41.3
Work in process	**56.0**	40.4
Raw materials and supplies	**126.6**	112.1
	$218.8	$193.8

4. Long Term Investments

	1978	1977
	(millions of dollars)	
Associated company, at cost of capital stock and equity in undistributed earnings	**$ 99.5**	$ 82.4
Joint venture, at equity	**34.5**	25.3
Other, at cost	**2.5**	2.4
	$136.5	$110.1

5. Fixed Assets

	1978	1977
	(millions of dollars)	
Property, plant and equipment at cost:		
Manufacturing plants	**$816.3**	$792.6
Raw material properties	**169.1**	161.3
	985.4	953.9
Accumulated depreciation, depletion and amortization	**435.6**	396.0
	$549.8	$557.9

6. Commitments

(a) The Corporation, as a participant in an iron ore mining joint venture, is entitled to receive its proportionate share of production and is committed to pay its share of costs including minimum charges for principal and interest to cover the servicing of long term debt. The Corporation's share of such minimum charges was $13 million in 1978 and will average approximately $21 million annually during the next five years. The aggregate market value of the pellets to be received by the Corporation is expected to exceed its share of the aggregate costs when the mine is producing at its expanded eight million tons annual rated capacity.

(b) The estimated amount required to complete approved capital projects is $67 million. These projects are expected to be completed during the next five years. Commitments of $30 million are outstanding on these projects at December 31, 1978.

7. Long Term Leases

Rentals under long term leases amounted to $8.6 million in 1978 and future minimum annual rentals will be approximately $7.4 million during the next five years. These rentals are payable principally under leases of steel processing plant and equipment which contain options to purchase and under leases of raw material properties.

8. Long Term Debt

	1978	1977
	(millions of dollars)	
Debentures (a)		
5¼% series A maturing 1978	**$ —**	$ 10.0
7⅜% series C maturing 1987	**21.6**	22.8
8¾% series D maturing 1991	**31.4**	32.6
10⅜% series E maturing 1994	**50.0**	50.0
11 % series F maturing 1995	**65.0**	65.0
8½% notes maturing 1991 (b)	**21.0**	21.5
Note maturing 1980 (b)	**4.1**	5.5
Bank loans under revolving credit (c)	**11.0**	7.5
Bank loans under revolving credit (d)	**26.1**	11.7
Bankers acceptances (d)	**—**	25.0
Short term promissory notes (d)	**23.9**	13.3
Note maturing 1978	**—**	2.8
Total amount outstanding	**254.1**	267.7
Less due within one year	**5.4**	16.4
	$248.7	$251.3

Sinking fund and other repayment requirements in each of the next five years commencing in 1979 will be (in millions of dollars) $5.4, $9.3, $17.2, $19.1 and $17.8 (see Note 8(e)).

(a) The debentures rank pari passu and are secured by a Trust Indenture containing a first floating charge on all assets of the Corporation in Ontario.

(b) These notes payable in United States funds are secured by a mortgage on a coal mine property. The note maturing in 1980 bears interest at a rate equal to 112% of the lender's minimum commercial lending rate.

(c) This United States dollar bank loan is to be converted in 1979 into a term loan maturing in 1982 bearing interest to December 31, 1980 at a rate equal to 112% of the lender's minimum commercial lending rate and thereafter at 115% of the lender's minimum commercial lending rate.

(d) One of the bank lines of credit permits up to $50 million bank loans, and bankers acceptances and short term promissory notes at maturity, to be converted until June 30, 1979 into term loans maturing beyond 12 months but not beyond eight years. Accordingly, $50 million of short term promissory notes and bank loans, of which $10 million are payable in United States funds, are classified as long term debt and the remaining $16.1 million of short term promissory notes are classified as current debt. Canadian bank loans of $14.3 million at December 31, 1978 are secured by assignment of trade accounts receivable and inventories. The short term promissory notes of $40 million are held by Canadian Pacific Securities Limited, an affiliated company.

(e) The Corporation is committed to issue income debentures to several financial institutions, subject to obtaining a satisfactory income tax ruling from Revenue Canada, up to an aggregate maximum principal amount of $100 million. Proceeds from this financing will permit retirement of short term debt and the $50 million classified as long term debt and assist the Corporation in meeting planned capital expenditures. If the maximum amount is issued, sinking fund and other repayment requirements in each of the next five years commencing in 1979 will be reduced to (in millions of dollars) $5.4, $9.3, $10.2, $12.1 and $10.8 from the amounts shown above.

9. Pensions

The unfunded liability for pensions earned by past service is $140.9 million as estimated by independent actuaries. This amount, which includes increases of $27.5 million resulting from 1978 revisions in pension plans and of $22.1 million from other changes, principally actuarial assumptions, is comprised of the following:

	1978	1977
	(millions of dollars)	
Included in current liabilities	**$ 14.1**	$ 10.1
Included in long term liabilities	**12.5**	13.3
Not recorded in statement of Financial Position	**114.3**	69.8
	$140.9	$ 93.2

Pension costs charged to earnings were $20.0 million in 1978 and include those arising from current service, interest on the total unfunded past service liability and annual payments in respect of the $114.3 million. It is planned that future payments will discharge the total unfunded past service liability by 1993.

10. Capital Stock

(a) Preference shares

Authorized—8,000,000 shares of $25.00 each par value, issuable in series of which 2,400,000 shares are reserved for conversion of series A shares into 9¾% cumulative redeemable preference shares series B.

Issued and outstanding at December 31, 1978 and 1977	(millions of dollars)
2,400,000 8% cumulative redeemable tax deferred preference shares series A	$ 60.0
2,000,000 floating rate cumulative redeemable retractable preference shares series C	50.0
1,200,000 floating rate cumulative redeemable retractable preference shares series D	30.0
	$140.0

Series A shares are entitled to annual dividends of $2.00 per share payable quarterly; commencing with the quarterly payment December 1, 1988, dividends received on that and future quarterly dates will be taxable. They are redeemable after June 1, 1981 at the option of the Corporation at a premium of $1.25 per share which reduces annually thereafter and are exchangeable after September 1, 1988 on a share for share basis at the option of the holder into 9¾% cumulative redeemable preference shares series B on which dividends will be taxable. Commencing June 1, 1979, up to 120,000 series A or B shares must be purchased in each twelve month period to the extent that they are available at market prices not exceeding $25 per share. At the end of December, 1978 these shares were trading at over $27 on The Toronto Stock Exchange.

Series C shares are entitled to quarterly dividends at a rate equal to 1½% over one-half of the mean prime Canadian commercial bank lending rate. They are redeemable after May 31, 1980 at the option of the Corporation at a premium of $.75 per share which reduces annually thereafter. The shares have a retractable feature which requires the Corporation to invite tenders for the purchase of all such shares and to purchase at May 31, 1987 at $25.00 per share plus accrued and unpaid dividends all shares deposited with the Corporation pursuant to the invitation. Not less than 45 days prior to this date the Corporation is permitted to offer an increased dividend rate or to create additional retraction privileges for the benefit of shares not so purchased.

Series D shares are similar to series C excepting that they are entitled to quarterly dividends at a rate equal to 1⅜% over one-half of the mean prime Canadian commercial bank lending rate and are redeemable at the option of the Corporation after December 31, 1980. The Corporation is similarly required to invite tenders for the purchase of these shares and to purchase shares so tendered at December 31, 1987.

(b) Common shares

Authorized—30,186,704 shares without par value of which 19,400 shares are reserved for unexercised options under the stock option plan at $15.19 per share terminating in 1979.

Issued—11,671,728 shares at December 31, 1978 and 1977.

11. Dividends

Dividends declared and related taxes were as follows:	**1978**	1977
Preference shares	(millions of dollars)	
Series A		
$2.00 per share in 1978 and 1977	**$ 4.8**	$ 4.8
Related tax*	**—**	.2
Series C issued April 29, 1977		
$1.46 per share in 1978 and $.85 in 1977	**2.9**	1.7
Series D issued December 15, 1977		
$1.45 per share in 1978 and $.06 in 1977	**1.7**	.1
Common shares		
$.20 per share in 1977	**—**	2.3
	$ 9.4	$ 9.1

*A special 15% tax applicable to March 31, 1977 to create tax paid undistributed surplus from which dividends on series A preference shares were paid.

12. Remuneration

Total remuneration of directors and senior officers amounted to $1.3 million.

Auditors' Report

We have examined the consolidated statement of financial position of The Algoma Steel Corporation, Limited as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. For The Algoma Steel Corporation, Limited and for those other companies of which we are the auditors and which are consolidated in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For the associated company accounted for by the equity method, we have relied on the report of the auditors who have examined its financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Canada
February 7, 1979

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

DIRECTORS

‡*ROBERT D. ARMSTRONG
Toronto, Ontario
Chairman and Chief Executive Officer, Rio Algom Limited

†KEITH CAMPBELL
Montreal, Quebec
Vice President,
Canadian Pacific Limited

JAMES W. KERR
Toronto, Ontario
Chairman and Chief Executive Officer, TransCanada PipeLines

†*JOHN MACNAMARA
Sault Ste. Marie, Ontario
President and Chief Executive Officer, The Algoma Steel Corporation, Limited

†W. EARLE McLAUGHLIN
Montreal, Quebec
Chairman, The Royal Bank of Canada

†MacKENZIE McMURRAY
Montreal, Quebec
Company Director

*M. C. G. MEIGHEN, O.B.E.
Toronto, Ontario
Chairman, Canadian General Investments, Limited

‡ARTHUR H. MINGAY
Toronto, Ontario
Chairman and Chief Executive Officer, Canada Trustco Mortgage Company and The Canada Trust Company

*PAUL A. NEPVEU
Montreal, Quebec
Vice President Finance and Accounting,
Canadian Pacific Limited

CHARLES I. RATHGEB
Toronto, Ontario
Chairman and Chief Executive Officer,
Comstock International Ltd.

‡LEONARD N. SAVOIE
Sault Ste. Marie, Ontario
President and Chief Executive Officer,
Algoma Central Railway

*W. JOHN STENASON
Montreal, Quebec
Executive Vice President,
Canadian Pacific Investments Limited

JOHN D. TAYLOR
Toronto, Ontario
President,
Simpsons-Sears Limited

*WALTER G. WARD
Toronto, Ontario
Chairman, The Algoma Steel Corporation, Limited

Honorary Director

E. GORDON McMILLAN, Q.C.
Toronto, Ontario
Partner, McMillan, Binch, Barristers and Solicitors

* Member of Executive Committee
† Member of Compensation Committee
‡ Member of Audit Committee

PRINCIPAL OFFICERS

WALTER G. WARD
Chairman

JOHN MACNAMARA
President and Chief Executive Officer

PETER M. NIXON
Group Vice President—Manufacturing and Mining

JOSEPH D. R. POTTER
Group Vice President—Finance and Corporate Services

ROBERT N. ROBERTSON
Group Vice President—Marketing and Sales

DOUGLAS JOYCE
Senior Vice President

C. CARSON WEEKS
Senior Vice President

ROSS H. CUTMORE
Vice President—Accounting

SAMUEL H. ELLENS
Vice President—Administration

R. GORDON PATERSON
Vice President—Engineering

PATRICK L. ROONEY
Vice President—Operations

HENRY A. SMITH
Secretary and General Counsel

WILLIAM J. REED
Controller—Steel and Iron Ore Operations

ADRIAN M. S. WHITE
Treasurer

INCORPORATION

Under the laws of the Province of Ontario

SHARE TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

The Royal Bank of Canada Trust Company, New York

SHARES LISTED

Montreal, Toronto and Vancouver Stock Exchanges

TRUSTEE FOR DEBENTURES

Montreal Trust Company, Toronto, Ontario

REGISTRAR FOR DEBENTURES

Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

VALUATION DAY VALUES

(for Canadian Income Tax Purposes)

Series C Debenture	$ 94.00
Series D Debenture	$103.50
Common Share	$ 13.38

MANUFACTURING AND MINING FACILITIES

Canada

Sault Ste. Marie, Ontario

The Algoma Steel Corporation, Limited
Steelworks Division
Tube Division
Marine Division

Wawa, Ontario
Algoma Ore Division

Port Colborne, Ontario
Canadian Furnace Division

United States

West Virginia

Cannelton Industries, Inc.,

Kanawha Division, Cannelton
Pocahontas Division, Superior
Indian Creek Division, Peytona

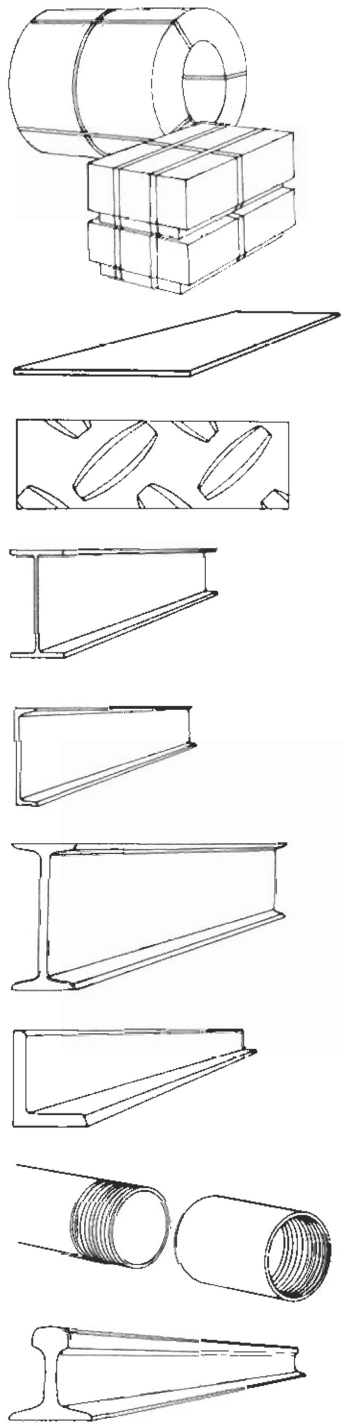
Maple Meadow Mining Company, Fairdale

Michigan

Cannelton Iron Ore Company
Tilden Mine Joint Venture, Ishpeming

Algoma Tube Corporation, Dafter

Products and Sales Office Locations



PRODUCTS

Algoma Sinter
Coal
Coke
Coal Tar Chemicals
Pig Iron
Ingots, Blooms, Billets and Slabs
Wide Flange Shapes
Welded Wide Flange Shapes
H-Bearing Piles
Standard Angles, Channels and Beams
Elevator Tees
Zees and Special Car Building Sections
Heavy and Light Rails
Tie Plates and Splice Bars
Hot Rolled Bars
Reinforcing Bars
Forged Steel Grinding Balls
Grinding Rods
Hot Rolled Sheet and Strip
Cold Rolled Sheet and Strip
Plate
  Sheared and Gas Cut
  Universal Mill
  Floor
Seamless Pipe and Tubes
Casing
Line Pipe
Standard Pipe
Mechanical Tubing
Coupling Stock

SALES OFFICES

Rolled Steel Products

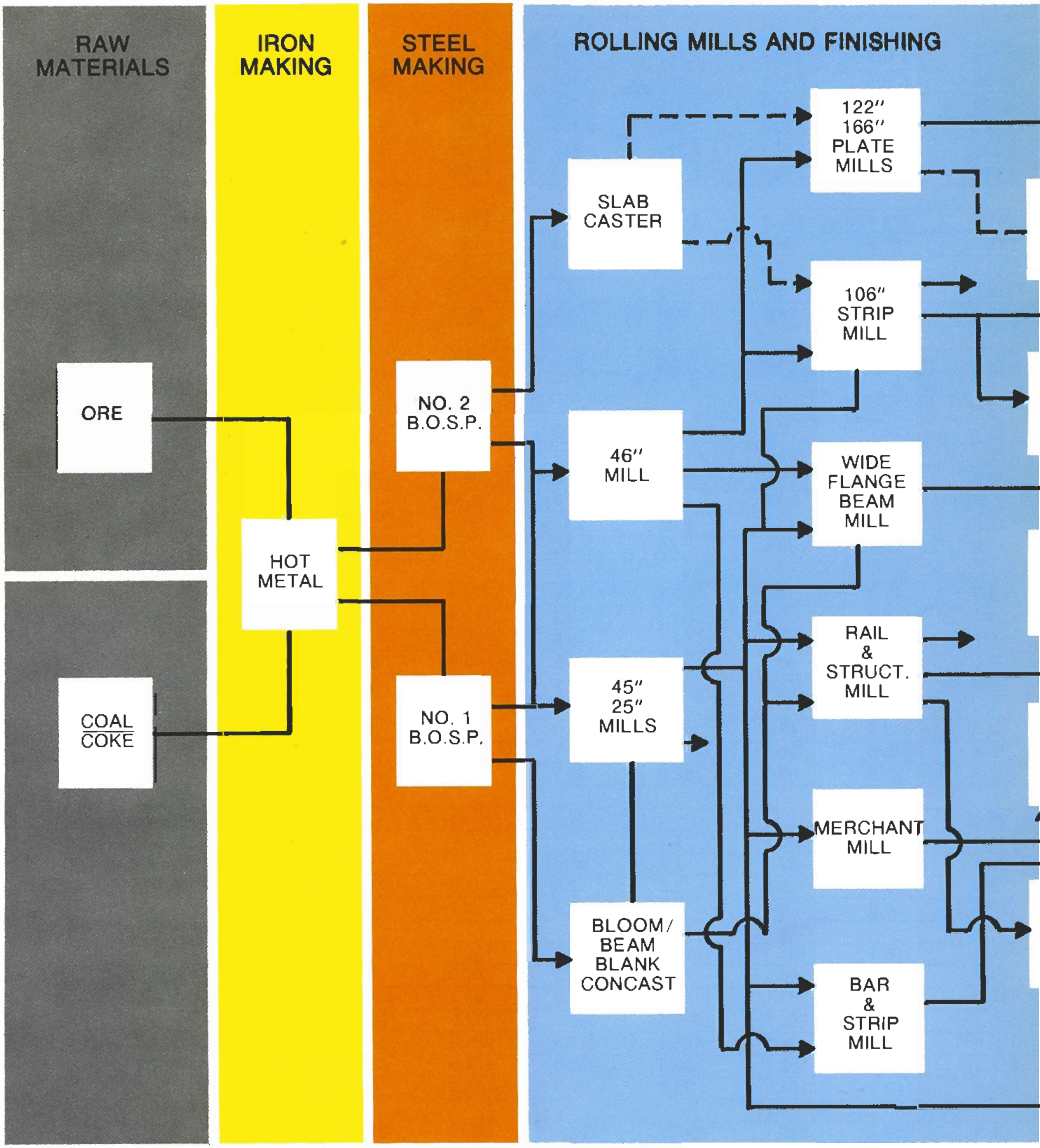
Sault Ste. Marie, Ontario
Saint John, New Brunswick
Montreal, Quebec
Toronto, Ontario
Hamilton, Ontario
Windsor, Ontario
Winnipeg, Manitoba
Calgary, Alberta
Vancouver, British Columbia

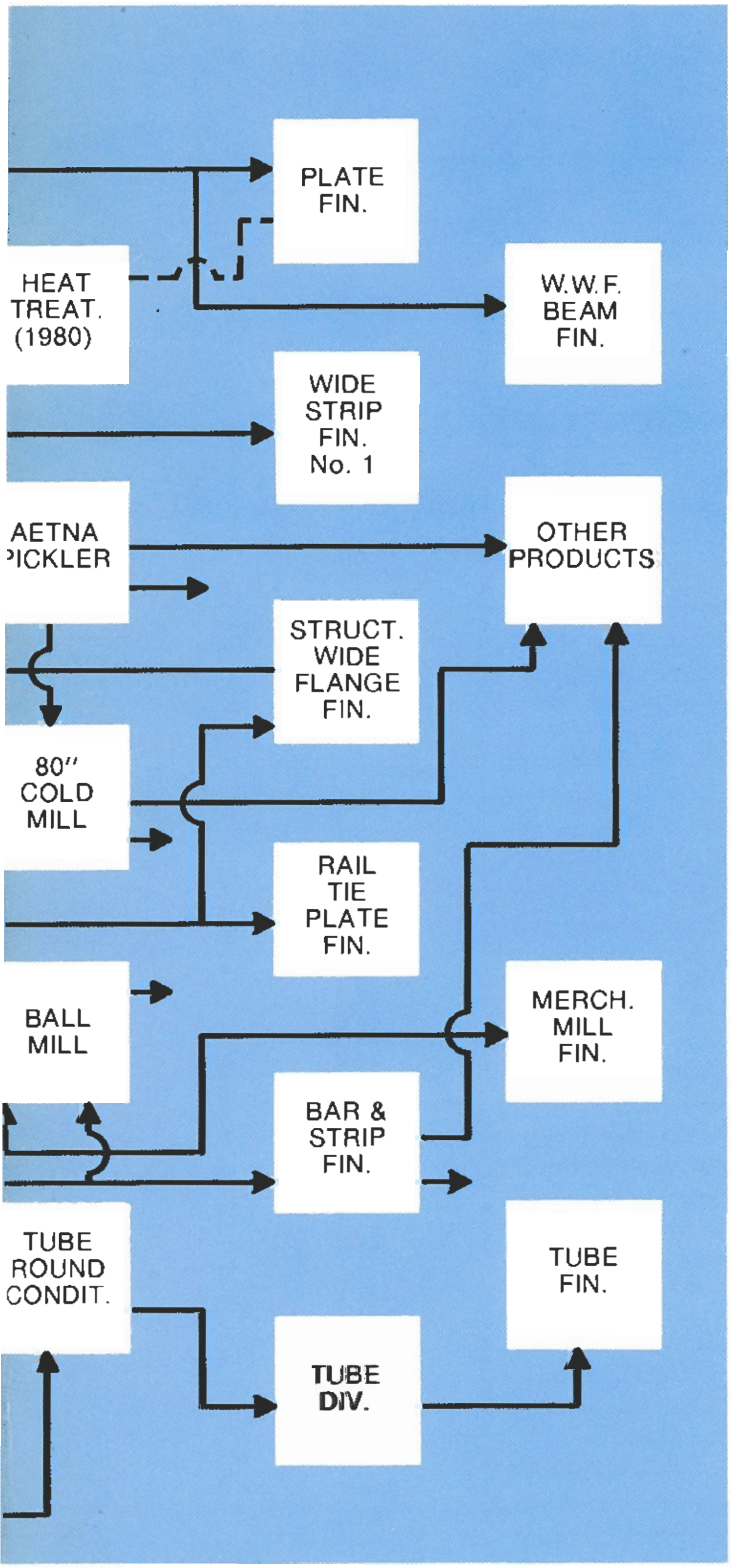
Seamless Pipe and Tubes

Toronto, Ontario
Calgary, Alberta
Houston, Texas[1]
Denver, Colorado[1]

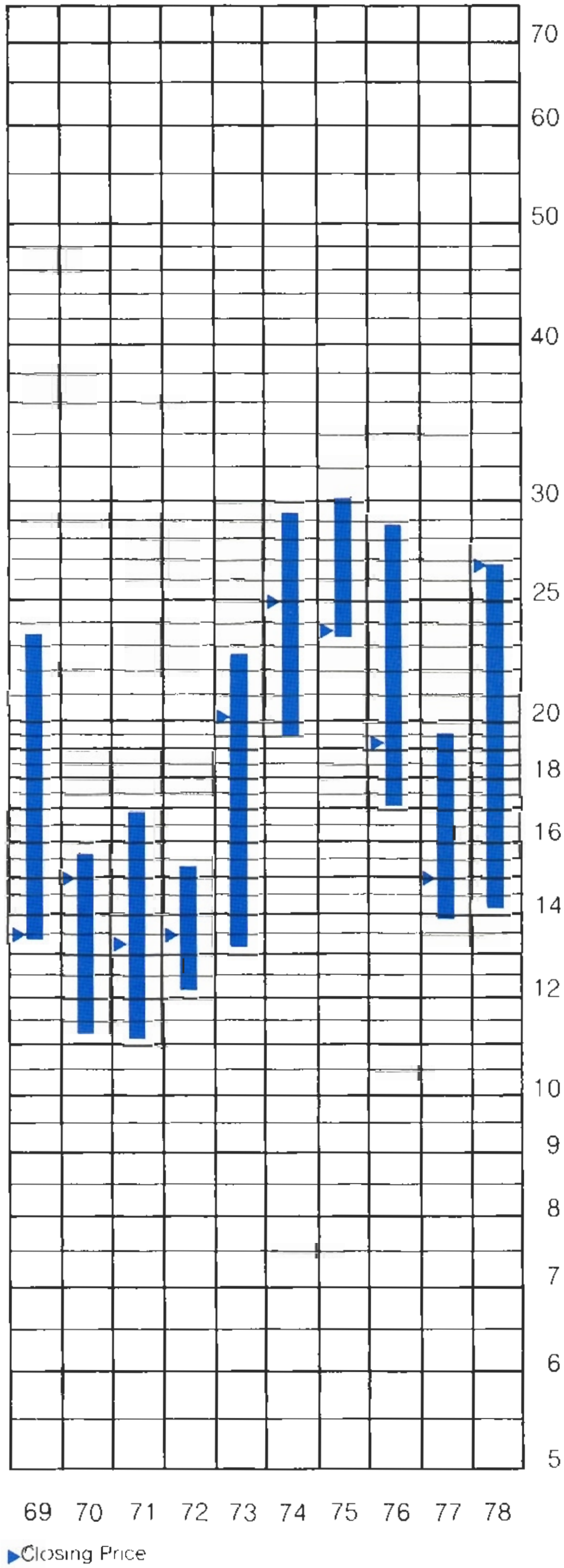
[1] Algoma Tube Corporation

PRODUCTION FLOW





PRICE RANGE: Common Shares



Ten Year Summary of Operating and Financial Data

(tons in thousands and dollars in millions excepting per share data)		1978	1977	1976
Operations				
Production—Iron Ore (1)	G.T.	**4,109**	3,839	4,089
—Coal (2)	N.T.	**2,069**	1,929	2,235
—Coke	N.T.	**1,424**	1,371	1,539
—Iron	N.T.	**3,148**	2,848	2,806
—Raw Steel	N.T.	**3,317**	2,974	2,888
Shipments—Steel Products	N.T.	**2,456**	2,201	2,036
Earnings and Related Statistics				
Sales	$	**864.2**	687.8	584.8
Earnings Before Income Taxes and Equity Earnings	$	**57.7**	5.5	(14.3)
Income Taxes	$	**10.7**	(15.8)	(25.6)
Equity in Earnings of Associated Company	$	**22.6**	16.2	12.8
Net Earnings	$	**77.1** (9)	37.5	24.1
Applicable to Preference Shares	$	**9.5**	6.9	4.0
Applicable to Common Shares	$	**67.6**	30.6	20.1
Dividends Paid:				
On Preference Shares, and Related Taxes	$	**9.4**	6.8	3.5
On Common Shares	$		2.3	12.9
Earnings Retained in Business	$	**67.7**	28.4	7.7
Cash Flow From Operations	$	**109.5**	41.2	19.2
Per Common Share—Net Earnings (5)	$	**5.79**	2.62	1.72
—Cash Flow From Operations (5)	$	**8.57**	2.94	1.30
—Dividends Paid	$		.20	1.10
Net Earnings as % of				
—Sales	%	**8.9**	5.5	4.1
—Average Common Shareholders' Equity (6)	%	**14.9**	7.5	5.2
—Average Total Investment (7)	%	**10.6**	6.3	5.0
Cost of Products Sold as % of Sales	%	**84.1**	88.1	89.7
Depreciation and Amortization	$	**35.7**	33.6	33.0
Capital Expenditures				
Manufacturing Facilities	$	**24.2**	15.1	33.5
Mining Properties	$	**15.0**	14.5	17.0
Total	$	**39.2**	29.6	50.5
Long Term Debt				
Borrowings—Debentures	$			
—Other	$	**3.5**	3.5	10.7
—Total	$	**3.5**	3.5	10.7
Repayments	$	**6.1**	16.4	6.7
Interest and Expense	$	**24.8**	22.5	23.1
Financial Position at Year End				
Current Assets	$	**362.4**	298.4	264.5
Current Liabilities	$	**155.5**	145.2	175.2
Working Capital	$	**206.9**	153.2	89.3
Net Fixed Assets	$	**549.8**	557.9	560.4
Total Investment (8)	$	**897.7**	830.2	751.3
Total Assets	$	**1,053.1**	975.4	926.5
Long Term Debt	$	**248.7**	251.3	264.2
Preference Shares	$	**140.0**	140.0	60.0
Common Shareholders' Equity	$	**487.7**	420.0	391.8
Number of Common Shares Issued (000)	No.	**11,672**	11,672	11,672
Common Shareholders' Equity Per Share	$	**41.72**	35.93	33.53
Number of Common Shareholders	No.	**9,369**	10,393	10,542

1975	1974	1973	1972	1971	1970	1969
3,478	3,165	3,217	2,961	2,797	2,667	2,343
2,425	1,984	2,413	2,490	2,202	2,701	2,301
1,294	1,376	1,429	1,413	1,375	1,619	1,226
2,624	2,774	2,619	2,288	2,136	2,440	1,705
2,748	2,763	2,650	2,426	2,360	2,495	1,725
1,968	2,018	1,946	1,753	1,700	1,760	1,256
541.5	474.1	376.2	310.0	271.8	257.4	183.1
16.3	57.9	30.8	12.2	11.8	15.9	(1.5)
(10.5)	13.5	7.5	(.3)	.1	(6.7)	(10.5)
13.2	9.4	5.3	5.9	2.7	3.0	2.2
43.5(3)	53.8	28.6	18.4	35.9(4)	25.6	11.2
43.5(3)	53.8	28.6	18.4	35.9(4)	25.6	11.2
16.3	15.7	7.3	5.8	5.8	5.8	10.2
27.2	38.1	21.3	12.6	30.1	19.8	1.0
49.6	89.4	57.8	32.7	51.8(4)	36.6	19.4
3.73(3)	4.61	2.45	1.59	3.10(4)	2.20	.97
4.25	7.66	4.97	2.82	4.47(4)	3.15	1.67
1.40	1.35	.625	.50	.50	.50	.875
8.0	11.3	7.6	5.9	13.2	9.9	6.1
11.7	15.8	9.2	6.3	13.3	10.4	4.8
8.1	11.1	7.0	5.1	10.0	7.7	3.6
85.0	77.7	80.7	84.7	84.5	83.2	87.6
29.3	26.1	23.5	20.6	18.9	18.3	17.5
84.1	113.0	49.0	45.4	35.0	27.3	37.8
18.6	18.6	16.0	6.6	4.1	3.7	2.6
102.7	131.6	65.0	52.0	39.1	31.0	40.4
65.0	50.0			34.0		
31.4	15.5	30.7	1.2			
96.4	65.5	30.7	1.2	34.0		
3.5	2.2	3.4	2.2	2.2	1.0	.1
19.2	10.6	6.4	5.9	5.3	3.1	3.1
220.0	166.1	131.3	129.5	124.7	112.7	89.2
141.7	109.2	68.2	75.3	40.5	67.0	40.6
78.3	56.9	63.1	54.2	84.2	45.7	48.6
539.7	468.4	366.1	326.5	293.7	272.5	261.4
709.6	599.4	484.5	428.2	417.8	357.8	348.1
851.3	708.6	552.7	503.5	458.3	424.8	388.7
260.2	167.4	104.1	76.8	77.8	46.0	47.0
385.9	358.7	320.1	298.2	285.6	255.5	235.7
11,670	11,670	11,635	11,595	11,595	11,608	11,608
33.06	30.73	27.51	25.72	24.63	22.01	20.31
11,536	12,220	14,958	16,191	17,080	17,566	16,362

NOTES:

(1) Includes mines operated by the Corporation and its share of production from joint ventures.

(2) Metallurgical and steam coal.

(3) Includes an extraordinary gain of $3.5 million amounting to 30¢ per common share.

(4) Includes an extraordinary gain of $21.5 million amounting to $1.85 per common share.

(5) After provision for dividends on preference shares.

(6) Net earnings are after deduction of amount applicable to dividends on preference shares.

(7) Net earnings are before deduction of interest on long term debt net of income taxes.

(8) Total assets less current liabilities.

(9) Includes an extraordinary credit of $7.5 million amounting to 64¢ per common share.

DESIGNED AND PRINTED IN CANADA

THE ALGOMA STEEL CORPORATION, LIMITED
SAULT STE. MARIE, ONTARIO, CANADA

ANNUAL REPORT 1978